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# **Financial Audit of the Department of Land and Natural Resources**

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

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Report No. 92-2  
January 1992

**THE AUDITOR**  
STATE OF HAWAII

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A Report to the  
Governor  
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the State of  
Hawaii

Conducted by

The Auditor  
State of Hawaii  
and  
Coopers & Lybrand  
Certified Public  
Accountants

Submitted by

**THE AUDITOR**  
STATE OF HAWAII

Report No. 92-2  
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## Foreword

This is a report of a financial audit of the Department of Land and Natural Resources for the fiscal year July 1, 1990, to June 30, 1991. The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the auditor to conduct post audits of all departments, offices, and agencies of the State. The audit was conducted by the Office of the Auditor and the certified public accounting firm of Coopers & Lybrand.

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

Marion Higa  
Acting Auditor  
State of Hawaii

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# Chapter 1

## Introduction

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

The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the auditor to conduct post audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions.

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### Objectives of the Audit

1. Report on the fair presentation of the financial statements of the department.
2. Assess the adequacy, effectiveness, and efficiency of the systems and procedures for the financial accounting, internal control, and financial reporting of the Department of Land and Natural Resources; and recommend improvements to such systems, procedures, and reports.
3. Ascertain whether expenditures and other disbursements have been made and all revenues and other receipts have been collected and accounted for in accordance with federal and state laws, rules and regulations, and policies and procedures.
4. Ascertain the extent to which recommendations contained in Chapter 3 of the State Auditor's Report No. 85-11, "Financial Audit of the Department of Land and Natural Resources for the Fiscal Year Ended June 30, 1984," have been implemented.

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### Scope and Methodology

We examined the financial records and transactions and the related systems of accounting and internal controls of DLNR for the fiscal year July 1, 1990, to June 30, 1991. We also reviewed for compliance with applicable laws and regulations those transactions, systems, and procedures tested.

The audit examined the accounting, reporting, and internal control structure to identify deficiencies and weaknesses and make appropriate recommendations for improvements. Covered were the forms and



records, the management information system, and the accounting and operating procedures.

In addition, the audit reviewed the extent to which the recommendations made in Chapter 3 of the State Auditor's Report No. 85-11 have been implemented.

The accountants' opinion as to the fairness of the financial statements presented is that of Coopers & Lybrand. The audit was conducted from July 1991 through September 1991 in accordance with generally accepted government auditing standards.

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## **Background**

In 1959, by Act 1 (the Hawaii State Government Reorganization Act of 1959), Second Special Session, the State Legislature created a separate Department of Land and Natural Resources (DLNR) and charged it with the general duty "to manage and administer the public lands of the State and the water resources and minerals thereon." Originally, DLNR was intended to be a temporary department.

Under the provisions of the act, land and water management functions formerly exercised by various territorial commissions, boards, and authorities were to be centralized within a transitional DLNR. The same act provided that on July 1, 1962, DLNR was to be abolished as an executive department and that its functions were to be transferred to a newly designated Department of Agriculture and Natural Resources. However, in 1961, the Legislature enacted Act 132 which retained DLNR as a separate permanent department.

Under Section 26-15, Hawaii Revised Statutes, DLNR is responsible for managing, administering, and exercising control over public lands, water resources, and minerals, thereon, including soil conservation, forests and forest reserves, aquatic life and wildlife resources, aquaculture programs, state parks, and historical sites.

## ***Organization of the department***

DLNR comprises four organizational parts:

- Board of Land and Natural Resources
- Commission on Water Resource Management
- Office of the Chairman
- Operating Divisions

### **Board of Land and Natural Resources**

The department is headed by an executive board known as the Board of Land and Natural Resources. Responsibility for managing public lands under DLNR's control is assigned by statute to this board. The chairman of the board is also the director of the department.

### **Commission on Water Resource Management**

The Commission on Water Resource Management has exclusive jurisdiction and final authority over the state water code. The commission is responsible to oversee and develop state policies for the management of surface- and ground-water supplies.

### **Office of the Chairman**

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

- **Aquaculture Development Program.** The program was originally established to guide, promote, and develop the aquaculture industry for the state. The program's chief goals are to clear roadblocks and foster aquaculture activities that contribute to industry growth.
- **Office of Conservation and Environmental Affairs.** This office coordinates conservation and environment-related matters for the DLNR in collaboration with other departments. The office monitors environmental factors affecting the state's natural resources and proposed activities on public and private lands classified as conservation.
- **Administrative Services Office.** This office provides administrative support services, internal management assistance, and fiscal services to the chairman, members of the board, and the operating divisions.
- **Personnel Office.** This office maintains the personnel program for the department. Major services include guidance and technical assistance in position classification, employee relations, and employee training and development.

### **Operating divisions**

The operating divisions include those departmental units which carry out the programs of the department. These operating divisions and their activities are as follows:



- **Aquatic Resources.** This division manages the state's marine and freshwater resources through programs in commercial fisheries and aquaculture, aquatic resources preservation, enhancement and education, and aquatic recreation. Major program areas include projects to maximize commercial fishery and aquaculture productivity, protect native and resident aquatic species and their habitat, and provide facilities and opportunities for recreational fishing consistent with the interests of the State.
- **Conservation and Resources Enforcement.** This division is responsible for the enforcement of laws and rules regulating fish and wildlife, state parks, land management, forests and beaches. Major program areas include education of the public on conservation and preservation of Hawaii's land and natural resources, eradication of marijuana on state-owned lands, and administration of the Hunter Education Program.
- **Bureau of Conveyances.** This division is responsible for the recordation of all legal documents related to real estate transactions. The division operates as two parallel units, the Land Court Recording Branch and the Regular System Recording Branch.

