FINANCIAL AUDIT OF THE HAWAIIAN SUGAR PLANTERS' ASSOCIATION

FINANCIAL AUDIT OF THE HAWAIIAN SUGAR PLANTERS' ASSOCIATION

Conducted by

Office of the Legislative Auditor
State of Hawaii

and

Peat Marwick Main & Co. Certified Public Accountants

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

Submitted by

Legislative Auditor of the State of Hawaii Honolulu, Hawaii

> Report No. 89-22 December 1989

FOREWORD

This financial audit examined the financial records and transactions and the accounting and internal controls systems of the Hawaiian Sugar Planters' Association for the fiscal year ended June 30, 1989. The audit was requested by the 1989 Hawaii State Legislature to provide assurance that public funds appropriated to Hawaiian Sugar Planters' Association were expended properly. The audit was conducted by the Office of the Legislative Auditor and the certified public accounting firm of Peat Marwick Main & Co.

This report contains background information on the organization of the Hawaiian Sugar Planters' Association and our findings and recommendations as a result of this financial audit. It also includes the responses of the affected agencies.

We join Peat Marwick Main & Co. in expressing our sincere appreciation for the cooperation and assistance extended by the personnel of the Hawaiian Sugar Planters' Association and the Governor's Agriculture Coordinating Committee.

Newton Sue Acting Legislative Auditor State of Hawaii

December 1989

·			

TABLE OF CONTENTS

Chapter		Page
1	INTRODUCTION	1
	Objectives of the Audit	1
	Scope of the Audit	1
	Organization of the Report	1
2	BACKGROUND	3
	Organization of the HSPA Contract Between the State of Hawaii	3
	and the HSPA	4
3	FINDINGS AND RECOMMENDATIONS	7
	Common of Findings	7
	Summary of Findings	7
	Independent Auditor's Report	/
	The HSPA's Financial Accounting	0
	and Internal Control	8
	Applicability of Chapter 42, HRS, to the	
	Appropriation Provided to the HSPA	10
	APPENDIX	13
	RESPONSES OF THE AFFECTED AGENCIES	15
	LIST OF TABLES	
Table		Page
2.1	Schedule of State Appropriations to the HSPA for FY 1982-83 to FY 1988-89	5
2.2	Schedule of Eligible Expenditures Submitted for State Matching Funds for FY 1988-89	6

Chapter 1

INTRODUCTION

This is a report on our financial audit of the Hawaiian Sugar Planters' Association (HSPA). The audit was performed by the Office of the Legislative Auditor and the certified public accounting firm of Peat Marwick Main & Co.

The audit was requested by the 1989 Hawaii State Legislature under Senate Concurrent Resolution No. 179. The reason for the audit was to provide some assurance that public funds appropriated to the HSPA were expended properly. Since 1982, the Legislature has annually appropriated funds to the HSPA to help offset sugar research and development costs on a dollar-for-dollar matching basis with the State. These funds are provided to the HSPA under contracts with the Governor's Agriculture Coordinating Committee representing the State.

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 HSPA as they relate to compliance with and have an impact on the contract with the State; and to recommend improvements to such systems, procedures, and reports.
- 2. To ascertain whether expenditures and other disbursements have been made and accounted for in accordance with state laws,

rules and regulations, policies and procedures, and contract provisions.

Scope of the Audit

The audit's scope included an examination of the financial records and transactions, and the related systems of accounting and internal controls of the HSPA for the fiscal year July 1, 1988 to June 30, 1989, as they relate to compliance with and have impact on the contract with the State.

The financial audit did not require the rendering of an opinion on the fairness of the HSPA's financial statements since an annual audit is performed by an independent auditor hired by the HSPA. A summary of the HSPA's audited financial statements for the years ended December 31, 1982 through 1987 and the six months ended June 30, 1988 is provided for informational purposes in the appendix of this report.

Organization of the Report

This report has three chapters. Chapter 1 consists of this introduction. Chapter 2 contains background information on the organization of the HSPA and the contractual arrangement between the State of Hawaii and the HSPA. Chapter 3 presents our findings and recommendations as a result of the financial audit of the HSPA for the fiscal year 1988-89.

