Audit of the Hanauma Bay Nature Preserve Fund

A Report to the Mayor and the City Council of Honolulu

Report No. 07-02
June 2007
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Submitted by

THE CITY AUDITOR
CITY AND COUNTY OF HONOLULU
STATE OF HAWAII

Report No. 07-02
June 2007
This audit was conducted pursuant to Resolution 04-205, *Requesting a Performance Audit of the Hanauma Bay Nature Preserve Fund*, which was adopted by the city council on August 11, 2004. The resolution noted that the Hanauma Bay Nature Preserve Fund was established to help protect the preserve, cited concerns resulting from the former administration’s proposal to remove concession fees as revenue source for this fund, and requested an assessment whether the Department of Budget and Fiscal Services is effectively and appropriately administering the fund, including expending monies necessary to adequately and properly operate and maintain the preserve. This report focused on the revenues to the fund, expenditures against the fund and offers recommendations to improve utility of the Hanauma Bay Nature Preserve Fund.

We wish to express our appreciation for the cooperation and assistance of the officials and staff of the Department of Budget and Fiscal Services, the Department of Parks and Recreation, and others who we contacted during this audit.

Leslie I. Tanaka, CPA
City Auditor
EXECUTIVE SUMMARY

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This audit was conducted pursuant to Resolution 04-205, "Requesting a Performance Audit of the Hanauma Bay Nature Preserve Fund," which was adopted by the city council on August 11, 2004. The resolution noted that the Hanauma Bay Nature Preserve Fund was established to help protect the preserve, cited concerns resulting from the former administration’s proposal to remove concession fees as revenue source for this fund, and requested an assessment whether the Department of Budget and Fiscal Services is effectively and appropriately administering the fund, including expending monies necessary to adequately and properly operate and maintain the preserve. This report examines these and other pertinent issues relating to the preserve and the preserve’s special fund, and offers recommendations to improve the administration of the fund and the nature preserve.

Background

The Hanauma Bay is a precious natural resource which includes a diverse marine life habitat of over 400 species of tropical reef fish and other resident aquatic species, and calm waters and sandy bottomed areas suitable for swimming and snorkeling. While the bay is second only to Waikiki Beach as a tourist destination, it is today viewed primarily as a nature preserve and not a beach park. As the state’s first Marine Life Conservation District, the primary objective of the preserve is to ensure that visitor stewardship and awareness are sufficient to protect and preserve the bay’s fragile marine resources.

In recognition of the unique requirements to protect the bay’s unique marine resources, the Hanauma Bay Nature Preserve Fund was established in 1996 when the city council enacted Ordinance 96-19 now codified in Sections 6-51.1 to 6-51.4, Revised Ordinances of Honolulu (ROH). Admission and parking fees and concessionaire rents from preserve operations are deposited into this fund. Section 6-51.2, ROH, stipulates that fund monies are to be expended in support of the needs of the preserve in the following order of priority:

- first, for the operation, maintenance and improvement of the preserve;
The director of the Department of Budget and Fiscal Services (BFS) is responsible for the administration of the fund while the director of the Department of Parks and Recreation (DPR) is responsible for managing, maintaining and operating the preserve. Appropriations from the fund are primarily expended through the parks department for the management of the preserve; however, appropriations are also provided to the Honolulu Emergency Services Department for ocean safety and lifeguard services and the Department of Enterprise Services for monitoring day-to-day concession operations at the preserve.

Our review focused on financial and budget records relevant to the Hanauma Bay Nature Preserve Fund for the period FY2003-04 through FY2005-06. We assessed the extent to which administrative practices ensured compliance with intended purposes of the fund pursuant to Section 6-51.2 to 6-51-4, ROH, as well as applicable sections of the Hawai‘i Revised Statutes and Revised Charter of Honolulu. Excluded from this audit were evaluations or assessments of management practices and a revenue audit and assessment of related controls over cashiering duties of the preserve entrance fees and concession operations.

We found that the revenues and expenditures of the fund were appropriately tracked and monitored by the Departments of Parks and Recreation and Budget and Fiscal Services. As the central budgeting and accounting agency for the executive branch, BFS accounts for the preserve funds’ revenues and expenditures in accordance with requirements in Section 6-51.4, ROH, and reports the fund balance in financial statements. We commend the department and operating agencies for appropriately tracking and monitoring the revenues and expenditures applicable to the preserve fund.

We also found that the Department of Parks and Recreation’s most recent master plan for the preserve was prepared in 1992 and is outdated and obsolete. Although the priorities for use of the preserve’s funds are specified, there is no coordinated effort to identify, assess and evaluate expenditures needed to ensure the preserve’s objectives are
met. This is complicated by the lack of user friendly fund balance reports available for budget and planning purposes. Further there is insufficient input and oversight by the parks department on concession operations.