The Land Court Recording Branch processes and preserves documents and maps affecting title to lands registered in the court and issues a "Land Court Certificate of Title" showing the vested ownership, which is guaranteed by the State of Hawaii.

The Regular System Recording Branch processes and preserves legal and land title documents affecting unregistered lands.

- **Forestry and Wildlife.** This division is responsible for the management of state-owned forests, natural areas, public hunting areas, and plant and wildlife sanctuaries. Program areas include watershed protection, native resources protection, outdoor recreation and commercial forestry.
- **State Parks.** This division administers the State Park System, and the state recreation planning function. The two programs relating to this function include the Heritage and Recreation Parks and the General Administration for Culture and Recreation.

The Heritage and Recreation Parks program provides opportunities and facilities for non-organized outdoor park recreation activities by preserving and making available for appreciation and study places of historical, scenic, and natural significance.



The General Administration for Culture and Recreation program provides general administration, planning, and contract administration services.

- **Historic Preservation.** This division operates a statewide inventory of properties of historic, architectural or cultural importance. It also runs the Burial Sites Program, the Hawaii Main Street Program, and the Historic Preserves Program.
- **Land Management.** This division is responsible for the management of state owned land and makes land available for public and private use in accordance with established policies and plans; manages real property of the State for which the department has custody; negotiates the acquisition and disposition of public lands through sales, lease, rent, or exchange; supervises performance and payment under terms of lease and rental agreements; maintains an inventory of all public lands; reviews state land acquisition documents before registration or recordation; and maintains a central depository of state land acquisition and disposition documents.
- **Water Resource Management.** This division is empowered to administer the state's program in water resource management, mineral resource assessment, flood preservation and control, and dam safety.

The recent enactment of the State Water Code has resulted in the reorganization of the former Division of Water and Land Development into a new Division of Water Resource Management.



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# Chapter 2

## Internal Control Practices

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This chapter presents the general findings and recommendations on the financial accounting and internal control practices and procedures of the Department of Land and Natural Resources. We also reviewed the progress of implementing the recommendations reported in our 1985 financial audit report.\* We were pleased to note that many of the recommendations made in that report had been implemented by the department. However, we found certain weaknesses in the administration of land leases.

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### Summary of Findings

Our findings are as follows:

1. There was a questionable release of a time certificate of deposit to a lessee who was in default of the lease agreement.
2. The statute regarding delinquent accounts is not being complied with.
3. There are no follow-up procedures to ensure that lessees maintain surety bonds.

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### Questionable Release of Time Certificate of Deposit to a Lessee in Default

In August 1991, the department released a time certificate of deposit of \$7,200 to a lessee who was delinquent in \$10,222 of lease rent, who had failed to provide required proof of fire and liability insurance on the leased property, and who had been sent a formal notice of default on July 2, 1991.

The formal notice of default gave the lessee 60 days to pay the delinquent lease rent and provide the required proof of fire insurance and liability insurance. The notice stated that failure to do this would result in the cancellation of the lease and forfeiture of the lease performance bond. The lease performance bond was in the form of a \$7,200 bank time certificate of deposit (TCD) held by the department.

In August 1991, the land management division authorized the release of the time certificate of deposit to the lessee. The reason given for

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\*State of Hawaii, Legislative Auditor, *Financial Audit of the Department of Land and Natural Resources*, Audit Report No. 85-11, February, 1985.



releasing the time certificate of deposit was that “the Lessee will provide a performance bond in lieu of the TCD as security.”

The lessee has not provided the performance bond. During our follow-up inquiry of division personnel in early September, 1991, we were informed that the lessee was allowed to have the time certificate of deposit “in order to make payment on the delinquent account.” Indeed, that is what happened—the lessee paid the delinquent rent balance. During additional follow up conducted in late November, we were informed that once the delinquency was cleared, the lessee intended to borrow additional moneys to provide the performance bond and pay for the required insurance. To date, the lessee has not obtained the loan, and the department has no performance bond nor proof of fire and liability insurance.

We question the practice of releasing certificates to lessees in default. In this case the certificate was released to a lessee who was in default not only because of being delinquent in lease rent payments, but also because of failure to provide required fire and liability insurance. Under these circumstances of default, we question whether the lessee could in fact “provide a performance bond in lieu of the TCD as security.”

We were informed that the department had no policies or procedures governing the release of certificates of deposit or other forms of cash performance bonds to lessees in default of lease agreements.

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## Recommendations

The department should cease releasing certificates of deposit to lessees in default. Further, the department should establish policies and procedures governing the release of all certificates of deposit or other forms of cash performance bonds to lessees, whether in default or not.

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## Failure to Comply With Statute

In our 1985 audit, we reported that the department was not complying with the requirements of Section 171-20, Hawaii Revised Statutes. During this audit we found that the department still does not comply with the statute.

Section 171-20, HRS, requires the Board of Land and Natural Resources to deliver a written notice of breach or default to any party where the breach involves a failure to make timely rental payments. If the party does not remedy the breach or default *within less than sixty days* from the date of receipt of the notice or within such additional time as the board may allow for good cause, the board can proceed to cancel the lease or permit.

