
Follow-Up Audit of the Financial Audit of the Department of Land and Natural Resources

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

Report No. 96-13
September 1996



THE AUDITOR
STATE OF HAWAII

The Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds and existing funds meet legislative criteria.
7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



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OVERVIEW

THE AUDITOR
STATE OF HAWAII

Follow-Up Audit of the Financial Audit of the Department of Land and Natural Resources

Summary

The Office of the Auditor conducted a follow-up to its January 1992 audit, *Financial Audit of the Department of Land and Natural Resources*, Report No. 92-2. The follow-up examined the extent to which the department implemented recommendations made in our previous audit. In addition, the follow-up examined the adequacy of management controls related to land lease agreements that are delinquent or in default.

We found that the same weaknesses in the administration of land leases reported in our 1992 audit continue today. The department continues to lack effective management controls to ensure that the cash performance or surety bonds are released only under proper circumstances. Procedures and instructions to pursue late lease rents do not comply with requirements of Section 171-20, Hawaii Revised Statutes. And the department continues to have difficulty ensuring that lessee performance or surety bond requirements are met.

In addition, we found that fundamental problems exist with the department's lease management practices. These problems impede the ability to ensure compliance with lease provisions, overshadowing and compounding the weaknesses we identified in our previous audit. For example the master lease files, which are used as the primary management reference for lease administration, are poorly organized and lack commonly used aids such as "lease summary sheets" and "tickler systems." Moreover, the department is several months behind in filing lease-related documents. These problems make the master lease files ineffective as management tools. As a consequence, for example, it cannot be determined if expiring surety bonds are monitored to protect the State's interest.

Our previous audit recommended that formal policies and procedures be developed and implemented to guide lease administration practices. The department instead chose to continue its practice of issuing memorandum instructions which are inadequate because they sometimes do not provide adequate guidance. In other instances we found that staff simply failed to follow the memorandum instructions.

We did find that the new land division administrator was aware of many of the problems we identified and was in the process of instituting changes to the division's lease administration practices.

Finally we found that actions by both the department and Board of Land and Natural Resources can contravene effective lease administration. We found examples in which the board and the department's failure to take timely action further hampered the resolution of problems with lessees who are in default of their lease.

Recommendations and Response

We recommend that the Department of Land and Natural Resources take immediate steps to eliminate the backlog of unfiled documents. We also recommend that the department develop and adopt formal policies and procedures covering all aspects of lease administration. This should include, but not be limited to, the use of tickler systems, lease summary sheets, and better organized files and record keeping.

The department does not dispute our findings, but notes reasons for its lack of progress since the previous audit was conducted. The department responds that short-term steps have been initiated to address our immediate concerns and recommendations. The department also identifies longer term plans that it intends to pursue in order to achieve a permanent solution to the lease administration problems identified.

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Hawaii

Submitted by

THE AUDITOR
STATE OF HAWAII

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Foreword

This is a report of our follow-up audit of the financial audit of the Department of Land and Natural Resources. The audit focused on the findings and recommendations contained in our 1992 report, *Financial Audit of the Department of Land and Natural Resources*, Report No. 92-2. Additionally, we reviewed the adequacy of management controls related to land lease agreements that are delinquent or in default. Both audits were conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State.

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

Marion M. Higa
State Auditor

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Chapter 1

Introduction

The purpose of this follow-up report is to describe actions taken by the Department of Land and Natural Resources with respect to the findings and recommendations in our January 1992 report, *Financial Audit of the Department of Land and Natural Resources*, Report No. 92-2. Additionally, we reviewed the adequacy of management controls related to land lease agreements that are delinquent or in default. Both the previous and current audits were conducted pursuant to Section 23-4, Hawaii Revised Statutes (HRS), which requires the Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all State agencies.

Background

The Department of Land and Natural Resources is responsible for the management of state-owned public lands. This management responsibility, which is delegated to the department's Division of Land Management, includes the acquisition, development, utilization, disposition, and control of public lands. The use of land leases is one of the division's primary means of managing the use of public lands. Lease administration, which is the paperwork of lease management, includes ensuring that lessees comply with all lease provisions, and taking appropriate actions when lessees fail to do so. Effective lease administration by the division is a key to successfully managing the use of state-owned public lands.

Today, the division is responsible for managing almost 1,000 land leases and collecting over \$7.5 million in annual lease rents for the State. Exhibit 1.1 shows a summary of the leases by island and projected annual lease rents generated from the leases.

Exhibit 1.1
Leases Administered by the Division of Land Management
Department of Land and Natural Resources
FY1993-94

District	No. of Leases	Acreage	Annual Lease Rent
Hawaii	349	124,505.640	\$2,150,480.35
Maui	73	11,041.800	\$470,536.00
Oahu	262	12,823.218	\$3,639,836.59
Kauai	271	16,117.251	\$1,429,572.45
Total	955	164,487.909	\$7,690,425.39

Source: Report to the Governor 1993-94 State of Hawaii, Department of Land and Natural Resources.

***Prior report findings
and recommendations***

In 1992, the Office of the Auditor and the certified public accounting firm of Coopers & Lybrand conducted a financial audit of the department for the fiscal year July 1, 1990 to June 30, 1991. The audit reported that the combined financial statements of the department were presented fairly and in conformity with generally acceptable accounting principles. However, the report noted that there were certain weaknesses in the administration of land leases. We found that there was a questionable release of a time certificate of deposit to a lessee who was in default of the lease agreement. We recommended that the department cease releasing certificates of deposit to lessees in default. Also, we recommended that the department establish policies and procedures governing the release of all certificates of deposit or other forms of cash performance bonds to lessees, whether they are in default or not.

We also found that the department was not in compliance with requirements of Section 171-20, HRS, pertaining to delinquent accounts. We recommended that the department comply with the requirements of the statute as follows:

1. 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.
2. 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."
3. Take the necessary steps to ensure that default notices are sent and received by the lessees and to each holder of a security interest.

Our previous report found that there were no follow-up procedures to ensure that lessees maintain surety bonds. We recommended that the department establish and implement procedures to ensure that all lessees' surety bonds are maintained on a current basis.

Agency response

The department did not dispute the findings. The department stated that it would make appropriate corrections to comply with statutory processing requirements. The department, however, did not believe that formal procedures needed to be established to replace current written and unwritten policies and procedures. Instead, the department believed that it could correct many of the findings with internal memoranda reminding staff of their responsibilities.

Recent reorganization of the Division of Land Management

Each of our prior report's findings and recommendations addressed the management of land leases. The department's Division of Land Management is responsible for the management of state public lands including awarding of land leases, administering the leases to ensure compliance of all lease provisions, and taking appropriate actions when lessees are not in compliance with lease provisions.