·			

Chapter 2

BACKGROUND

This chapter describes the organization of the Hawaiian Sugar Planters' Association (HSPA) and the provisions of the contract between the State of Hawaii and the HSPA.*

Organization of the HSPA

The Hawaiian Sugar Planters' Association, established on March 23, 1882 under the name of the Planters' Labor and Supply Company, is voluntary, nonprofit association organized for maintenance, advancement, the improvement, and protection of the sugar industry in Hawaii and for the support of a sugarcane research station. Its members include companies engaged primarily in the business of growing sugarcane and individuals who are connected with the direction, directly management, or operation of the sugar companies.

The HSPA compiles information, answers inquiries, and coordinates activities on problems of common interest and concern to its members primarily through the use of the following standing committees: Accounting, Energy, Environmental Standards, Experiment Station Advisory, Industrial Relations, Insurance, Land and Water, Legal Advisory, Legislative, Public Relations, Raw Sugar Technical, Retirement Plans, and Tax.

The organization of the HSPA consists of the Experiment Station, substations, and support services. The functions of these units are as follows.

The Experiment Station. The Experiment Station conducts research on sugarcane for the benefit of all sugarcane growers and processors in Hawaii. The largest single program of the Experiment Station is the development of new sugarcane varieties. Other important programs are concerned with improved irrigation systems; sugarcane factory processes; sugar recovery and quality; and methods of insect, disease, weed, and rat control.

Although the Experiment Station focuses on practical problems in growing and milling sugarcane, it also performs basic research on the physiology and biochemistry of the sugarcane plant when such information is not available from other sources. In addition, it provides various services to members including analyses of raw sugar and molasses; plant and soil analyses to determine fertilizer needs; repair and calibration of sugar factory instruments; field, factory, and factory laboratory audits; and training courses for member company employees. Experiment Station also performs studies under contract to various commercial entities, including DuPont, Ciba Geigy, and Dole.

^{*} Descriptions were drawn from the HSPA's Annual Report 1988 and the Hawaiian Sugar Manual 1988, and from the agreement dated July 1, 1988 between the Governor's Agriculture Coordinating Committee, Executive Office of the Governor, State of Hawaii, and the Hawaiian Sugar Planters' Association.

The Experiment Station is organized into four research departments--Crop Science, Genetics and Pathology, Environmental Science, and Sugar Technology and Engineering. These departments conduct investigations and perform services for the member plantations in over 20 program areas. The following is an overview of each of the four departments.

Crop Science Department. This department conducts research and studies on water usage; fertilization and nutrition; weed, insect, and rat control; other crop growth and development areas; and other uses of sugar, sugarcane and by-products.

Genetics and Pathology Department. This department is involved with research on sugarcane breeding and selection, growth and metabolism, propagation, disease control, and such alternatives as breeding sugarcane for energy production using biomass.

Environmental Science Department. This department keeps up with environmental regulations, researches methods to reduce pesticide movement, and conducts studies on the health effects related to crop control chemicals and sugarcane burning. It also performs chemical analyses to allow registration and use of crop control chemicals.

Sugar Technology and Engineering Department. This department studies ways to improve sugarcane output, uses, and quality through improved irrigation, planting methods, and improved sugarcane milling and processing methods. It also helps members improve profitability through production efficiencies.

The HSPA substations. The Experiment Station has substations on each of the four sugarcane-growing islands of Oahu, Maui, Kauai, and Hawaii, and has a breeding station on Oahu in Maunawili. The substations primarily provide support services to the variety testing program. They also support other research areas as needed, such as installing and grading herbicide tests,

monitoring insect and rat damage, and installing and grading ripening tests.

Support Services. The HSPA also provides support services to its members through the following:

Library. The HSPA has a large and complete library, with a collection of reference books and periodicals on sugarcane growing and milling, as well as a comprehensive collection of journals and reference books on agriculture, botany, chemistry, entomology, and engineering.

Research publications. The HSPA's Research Publications Department produces a wide variety of products for the HSPA and its member plantations, such as newsletters, annual reports, slides, posters, displays, and videos.

Training. The HSPA prepares and conducts training sessions in all phases of sugarcane growing and processing for employees and plantation personnel on each of the four sugarcane-growing islands.

The Washington D.C. office. The HSPA maintains an office in Washington, D.C., headed by a vice president who represents the Hawaii sugar industry's interests in federal legislative, administrative, and regulatory activities.