To maintain the unique characteristics of the preserve and continuity of this fund, the Departments of Parks and Recreation and Budget and Fiscal Services should improve planning efforts to ensure the most effective use of the preserve fund to support preserve requirements.

Finding 1: The Departments of Parks and Recreation and Budget and Fiscal Services are properly accounting for fund revenues and expending program funds under the law.

- Revenues from parking fees, admission fees, and concession fee payments were effectively tracked by BFS and DPR, as required by law.

- Expenditures against the fund for operating and capital expenditures, retirement and health benefits, debt service payments, and central administrative services expense (CASE) fees were tracked and properly accounted for.

- The Department and Parks and Recreation and the Department of Budget and Fiscal Services are doing a commendable job of accounting for revenues and expenditures relevant to the preserve fund.

Finding 2: The Department of Parks and Recreation Should Improve Its Planning Efforts in Identifying Current and Projected Needs of the Preserve.

- The preserve’s master plan is outdated and ineffective as a guide. Prepared in 1992, the recommendations contained in the most recent master plan have been mostly implemented. Officers and employees we interviewed were unaware of a master plan for the preserve. Proper planning ensures that the operations and park facilities are meeting the needs of the preserve and its unique character. Planning documents are useful tools that can provide the framework for implementing preserve operations and evaluating their results against the required purposes in city ordinance. However, these planning aids must be current and disseminated to appropriate staff.
• Documentation to measure whether the needs of the preserve are being met is limited. We also found that elements of the 2000 carrying capacity study have yet to be formally incorporated into planning efforts.

• Concession contract policies and procedures provide adequate authority for the parks department to provide input relating to concessions at the preserve; however, we found limited involvement. To ensure compatibility with preserve requirements, the parks department should proactively participate in the concession contract processes.

• The parks department’s identification of the preserve’s current and projected needs and ability of the fund to support those needs are inadequate.

Finding 3: The Departments of Parks and Recreation and Budget and Fiscal Services Need to Better Coordinate Their Planning Efforts to Ensure the Most Effective Use of Preserve Funds to Support the Preserve’s Requirements.

• The fund is intended to provide the financial resources to meet the needs of the preserve. While separate BFS financial documents on the preserve fund were readily accessible and contain necessary information, we found that these reports were generally not user friendly and lacked similar comparison for prior years’ information.

• Fund information on revenues, expenditures and carry over balances is not effectively communicated between the departments. Realistic, accurate and user-friendly information about the preserve fund would help the parks department, as lead agency, to effectively plan, manage and budget annual and future fund resources earmarked for the operation and maintenance of the preserve.

• The budgeting process for the preserve fails to evaluate the preserve funds’ projected ability to fund future operational needs. The parks department’s review of its budgetary needs for the preserve is based on previous year’s request and new budget item requests, and lacks supplemental facts or data specific to the current requirements of the preserve and the fund.
• The identification of projected preserve needs is inadequate and there was little attempt to determine whether the fund will be able to adequately meet the needs that are identified. Improvements are needed to summarize preserve fund revenues, expenditures and unreserved fund balance for utilization by parks department personnel in budget development to meet preserve requirements.

Recommendations and Response

We made a number of recommendations to improve coordinated planning for the continuity of this fund. We recommend that the director of the Department of Parks and Recreation:

1. ensure that a new or updated master plan for the Hanauma Bay Nature Preserve is completed which will serve as a basis for development and identification of specific programs and items necessary to achieve the master plan objectives;

2. ensure that the updated master plan be used as the basis for specific development and budgetary elements that will achieve objectives of the master plan;

3. ensure that budgeting is based upon elements developed to implement the preserve’s master plan;

4. assess past and projected preserve funds revenues, expenditures and fund balances;

5. assess adequacy of fund revenues and projected expenses in accordance with preserve’s goals and objectives;

6. ensure that preserve staff is actively involved in all levels of planning for preserve’s use; and

7. ensure that copies of the concession contracts and current detailed information relating to concession revenue gross receipts, payments and amendments to contract terms is provided to the appropriate parks department personnel for budget planning and program evaluation purposes.