In February 1996, the Department of Land and Natural Resources submitted a reorganization proposal to the Department of Budget and Finance to establish a Land Division. Existing staff and functions of the Division of Land Management, the Office of Conservation and Environmental Affairs, and the Planning and Engineering Branches of the Division of Water Resource Management would be incorporated into the proposed Land Division whose basic mission would be to plan, manage, and develop public lands and water resources. The department contends that the reorganization will improve its effectiveness in managing and developing public lands and water resources, while at the same time compensating for a 17 percent work-force reduction over the last three years due to budget reductions.

Although the governor has not formally approved the proposed reorganization, the department has proceeded to implement organizational changes along the lines of its proposal.

Objectives of the Follow-up Audit

- Review the extent to which the findings and recommendations contained in our prior audit have been addressed by the department and make recommendations as appropriate.
- Review the management controls related to land lease agreements that are delinquent or in default and make recommendations as appropriate.

Scope and Methodology

We reviewed the department's internal controls and administrative procedures and practices related to land lease agreements. We determined whether the department had implemented our prior recommendations. We reviewed actions taken by the department to ensure that: 1) time certificates of deposit or other forms of cash performance bonds are not released to a lessee who is in default of the lease agreement; 2) the statute regarding delinquent accounts is being complied with; and 3) surety bonds are maintained on a current basis. Our focus was on measures taken by the department to ensure timely and aggressive compliance with statutory requirements regarding delinquent accounts.

We examined the department's files, forms, and records and interviewed key department officials. We performed selective testing of internal control procedures that are used to identify and monitor delinquent accounts. We sampled delinquent case files to determine the extent of compliance with Section 171-20, HRS. For the most part, our follow-up audit was conducted at the Division of Land Management and the division's Oahu District Office. We did request selected documents and records from neighbor island district offices for review and the results are included in the report. We did not conduct a financial audit of the department.

The period under review is February 1992 to March 1996. The audit was conducted from January 1996 through March 1996 in accordance with generally accepted government auditing standards.

Chapter 2

Finding and Recommendations

This chapter presents the findings and recommendations of our follow-up audit of the lease administration practices of the Department of Land and Natural Resources. We focused our review on the department's implementation of the previous audit's recommendations and on its management practices for leases that were either in default or delinquent. We found that fundamental problems with the department's lease administration practices need to be addressed.

Summary of Finding

The department's lease administration practices result in ineffective lease management, and make it difficult to verify the extent to which the department has addressed problems identified in our previous audit.

Controls to Ensure Effective Management of Leases Are Lacking

We found that the same weaknesses in the administration of land leases reported in our 1992 audit report continue today. These weaknesses result from a lack of formal policies and procedures, inadequate internal control practices, and poor records management. Our review of lease files, memoranda, reports, and other documentation revealed that fundamental management problems impede the ability to ensure compliance with lease provisions. These problems overshadow and compound weaknesses identified in our previous audit.

Lease administration critical for effective management

With almost 1,000 land leases and over \$7.5 million in annual revenues, the department's Division of Land Management must manage leases well, ensuring that terms and conditions of each lease are met. A lease is a formal contract that specifies terms and conditions upon which the State, as lessor, agrees to permit a lessee to use a defined area of state-owned public land. Lease terms include very specific requirements such as rents, posting of bonds, and timetables for payments.

Lease administration includes ensuring that all terms and conditions of the lease are observed and met. Effective lease administration is the key to a successfully managed public lands program.

While the style and form of lease administration can have many variations, there are common basic elements. These include the:

- creation of working files that contain working copies of documents, all correspondence and communications related to the lease;

- separation and secure storage of original documents;
- creation of “lease summary sheets” that identify salient points of the lease in an easy to retrieve manner; and
- identification of “deferred conditions” and establishment of “tickler files” that identify important dates and conditions in the lease such as lease expiration, bond and insurance expiration dates, and other lease options that have identifiable dates attached to some future event.

Overall poor records management makes compliance review difficult

Effective lease administration requires current and easily accessed records. The division uses master lease files, which include all the original lease documents, as primary day-to-day references to administer leases. Use of master files as the day-to-day working files creates a potential problem because there is no separation and secure storage of original documents. However, despite the use of master files, the current status of leases and lessee compliance cannot be determined because the staff is several months behind in filing lease-related documents. Master files are therefore rendered ineffective as a management control reference for lease administration. Given this situation, even if formal policies, procedures, and management controls were established, the department could not determine if they were being followed because of the record filing backlog.

In addition, the master files are poorly organized. All documents are filed together. Correspondence is intermixed with lease documents. No attempt is made to segregate or organize materials in a logical manner. As a result, it is difficult for staff to quickly review lease files to determine the status of performance bonds. In addition, files do not contain summary sheets showing key dates to enable staff to efficiently monitor lease compliance. These oversights are aggravated by the department’s use of memoranda to direct staff on the disposition of leases rather than issuing a consolidated manual of formal policies and procedures.

Lease management instructions are by memoranda

Lease administration requires the establishment and efficient dissemination of formal policies to guide staff in effectively overseeing land leases. The department still lacks a comprehensive lease administration manual containing formal policies, procedures, and management controls. The department rejected recommendations in our 1992 audit that formal policies and procedures be implemented, preferring to continue the existing methods of written and unwritten guidelines. On February 13, 1992, the department issued Memorandum/Directive 92-1 to address our 1992 findings and recommendations. Subsequent to the 1992 memorandum, the department issued four additional memoranda regarding delinquencies. Despite these additional memoranda,

administrative weaknesses identified in our prior report continue. The division's internal control practices are still inadequate. We also found several instances where memoranda instructions were not followed. We continue to believe that formal policies, procedures, and management controls are necessary to ensure effective lease administration.

Memorandum instructions are insufficient

The Department of Land and Natural Resources responded to our 1992 audit recommendations by maintaining that formal procedures do not need to be established. The department noted that the use of internal memoranda to "appropriate personnel" would be sufficient to address our audit findings given that the department's written and unwritten policies and procedures were already in place. Memorandum/Directive No. 92-1, issued in February 1992, includes a paragraph that simply instructs district land agents not to release time certificates of deposit or other forms of cash performance bonds when a lessee is in default and/or unless the lessee submits an acceptable replacement. The memorandum provides no guidance relative to what reports or records need to be reviewed. It does not require agents to complete a checklist to certify that lease documents have been reviewed. A checklist would show that the lessee is or is not in compliance with all provisions in the lease agreement and/or that an acceptable replacement has been received. Also, the memorandum provides no written procedures to ensure that a request for the release and/or replacement of a cash performance bond contains all required information. Insufficient memoranda instructions can result, as was the case in 1992, in a questionable release of a time certificate of deposit.

Memorandum instructions not followed

We also found instances in which memorandum instructions were not followed. For example, the Oahu District Land Management Office did not follow procedures in an October 1995 memorandum on when to send a Notice of Default. The Administrative Services Office prepares an aging report during the first week of each month that shows the status of lease rent payments under the following categories: current, 1-30 days past due, 31-60 days past due, and over 60 days past due. The memorandum stipulates that demand letters be sent to each lessee whose lease rent payment is 1-30 days past due, informing recipients that they have 15 days to pay the rent or the department will start proceedings to cancel the lease. If payment is not received by the sixteenth day a pre-signed Notice of Default is mailed.