Contract Between the State of Hawaii and the HSPA

Since 1982, the Legislature has appropriated \$16,500,000 to the HSPA to offset sugar research and development costs. A breakdown of this amount, which covers FY 1982-83 through FY 1988-89, together with the allotted and unallotted portions of the appropriations, is shown in Table 2.1. The allotted appropriations represent the amounts actually paid to the HSPA under contract with the Governor's Agriculture Coordinating Committee (GACC) representing the State. The unallotted portion represents a general restriction of appropriations imposed by the executive branch.

		P	Appropriations	
Fiscal Year	Unallotted		Allotted	Total
1982-83		\$	3,000,000	\$ 3,000,000
1983-84			2,000,000	2,000,000
1984-85			2,000,000	2,000,000
1985-86			2,500,000	2,500,000
1986-87			2,000,000	2,000,000
1987-88	\$ 60,000		1,940,000	2,000,000
1988-89	30,000	***************************************	2,970,000	 3,000,000
	\$ 90,000	\$	16,410,000	\$ 16,500,000

The GACC, which is composed of eight State department officials and three members of the public, is designated as the expending agency to administer the appropriated funds. As such, the GACC is responsible for reviewing and monitoring the HSPA's compliance with provisions of the contract and its disbursement of State funds.

Each year after the Legislature appropriates funds for sugar research and development, the GACC meets with the HSPA to review the results of the previous year's research and the proposed research plan for the forthcoming year. After the GACC approves the HSPA's research plan and receives the necessary approvals from the Department of Budget and Finance and the governor, a contract is executed between the GACC and the HSPA.

The contract provides that no funds shall be made available unless the HSPA provides a dollar-for-dollar matching of funds. The HSPA is required to submit quarterly expenditure reports to the GACC, which details the HSPA's expenditures submitted for matching. Each report contains the following information:

- 1. Eligible expenditures by program area.
- 2. Variances from budget by program area.
- 3. Explanation for budget variances greater than twenty-five percent.
- 4. Billing invoice for one-half of the quarter's expenditures.

The GACC is responsible for reviewing each quarterly report to determine if the HSPA is meeting all provisions of the contract, including the propriety of expenditures subject to State matching. Upon completion of the review, the GACC disburses the State's matching payment.

For FY 1988-89, the total expenditures eligible for matching purposes amounted to \$6,514,522. With the State contributing \$2,970,000 of this amount, the balance of \$3,544,522 represents the HSPA's share of matching funds. A breakdown of the total expenditures eligible for matching is shown on Table 2.2.

Type of Expenditure	Amount
Direct research costs	\$ 3,529,985
Allocated indirect research and overhead costs	2,285,299
Plantation service costs	362,567
Plantation research and development costs	 336,671
Total eligible expenditures	
submitted for State matching funds	\$ 6,514,522

As depicted in Table 2.2, the total expenditures eligible for matching include (1) direct research costs, (2) allocated indirect research and overhead costs, (3) plantation service costs, and (4) plantation research and development costs. A description of these costs is as follows.

Direct research costs. Direct research costs include all expenditures made by the HSPA's research departments in conducting State-funded projects. These costs include salaries and wages of research scientists and substation personnel, research equipment and supplies, and travel expenses related to research activities.

Allocated indirect research and overhead costs. Indirect research and general and administrative overhead costs are allocated using a standard costing system. A standard overhead rate is computed as a percentage of budgeted overhead amounts to total budgeted HSPA payroll. The standard rate is applied to research labor costs charged directly to the State-funded projects to arrive at the indirect research and overhead costs to be included in costs submitted for State matching. Allocated indirect research costs include research administration, research publication, library, and other research support

costs. Allocated overhead costs include general administration costs, Experiment Station maintenance and business office costs, utilities expense, employee benefits, and other general indirect costs.

Plantation service costs. The HSPA provides labor to plantations to aid them in harvesting plots designated for sugarcane research. All of the HSPA's labor costs incurred to perform such harvests are reimbursed by the plantations. These service costs, although reimbursed by the plantations, are submitted for State matching funds. Plantation service costs are considered research costs incurred by and for the benefit of the sugar industry as a whole.

Plantation research and development costs. The HSPA's member plantations perform field tests of new sugar cane varieties. The plantation labor, materials, and other direct and indirect costs to plant the new varieties are sumitted by the HSPA to the State for matching funds, although these are costs of the plantations and not actually expended by the HSPA. Such costs are included because the HSPA considers these expenditures to be research costs incurred by and for the benefit of the sugar industry as a whole.