The law further states that the written notice of the breach or default shall be delivered *by personal service or by registered or certified mail* to the party in default and *to each holder of record having any security interest* in the land covered by or subject to the lease or permit.

In a sample of seven delinquent leases, the department failed to comply with the requirements of Section 171-20, HRS, as noted here:

1. In three instances the department did not deliver written notices of default as required by Section 171-20.
2. The department's standard notice of default erroneously states that the lessee has "sixty days" from the date of receipt of the notice to cure the breach instead of "within *less than* sixty days."
3. In two instances there was no evidence that the notices were sent by personal service or by registered or certified mail as the statute requires. There was also no evidence that the default notices were sent to each holder of record having a security interest.

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## Recommendations

The department should comply with the requirements of Section 171-20, HRS, as follows:

- Deliver written notices of default to delinquent lessees and take appropriate follow-up action if the delinquency is not remedied within the specified time period.
- Include in future notices of default a statement to cure the default based on the time period reflected in the lease or "within less than sixty days."
- Take the necessary steps to ensure that default notices are sent and received by the lessees and to each holder of a security interest.

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

Most of the department's lease agreements require that the lessee obtain a surety bond in an amount equal to two times the annual rental to protect the State against breach or default of any of the terms, covenants, and conditions in the lease. In lieu of a bond, the department will accept a security deposit in the form of a time security deposit held jointly by the department and the lessee.

In our 1985 audit of the department, we reported that the department had no follow-up procedures to ensure that surety bonds, once obtained by



lessees, remained in effect. Our current audit showed no improvement in this area. In our sample of seven leases that required surety bonds, we found that three of the surety bonds had expired or did not meet the required amount.

The source of the problem is that the department has no “tickler” system to assist in monitoring surety bond expiration dates. Nor does the department have established procedures to identify expiring surety bonds so that timely action can be taken to ensure that surety bonds remain in effect.

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## **Recommendation**

The department should establish and implement procedures to ensure that all lessees’ surety bonds are maintained on a current basis.

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# Chapter 3

## Financial Audit

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This chapter presents the results of the financial audit of the Department of Land and Natural Resources for the year ended June 30, 1991. It displays financial statements of all fund types and account groups administered by the department, together with explanatory notes. It also includes the reports on the internal control structure and tests of compliance with laws and regulations.

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### Summary of Findings

In the opinion of Coopers & Lybrand, based on their audit, except for the general fixed assets accounts group, the financial statements present fairly, in all material respects, the combined financial position of the department as of June 30, 1991, and the combined results of its operations for the year then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand noted no matters involving the internal control structure and its operation that they considered to be material weaknesses as defined in the report on the internal control structure. They also noted, with respect to items tested, that the department has complied, in all material respects, with laws and regulations applicable to the department.

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### Independent Auditors' Report

Coopers & Lybrand's report filed with the auditor is as follows:

To the Auditor  
State of Hawaii

We have audited the following financial statements of the State of Hawaii, Department of Land and Natural Resources:

Combined balance sheet—all fund types and account groups—  
June 30, 1991 (Exhibit A);

Combined statement of revenues, expenditures and changes in  
fund equity—all governmental fund types and expendable trust  
funds—for the year ended June 30, 1991 (Exhibit B);

Combined statement of revenues and expenditures—budget  
and actual (budgetary basis), general and special revenue  
funds—for the year ended June 30, 1991 (Exhibit C).



These financial statements are the responsibility of the management of the State of Hawaii, Department of Land and Natural Resources. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with the terms of our engagement, the scope of our audit did not include the audit of the general fixed assets account group and, accordingly, we express no opinion on it.

As discussed in the notes to the financial statements, the general fund accounts of the Department of Land and Natural Resources are a part of the State of Hawaii's general fund and our opinion expressed herein, insofar as it relates to the amounts included for the general fund is limited to only the transactions of the Department of Land and Natural Resources.

In our opinion, based upon our audit, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the general fixed assets account group, the financial statements referred to above present fairly, in all material respects, the combined financial position of the State of Hawaii, Department of Land and Natural Resources as of June 30, 1991, and the combined results of its operations for the year then ended in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand

Honolulu, Hawaii  
September 30, 1991

## Descriptions and Definitions

This section provides descriptions of the financial statements audited and definitions of technical terms used in this chapter.

### *Descriptions of financial statements and schedules*

The following is a brief description of the financial statements audited by Coopers & Lybrand. The financial statements are attached at the end of this chapter.

**Combined balance sheet—all fund types and account groups (Exhibit A).** This statement presents assets, liabilities, and fund balances of all fund types and account groups used by the department on an aggregate basis.

**Combined statement of revenues, expenditures and changes in fund equity—all governmental fund types and expendable trust funds (Exhibit B).** This statement presents revenues, expenditures, other financing sources (uses) and changes in fund equity for all governmental fund types, and expendable trust funds used by the department on an aggregate basis. Revenues include state appropriations mandated by the General Appropriations Act of 1989 (Act 316, Session Laws of Hawaii 1989), as amended by the Supplemental Appropriations Act of 1990 (Act 299, Session Laws of Hawaii 1990) and other specific appropriations acts.

**Combined statement of revenues and expenditures—budget and actual (budgetary basis), general and special revenue funds (Exhibit C).** This statement presents a comparison of budgeted and actual revenues, expenditures, and other financing sources for the general fund accounts and special revenue funds used by 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:

**Appropriation.** An authorization granted by the State Legislature permitting a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures.