The Oahu District Office does send the first "demand" letter. However, instead of monitoring payments and sending the Notice of Default on the sixteenth day, the office waits until the aging report for the following month is received. If the lessee appears in the 31-60 days past due category, a Notice of Default is mailed. The district land agent stated that

the office does not monitor the payments received during the month, because of staff shortages. Failure to aggressively pursue delinquent lease rents has several effects: first, it deprives the State of revenue due in a timely manner; second, leniency in enforcing lease provisions can encourage lessees to take more exception to lease provisions, since the lessor appears reluctant to act; and third, if the lessee does default, time delays reduce the likelihood that the State will be able to recover lost revenues. Our review shows that this leniency in lease administration is common within the division.

Review Shows that Significant Lease Administration Problems Continue

Cash performance bond released without proper replacement

Although the filing backlog prevented our review of the master files, we reviewed other report files to sample the department's handling of defaulted or delinquent leases. We found significant problems with lease administration practices in these areas: release of performance bonds, compliance with state laws, and meeting surety bond requirements.

The State requires that a bond be posted by a lessee of public land. The purpose of the bond is to provide the State with a degree of monetary assurance that the lessee intends to fully and faithfully observe the terms, covenants, and conditions of the lease. The bond, which is generally equal to two times the annual rent, may be in the form of a surety bond or other third-party guarantor of the lease, or through a cash performance bond in which the lessee specifically sets aside funds held for the lessor (State) in case a breach or default should occur. Upon termination of a lease, the bond is released to the lessee after the department determines whether adjustments or penalties are needed. The bond provides the State with one recourse in case of a default by the lessee. For example, if a lessee defaults in payment of lease rent, the State may be able to use the bond to compensate for the loss.

The department's Administrative Services Office is responsible for formally requesting the Department of Budget and Finance to release the bond back to the lessee. However, the division's district land agents from each island initiate the requests. The administrative office relies on the district land agent to check for contract compliance before requesting the release of a bond.

Our previous audit found a questionable release of a time certificate of deposit, a type of cash performance bond, to a lessee who was in default. We recommended that the department establish policies and procedures governing the release of all types of performance bonds to lessees, whether in default or not.

To review the division's current handling of cash performance bonds, we reviewed the five most recent withdrawals of cash performance bonds based on a listing maintained by the Administrative Services Office. Four of the five bonds had been correctly released. However, the fifth bond was improperly released. This lease had been assigned to a new lessee on June 9, 1994. The district land agent requested the former lessee's bond, in this case a pledged savings account, be released, but did not require that the new lessee submit a replacement bond. With an assignment of lease, original bonds should have been released only in conjunction with a replacement bond from the new assignee. By following this procedure, the original lessee remains responsible for the lease until the new assignee demonstrates that it will meet the conditions of the lease assignment. The division's memorandum failed to address the need to coordinate, resulting in an improper release.

After our inquiry, a letter to the new lessee was sent on February 15, 1996, informing the lessee that a performance bond had never been posted and requesting that one be submitted. However, it had been almost two years since the lease was assigned, so the lessee, who must meet lease requirements whether or not notified by the lessor, was already in default of the lease requirement. Notice of Default, with a specific time frame in which to cure the default, should have been sent by certified mail, in accordance with the department's procedures. This example illustrates that the department continues to lack effective management controls to ensure that cash performance or surety bonds are not released until an acceptable replacement is submitted. Similar problems were identified with respect to breaches or defaults of other lease terms by lessees.

***Non-compliance with
Section 171-20, HRS
continues***

We also found a weakness in the department's compliance with state laws on its administration of leases. Section 171-20, Hawaii Revised Statutes (HRS), specifies procedures that the department is to follow when a lessee breaches or defaults on a lease provision. The law requires that written Notice of Default be sent to delinquent lessees and each holder of a security interest in the lease. The notice must specify the cure period, either as stated in the lease or "within less than 60 days" and what follow-up actions will be initiated if the delinquency is not resolved by the time the cure period expires.

In our 1992 audit, we found that the department was not complying with the requirements of Section 171-20, HRS. We recommended that steps be taken to ensure that Notice of Default and demand letters include specific wording and time frames as required by statute. Memorandum/Directive 92-1 addressed this specific recommendation. However, subsequent to this memorandum, four additional memoranda were issued regarding delinquencies.

The procedures currently followed by the department were developed in response to a request from the Department of Budget and Finance, as part of an assessment of effectiveness of all state agencies' efforts to make timely collections on non-tax revenues. A copy of these procedures was attached to a memorandum dated October 5, 1995 to all district offices for their information and implementation. It was not clear whether the new procedures were intended to supersede Memorandum/Directive No. 92-1. While the October 1995 memorandum appeared to address our specific concerns about compliance with Section 171-20 HRS, we were unable to determine the extent to which the department has complied with this section. Verification of compliance required review of the master files. Since the department is months behind in filing its lease documents, review of the master files would provide no useful information.

However, as previously reported, the Oahu District Office does not mail Notice of Default letters properly. Although the Administrative Services Office prepares a lease rent aging report during the first week of each month, the Oahu District Office waits until a lessee appears in the 31-60 days past-due category before a Notice of Default is mailed for failure to pay lease rent. Division procedures require the notice to be sent 15 days after the due date. This failure to follow office memorandum instructions is also a failure to comply with requirements of Section 171-20, HRS.

Surety bond requirements may not be met

Our previous audit recommended that the department establish and implement procedures to ensure that all lessees' surety bonds, another type of performance bond, are current. Issued in response to our previous audit, Memorandum/Directive No. 92-1 instructed the land agents to establish a manual aging system, until the department was computerized, to "tickler" the accounts to identify expiring surety bonds and to monitor renewal or replacement of surety bonds.

However, we found that surety bond requirements are also not monitored adequately. A surety bond is a guarantee by a third party of the performance of a lessee. Normally, the surety bond guarantor will notify the lessee of a pending bond expiration. The lessee renews the bond and a copy of the renewed bond is forwarded directly to the lessor. It is essential that the bond expiration dates be effectively monitored by the lessor to ensure that bonds remain effective in accordance with lease provisions. We were unable to determine from the review of lease files at the division whether surety bond requirements were properly monitored due to the filing backlog. Similarly, the filing backlog prevented us from verifying whether the office was following procedures to identify expiring surety bonds. As a result, we cannot verify if the office has actually implemented the surety bond follow-up procedures in response to our previous audit.

We also found that the department had inadequate follow-up procedures to ensure that surety bonds, once obtained by lessees, remained in effect. Although memoranda requiring the use of a "tickler" system to monitor surety bond expiration dates have been issued, we found that the department's tickler systems are either inadequate or not being used. Without a bond tickler system, division staff cannot effectively monitor pending expirations and take appropriate action before bonds expire.