CHAPTER 3

FINDINGS AND RECOMMENDATIONS

This chapter presents the results of the financial audit of the Hawaiian Sugar Planters' Association (HSPA) for the fiscal year ended June 30, 1989. It contains the report of Peat Marwick Main & Co. (Peat Marwick) regarding the HSPA's compliance with the provisions of the contractual agreement with the State. It also contains our findings and recommendations on the HSPA's financial accounting and internal control practices and procedures. In addition, this chapter discusses the applicability of Chapter 42, HRS, to the appropriation provided to the HSPA.

Summary of Findings

- Based on the examination of the HSPA's financial records and internal control structure for FY 1988-89, Peat Marwick reports that the HSPA has complied with the provisions of the contract with the State.
- Generally, the accounting records of the HSPA are well maintained and internal control systems are adequate except for the following weaknesses:
- There is need for appropriate segregation of duties over the receipts, disbursements, and payroll functions.
- Accountability over equipment is inadequate.
- Explanation for travel by the Washington D.C. office is lacking.

- . Electronic data processing office is not protected from unauthorized entry.
- There is some uncertainty as to the applicability of Chapter 42, HRS, to the appropriation provided to the HSPA which needs to be clarified.

Independent Auditor's Report

Peat Marwick filed the following report with the Legislative Auditor on the HSPA's compliance with the provisions of the contractual agreement with the State.

Independent Auditor's Report

To the Legislative Auditor State of Hawaii Honolulu, Hawaii

We have audited the schedule of eligible expenditures submitted for State matching funds (as defined in the agreement dated July 1, 1988 between the Governor's Agriculture Coordinating Committee, Executive Office of the Governor, State of Hawaii, and the Hawaiian Sugar Planters' Association) of the Hawaiian Sugar Planters' Association (HSPA) for the year ended June 30, 1989, presented in Table 2.2 on page 6. In connection with the audit, we selected and tested transactions and records relating to eligible expenditures submitted for State matching funds to

determine the HSPA's compliance with those terms of the agreement, laws and regulations for which noncompliance could have a material effect on the eligibility of such expenditures submitted for State matching funds. The schedule and compliance with terms of the agreement, laws and regulations are the responsibility of the HSPA's management. Our responsibility is to express an opinion on the schedule and on compliance with terms of the agreement, laws and regulations.

We conducted our audit in accordance with generally accepted standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of eligible expenditures submitted for State matching funds is free of material misstatement and whether management has complied with the terms of the agreement, laws and regulations. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of eligible expenditures submitted for matching funds referred to above presents fairly, in all material respects, the expenditures eligible for State matching funds of the Hawaiian Sugar Planters' Association for the year ended June 30, 1989, as defined in the agreement referred to in the first paragraph. In addition, the results of our tests indicate that the HSPA complied with the terms of the agreement referred to above and with and regulations for which noncompliance could have a material effect on the schedule of eligible expenditures submitted State matching funds.

This report is intended solely for the information and use of the Legislative Auditor and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which, upon acceptance by the Legislative Auditor, is a matter of public record.

/s/ PEAT MARWICK MAIN & CO.

Honolulu, Hawaii September 15, 1989

The HSPA's Financial Accounting and Internal Control

This section contains our findings and recommendations regarding the HSPA's financial accounting and internal control practices and procedures.

Lack of segregation of duties over receipts, disbursements, and payroll. One of the basic principles of internal control is that duties should be appropriately segregated and assigned in a manner that no one individual controls all phases of a transaction without the interrelated function of a cross-check by some other individual. Proper segregation of duties would provide a mechanism to detect errors in recording transactions and prevent irregularities from being concealed by any one individual. We noted a lack of segregation of duties over receipts, disbursements, and payroll, which is discussed in this section.

Receipts. All checks received by mail are sent directly to the business office manager who then prepares the deposit slip and records the receipt in the accounting records. Ideally, the functions of receiving cash, preparing the deposit slip, and recording the receipt in the accounting records should be separated and performed by different individuals. Although we recognize that there is insufficient staff to permit the complete segregation of duties, certain functions could be segregated among existing

personnel to effect some control. For example, a designated administrative clerk could receive all mail receipts, prepare a daily listing of mail receipts, and restrictively endorse the checks to prevent any unauthorized conversion to cash. The list could be forwarded to the controller and the receipts to the business office manager. The business office manager would be responsible for preparing the deposit slip and recording the receipts. The controller could then reconcile the deposit amount and the recorded amounts to the listing of mail receipts that was prepared by the administrative clerk.