**Allotment.** An authorization by the director of finance to a state agency to incur obligations and to make expenditures pursuant to the appropriation made by the State Legislature.



**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.

**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.

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

**Transfer.** The transaction between funds, departments, and/or programs which is approved by the appropriate authority.

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## Notes to Financial Statements

Explanatory notes which are pertinent to an understanding of the financial statements and financial condition of the funds administered by the department are discussed in this section.

### *Financial statement presentation*

**General.** The accompanying financial statements of the Department of Land and Natural Resources (DLNR) present the financial position of the various fund types and account groups, and the results of operations of the various fund types as of and for the year ended June 30, 1991.

**Reporting entity.** The Department of Land and Natural Resources is a department of the State of Hawaii.

**Fund accounting.** The financial activities are recorded in individual funds classified by type and described in the following sections, each of which is deemed to be a separate accounting entity. The financial position and operations of each fund are accounted for in separate self-balancing accounts which represent the fund's assets, liabilities, equity, revenues and expenditures or expenses.

Account groups are used to establish accounting control and accountability for the department's general fixed assets and general long-term obligations. Account groups are not funds as they do not reflect available financial resources and related liabilities.

**Governmental fund types.** Financial resources which are not accounted for in other funds are accounted for in the general fund. The budget as adopted by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted. The general fund of the department is a part of the state's general fund and the accompanying general fund financial statements are



limited to and reflect only the appropriations, expenditures, and obligations of the general fund accounts used by the department, and the general fund allotments received by the department.

Financial resources obtained from specific revenue sources and used for restricted purposes are accounted for in special revenue funds.

Substantially all financial resources obtained and used for the acquisition or construction of the department's general fixed assets and facilities are reflected in the capital projects fund. Such resources are derived principally from proceeds of general obligation bond issues, federal grants, and operating transfers from the general fund.

**Fiduciary fund types.** Expendable trust funds account for transactions related to assets held by the department in a trustee capacity to be expended for designated purposes. Agency funds are accounts for funds held by the department as agent. Agency funds include funds delegated to the department by other state agencies for purposes of administering various projects.

**Account groups.** The general fixed assets account group is used to account for all fixed assets of the department. The general long-term obligations account group is used to account for general obligation bonds, government loans, and accrued vacation payable for governmental fund types.

**Total columns on financial statements.** Total columns on the accompanying financial statements are captioned *memorandum only* to indicate that they are presented only to facilitate financial analysis. Data in these columns do not purport to present financial position, results of operations, or changes in fund equity of the department in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation.

### **Summary of significant accounting policies**

**Governmental fund types and expendable trust funds.** *Basis of accounting.* All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The department uses the modified accrual basis of accounting for the general, special revenue, capital projects, and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized



when they become measurable and available to finance operations of the current fiscal year. *Measurable* means that the amount of the transaction can be determined. *Available* means that the amount is collected in the current fiscal year or soon enough after year-end to liquidate liabilities existing at the end of the fiscal year. *Expenditures* are recorded on the accrual basis of accounting when the related fund liability is incurred. *Encumbrances* are recorded obligations in the form of purchase orders or contracts. The department records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at year-end are reported as reservations of fund equity since they do not constitute expenditures or liabilities.

*Cash and investments.* Cash reported in the combined balance sheet includes cash in the State Treasury, cash in banks and certificates of deposit where maturities are three months or less. Investments represent long-term investments with the U.S. Treasury.

The State of Hawaii maintains a cash pool that is available for all funds. Each fund type's portion of this pool is displayed on the combined balance sheet within Cash or Investments. Those funds are pooled with funds from other state agencies and departments and deposited in approved financial institutions by the director of finance. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians.

The Special Revenue Fund of the department maintains cash in banks which is held separately from cash in the state treasury. Those deposits not covered by federal deposit insurance are also fully collateralized by government securities held in the name of the State by third party custodians.

Statutes authorize the department to invest in obligations of the U.S. Treasury, certificates of deposit and money market accounts. Certificates not covered by federal deposit insurance are also fully collateralized by government securities held in the name of the State by third party custodians.

*Deferred revenues.* The department accounts for prepayments on lease agreements as deferred revenues. The deferred revenues are recognized as income over the prepaid period.

*Accumulated vacation and sick leave.* State employees' accumulated vacation is expected to be liquidated with future expendable resources and therefore is accrued in the general long-term obligations account



group. Sick leave is not convertible to pay upon termination of employment and is recorded as an expenditure when taken.

*Fund balances.* Portions of fund balances are reserved for the following: (a) encumbrances which are goods or services that have been ordered or contracted for but not yet received; (b) continuing appropriations which are to be used for existing capital improvement projects; and (c) expendable trust fund balances which are restricted to the purpose of the account. Portions of the unreserved fund balances are designated for future capital and operating expenditures.

*Account Groups.* *General fixed assets* are recorded at cost. Certain assets for which cost is not determinable have been valued at estimated historical cost. Contributed fixed assets are recorded at fair market value at the date of donation. Depreciation is not provided on general fixed assets.

## ***Budgeting and budgetary control***

The budget of the department is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented and controlled. Revenue estimates are provided to the Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in Exhibit C are those estimates as compiled by the department. Budgeted expenditures are derived primarily from the General Appropriations Act of 1989 (Act 316, SLH 1989) and other specific appropriations acts.

