

2002 State of Hawaii Auditors Report Summary

Summarized June 2013 for Policy Center Work Sessions

Financial Audit of DHHL

As of June 30, 2001, DHHL has awarded 7,192 homestead leases. However, it has over 31,000 applications for such leases. - State Auditor, 2002

DHHL does not properly manage its outstanding loans. Its inability to effectively maintain, monitor, and collect outstanding loans could cost the State and Hawaii's taxpayers millions of dollars.- State Auditor, 2002

High delinquency rates exist for a number of reasons. In addition to DHHL inefficiencies, the loans themselves pose a high risk.....As a consequence, DHHL needs to actively monitor loans and enforce collection policies to control the level of delinquent loans.- State Auditor, 2002

Findings in the Report

Severe Material Weaknesses

1. DHHL does not have sufficient documentation to support its methodology for determining the allowance for doubtful accounts for loan receivables;
2. DHHL did not record expenses for infrastructure improvements within the proper period;

DHHL's allowance for doubtful accounts for outstanding loans is represented as management's best estimate of the outstanding loans that may not be collectible. The estimated amount must be reasonable and supported by relevant information and adequate documentation. - State Auditor, 2002

Reportable Condition

3. DHHL management is ineffective. DHHL's policies and procedures are either not enforced or are non-existent. DHHL does not manage outstanding loans adequately, nor maintains current information on the status of loans originated by financial institutions or other lenders for which DHHL guarantees repayment;

Overall, we found that DHHL has numerous problems. It does not enforce written collection policies relating to outstanding loans, does not consistently maintain documentation on delinquent loans, does not ensure loan records contain valid addresses, is increasing financial assistance to lessees, and continues to accrue interest on loans related to cancelled leases.- State Auditor, 2002

4. Fixed assets are not properly recorded;
5. Construction costs are not properly capitalized as inventory of homes for sale.

Additional Findings

6. DHHL does not have written policies and procedures for collection of lease/license revenues;
7. DHHL does not have a current strategic plan to guide its programs in meeting goals and objectives of the HHCA;
8. Beneficiary waiting list remained constant for previous 5 years with thousands waiting for land;
9. DHHL does not have current information on waitlist to contact timely.

Recommendations Made in the Report

A. Related to Loans and Accounts Receivable

1. DHHL should obtain sufficient documentation for determining its allowance for doubtful accounts/loans.

2. DHHL should re-evaluate its methodology for determining its allowance for doubtful accounts/loans and ensure the uncollectible loan estimate is properly calculated.
3. DHHL must review its loan collection policies and procedures for reasonableness and determine necessary steps to enforce them.
4. DHHL should monitor the loan delinquency rates and set benchmarks and timeframes.
5. Re-evaluate the credit approval process. Increased stringency may reduce delinquency.
6. Ensure the database for lessees is current, reasonably accurate, and properly maintained.
7. Obtain formal written agreements for advances on guaranteed loans and delinquent real property taxes.
8. Provide the fiscal office with timely written documentation on repayment terms.
9. Cease accruing interest on loans related to cancelled leases. Modify internal procedures to notify fiscal office of cancelled lease status.
10. DHHL should purchase a lending software system similar to commercial financial institutions to automate delinquency notices and monitoring reports.
11. DHHL should maintain current and accurate information on all guaranteed loans, and compare information to 3rd party reports to assess accuracy.
12. DHHL should establish written collection policies of lease/license revenue and include staff training on implementing the policies. A goal should be set to reduce balances more than 60 days delinquent.

Out of 10 delinquent loans reviewed, none of the prescribed procedures were followed at the 30, 60, 90 or 120 day points of delinquency. DHHL staff and administration acknowledged that policies are not enforced, and DHHL's external auditors have reported the situation as a reportable condition since 1998. State Auditor, 2002

B. Related to Financials

1. DHHL should review its internal control policies and procedures and ensure that all expenditures and liabilities are properly recorded.
2. DHHL should properly maintain its financial accounting records to enhance its financial reporting practices and timely completion of audits.
3. To comply with GAAP, DHHL needs to determine the amount of ancillary that should be recorded as additions to fixed assets and make the necessary adjustments to its accounting records.
4. DHHL should assume more responsibility for the proper recording of transactions under GAAP instead of the heavy reliance on external auditors to make adjustments.

C. Related to Other

1. DHHL should expedite the implementation of a strategic plan, and plan for periodic updates.
2. DHHL should update and maintain data on the waitlist beneficiaries for accuracy.