Recommendation. The duties of handling receipts should be separated and performed by different individuals.

The accounts payable clerk Disbursements. prepares the accounts payable checks, records disbursements in the disbursements journal and the general ledger, and reconciles the accounts payable checking account. Proper segregation of duties requires each of these functions to be performed by different individuals for crosschecking and that there be an independent review of the monthly bank reconciliations for propriety. Although complete segregation of duties is not feasible given the limited accounting staff, at a minimum the monthly bank reconciliation of the accounts payable checking account should be performed by the payroll clerk, and a review of such reconciliations should be made by the controller.

Recommendation. The payroll clerk should reconcile the accounts payable checking account and the controller should review and approve each monthly reconciliation.

Payroll. The payroll clerk records payroll transactions in the payroll journal and general ledger, prepares and distributes payroll checks, performs the payroll checking account reconciliations, and has access to the payroll master files and can make changes to them. Ideally, all of these functions should be separated

and performed by different individuals. addition to providing cross-checks, such a practice would minimize the possibility of having fictitious employees included in the payroll. Due to the limited number of staff, however, the complete separation of duties is not practical. these circumstances, the business office manager the personnel administrator should periodically perform unannounced comparisons of employees listed on the payroll register to the active personnel files to ascertain that there are no fictitious employees. In addition, the monthly bank reconciliation of the payroll checking account should be assigned to the accounts payable clerk and a review of such reconciliations should be made by the controller.

Recommendations. An individual independent of the payroll preparation function should make periodic unannounced comparisons of the employees listed on the payroll register to the active personnel files. In addition, the accounts payable clerk should perform the bank reconciliation of the payroll checking account and the controller should review each monthly reconciliation.

Inadequate accountability over equipment. Equipment purchased during FY 1988-89 has not been tagged, and the costs, descriptions, locations, and identification numbers have not been recorded in the fixed assets subsidiary ledger. In addition, not all of the equipment purchased in prior years has been tagged with identification numbers. Timely tagging and recording of equipment is necessary to maintain accountability. Tagging not only makes it easier to identify equipment but also discourages theft or unauthorized use.

Recommendation. All equipment should be tagged, and the costs, descriptions, locations, and identification numbers of such equipment should be recorded in the subsidiary ledger on a timely basis.

Lack of explanations for travel by the Washington D.C. office. After each business trip, HSPA employees are required to submit a travel expense report to the business office for review and filing. Every reported expense should be supported by an explanation of the purpose of travel and documentation for expenses incurred to help reviewers determine propriety. We found that the Washington D.C. office, in most cases, did not provide explanations as to the purpose of travel.

Recommendation. Personnel at the Washington D.C. office should submit sufficient explanations regarding the purpose of travel.

Unrestricted access to electronic data processing office. The electronic data processing office is not adequately protected from unauthorized entry because the access door does not have a lock. As a result, computer terminals, disks, programs, and systems documentation located in the office are accessible to unauthorized individuals. Access controls require that data processing facilities be restricted to authorized individuals only.

Recommendation. The HSPA should install a lock on the door to the data processing office. Keys to the office should be in the custody of authorized department personnel who should lock the office whenever it is left unattended.

Applicability of Chapter 42, HRS, to the Appropriation Provided to the HSPA

Our examination revealed that the process of appropriating funds to the HSPA, a private organization, has not been subject to the provisions of Chapter 42. Based on the purpose of providing such funds and our reading of the requirements of Chapter 42, we believe that the funding to the HSPA should be subject to the provisions of Chapter 42.

The origin of Chapter 42 dates back to the 1970s when the Legislature grew concerned with the significant increases in state appropriations to private organizations. The number of requests for public support made by private organizations created a recurring dilemma for the Legislature over which requests to support and what funding levels were appropriate. After legislative leaders presented this problem to 1978 Constitutional Convention, constitutional amendment was proposed and later ratified by the electorate. It stated that "no grant of public money or property shall be made except pursuant to standards provided by law." In 1981, the Legislature enacted Act 207, codified as Chapter 42, to implement the constitutional requirement.