Non-compliance instances are statewide

Since we were unable to determine the status of surety bonds by reviewing the division's lease files, we conducted a sample test based on district office correspondence. We asked the land management division to have the neighbor island district offices furnish copies of all surety bond related correspondence for August 1995. Neighbor island offices maintain separate local files apart from the main lease files in Honolulu. We specifically asked for copies of Notice of Default letters issued for expired surety bonds. Kauai provided four letters. Hawaii provided five letters. Maui did not respond. Our review of the Oahu District Office correspondence file for August 1995 showed no surety bond related correspondence for August 1995. We then reviewed correspondence files on a month-to-month basis until two Notice of Default letters were found for February 1995, which were used as our sample.

After reviewing this correspondence, we reviewed all documented follow-up actions by the district offices. We found instances of late issued default notices and failures to post required performance bonds.

Hawaii District Office examples

The Hawaii District Office sent four Notice of Default letters and one cancellation letter during August 1995. The cancellation letter was generated as a result of a number of lease violations, including the lessee's failure to post the required surety bond. The Hawaii District Office did follow up on the cancellation letter and recommended that the lease be canceled. The Board of Land and Natural Resources approved this action at its meeting on September 29, 1995. However, the division's records show that lease violations were identified as early as January 1992. A certified letter demanding correction was not sent until October 1992, and the first of three Notice of Default letters were not sent until March 1993. The March 1993 notice cited the lessee's failure to post the required performance bond and failure to keep rental payments current. The request for cancellation of lease was not submitted to the board until after a third Notice of Default was sent in June 1995, more than two years after the first notification.

We also found that the Hawaii District Office failed to take proper follow-up action on all four default notices sent in August 1995. One Notice of

Default letter was sent to the lessee in August 1995 citing the recipient's failure to post the required performance bond and to keep lease rental payments current. The lessee was given 60 days from the receipt of the letter to cure the breach. Our review of the lease file showed that the division notified the lessee in April 1993 that the required performance bond was never posted and requested the lessee to submit a performance bond in the amount of \$32,000 (two times the annual lease rent of \$16,000). As of February 1996, no performance bond had been posted, almost three years after the original request. We note that under the normal terms of a lease, the lessee should be posting the required surety bond within 30 days of receipt of the executed lease and that no reminder from the lessor should be required. Failure to comply with a lease surety bond requirement should result in a lease cancellation.

The Hilo District Office's August 1995 correspondence file included another Notice of Default to a different lessee because of the lessee's failure to post the required performance bond and to keep lease rental payments current. The August 1995 Notice of Default gave the lessee 60 days to submit the performance bond and to pay past due rents. However, a review of this lease showed that the lessee had previously been notified in May 1994 to provide a performance bond in the amount of \$30,420. The office did not provide documentation that any follow-up action had resulted from either the May 1994 or August 1995 notices.

Instead, a letter was sent in February 1996 informing the lessee that a performance bond must be posted in the amount of \$30,420. Although the lessee had been in default since August 1995, the letter was not sent by certified mail and did not specify any cure period for submitting the performance bond. The cure period for the August 1995 notice expired in early October 1995, and action should have been taken to cancel the lease at that time. We found that no action had been taken.

Oahu District Office examples

The Oahu District Office sent out two default letters on February 7 and 8, 1995, respectively. Both notices were served because of the recipient's failure to post required performance bonds and insurance policies. Both lessees were given sixty days from receipt of the letter to cure the breach. The office was unable to provide us with documentation showing what follow-up actions had been taken to ensure that the performance bonds were furnished. The cure period for the February 1995 notices expired in early April 1995. Again, action should have been taken to cancel the leases in April 1995, but was not.

After our inquiry, the district office sent a letter dated February 15, 1996 to one lessee requesting a current performance bond and certificate of insurance within 14 days. The letter informed the lessee that if the required documentation was not received, a Notice of Default would be

served providing the lessee with 60 days to comply with these requirements. For the other lessee, a Notice of Default was served on February 26, 1996 for failure to post the required performance bond. The lessee was given 60 days from the receipt of this letter to cure the breach.

Kauai District Office examples

The Kauai District Office sent out letters in August 1995 to four lessees who failed to post surety bonds. The district office did not follow up or monitor the status of bonds posted by two of the four lessees. An August 1995 letter to another of the four lessees reminded the lessee of certain contract requirements including the provision to provide a performance bond that was due within 30 days after the receipt of the completed lease. The lessee was informed that the bond would be due by late August/early September. After our inquiry, a January 1996 letter reminded the lessee that a lease bond was required.

A letter was sent on August 8, 1995 to the fourth lessee with a copy of a notice canceling the lessee's performance bond effective August 1, 1995. The lessee was instructed to reinstate coverage as soon as possible and was informed that the lease would be reviewed in 30 days. After our inquiry, a letter was sent in January 1996 to remind the lessee that a lease bond was required and to request the lessee to forward the bond to the district office as soon as possible. The lessee in each of these last two situations was in default and therefore Notice of Default letters specifying a cure period for submitting the performance bonds should have been sent by certified mail.

Existing tickler systems are ineffective

To address timeliness and compliance issues, aging or tickler systems have been implemented at all district offices. Neighbor island district offices utilize manual systems consisting of a card or letter tickler. The Oahu District Office uses a computerized tickler system that was installed in January 1995 to identify and monitor expiring surety bonds. However, the computerized system was not used for several months because no one in the division was qualified to operate the system.

Our sampling of surety bond correspondence showed that neither the manual nor the computerized tickler system and follow-up procedures effectively ensured that surety bonds were maintained on a current basis. While we were unable to determine the extent to which this problem resides either with the tickler systems themselves or with the staff's failure to utilize the systems, the fact remains that the tickler systems are not functioning to track compliance with surety bond requirements. District offices failed to take appropriate follow-up actions for 9 of the 11 leases included in our sample. In addition, the division, which serves as the central administrative office, could not determine the status of the defaults at the district offices.

Delinquent or default lessees are not aggressively pursued

The Division of Land Management does not always aggressively pursue lessees that are delinquent or in default. In addition, division actions to resolve delinquencies do not follow memoranda procedures. An unreasonable amount of time is spent trying to resolve problems before bringing delinquent or defaulted leases before the Board of Land and Natural Resources. Division staff may be exceeding their authority, since Section 171-20, HRS, reserves the right to grant extensions to the board and not to the division staff. Division staff should have some reasonable leeway to resolve lease administration problems, but the basis for this should be established in statute and defined by board policy.

In our review of aging reports, dated December 6, 1995 and January 5, 1996, we identified delinquent leases but we could not determine what actions had been taken. We requested that the division staff follow up for three delinquent rent leases and provide documentation showing what actions had been taken. Both reports showed one lessee to be over 60 days delinquent. The other two lessees were over 60 days delinquent, as noted in the January report. Notices of Default should have been served in November 1995 to one lessee and in December 1995 to the other two lessees. None of the three lessees received a notice until we requested documentation on the division's actions regarding these delinquent leases.