We also recommend that the Department of Budget and Fiscal Services ensure that copies of the following information on the preserve fund are
provided to the appropriate parks department personnel for preserve planning, evaluation and budgeting purposes:

1. BFS Accounting Division summary worksheets on *Hanauma Bay Revenues and Deposits* and monthly Monarch report *Revenue Summary by Sub-Class*;

2. BFS Fiscal/CIP Administration report on Hanauma Bay Nature Park Capital Improvement Projects and related debt service calculator schedules;

3. BFS Treasury Division’s accounts receivable annual worksheet summaries on concessionaire gross receipts and payment recap; and

4. BFS Purchasing Division concession contracts and amendments.

In response to our draft report, the directors of the Departments of Budget and Fiscal Services and Parks and Recreation, in a joint response, expressed their appreciation for finding and recognizing their efforts to maintain the integrity of the preserve fund and for the feedback from the independent audit process. While noting that both agencies have worked together in the past, the budget and fiscal services department will abide by the recommendation to provide various financial reports to the parks department. The parks department noted in the response that it will address the recommendations related to the Hanauma Bay Nature Preserve master plan. We are encouraged by the willingness of the departments to better coordinate planning and management efforts of the preserve and the preserve fund.
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Chapter 1
Introduction

This audit was conducted pursuant to Resolution 04-205, Requesting a Performance Audit of the Hanauma Bay Nature Preserve Fund, adopted by the city council on August 11, 2004. Additionally, this audit was included in the Office of the City Auditor’s Proposed Annual Work Plan for FY2006-07, which was communicated to the mayor and city council in June 2006. The resolution restated the intent in establishing the Hanauma Bay Nature Preserve Fund (fund) and noted that revenues generated from the preserve be deposited into this special fund for the support of unique requirements established to protect the preserve. The resolution also documents concerns surrounding the proposal by the former administration to remove concession fee payments as a revenue source of the fund, which was rejected by council. Lastly, the resolution requested that the city auditor conduct a performance audit of the administration of the Hanauma Bay Nature Preserve Fund to assess whether the Department of Budget and Fiscal Services (BFS) is effectively and appropriately administering the fund, including expending monies necessary to adequately and properly operate and maintain the preserve.

This audit reviews the administration of the fund to determine whether Hanauma Bay Nature Preserve (preserve) revenues are accurately accounted for, that expenditures are appropriately used for the specific purposes for which the fund was created, and that the fund is effectively administered. To accomplish these objectives, the report focused on the following key aspects:

- revenue stream,
- fund expenditures against the fund, and
- utility of the fund.

Background

The Hanauma Bay is a precious natural resource which includes a diverse marine habitat of over 400 species of tropical reef fish and other resident aquatic species, and calm waters and sandy bottomed areas suitable for swimming and snorkeling. Since completion in August 2002, the bay’s Marine Education Center orients visitors with a short video promoting awareness and encouraging stewardship toward the bay’s
fragile marine resource, as well as providing valuable snorkeling and ocean safety information. Today the city views Hanauma Bay as a nature preserve and not a beach park. A photo of the west facing view of the Hanauma Bay Nature Preserve is shown in Exhibit 1.1.

Exhibit 1.1
Photo of the West Facing View of the Hanauma Bay Nature Preserve

Significant Natural Resource

The importance of Hanauma Bay Nature Preserve as a natural asset and a popular ocean recreation area was recognized as early as 1967 when it was designated the state’s first Marine Life Conservation District. By this designation, the bay is recognized not only for its recreational beach and snorkeling activities but also as a significant and protected natural resource area. Subsequently in 1970, the bay’s ocean waters were designated an underwater state park and the State Department of Land and Natural Resources assumed management responsibilities for the bay’s waters as a protected marine area and underwater park.
Major Tourist Destination

Hanauma Bay is second only to Waikiki Beach as O’ahu’s most-used beach. Tourists visit the bay to experience the unique, delicate and natural beauty the bay has to offer. However, the rapid growth in popularity of Hanauma Bay began to tax the bay’s resources. In 1975, attendance at the bay reached over a half million visitors. By 1985, park attendance had nearly tripled to approximately one and a half million visitors. Two years later in 1987, the park attendance again doubled to more than three million.

Responding to growing concerns about overuse of the beach park, Hanauma Bay Beach Park was renamed as the Hanauma Bay Nature Preserve in 1992 to emphasize that the area is a marine preserve in addition to being a popular recreational beach. More importantly, the city began to implement greater efforts to control and manage the land area around the bay to protect and preserve the marine assets of the bay. The city developed plans to restore the bay to a clean, healthy state by reducing the number of visitors, establishing an education and orientation program, and instituting stricter rules and regulations. To ensure the availability of resources necessary to sustain these preservation efforts, the city council enacted Ordinance 96-19 establishing the Hanauma Bay Nature Preserve Fund, a special fund created to provide financial resources to protect and preserve the bay.

Today, the Hanauma Bay Nature Preserve continues to be one of Hawai‘i’s most visited tourist destinations and a major sightseeing stop for many tour groups. While busloads of people still come to Hanauma Bay Nature Preserve they are generally restricted to the scenic overlook. The preserve’s management limits actual beach and water activity to no more than 2,000 visitors at any given time. Attendance at the preserve averages around one million per year.