Chapter 42 sets forth the statutory requirements under which public funds are granted to private organizations. Generally, Chapter 42 requires that (1) the private organization requesting public funds must meet certain qualifying standards; (2) the request for funds must be reviewed by the appropriate agency and the Department of Budget and Finance before appropriations; (3) the organization receiving funds must agree to comply with certain conditions under contract; and (4) the appropriate agency must monitor and annually evaluate the grant.

Chapter 42 covers grants, subsidies, and purchase of service, and it appears that the appropriation to the HSPA falls under the definition of a grant. Chapter 42 defines a grant as an "award of public funds to a recipient, generally on a one-time basis, based on merit or need, to stimulate and support the activities of the recipient for a specified public purpose." Although the definition says a grant is awarded "generally on a one-time basis," Section 42-6(b) allows a grant to authorized for two years and subsequently renewed provided the Legislature reviews the grant in accordance with the provisions of Chapter 42 and determines that there is a continuing need and public purpose to be served.

In discussing the applicability of Chapter 42 to the appropriation provided to the HSPA, the staff of the Governor's Agriculture Coordinating Committee (GACC) and the Department of Budget and Finance indicated that it is not clear if the funding is in fact a grant subject to the provisions of Chapter 42. We suggest that this matter be clarified with the Department of the Attorney General.

Recommendation. The GACC should seek clarification from the Department of the Attorney General as to whether the appropriation provided to the HSPA is in fact a grant that is subject to the provisions of Chapter 42.

APPENDIX

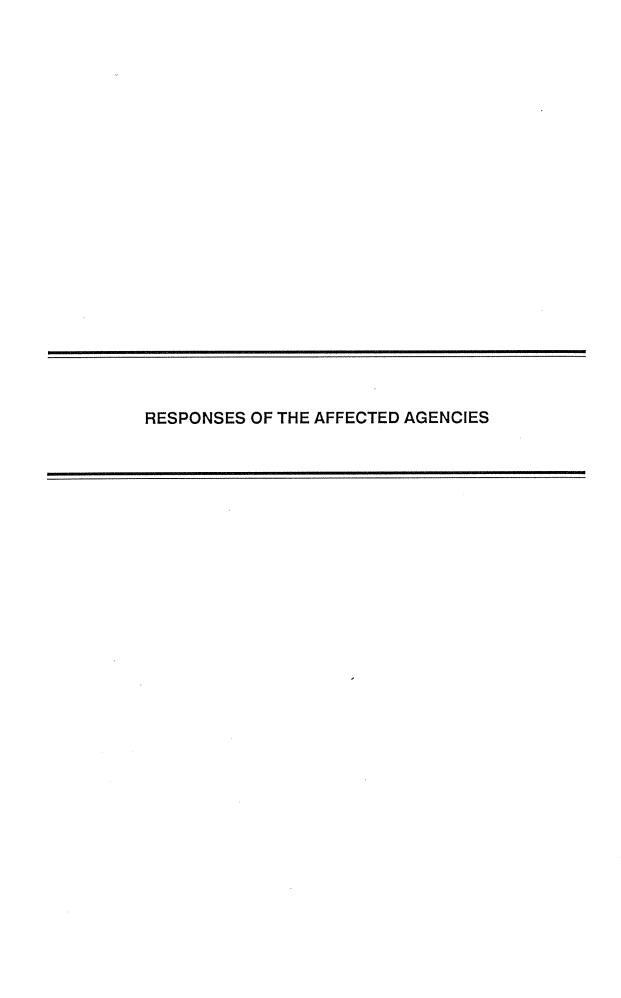
This is a summary of the Hawaiian Sugar Planters' Association's audited financial statements for the years ended December 31, 1982 through 1987, and the six months ended June 30, 1988. These statements were audited by an independent auditor hired by the HSPA.