Board and department actions also hamper lease administration

We also found instances in which the department and board actions further contravened effective lease administration. Effective lease administration requires that discrepancies be pursued in an efficient and timely manner. In one example, the department failed to take action against the County of Maui for delinquent rental payments that date back to a period beginning in 1991.

The Board of Land and Natural Resources granted a lease to the County of Maui in October 1986 to use public lands for residential parking. In May 1987, the board consented to a sublease between the County of Maui and a private company to use the land. The apartment was converted in 1991 into a hotel and the County of Maui stopped paying lease rent to the State. Not until February 7, 1995 did the department send a Notice of Default to the County of Maui for delinquent rental payments of \$92,720 for the period of June 1, 1991 to May 31, 1995. On April 19, 1995, the board granted the county a six month extension up to October 8, 1995. On November 17, 1995, the department requested that the board cancel this lease. Instead, the board granted the county a 60 day extension and a second 60 day extension on January 26, 1996. As of January 1996, the county owed the State \$112,005.

The department has not collected delinquent rent on another lease with the County of Maui. The State originally granted a lease to the county on

July 22, 1975 for the establishment of the Molokai agricultural park. Maui County was allowed to sublease to Molokai farmers, collect rent from the farmers, and transfer the collections to the State.

In 1989, the State and the County disagreed on the actual amount of delinquent rent due and the status of the subleases. The department finally mailed a Notice of Default on February 1995 to the County of Maui for delinquent rental payments. In April 1995, the board granted the county a six month extension. The division requested a further extension at the board's November 17, 1995 meeting because additional time was needed to work with the county to determine the amount of delinquent lease rent actually due. The department went to the board again on January 1996 to request cancellation of the lease, but the board granted a 60 day extension to the county. As of January 1996, the county owed the State \$142,239 on this Molokai lease. While it is within the purview of the board to grant extensions, it should not have taken the department almost six years to bring the problem to the board.

The department has also failed to collect payment from a lessee in Hilo who owes almost \$200,000 in rent for the period March 28, 1982 to May 31, 1993. Since the August 1995 default notice, the department has been trying to settle this account. As of February 1996, the department had not executed an agreement establishing a payment plan for the delinquent lessee.

Effective lease administration requires proactive monitoring and collection to ensure that lease rents are paid in a timely manner. In addition, expeditious follow-up on delinquent lease rent payments is required before delinquent rents accumulate to an amount that in itself makes resolution difficult. Finally, the leasing of state lands should be held to the same lease administration standards as is found among well managed private leases.

We recognize that some latitude should be given to negotiate solutions when a default or delinquent payment exists. Solutions such as payment plans are often preferred to the canceling of a lease. However, the department lacks policies and procedures to guide the negotiation process. The department also fails to bring the problem to the board for action in a timely manner. Consequently, its failure to take action in a timely manner results in lost revenues for the State.

***Uncollectible accounts
not addressed in a
timely manner***

The department has unnecessarily delayed obtaining approval to write off uncollectible accounts. We asked the department to provide us with documented requests to obtain the attorney general's approval to write off uncollectible accounts. In June 1995, the department requested the attorney general's approval to write off a set of delinquent uncollectible accounts. In January 1996, the department asked the attorney general to

verify the status of the department's June 1995 request. The attorney general approved the request on January 28, 1996. The department must also obtain approval from the board before the accounts can be written off. A review of a list of delinquent accounts found that 17 of 24 accounts had no activity for 6 or more years. These include a 1980 account amounting to \$22,720, a 1981 account totaling \$10,124, two accounts whose last activity was in the 1970s, and one account that was canceled in 1968. Taking almost a year to obtain approval to write off accounts as old as 28 years is ineffective lease management.

An October 1995 memorandum from the division provides step-by-step instructions addressing delinquencies. After the division receives board approval to cancel a delinquent lease, the delinquent account is sent to the fiscal office, which turns over the delinquent account to a collection agency. The collection agency notifies the fiscal office and the division if the agency is unable to collect. The department must then obtain the approval of both the Board of Land and Natural Resources and the attorney general before a delinquent account can be written off.

After receiving these approvals, the fiscal office is instructed to write off the delinquent accounts. Although specific steps are provided for this process, no time frames have been established. Our review found that uncollected accounts had remained open for as long as 28 years. The department should establish time frames to ensure that uncollectible accounts are written off in a timely manner.

Division Administrator Aware of Problems

The new administrator of the Division of Land Management acknowledged problems resulting from a lack of formal written policies, procedures, and management controls and the impact that the filing backlog has on records management. While agreeing that backlogged files prevent an accurate review of lease compliance, he cites the loss of experienced personnel as a major cause of the backlog.

The administrator has appointed a task force to develop a comprehensive operations manual containing policies, procedures, and management controls related to lease administration and management. Student hires may be used to file backlogged lease documents. However, the administrator is uncertain about how quickly the task will be accomplished. He also plans to reorganize the filing system but is uncertain about whether existing staff will be able to maintain the currency of the files.

We are encouraged that the division appears committed to making substantial changes in its present lease administration practices. While acknowledging the issue of inadequate staffing, we note that many

problems have resulted from ineffective procedures that existed even when staffing levels were relatively stable. The department may be compelled to address the staffing situation, but implementing more effective lease administration practices should prove to be a more permanent solution to the problem.

Conclusion

The department's land management division has a major responsibility to properly manage state-owned public lands. Lease revenues represent a major source of funds for the program. The division's current practices make it difficult to effectively manage leases and maximize those funds. In particular, the division is not ensuring that lessees meet current requirements and is not resolving delinquent and defaulted leases. Leases are not being handled in a manner that safeguards the State's assets.

Recommendations

1. The Department of Land and Natural Resources should take immediate steps to eliminate the backlog of unfiled documents so that current lease status can be determined.
2. The department should develop and adopt formal policies and procedures covering all aspects of lease administration. These procedures should include, but not be limited to, the use of tickler systems, lease summary sheets, and better organized files and record keeping.

Response of the Affected Agency

Comments on Agency Response

We transmitted a draft of this report to the Department of Land and Natural Resources on August 21, 1996. A copy of the transmittal letter to the department is included as Attachment 1. The department's response is included as Attachment 2.

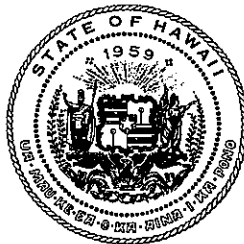
As with our 1992 audit, the department does not dispute our findings in this follow-up report. However, the department notes several reasons which it feels contributed to the lack of progress in addressing deficiencies found in the last audit. In particular the department believes the lack of computerization, staffing changes, and a lack of effective lease administration procedures have contributed to the current problems.