All expenditures of these appropriated funds are made pursuant to the appropriations in the 1989-1991 biennial budget as amended by subsequent supplemental appropriations. The final legally adopted budget in Exhibit C represents the original appropriations, supplemental appropriations, transfers, and other legally authorized legislative and executive changes.

Budgetary control is maintained at the appropriation line item as established in the appropriations acts. The governor is authorized to transfer appropriations within a state agency; however, transfers of appropriations between state agencies generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the department.

To the extent not expended or encumbered, general fund appropriations usually lapse at the end of the fiscal year for which the appropriations

were made. The Legislature specifies the lapse date and any other contingencies which may terminate the authorization for other appropriations.

Budgets adopted by the Legislature for the general and special revenue funds are presented in Exhibit C. The department's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to the encumbrances of purchase order and contract obligations. These differences represent departures from generally accepted accounting principles (GAAP). A reconciliation between non-GAAP budgetary actual and GAAP actual is as follows:

	General Fund	Special Revenue Funds
Excess of revenues and other financing sources over expenditures and other financing uses—non-GAAP budgetary actual	\$ 217,697	\$ 5,724,206
Reserve for encumbrances at year-end	(8,289,801)	(12,622,274)
Expenditures for liquidation of prior fiscal year encumbrances	<u>10,286,926</u>	<u>12,136,307</u>
Excess of revenues and other financing sources over expenditures and other financing uses before other changes in fund equity—GAAP actual	<u>\$ 2,214,822</u>	<u>\$ 5,238,239</u>

### ***Property, plant and equipment***

**General fixed assets account group.** Changes in general fixed assets (unaudited) during the year ended June 30, 1991, were as follows:

	Land	Buildings and Improvements	Equipment	Total
Balance, July 1, 1990	\$ 162,022,838	\$ 20,578,817	\$ 9,265,573	\$ 191,867,228
Additions	13,897,646	\$ 739,045	\$ 2,318,391	\$ 16,955,082
Deductions	<u>---</u>	<u>(3,230)</u>	<u>(372,207)</u>	<u>(375,437)</u>
Balance, June 30, 1991	<u>\$ 175,920,484</u>	<u>\$ 21,314,632</u>	<u>\$ 11,211,757</u>	<u>\$ 208,446,873</u>



***Due to other funds***

At June 30, 1991, due to other funds included in the General Long-Term Obligations Account Groups was comprised of noninterest-bearing advances of general obligation bond issues of \$6,180,795 from the State to the former Hawaii Water Authority, which is now part of the department. Although the department has recorded these advances as a liability at June 30, 1991, the Hawaii Revised Statutes §174-21 provides the board with the discretion to repay the advances. The department will not consider repayment until requested by the State.

***Bonds payable***

The department reimburses the State of Hawaii for its portion of debt service on several general obligation bonds issued by the State of Hawaii.

The following is a summary of such general obligation bonds reimbursable by the department at June 30, 1991:

Series	Interest Rate	Final Maturity Date	Original Amount Of Issue	Outstanding Amount
W	4.25 - 5.00%	02/01/92	\$ 398,223	\$ 22,120
AC	5.00 - 5.60%	04/01/94	<u>2,071,817</u>	<u>346,679</u>
			<u>\$ 2,470,040</u>	<u>368,799</u>
Less current portion				<u>137,074</u>
				<u>\$ 231,725</u>

Maturities on bonds payable, including interest of \$37,955, subsequent to June 30, 1991, are as follows:

Year ending June 30,	
1992	\$ 156,924
1993	127,312
1994	<u>122,518</u>
	<u>\$ 406,754</u>

***Lease commitments***

The department is a party to numerous noncancelable leases with terms extending through the year 2055. Revenues derived from these leases for minimum and contingent rentals aggregated approximately \$5,200,000 during fiscal 1991 and is expected to approximate this amount through 1996.



## ***Retirement benefits***

**Employees' retirement system.** Substantially all eligible employees of the department are members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively.

Required employer contributions to the ERS are based on actuarially determined rates that should provide sufficient resources to pay member pension benefits when due. The funding method used to calculate the total employer contribution required is the frozen initial liability method, and includes amortization of the accrued unfunded liability of pension benefits and post retirement benefits fixed at \$470 million over a period of twenty-eight years beginning July 1, 1987. The State's policy is to fund its required contribution annually. The department's general fund share of the retirement system expense for the year ended June 30, 1991, was included in the Supplemental Appropriations Act as an item to be expended by the Department of Budget and Finance and is not reflected in the department's general fund financial statements. No contributions were required by the department's special revenue funds.

Measurement of assets and actuarial valuations are made for the entire ERS and are not separately computed for individual participating employers such as the department. The disclosures required by Governmental Accounting Standards Board Statement No. 5 are presented in the ERS Comprehensive Annual Financial Report (CAFR). The following data is provided as of June 30, 1990 for the entire ERS from the disclosures contained in the CAFR for the year then ended, the most recent available:

Pension benefit obligation	\$ 5,202,860,000
Net assets available for benefits (at cost)	<u>3,846,337,900</u>
Unfunded pension benefit obligation	<u>\$ 1,356,522,100</u>



The pension benefit obligation is a standardized measure of the present value of credited projected pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date.

The entire ERS actuarially determined employer contribution requirements were met as of June 30, 1991.