The city’s Department of Parks and Recreation (DPR) has primary responsibilities for the preserve. The department is assisted in its management efforts by the Honolulu Emergency Services Department which provides ocean safety and lifeguard services, and the Department of Enterprise Services which negotiates and manages concessionaire contracts. Under contract with the Department of Parks and Recreation, the University of Hawai‘i’s Sea Grant College Program (UH Sea Grant Program) manages the Hanauma Bay Education Program. The preserve also receives community support and advocacy from the Friends of Hanauma Bay.
Responsibilities of the Department of Parks and Recreation

The Department of Parks and Recreation is responsible for managing, maintaining, and operating all city parks and recreational facilities. The department’s mission is to enhance the leisure lifestyle and quality of life for the people of O‘ahu through active and passive recreational opportunities. As stated in city charter, the powers and duties of the director of parks and recreation include the following:

- advise the director of design and construction on the planning and design of the parks and recreational facilities of the city, and maintain and operate all such facilities;

- develop and implement programs for cultural, recreational and other leisure-time activities for the people of the city, except as otherwise provide by law;

- beautify the public parks, facilities and streets of the city, including, but not limited to, the planting, trimming and maintaining of all shade trees, hedges and shrubs on such city parks, facilities and streets; and

- process permit applications to use city parks and recreational facilities for free or affordable child day care programs for consideration by the council pursuant to Section 3-123 of this charter, provided that the director finds that such use does not interfere with the public’s use of the property for park and recreational purposes.

In addition, the city ordinance authorizes the department to promulgate rules and regulations in accordance with Hawai‘i Revised Statutes (HRS) Chapter 91 necessary to carry out its responsibilities.

With respect to the unique requirements of the Hanauma Bay Nature Preserve, the department promulgated visitor use rules and regulations in 1990 to establish controls over a range of activities including park hours, park access and fees, use of the public parking lot, and the use of the commercial vehicle lot and related sightseeing activities. In addition, the department enforces rules governing commercial hiking tours, vehicular traffic on the access road between the upper and lower portions of the preserve, and commercial activities in the preserve, including but not limited to sale of message-bearing merchandise by nonprofit
organizations, commercial scuba diving (to include snuba), snorkeling activities and commercial filming.

**Responsibilities of the Department of Enterprise Services**

The mission of the Department of Enterprise Services is to manage and market a diversity of community-oriented facilities and services for the use and benefit of the public; and to support cultural, recreational and educational opportunities and events on a self-supporting basis.

The Department of Enterprise Services directly manages city-owned facilities such as the Neal Blaisdell Center, the Honolulu Zoo and the city’s municipal golf courses. The department is also responsible for preparing, administering and enforcing approximately 36 contracts between the city and various concessionaires, of which 4 are operated within the Hanauma Bay Nature Preserve.

The Department of Enterprise Services has been responsible for managing all concession contracts since 1998, when a citywide reorganization created the department. Prior to the creation of the department, each city agency managed their own concession contracts. With a number of concessions located in park facilities, the parks department directly administered most city concession contracts. In accordance with Section 28-1.3, Revised Ordinance of Honolulu (ROH), a concession is defined as:

*Concession* means the grant to a private individual, partnership or corporation of the privilege to conduct operations essentially retail in nature, involving the sale of goods, wares, merchandise or services to the general public, such as restaurants, retail stores, parking facilities, golf driving ranges, canoe storage facilities (halaus), in or on land or buildings owned or controlled by the City and County of Honolulu.

Also in accordance with Section 28-8.1, ROH, concession contracts cannot be awarded for a period exceeding five years. The specific concession contract responsibilities of the enterprise services department are set forth in Section 02.1 of the Department of Budget and Fiscal Services’ Policies and Procedures Manual. These responsibilities include:

- initiating the concession bid draft;
Chapter 1: Introduction

- securing and analyzing the annual gross receipt reports from BFS Treasury Division for the purpose of setting forth minimum concession fees for the ensuring contract period; where applicable;

- determining the nature of the concession contract and the appropriate concession fee structure for bid purposes;

- coordinating with BFS Purchasing Division in preparing bid specifications and contract terms and conditions;

- reviewing, evaluating, and providing comments on bid applications, and forwarding those evaluations and comments to BFS Purchasing Division;

- maintaining a file for each concession contract;

- administering the contract;

- monitoring the day-to-day operations of the concessionaire;

- ensuring that the quality and pricing of goods and services, the recordation and accountability of sales, sanitation and housekeeping, are done in compliance with the conditions set forth in the contract, applicable rules and regulations, and statutes;

- conducting periodic inspections of concessions; and

- reviewing compliance with the contract specifications including adequacy of sales registration equipment and record keeping procedures.