The department also notes that it has initiated a number of short-term actions that should address the immediate deficiencies identified in the audits. The department is proposing longer-term actions that it believes will address the problems hindering compliance with Chapter 171, Hawaii Revised Statutes, pertaining to delinquent accounts. In addition, the department notes that it is developing a proposal to computerize its Division of Land Management's lease administration practices. The department expects that these actions will provide a permanent solution to its lease management problems.

The department also notes a typographical error in an exhibit which has been corrected.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

August 21, 1996

COPY

The Honorable Michael D. Wilson, Chair
Board of Land and Natural Resources
Department of Land and Natural Resources
Kalanimoku Building
1151 Punchbowl Street
Honolulu, Hawaii 96813

Dear Mr. Wilson:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Follow-Up Audit of the Financial Audit of the Department of Land and Natural Resources*. We ask that you telephone us by Friday, August 23, 1996, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Tuesday, September 3, 1996.

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,

Marion M. Higa
State Auditor

Enclosures



MICHAEL D. WILSON
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES

DEPUTY DIRECTOR
GILBERT S. COLOMA-AGARAN

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

P. O. BOX 621
HONOLULU, HAWAII 96809

AQUACULTURE DEVELOPMENT
PROGRAM
AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
CONSERVATION AND
ENVIRONMENTAL AFFAIRS
CONSERVATION AND
RESOURCES ENFORCEMENT
CONVEYANCES
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION PROGRAM
LAND MANAGEMENT
STATE PARKS
WATER AND LAND DEVELOPMENT

September 3, 1996

The Honorable Marion M. Higa, State Auditor
State of Hawaii
Office of the Legislative Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813-2917

RECEIVED
SEP 3 2 45 PM '96
OFFICE OF THE AUDITOR
STATE OF HAWAII

Dear Ms. Higa:

Subject: Follow-Up Audit of the Financial Audit of the Department of
Land and Natural Resources

BACKGROUND:

We understand that this audit was a follow-up to the 1992 Financial Audit conducted by Coopers and Lybrand. The prior Audit found weaknesses in the administration of land leases. Specifically, the audit found that the Department lacked the necessary policies and procedures in the following areas:

1. Performance Bonds:

- a) Questionable release of 'time certificate of deposits' or other forms of cash performance bonds to lessees who are in default of the lease agreements; and,
- b) Tracking of 'Surety Bonds' such that the bonds are maintained on a current basis.

2. Delinquent Accounts:

The prior audit found that the Department was not in compliance with Section 171-20 HRS pertaining to delinquent accounts. They recommended that the Department undertake the following:

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

OBJECTIVES OF THIS FOLLOW-UP AUDIT:

The objective of this follow-up audit was two fold:

1. Review the extent to which the findings and recommendations contained in your prior audit have been addressed by the department and make recommendations as appropriate.
2. Review the management controls related to land lease agreements that are delinquent or in default and make recommendations as appropriate.

FINDINGS:

This Audit found that 'The department's lease administration practices result in ineffective lease management, and make it difficult to verify the extent to which the department has addressed problems identified in the previous audit. These weaknesses result from a lack of formal policies and procedures, inadequate internal control practices, and poor record management.'

In summary, the Auditors found:

1. Controls to Ensure Effective Management of Leases Are Lacking;
 - a) Lease Administration Critical for Effective Lease Management
 - b) Overall Poor Records Management Makes Compliance Review Difficult
 - c) Lease Management Instructions are by Memorandum
2. Review Shows that Significant Lease Administration Problems Continue;
 - a) Cash performance bond released without proper replacement
 - b) Non-compliance with Section 171-20 HRS Continues
 - c) Surety Bond requirements may not be met
 - d) Delinquent or default lessees are not aggressively pursued
 - e) Uncollectible accounts not addressed in a timely manner

DEPARTMENT COMMENTS ON AUDIT:

As was the case in 1992, we do not dispute the findings of the audit. The lack of a commitment to automate/computerize the Division, coupled with the loss of experienced staff through early retirement and the loss of the younger, computer literate staff through the reduction in force [RIF] process are telling signs of why little, if any, movement has been made to address the deficiencies found in the last audit.

Since August of 1995, the Department has undertaken steps to consolidate our resources in light of the loss of staffing through early retirement and the RIF process. As a part of this effort, the Land Division has begun to refocus its resources on identified 'Core Functions.' The existing contractual obligation we have to all our lessees and permittees [approximately 2,200 accounts] is the primary focus [Core Function] of our District Managers. Each month, the four District Managers' accounts are assessed with respect to delinquencies. We have established a goal of keeping each of the District accounts in a 3% to 5% delinquency range. While we have not achieved this delinquency rate across the state, some improvement has been made, and now we have a system that allows us to track the performance of the District Managers.

The focus of the audit pointed out procedural and time processing deficiencies. Many will quickly observe that these deficiencies could easily be addressed through computerizing with an aggressive accounts receivables package. Currently, the accounts receivables [payment/bills] is the only aspect of the process that is fully computerized. Our attempts to develop a database system to track performance bonds, insurance, and reopenings have not been successful. In addition, attempts to upgrade the existing accounts receivable system to be more aggressive with delinquent accounts have been frustrating as the system is specialized and old, and will surely run into problems in the year 2000. Even the monthly summary report on delinquent accounts that we prepare is done manually.

Due to the lack of computerization, staff resources are being spent on labor intensive processes that were developed historically to track files, correspondence, insurance, projects, performance bonds, etc. Compounding the problem is the lack of a systematic process to do the tracking and no methods to insure that the tracking is being done on a timely basis [checks and balances].

As the audit correctly pointed out, the staffing and computerization issues are merely part of the problem. Improving and implementing more effective lease administration practices would provide more permanent solutions to the problem.

Based on the findings from the audit, some of which we were aware of prior to the audit, we have undertaken the following steps:

SHORT-TERM [IMMEDIATE] PLAN:

1. We have developed a filing system for our lease/permit/document files breaking the individual file into three separate files: 1--Original Documents [Lease, Permit, consents, mortgage, extension, etc.]; 2-- Insurance Certificates and Performance Bonds; 3--General Correspondence.

Consistent with the Audit Recommendations, a summary sheet will be included on the Original Documents File--Give a running chronology of the lease [reopenings, mortgage, assignments, etc.]; and the Insurance Certificate and Performance Bond File--Give the expiration date of the respective bonds.

2. We will be assigning one person, full-time, to reorganize all the active lease, permit and document files in Honolulu into the new 3 folder filing system, and also catch up on the backlog of filing.
3. We will incorporate into the Operation Manual for the Division checklists and procedures for release of performance bonds, defaults, and other lease administration issues. The focus is to establish standard procedures for the property management functions with an appropriate system for checks and balances. Everyone needs to understand the process before they can contribute to the solution.
4. Reassess the need for reminder letters prior to issuing the Notice of Default to delinquent tenants. Also, bring unresolved delinquent accounts before the Board as soon as possible.
5. Uncollectible Accounts will be taken to the Board on a quarterly basis, as necessary.