**Post-retirement health care and life insurance benefits.** In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired state employees. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. The department's general fund share of the expense for post-retirement benefits for the year ended June 30, 1991, has not been separately computed and is not reflected in the department's general fund financial statements. The department's special revenue funds' share of the post-retirement health care and life insurance benefits expense for the year ended June 30, 1991, was approximately \$27,000 and is included in the funds' financial statements.

### ***Commitments and contingencies***

**Accumulated sick pay.** Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit. It may 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 sixty days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System. Accumulated sick leave at June 30, 1991, aggregated approximately \$12,122,000.

**Deferred compensation plan.** In 1983, the State established a deferred compensation plan which enables state employees to defer a portion of their compensation. The State of Hawaii, Department of Personnel Services, has the fiduciary responsibility of administering the plan. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject to the claims of the state's general creditors. Participants' rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.



**Insurance coverage.** The State maintains certain insurance coverage to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. Expenditures for workers' compensation are appropriated annually.

**Litigation.** The department is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the department's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the state's general fund.

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## Report on the Internal Control Structure

To the Auditor  
State of Hawaii

We have audited the financial statements of the State of Hawaii, Department of Land and Natural Resources as of and for the year ended June 30, 1991, and have issued our report thereon dated September 30, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

In planning and performing our audit of the financial statements of the State of Hawaii, Department of Land and Natural Resources for the year ended June 30, 1991, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the State of Hawaii, Department of Land and Natural Resources is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not

absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Revenue/receipts cycle
- Purchases/disbursements cycle
- Payroll cycle

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the Auditor, State of Hawaii, in Chapter 2.

This report is intended for the information of the Auditor, State of Hawaii and management of the State of Hawaii, Department of



Land and Natural Resources. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

/s/ Coopers & Lybrand

Honolulu, Hawaii  
September 30, 1991

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## **Report On Tests of Compliance with Laws and Regulations**

To the Auditor  
State of Hawaii

We have audited the financial statements of the State of Hawaii, Department of Land and Natural Resources as of and for the year ended June 30, 1991, and have issued our report thereon dated September 30, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the State of Hawaii, Department of Land and Natural Resources is the responsibility of the State of Hawaii, Department of Land and Natural Resources' management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the State of Hawaii, Department of Land and Natural Resources' compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the State of Hawaii, Department of Land and Natural Resources complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Hawaii, Department of Land and Natural Resources had not complied, in all material respects, with those provisions.

This report is intended for the information of the Auditor, State of Hawaii and management of the State of Hawaii, Department of

Land and Natural Resources. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

/s/ Coopers & Lybrand

Honolulu, Hawaii  
September 30, 1991





STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES

Combined balance sheet - All fund types and account groups  
June 30, 1991

	Governmental Fund Types			Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Assets	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets (Unaudited)	General Long-Term Obligations	
Cash with treasury, including time certificates of deposit of \$11,420,000 in special revenue funds	\$ 9,949,721	\$20,300,261	\$57,597,825	\$11,383,530	\$ --	\$ --	\$ 99,231,337
Investments	--	--	--	6,112,540	--	--	6,112,540
Receivables:							
Due from Federal Government	--	615,404	--	--	--	--	615,404
Due from other funds	563,661	--	--	--	--	--	563,661
Due from other agencies	--	--	--	437,500	--	--	437,500
Accounts receivable, net	--	151,619	--	1,224,987	--	--	1,376,606
Accrued interest receivable	--	373,402	--	217,879	--	--	591,281
Property, plant and equipment	--	--	--	--	208,446,873	--	208,446,873
Amount to be provided for the retirement of general long-term obligations	--	--	--	--	--	10,480,057	10,480,057
<b>Total assets</b>	<b>\$10,513,382</b>	<b>\$21,440,686</b>	<b>\$57,597,825</b>	<b>\$19,376,436</b>	<b>\$208,446,873</b>	<b>\$10,480,057</b>	<b>\$327,855,259</b>
<b>Liabilities And Fund Equity</b>							
Liabilities:							
Vouchers and contracts payable	\$ 1,500,413	\$ 241,842	\$ 1,492,202	\$ 58,735	\$ --	\$ --	\$ 3,293,192
Accrued wages and employee benefits payable	112,957	--	--	--	--	3,930,463	4,043,420
Due to other agencies	--	--	--	18,034,285	--	--	18,034,285
Due to other funds	--	563,661	--	--	--	6,180,795	6,744,456
Due to State General Fund	46,550	51,743	--	1,194,603	--	--	1,292,896
General obligation bonds payable	--	--	--	--	--	368,799	368,799
Deferred revenue	--	223,471	--	--	--	--	223,471
Others	--	5,235	--	--	--	--	5,235
<b>Total liabilities</b>	<b>1,659,920</b>	<b>1,085,952</b>	<b>1,492,202</b>	<b>19,287,623</b>	<b>--</b>	<b>10,480,057</b>	<b>34,005,754</b>
Fund Equity:							
Investment in general fixed assets	--	--	--	--	208,446,873	--	208,446,873
Fund balances:							
Reserved for encumbrances	8,289,801	12,622,274	31,865,656	--	--	--	52,777,731
Reserved for continuing appropriations	--	--	24,239,967	--	--	--	24,239,967
Reserved for amounts held in trust	--	--	--	88,813	--	--	88,813
Unreserved	563,661	7,732,460	--	--	--	--	8,296,121
<b>Total fund equity</b>	<b>8,853,462</b>	<b>20,354,734</b>	<b>56,105,623</b>	<b>88,813</b>	<b>208,446,873</b>	<b>--</b>	<b>293,849,505</b>
<b>Total liabilities and fund equity</b>	<b>\$10,513,382</b>	<b>\$21,440,686</b>	<b>\$57,597,825</b>	<b>\$19,376,436</b>	<b>\$208,446,873</b>	<b>\$10,480,057</b>	<b>\$327,855,259</b>