							Six months ended
	Year ended December 31						June 30
W-10	 1982	1983	1984	1985	1986	1987	1988**
BALANCE SHEET			·				
Total Assets	\$ 9,555,828	8,698,744	8,193,226	<u>7,867,936</u>	7,695,664	7,664,912	8,124,394
Total Liabilities Total Members' Equity	1,279,369 8,276,459	571,369 <u>8,127,375</u>	468,842 <u>7,724,384</u>	546,601 7,321,335	381,988 <u>7,313,676</u>	397,850 <u>7,267,062</u>	721,446 <u>7,402,948</u> *
Total Liabilities and Equity	\$ 9,555,828	8,698,744	<u>8,193,226</u>	<u>7,867,936</u>	7,695,664	<u>7,664,912</u>	<u>8,124,394</u>
INCOME STATEMENT							
Revenues: Assessments State of Hawaii funding	\$ 4,499,773 1,591,603	3,285,884 2,695,734	3,883,282 2,062,042	4,021,122 1,933,412	3,995,196 2,342,497	4,124,517 1,844,710	2,893,248 970,000
Plantation service and station receipts Other	1,006,253 56,366	994,206 105,196	1,097,174 41,451	1,003,731 31,874	935,273 61,597	741,807 106,312	437,406 11,402
Total Revenues	7,153,995	7,081,020	7,083,949	6,990,139	7,334,563	6,817,346	4,312,056
Expenses: Direct research Research support General programs General operations and support Special projects Income taxes on unrelated business	2,199,399 2,089,957 1,594,283 573,932 142,333 58,415	2,250,673 2,155,464 1,581,165 587,470 206,099	2,290,351 2,230,842 1,574,217 670,408 213,798	2,314,742 2,064,204 1,630,550 696,820 164,958	2,446,844 1,936,944 1,641,211 652,361 272,744	2,377,542 1,904,860 1,293,544 676,813 173,991	1,323,439 959,334 295,560 833,911 151,328
Total Expenses	6,658,319	6,804,699	7,076,759	6,965,851	6,954,435	6,426,750	3,563,572
Excess of revenues over expenses before depreciation	495,676	276,321	7,190	24,288	380,128	390,596	748,484
Depreciation	(409,288)	(424,122)	(409,056)	(426,224)	(387,148)	(437,557)	(225,988)
Equity in net income (loss) of Hawaiian Development Co.	_(1,120)	_(1,283)	(1,125)	_(1,113)	(639)	347	
Excess of revenues (expenses) over expenses (revenues)	\$ 85,268	(149,084)	(402,991)	(403,049)	(7,659)	(46,614)	522,496

^{*}Includes restatement of beginning retained earnings for accrued vacation amounting to \$386,610.

^{**}The HSPA changed to a June 30 year end subsequent to December 31, 1987.

·			

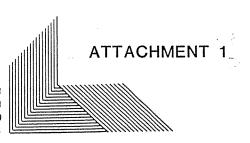


COMMENTS ON AGENCY RESPONSES

A preliminary draft of this report was transmitted on October 19, 1989, to the Hawaiian Sugar Planters' Association (HSPA) and the Governor's Agriculture Coordinating Committee (GACC). A copy of the transmittal letter to the HSPA is included as Attachment 1. A similar letter was sent to the GACC. As is our practice, we invited the agencies to comment on the recommendations made in the report. The agencies' responses are included as Attachments 2 and 3.

The HSPA stated that corrected actions have been made to comply with all of our recommendations that affect their financial accounting and internal control systems. In addition, the HSPA suggested some changes in the description of the duties of the Experiment Station which we have incorporated in the final report.

The GACC indicated that they will seek clarification as to whether the appropriation provided to the HSPA is in fact a grant that is subject to the provisions of Chapter 42, Hawaii Revised Statutes.



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

COPY

October 19, 1989

Mr. Don Heinz, President Hawaiian Sugar Planters' Association P.O. Box 1057 Aiea. Hawaii 96701

Dear Mr. Heinz:

Enclosed are two copies, numbered 4 and 5, of our *Financial Audit of the Hawaiian Sugar Planters' Association*. We call your attention to the recommendations affecting your organization which are made in Chapter 3 of the report. If you have any comments on our recommendations, we ask that you submit them in writing to our office by November 13, 1989, for inclusion in the final report. The Chairman of the Governor's Agriculture Coordinating Committee has been given the opportunity to comment on the recommendation affecting his agency.

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

Since the report is not in final form and changes may possibly be made to it, we request that you limit access to the report to those persons whom you wish to call upon for assistance in your response. Please do not reproduce the report. Should you require additional copies, please contact our office. Public release of the report will be made solely by our office and only after the report is published in its final form.

We appreciate the assistance and cooperation extended to us.