LONG TERM PLAN:

1. Use the opportunity create by Act 109 SLH, 1996 Legislative Session which calls for a Comprehensive Review of the Public Land Laws, Chapter 171-HRS, to address the deficiencies pointed out in the audit through the change in laws and new rules.
2. Seek Legislative authorization for funding to computerize the Land Division. The focus will be on a large data base management system that allows us to inventory all of the states assets with a very aggressive accounts receivable package to allow for improved collection of rents. In addition, the system must have the necessary tracking/tickler functions to monitor the time sensitive functions of lease/permit administration [i.e. reopenings, insurance, surety-performance bonds, etc.].

CONCLUSION:

We agree with the auditor's findings that the Land Division has a major responsibility to manage the state-owned public lands. More importantly, the audit points out that the leasing of state lands should be held to the same lease administration standards as is found among well managed private leases. We welcome the comparison to the private sector as it gives us an indication of how well we are doing and where we need to improve.

We have outlined a short-term and long-term plan to address the deficiencies in the audit. At this point, we believe we have taken the necessary short-term steps to address the deficiencies. However, we firmly believe that these steps are interim measures and that computerizing the procedural and tracking elements of the process will allow for improvements in the efficiency of managing the states' land assets.

We appreciate the opportunity to comment. Also, we would like to acknowledge the professionalism of your staff auditor, Mr. James Sterling who was responsible for working with our staff.

[Note: Exhibit 1.1 Page 1 has a typo, Acreage is not in millions {000,000,000} but in thousands {000,000.000} the second comma from the left column should be a decimal point.]

Should you have any questions regarding this matter, please feel free to contact me at 587-0400.

Mahalo,


MICHAEL D. WILSON

cc: Fiscal
Land Division

Summary of Dispositions / All Islands

Counties	Executive Orders	Sales in Fee	General Leases	Revocable Permit	Grand Totals
Hawaii (1st Land District)					
Number	2	11	7	2	22
Area (Acres)	.600	14.484	273.421	38.100	326.605
Price * or Annual Rent	\$ -0-	\$ 257,898	\$ 27,949	\$ 1,776	\$ 287,623
Maui (2nd Land District)					
Number	2	14	0	12	28
Area (Acres)	2.317	15,323	0	33,030.858	33,048.498
Price * or Annual Rent	\$ -0-	\$ 35,102	\$ -0-	\$ 162,138	\$ 197,240
Oahu (3rd Land District)					
Number	11	11	36	41	99
Area (Acres)	41.130	18.862	16.560	19.523	96.075
Price * or Annual Rent	\$ -0-	\$ 1,407,474	\$ 78,088	\$ 1,021,548	\$ 2,507,110
Kauai (4th Land District)					
Number	3	5	2	9	19
Area (Acres)	17.465	1.808	2,197.179	31,816.534	34,032.986
Price * or Annual Rent	\$ -0-	\$ 15,269	\$ 1,445	\$ 92,628	\$ 428,342
			\$319,000*		
Grand Totals					
Number	18	41	45	64	168
Area (Acres)	61.512	50.477	2,487.160	64,905.015	67,504.164
Price * or Annual Rent	\$ -0-	\$ 1,715,743	\$ 107,482	\$ 1,278,090	\$ 3,420,315
			\$319,000*		

GENERAL LEASES

All Islands

Fiscal Year 1993-94

Summary of General Leases / All Islands

Use ¹	Area (Acres)	Annual Rental	No of Leases ²
Intensive agriculture use	25,699.228	\$903,057.40	156
Special livestock use	211.380	1,872.00	1
Pasture use	84,399.452	382,837.00	75
Commercial timber use	—	—	—
Quarry use	45.957	125,000.00	1
Mining use	52.594	— ³	1
Recreational use	578.666	26,727.00	11
Watershed use	1,612.650	179,755.00	5
Res. use	216.581	374,537.00	262
Commercial and industrial use	800.872	3,891,506.90	140
Hotel, apartment and motel use	8.685	117,289.00	9
Resort use	—	—	—
Unclass. uses	50,861.854	1,687,844.09	294
Totals	164,487.919	\$7,690,425.39	955

¹The following Land Use Commission classification is used throughout: A - Agriculture
C - Conservation
R - Rural
U - Urban

²Leases awarded directly are preceded by "D". All others are awarded by public auction.

³Leases in which percentage rental is also owed are denoted by an asterisk (*) next to annual rental.

	Total Receivables As of 8/5/96	Over 60 days As of 8/5/96	%	# Accounts	*Adjusted Total Receivables	*Adjusted over 60 days	%
Island of Oahu	\$419,394.23	\$79,654.37	19.00%	25	\$419,394.23	\$79,654.37	19.00%
Island of Maui	\$102,063.80	\$3,804.68	4.00%	4	\$102,063.80	\$3,804.68	4.00%
Island of Hawaii	\$1,570,953.28	\$1,106,132.97	70.50%	28	\$1,709,954.20	\$245,133.89	35.00%
Island of Kauai	<u>\$697,915.48</u>	<u>\$487,971.58</u>	24.00%	<u>14</u>	<u>\$285,697.77</u>	<u>\$75,753.87</u>	26.00%
	\$2,790,326.79	\$1,677,563.60	60.00%	71	\$2,517,110.00	\$404,346.81	16.00%

	Total Receivables As of 7/18/96	Over 60 days As of 7/18/96	%	# Accounts	*Adjusted Total Receivables	*Adjusted over 60 days	%
Island of Oahu	\$346,226.67	\$63,209.67	18.00%	17	\$345,085.97	\$62,068.97	18.00%
Island of Maui	\$115,830.93	\$35,894.56	31.00%	4	\$82,568.60	\$2,632.23	3.00%
Island of Hawaii	\$1,453,978.60	\$1,066,985.22	73.00%	24	\$604,510.88	\$217,517.50	36.00%
Island of Kauai	<u>\$763,616.87</u>	<u>\$183,935.07</u>	24.00%	<u>14</u>	<u>\$603,245.34</u>	<u>\$23,563.54</u>	4.00%
	\$2,679,653.07	\$1,350,024.52	50.00%	59	\$1,635,410.79	\$305,782.24	19.00%

	Total Receivables As of 6/5/96	Over 60 days As of 6/5/96	%	# Accounts	*Adjusted Total Receivables	*Adjusted over 60 days	%
Island of Oahu	\$1,218,658.65	\$65,713.08	5.00%		\$1,218,658.65	\$65,713.08	5.00%
Island of Maui	\$206,629.95	\$35,877.71	17.00%		\$173,696.95	\$2,944.71	2.00%
Island of Hawaii	\$1,523,010.25	\$1,123,075.15	73.00%		\$624,222.22	\$224,287.12	36.00%
Island of Kauai	<u>\$787,901.58</u>	<u>\$195,791.33</u>	25.00%		<u>\$623,184.91</u>	<u>\$31,074.66</u>	5.00%
	\$3,736,200.43	\$1,420,457.27	38.00%		\$2,639,762.73	\$324,019.57	12.00%