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



**STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES**

**Combined statement of revenues, expenditures and changes in fund equity -  
all governmental fund types and expendable trust funds  
for the year ended June 30, 1991**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Types</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trusts</u>	
<b>Revenues:</b>					
State allotted appropriations	\$ 69,752,100	\$ --	\$ 3,851,022	\$ --	\$ 73,603,122
Rents	--	5,125,819	--	--	5,125,819
Intergovernmental revenues	--	3,641,493	--	--	3,641,493
Other revenues	--	966,091	--	8,264	974,355
Total revenues	<u>69,752,100</u>	<u>9,733,403</u>	<u>3,851,022</u>	<u>8,264</u>	<u>83,344,789</u>
<b>Expenditures:</b>					
Capital outlays	--	--	35,669,013	--	35,669,013
Environmental protection	15,381,645	503,126	--	--	15,884,771
Culture and recreation	8,962,676	2,330,516	--	--	11,293,192
Economic development	2,872,164	513,970	--	--	3,386,134
Government-wide support	1,349,243	1,117,977	--	--	2,467,220
Individual rights	1,930,448	--	--	--	1,930,448
Public safety	227,279	41,919	--	--	269,198
Other expenditures	--	--	--	43,850	43,850
Total expenditures	<u>30,723,455</u>	<u>4,507,508</u>	<u>35,669,013</u>	<u>43,850</u>	<u>70,943,826</u>
Excess of revenues over (under) expenditures before other financing sources (uses) and other changes in fund equity	<u>39,028,645</u>	<u>5,225,895</u>	<u>(31,817,991)</u>	<u>(35,586)</u>	<u>12,400,963</u>
<b>Other financing sources (uses):</b>					
Operating transfers in	2,190,329	115,691	38,154,500	--	40,460,520
Operating transfers out	<u>(39,004,152)</u>	<u>(103,347)</u>	<u>--</u>	<u>--</u>	<u>(39,107,499)</u>
	<u>(36,813,823)</u>	<u>12,344</u>	<u>38,154,500</u>	<u>--</u>	<u>1,353,021</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses before other changes in fund equity	2,214,822	5,238,239	6,336,509	(35,586)	13,753,984
<b>Other changes in fund equity:</b>					
Lapsed appropriations	<u>(395,288)</u>	<u>--</u>	<u>(144,584)</u>	<u>--</u>	<u>(539,872)</u>
Excess of revenues and other financing sources over (under) expenditures, other financing uses and other changes in fund equity	1,819,534	5,238,239	6,191,925	(35,586)	13,214,112
<b>Fund equity, beginning of year</b>	<u>7,033,928</u>	<u>15,116,495</u>	<u>49,913,698</u>	<u>124,399</u>	<u>72,188,520</u>
<b>Fund equity, end of year</b>	<u>\$ 8,853,462</u>	<u>\$20,354,734</u>	<u>\$ 56,105,623</u>	<u>\$ 88,813</u>	<u>\$ 85,402,632</u>

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

**STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES**

**Combined statement of revenues and expenditures - budget and actual (budgetary basis) -  
general and special revenue funds  
for the year ended June 30, 1991**

	<u>General Fund Accounts</u>			<u>Special Revenue Funds</u>		
	<u>Actual on Budgetary Basis</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>	<u>Actual on Budgetary Basis</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
<b>Revenues:</b>						
State allotted appropriations	\$ 69,752,100	\$ 69,752,100	\$ --	\$ --	\$ --	\$ --
Intergovernmental revenues	--	--	--	3,389,794	3,539,392	(149,598)
Other revenues	--	--	--	6,031,682	955,219	5,076,463
Nonbudgeted revenues	--	--	--	<u>243,623</u>	--	<u>243,623</u>
Total revenues	<u>69,752,100</u>	<u>69,752,100</u>	--	<u>9,665,099</u>	<u>4,494,611</u>	<u>5,170,488</u>
<b>Expenditures:</b>						
Environmental protection	15,333,732	13,881,308	(1,452,424)	543,335	834,239	290,904
Culture and recreation	9,411,187	9,949,601	538,414	1,780,084	2,183,403	403,319
Economic development	3,231,953	3,158,025	(73,928)	448,750	486,750	38,000
Government-wide support	2,683,913	2,748,574	64,661	952,205	955,219	3,014
Individual rights	1,811,806	1,565,532	(246,274)	--	--	--
Public safety	247,989	294,560	46,571	28,434	35,000	6,566
Nonbudgeted expenditures	--	--	--	<u>200,429</u>	--	<u>(200,429)</u>
Total expenditures	<u>32,720,580</u>	<u>31,597,600</u>	<u>(1,122,980)</u>	<u>3,953,237</u>	<u>4,494,611</u>	<u>541,374</u>
Excess of revenues over (under) expenditures before other financing sources (uses)	<u>37,031,520</u>	<u>38,154,500</u>	<u>(1,122,980)</u>	<u>5,711,862</u>	--	<u>5,711,862</u>
<b>Other financing sources (uses):</b>						
Operating transfers in	2,190,329	--	2,190,329	115,691	--	115,691
Operating transfers out	<u>(39,004,152)</u>	<u>(38,154,500)</u>	<u>(849,652)</u>	<u>(103,347)</u>	--	<u>(103,347)</u>
	<u>(36,813,823)</u>	<u>(38,154,500)</u>	<u>1,340,677</u>	<u>12,344</u>	--	<u>12,344</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ 217,697</u>	<u>\$ --</u>	<u>\$ 217,697</u>	<u>\$5,724,206</u>	<u>\$ --</u>	<u>\$5,724,206</u>