The Department of Enterprise Services provides oversight for the retail sales and services offered at concessions for food, shuttle bus, gift shop, and snorkel rental at the Hanauma Bay Nature Preserve.

**Responsibilities of the Honolulu Emergency Services Department**

Ocean safety and lifeguard services at the Hanauma Bay Nature Preserve are provided by the Ocean Safety and Lifeguard Services Division within the Honolulu Emergency Services Department. The powers, duties and functions of the director of emergency services pursuant to city charter include the following:
• develop programs and deliver services related to emergency medical services;

• provide training and educational programs related to emergency medical services;

• be responsible for ocean safety training and operations in city parks; and

• perform other duties as may be required by law.

Operationally, in the division of ocean safety and lifeguard services, the island is divided into four geographic districts. Services for the Hanauma Bay Nature Preserve are provided by the Windward district. One captain and two lieutenants are responsible for scheduling, general supervision and daily operations of beach lifeguards in their respective districts. The division of ocean safety and lifeguard services maintains three lifeguard stations placed on site at the lower bay area.

University of Hawai‘i Sea Grant College Program

The University of Hawai‘i Sea Grant College Program is one of 30 Sea Grant programs nationwide conducting research, outreach and education activities to improve understanding and stewardship of coastal and marine resources. The National Oceanic and Atmospheric Administration’s National Sea Grant College Program and the U. S. Department of Commerce provide cooperative support and funding for these national programs.

The Hanauma Bay Education Program is one of several marine research and outreach projects of the UH Sea Grant Program. It began in 1990 as an adjunct to the city’s newly implemented general plan. The UH Sea Grant Program was the prime funding agency for the education program from 1990 to 1997. In FY1997-98, the city began underwriting the program using preserve funds through an intergovernmental agreement with UH Sea Grant Program to develop and manage an education and interpretative program for the Hanauma Bay Nature Preserve. The cost to the city to fund the project for the three years from FY2003-04 to FY2005-06 was $250,000, $285,178, and $295,265, respectively.

The UH Sea Grant Program’s Hanauma Bay Education Program is a multi-faceted program that delivers an education message to all preserve
users as well as through outreach to a larger resident audience. The key elements of this program are:

- maintaining a strong volunteer program that includes recruiting and training of community docents;

- presenting an orientation video to all beach visitors at least once a year;

- dispensing marine-related information from a kiosk located on the beach and an information site with the education center;

- developing marine-related publications;

- maintaining an education website;

- providing school and community groups with educational tours of the bay; and

- maintaining an outreach program that features popular weekly marine lecture and nature film presentations and off-site presentations to area schools and community groups.

There are six full-time equivalent professional staff in the program, but the UH Sea Grant Program emphasizes that the strength of the education program comes from the volunteer docent program, which it had developed. Without the volunteers, it would be next to impossible and much more expensive to annually educate approximately one million visitors to the bay. Approximately 100 volunteers contribute over 11,500 hours annually to the education program. The education program has been recognized with the U.S. Department of Interior Volunteer Service Award (1993), the Chevron Conservation Award (1993), the British Airway Tourism for Tomorrow Award (1998) and by the city council for their commitment and dedication, most recently in April 2005.

The UH Sea Grant Program was also involved in completion of a carrying capacity study of the preserve. The study, *Carrying Capacity Study for Hanauma Bay Nature Preserve*, was completed in June 2000 by the UH Office of Research Services through an independent services contract with the parks department. The study team was led by Dr. Richard Brock together with professional staff from the UH Sea
Grant program. The $100,000 study was funded from the preserve fund in accordance with the provisions of Section 6-51.2(3), ROH.

The study’s purpose was to identify human visitation levels to the preserve that could be permitted while continuing to protect and maintain the integrity of the preserve’s marine communities. The study reported that from May 1, 1999 through April 30, 2000, 1,004,833 visitors entered the preserve; 114,763 were residents and 890,070 were nonresidents. The study found that over one million people visited the preserve annually or about 3,210 per day. About 1,075 or 33.5 percent of these visitors actually enter the bay’s waters; but fewer than 50 or about 1.4 percent venture beyond the inner fringing reef. This suggests that impacts due to human use should be most evident on the 19.7 acres comprising the inner reef flat of the bay rather than in the 81.3 offshore acres constituting the outer portion of the bay. While the study found that there was some disturbance to the bay from daily human use, there were no significant problems with water quality, and the live corals were not experiencing any negative impact. The study concluded by commending the management efforts to date to protect the preserve and providing a number of recommendations to ensure the continued protection of the preserve’s natural resources. These included reducing the fresh water runoff from park facilities into the bay, continuing ongoing educational efforts for preserve visitors, and maintaining current limits on the number of visitors to the preserve.