Sincerely,

Newton Sue Acting Auditor

Enclosures

ATTACHMENT 2



HAWAIIAN SUGAR PLANTERS' ASSOCIATION, 99-193 AIEA HEIGHTS DRIVE, AIEA, HAWAII MAILING ADDRESS: P.O. BOX 1057, AIEA, HAWAII 96701-1057, TELEPHONE: (808) 487-5561

FAX: (808) 486-5020 TELEX: 7430262

November 6, 1989

DON J HEINZ President Director–Experiment Station

> Mr. Newton Sue, Acting Auditor The Office of the Auditor State of Hawaii 465 S. King Street, Room 500 Honolulu, HI 96813

RECEIVED

Nov 9 10 57 AM '89

STATE OF HAWAII

Dear Mr. Sue:

We have reviewed the preliminary financial audit of the Hawaiian Sugar Planters' Association and have some suggested changes in the description of the duties of the Experiment Station. We have also reviewed the findings and recommendations and have made corrections in our accounting procedures to comply with the auditors' recommendations.

Suggested Changes, Page 4--Experiment Station

The suggested changes listed below have also been marked on a copy of the audit which is attached.

Crop Science Department: Recommend that the last line in that paragraph read, "other crop growth and development areas, and other uses of sugar, sugarcane and byproducts." (Delete the word "and" beginning the line.)

Genetics and Pathology Department: Fourth line, after "control, and such" delete rest of sentence, replacing with "alternatives as breeding sugarcane for energy production using biomass."

Sugar Technology and Engineering Department: Fourth line, after "through improved irrigation," delete the rest of the sentence, replacing it with "planting methods and improved sugarcane milling and processing methods."

Implementation of Findings and Recommendations, Page 8, Chapter 3

Lack of segregation of duties over receipts, disbursements, and payroll

Because of a limited accounting staff, complete segregation of duties is not practical. However, to mitigate the weaknesses found, we have reassigned staff duties so that independent cross checks can be performed by other staff members and individuals outside the Business Office, as outlined below.

Mr. Newton Sue -2- November 6, 1989

Receipts. All checks and cash received by HSPA are being sent directly to the Director's Office for daily accumulation. A secretary restrictively endorses the checks and prepares a listing of monies received. The checks and the listing are forwarded daily to the Business Office for bank deposit. One copy of the listing is sent to the Controller for verification with the bank deposit made.

<u>Disbursements</u>. The bank reconciliation for the general disbursements account is now performed by the payroll clerk and reviewed by the Controller.

Payroll. The personnel administrator will perform random monthly review of the payroll check register to ascertain that rates are proper and that there are no ficticious employees. Any discrepancies found will be reported directly to the Controller. The bank reconciliation for the payroll account is being performed by the accounts payable clerk and reviewed by the Controller.

Inadequate accountability over equipment

We have completed the tagging and recording of assets acquired during the fiscal year ending June 30, 1989, and subsidiary records will be maintained on a timely basis. Procedures to record fixed asset additions and dispositions have been modified to enable timely updates of the subsidiary records.

Lack of explanation for travel by the Washington, D. C. Office

The Washington Office has been instructed on the submission of travel expense reports and are providing adequate explanations and documentation. All travel expense reports submitted during the current fiscal year have been reviewed and modified to include adequate explanations and documentation as necessary.

Unrestricted access to electronic data processing office

A dead bolt lock has been installed on the door of the electronic data processing office and keys distributed to only authorized personnel.

Thank you for the opportunity to comment on the audit.

Sincerely yours,

Don J. Heinz

DJH:hb

ATTACHMENT 3

JOHN WAIHEE



Yoshito Takamine

STATE OF HAWAII

OFFICE OF THE GOVERNOR

AGRICULTURE COORDINATING COMMITTEE

ROOM 210 335 MERCHANT STREET OLD FEDERAL BUILDING

HONOLULU, HAWAII 96813 TELEPHONE 548-2828

November 15, 1989

RECEIVED

Nov 17 10 37 AM '89

CFC. OF THE AUDITOR STATE OF HAWAII

To:

Newton Sue

Acting Director

Office of the Auditor

From:

Yoshito Takanin

Chairman

Subject:

Response to Financial Audit of the Hawaiian Sugar

Planters Association

I am responding to the recommendation affecting the GACC in Chapter 3 of the report relating to the applicability of HRS Chapter 42.

Clarification will be sought from the Attorney General by the GACC as to whether the provision applies to the state appropriation.