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





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## Response of the Affected Agency

### Comments on Agency Response

We transmitted a draft of this report to the Department of Land and Natural Services on December 13, 1991. A copy of the transmittal letter to the department is included as Attachment 1. The response of the department is included as Attachment 2.

The department does not dispute the findings. The department will make appropriate corrections to comply with statutory processing requirements. The department, however, does not believe that formal procedures need to be established to replace current written and unwritten policies and procedures. Instead, the department believes that it can implement many of the findings with internal memorandums reminding staff of their responsibilities.

We believe that formal procedures and policies are made even more necessary by the sheer number of accounts being managed by the department. The department has approximately two thousand accounts for which it is responsible. Established written policies and procedures, consistently followed, are necessary to ensure that all accounts are being administered in the best interest of the State.



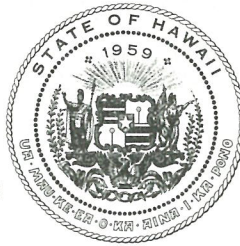
**ATTACHMENT 1**

STATE OF HAWAII

**OFFICE OF THE AUDITOR**

465 S. King Street, Room 500

Honolulu, Hawaii 96813



(808) 548-2450

FAX: (808) 548-2693

December 13, 1991

C O P Y

The Honorable William W. Paty  
Chairperson of the Board of Land and  
Natural Resources  
Department of Land and Natural Resources  
1151 Punchbowl Street  
Honolulu, Hawaii 96813

Dear Mr. Paty:

Enclosed are three copies, numbered 6 through 8, of our draft report, *Financial Audit of the Department of Land and Natural Resources*. We ask that you telephone us by Tuesday, December 17, 1991, on whether you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Friday, December 27, 1992.

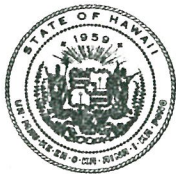
The Governor and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Newton Sue  
Acting Auditor

Enclosures



REF:FIS-SA

STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES

P. O. BOX 621  
HONOLULU, HAWAII 96809

December 30, 1991

ATTACHMENT 2

WILLIAM W. PATY, CHAIRPERSON  
BOARD OF LAND AND NATURAL RESOURCES

DEPUTIES

MANABU TAGOMORI  
DAN T. KOCHI

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

Mr. Newton Sue  
Acting Legislative Auditor  
465 South King Street, Room 500  
Honolulu, Hawaii 96813

RECEIVED  
DEC 31 8 48 AM '91  
OFF. OF THE AUDITOR  
STATE OF HAWAII

Dear Mr. Sue:

We appreciate the opportunity to comment on the findings and recommendations contained in your draft report, *Financial Audit of the Department of Land and Natural Resources*.

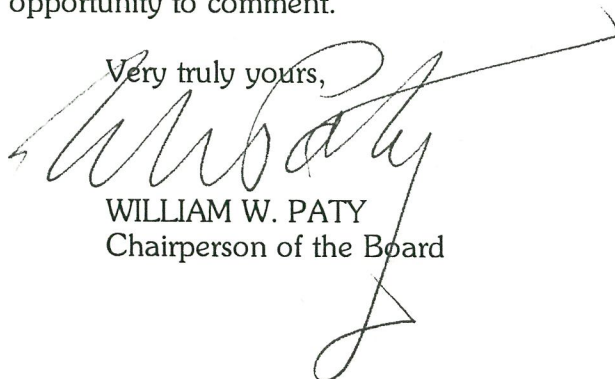
Positive progress in administering the financial responsibilities of our department is obvious when the current audit is compared to the previous conducted by your agency in 1985. The findings in the current audit are both fewer in numbers and we believe, materiality as well.

We do not dispute the findings as reported. With approximately two thousand accounts involved Statewide, isolated errors will happen. Since written and unwritten policies and procedures are in place, we feel comfortable in addressing many of the findings with an internal memorandum to the appropriate personnel reminding them of their responsibilities. Where corrections are necessary to comply with statutory provisions, we will make the appropriate changes.

One unwritten policy which we will not change is that of using informal courtesy letters and personal contacts instead of notices of default. The mailing of a certified default notice starts a mechanical, legal process which may be inappropriate in certain situations because it does not consider the human element involved. Our land agents must be given the flexibility to use their own judgment when dealing with individual accounts. Past dealings with and the credibility of the lessee should be considered in deciding the course of action to take. Land agents will be reminded to clearly document that choice if the delinquency is handled other than routinely.

Again, we thank you for the opportunity to comment.

Very truly yours,



WILLIAM W. PATY  
Chairperson of the Board