Friends of Hanauma Bay

The Friends of Hanauma Bay (Friends) is a voluntary support organization, formed in 1990 and established in 1997 as a non-profit 501(c)(3), dedicated to conservation of coastal/marine environments, and emphasizing stewardship of the natural resources found in Hanauma Bay. The goals of the Friends are:

- to help to protect the bay and the marine life from the impact of heavy human presence and inappropriate human behavior such as walking on the reef and feeding the fish;

- to enhance the experience and safety of visitors to the bay, including Hawai’i residents and tourists;

- to use the bay with its natural recreational appeal as an example to other potential protected areas in order to increase awareness of the marine environment and conservation concerns as well as
to increase appreciation of Hawaiian history and culture and to emphasize the bay as a marine preserve rather than a purely recreational beach;

- to assist and support scientific research and other data collection both about the recreational use of the bay and about the marine, animal and plant life that may be studied there; and

- to urge the creation of more Marine Life Conservation Districts both to reduce the pressure on the Hanauma Bay Nature Preserve and to spread the benefits of conservation districts.

The Friends of Hanauma Bay was formed in response to the city’s efforts to tighten rules on access due to heavy attendance and general abuse of the bay, and the potential for irreversible degradation of the physical environment and fragile marine ecosystem. Originally formed in 1990, the Friends have made an impact concerning the preservation of the bay such as testifying at city council meetings for a ban of smoking on the beach in 1995, and also testifying in 1997 in support of a parking fee and an entrance fee for non-resident visitors to the bay and for a separate funding source so that the bay would have its own budget and ability to purchase equipment critical to maintaining the bay in an excellent manner.

In 1996, the city enacted Ordinance 96-19 now codified in Sections 6-51.1 to 6-51.4, ROH, which created the Hanauma Bay Nature Preserve Fund. Entry and parking fees as well as concession fee payments are deposited into this fund.

As provided in Section 6-51.4, ROH, the director of the Department of Budget and Fiscal Services is responsible for the administration of the fund in accordance with appropriations authorized in the operating and capital budget ordinances. The Department of Parks and Recreation is responsible for collecting the parking and admission fees, and BFS is responsible for recording and verifying the accuracy of the fee deposits into the city treasury. Similarly, the Department of Enterprise Services is responsible for monitoring day-to-day concession operations and compliance with terms of concession contracts while BFS is responsible for recording fund transactions relating to the review of gross receipt statements for appropriateness and processing deposits of concession fee payments into the city treasury.
Chapter 1: Introduction

The purpose for the preserve fund originates in city Ordinance 96-19, which created the Hanauma Bay Nature Preserve Fund and established fees for the Hanauma Bay Nature Preserve. Codified in Article 51, ROH, the fund provides specified financial resources for three stated purposes in order of priority as indicated in Section 6-51.2, ROH:

- first, for the operation, maintenance and improvement of the Hanauma Bay Nature Preserve;
- second, for educational and orientation programs for visitors to the preserve; and
- third, a carrying capacity study and other studies relating to the environmental condition of the preserve.

As currently provided in city ordinance, the preserve fund receives revenue deposits from fees imposed under Section 10-2.11, ROH, and all revenues derived from the Hanauma Bay Nature Preserve concession fee payments. According to Section 10-2.11(a), ROH, fees assessed for entrance to the Hanauma Bay Nature Preserve are as follows:

- for nonresidents of Hawai‘i, 13 years of age and older, to enter the lower preserve (beyond the scenic lookout): $5.00 per person; and
- for vehicles entering the preserve, a $1.00 parking fee is assessed, but is refunded for all vehicles departing from the preserve within 15 minutes of their entry.

Expenditures from the fund are earmarked as previously noted for purposes authorized in Article 51, ROH, based on appropriations in the operating and capital budget ordinances.

According to Section 6-51.4, ROH, the director of the BFS is responsible for the administration of the Hanauma Bay Nature Preserve Fund in accordance with prescribed laws and procedures applicable to the expenditures of city funds. Overall, the department reviews the manner in which public funds are received and expended, prepares the operating and capital budget program of each executive agency, makes budgetary allotments for program accomplishment with approval of the
mayor, and provides information pertaining to the financial affairs of the city.

The accounts of the city are organized on the basis of funds, each of which is considered a separate accounting entity. All government appropriations and expenditures are monitored and accounted for through these funds. Special revenue funds are established to permit dedicated resources to be set aside by law for a specified object or purpose. The Hanauma Bay Nature Preserve Fund is such a special revenue fund that is uniquely identified, separate from other city fund accounts, and tracked based on the city’s chart of accounts as funding source code HN or 230. For comparison, the funding source code for the General Fund is GN or 110.