	Total Receivables As of 5/3/96	Over 60 days As of 5/3/96	%	*Adjusted Total Receivables	*Adjusted over 60 days	%
Island of Oahu	\$523,663.09	\$76,075.06	15.00%	\$523,663.09	\$76,075.06	15.00%
Island of Maui	\$276,844.37	\$127,215.92	46.00%	\$151,444.37	\$1,815.92	1.00%
Island of Hawaii	\$1,611,130.73	\$1,193,899.05	74.00%	\$673,375.15	\$256,143.47	38.00%
Island of Kauai	<u>\$674,020.46</u>	<u>\$185,629.47</u>	27.00%	<u>\$548,270.48</u>	<u>\$59,879.49</u>	11.00%
	\$3,085,658.65	\$1,582,819.50	51.00%	\$1,896,753.09	\$393,913.94	21.00%

	Total Receivables As of 4/3/96	Over 60 days As of 4/3/96	%	*Adjusted Total Receivables	*Adjusted over 60 days	%
Island of Oahu	\$564,767.40	\$75,584.84	13.00%	\$564,767.40	\$75,584.84	13.00%
Island of Maui	\$181,703.63	\$126,683.58	70.00%	\$57,253.63	\$2,233.58	4.00%
Island of Hawaii	\$1,607,750.70	\$1,163,689.74	72.00%	\$677,600.21	\$233,539.25	34.00%
Island of Kauai	<u>\$730,312.49</u>	<u>\$181,084.03</u>	25.00%	<u>\$604,562.51</u>	<u>\$36,730.05</u>	6.00%
	\$3,084,534.22	\$1,547,042.19	50.00%	\$1,904,183.75	\$348,087.72	18.00%

	Total Receivables As of 3/6/96	Over 60 days As of 3/6/96	%	*Adjusted Total Receivables	*Adjusted over 60 days	%
Island of Oahu	\$431,939.44	\$75,531.83	17.00%	\$431,939.44	\$75,531.83	17.00%
Island of Maui	\$228,350.86	\$125,494.27	55.00%	\$104,850.86	\$1,994.27	2.00%
Island of Hawaii	\$1,486,676.30	\$920,272.85	61.00%	\$944,628.65	\$368,225.20	39.00%
Island of Kauai	<u>\$379,656.78</u>	<u>\$176,579.28</u>	46.00%	<u>\$253,906.80</u>	<u>\$50,829.30</u>	20.00%
	\$2,526,623.38	\$1,297,878.23	51.00%	\$1,735,325.75	\$496,580.60	29.00%

	Total Receivables As of 2/2/96	Over 60 days As of 2/2/96	%	*Adjusted Total Receivables	*Adjusted over 60 days	%
Island of Oahu	\$426,585.88	\$34,310.44	8.00%	\$426,585.88	\$34,310.44	8.00%
Island of Maui	\$199,819.77	\$124,537.28	62.00%	\$77,269.77	\$1,987.28	2.00%
Island of Hawaii	\$1,961,355.72	\$1,120,243.23	57.00%	\$1,093,276.66	\$252,164.17	23.00%
Island of Kauai	<u>\$355,546.62</u>	<u>\$141,742.04</u>	40.00%	<u>\$229,796.64</u>	<u>\$15,992.06</u>	7.00%
	\$2,943,307.99	\$1,420,832.99	48.00%	\$1,826,928.95	\$304,453.95	17.00%

	Total Receivables As of 1/5/96	Over 60 days As of 1/5/96	%	*Adjusted Total Receivables	*Adjusted over 60 days	%
Island of Oahu	\$1,087,585.45	\$29,904.87	3.00%	\$1,087,585.45	\$29,904.87	3.00%
Island of Maui	\$169,088.43	\$114,363.63	68.00%	\$169,088.43	\$114,363.63	68.00%
Island of Hawaii	\$1,862,265.14	\$1,123,194.50	60.00%	\$1,174,654.22	\$435,553.58	37.00%
Island of Kauai	<u>\$427,214.02</u>	<u>\$141,104.19</u>	33.00%	<u>\$301,496.04</u>	<u>\$15,354.21</u>	5.00%
	\$3,546,153.04	\$1,408,567.19	40.00%	\$2,732,824.14	\$595,176.29	22.00%

	Total Receivables As of 12/6/95	Over 60 days As of 12/6/95	%	*Adjusted Total Receivables	*Adjusted over 60 days	%
Island of Oahu	\$1,241,308.25	\$34,026.12	3.00%	\$1,241,308.25	\$29,038.62	2.00%
Island of Maui	\$196,189.14	\$122,229.78	62.00%	\$196,189.14	\$122,229.78	62.00%
Island of Hawaii	\$1,603,722.76	\$1,119,059.06	70.00%	\$1,225,434.11	\$740,770.41	60.00%
Island of Kauai	<u>\$525,968.01</u>	<u>\$150,760.50</u>	29.00%	<u>\$389,903.28</u>	<u>\$14,695.77</u>	4.00%
	\$3,567,188.16	\$1,426,075.46	40.00%	\$3,052,834.78	\$906,734.58	30.00%

	Total Receivables As of 11/6/95	Over 60 days As of 11/6/95	%	*Adjusted Total Receivables	*Adjusted over 60 days	%
Island of Oahu	\$501,592.64	\$29,959.70	6.00%	\$501,592.64	\$24,972.20	5.00%
Island of Maui	\$241,788.40	\$123,928.59	51.00%	\$241,788.40	\$123,928.59	51.00%
Island of Hawaii	\$1,433,871.92	\$1,092,286.41	76.00%	\$1,071,952.49	\$730,366.98	68.00%
Island of Kauai	<u>\$251,610.88</u>	<u>\$152,422.30</u>	61.00%	<u>\$113,553.10</u>	<u>\$17,783.93</u>	19.00%
	\$2,428,863.84	\$1,398,597.00	58.00%	\$1,928,886.63	\$897,051.70	47.00%

	Total Receivables As of 10/4/95	Over 60 days As of 10/4/95	%	*Adjusted Total Receivables	*Adjusted over 60 days	%
Island of Oahu	\$561,208.29	\$48,900.23	9.00%	\$561,208.29	\$43,912.73	8.00%
Island of Maui	\$181,264.30	\$112,273.11	62.00%	\$180,951.22	\$111,960.03	62.00%
Island of Hawaii	\$1,521,374.61	\$973,114.28	64.00%	\$1,162,612.59	\$614,352.26	53.00%
Island of Kauai	<u>\$271,168.07</u>	<u>\$154,955.73</u>	57.00%	<u>\$133,660.57</u>	<u>\$17,448.23</u>	13.00%
	\$2,535,015.27	\$1,289,243.35	51.00%	\$2,038,432.67	\$787,673.25	39.00%