As part of the city's budget process, BFS provides estimated revenue projections on the fund to assist in assessing the adequacy of the fund to finance existing preserve operations and the development of new facilities, as required. The department also issues financial statements and other reports such as the city’s Comprehensive Annual Financial Report (CAFR), the Finance Director’s Quarterly Financial Reports, and the Detailed Statement of Revenues and Surplus on the Hanauma Bay Nature Preserve Fund. In addition, BFS also performs periodic audits on DPR cash handling procedures.

The Departments of Parks and Recreation and Enterprise Services work in cooperation with BFS by providing fund-related duties limited to:

- Department of Parks and Recreation—collection of admission and parking fees. The monetary items collected by DPR cashier staff at the preserve are picked up daily by armored car for deposit to the bank. The transaction to apply the deposit to the preserve fund is subsequently processed by the fiscal and treasury divisions of the Department of Budget and Fiscal Services.

- Department of Enterprise Services—no direct cash handling responsibility. However, in accordance with the BFS Policies and Procedures Manual, Index Code 02.1, enterprise services determines the nature of the concession contract and the appropriate concession fee structure for bid purposes.
Hanauma Bay Nature Preserve Long Range Plan

Long range plans are useful to help ensure that fund expenditures are in accordance with the purposes established in city ordinance. Long range plans provide a framework needed to support and protect the fragile environment, and particularly, guide planning efforts to sustain and improve the operations and facilities at the Hanauma Bay Nature Preserve. A long range plan also provides the opportunity to closely examine the operations necessary to identify the role of the city in the management of the preserve. More importantly, a long range plan can support and justify budget requests and explain why funds are needed, what they will support and who will benefit.

Currently, the parks department has two existing plans to guide the management of the preserve: 1) Hanauma Bay – General Plan, dated June 12, 1990, which was prepared by the parks department and 2) Hanauma Bay Nature Park Master Plan, dated May 1992, which was prepared under contract for the parks department by consultant, Wilson Okamoto and Associates, Inc.

These plans are significant in that they provide the framework for how the parks department should conduct the operations, maintenance, and improvements of the preserve and helps the department stay focused on appropriate priorities. The plans provide required focus on the intended purposes and may have assisted in making some difficult choices in the maintenance and improvement at the preserve.

The general plan provides guidelines

Major elements contained in the Hanauma Bay - General Plan are as follows:

- Establishes management objectives. The primary objective of both the city and state for Hanauma Bay is to preserve and enhance the natural qualities, provide meaningful recreational opportunities and provide educational and interpretive experiences. The following policies, regulation and controls have been established to meet these goals:

1. General Management – DPR is responsible for the overall management. An onsite park manager will be assigned to manage all aspects of the park.

2. Conservation Management – Enforce all state conservation laws, pertaining to the bay and the Marine Life Conservation
District. In addition, city park rules and regulations will be enforced.

3. Visitor Management – Provide controlled and limited access to the bay.

- Identifies challenges. Problems were clarified in seven categories:

1. General Management Problems: No manager is assigned specifically to the bay which poses a problem relating to full time management, monitoring and controlling use of the park, conservation enforcement, and monitoring of the performance of concessionaires and contractors.

2. Conservation Relation Problems: water quality issues relating to bacteria and turbidity; reduction or damage of coral, crustacean, limu, etc.; heavy litter problem in ocean and on beach; uncontrolled fish feeding; imbalance in the number and populations of fish; erosion (sand and dirt from upper level); and illegal fishing.

3. Visitor Related Problems: overuse of the park; vehicular traffic problems; decline in use of the park by local residents because of over-crowded conditions.

4. Recreation Related Problems: lack of formal educational programs; lack of visitor information center.

5. Commercial Use Problems: illegal commercial use of park; concessions and contracts are poorly operated and need to be monitored more closely.

6. Maintenance Related Problems: effective maintenance cannot be performed because of over-crowded conditions; vandalism and misuse.

7. Safety Related Problems: high level of water safety accidents; ineffective water safety signage.

- Provides specific recommendations to management. The recommendations listed below provide for protecting and maintaining the bay’s natural qualities; provide better overall
control of the park; reduce illegal commercial usage; encourage increased usage by local residents; improve maintenance; provide better information to park users; and require close coordination with various governmental agencies, commercial groups and local community groups:

1. Establish park hours for vehicular traffic.

2. Close the park until 12:00 noon on Wednesdays (for maintenance).

3. Institute traffic controls – traffic attendant.

4. Restrict all commercial vehicles from dropping off visitors at Hanauma Bay (except for sightseeing).

5. Visitor information center.


7. Control of fish feeding.

8. Other control programs now being implemented such as creation of Hanauma Bay manager position, trapping and removing pigeons, continuation of water quality studies with the state, and development and implementation of new multilingual water safety signage.

Similar to the general plan, the *Hanauma Bay Nature Park Master Plan* also examined current problems associated with high-intensity use and established an analytical framework for planning future park development. The master plan identifies three goals for the preserve: 1) continue to preserve and enhance the natural qualities and opportunities unique to Hanauma Bay and its environs, 2) optimize the use of Hanauma Bay as an important recreational resource for the people of the State of Hawai`i, and 3) promote public education and appreciation of Hanauma Bay Nature Park’s natural environment by providing opportunities for the safe enjoyment of park resources. To achieve these goals, the master plan proposed the following objectives:

1. Limit overall park user volumes as a means of controlling impacts on natural resources and park facilities.
Chapter 1: Introduction

2. Better match intensities of park usage with available park resources.

3. Provide new park facilities and improve existing facilities to reduce their impact on natural park resources.

4. Achieve safer participation in park activities.

5. Foster park user respect for natural resources and park facilities.

6. Develop informational bases on which to formulate future park policy.

7. Establish public education and awareness as a primary purpose of park policy.

These objectives were intended to meet the plan goals by suggesting improvements to physical design, public programs, and park rules with emphasis to regulate park user volumes at the entry to the park, accommodate park users at levels achieved through access controls in the upper park, and improve monitoring of park user volumes and the ability to control access into the park to alleviate current problems associated with overburdened support facilities such as showers and comfort stations.

Audit Objectives

The objectives of the audit were to:

1. Review and evaluate the effectiveness by which revenues and expenditures of the Hanauma Bay Nature Preserve Fund are tracked, monitored and evaluated.

2. Review and assess the effectiveness for ensuring that the Hanauma Bay Nature Preserve Fund is meeting operational and capital improvement program needs of the Hanauma Bay Nature Preserve.

3. Make recommendations as appropriate.

Scope and Methodology

We reviewed applicable sections of the Hawai‘i Revised Statutes, Revised Charter of Honolulu, Revised Ordinances of Honolulu, policies and procedures, administrative directives, and other applicable
departmental documents relating to the administration of the Hanauma Bay Nature Preserve Fund. We also reviewed the city’s standards of administrative practice pursuant to the fund revenue, expenditures, and transfers between city accounts, financial recaps and summaries and supporting processes and documentation as it pertains to the identification, verification, monitoring and evaluation of revenues, expenditures and transfers of the special fund account. We assessed the extent to which administrative practices ensured compliance with intended purposes of the fund pursuant to Sections 6-51.2 to 6-51.4, ROH. We did not perform a revenue audit and assessment of related controls over the cashiering duties of preserve fees and concession operations.

Our audit focused on financial and budget records relevant to the Hanauma Bay Nature Preserve Fund for the period of FY2003-04 to FY2005-06. We reviewed planning documents, studies on the Hanauma Bay, annual agency reports, Hanauma Bay Education Program reports, concession contracts, and material provided by the Friends of Hanauma Bay. We interviewed departmental and divisional administrators and staff to obtain fund and preserve operations information concerning budgeting for operations at the preserve and utility of the special fund. In addition, we interviewed officials from the Friends of Hanauma Bay and the University of Hawai‘i’s Sea Grant College Program to assess their perception of the fund in support of the purposes intended for the Hanauma Bay Nature Preserve. We also toured the facilities at the Hanauma Bay Nature Preserve with the manager of the Hanauma Bay Nature Preserve. Excluded from this review were evaluations or assessments of management practices.

This audit was conducted in accordance with generally accepted government auditing standards.
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Chapter 2
Revenues and Expenditures of the Hanauma Bay Nature Preserve Fund Appear to be Appropriate, But Coordinated Planning for the Continuity of This Fund Needs Improvement

The Hanauma Bay Nature Preserve (preserve) is a significant city asset recognized as a place for recreational snorkeling within a protected natural marine environment. Designated as the state’s first Marine Life Conservation District to protect native and resident aquatic species in their marine habitats, there are strict regulations applicable to Hanauma Bay prohibiting the feeding of fish or removal of marine life or geological specimens from the waters of the bay. In further recognition of the unique requirements to preserve the bay and, to ensure adequate funding and management of the preserve, the city council established a special fund for the Hanauma Bay Nature Preserve via city ordinance which specified fees and payments for deposit into the fund.

For FY2003-04 to FY2005-06, the revenues and expenditures of the Hanauma Bay Nature Preserve Fund (fund) were appropriately being accounted for. Fund revenues from fees, payments and miscellaneous receipts appear appropriate. In addition, fund expenditures appear to be limited to costs for the operations, maintenance, and improvements to the preserve as required by law. We commend the budget and fiscal services department and the other operating agencies for maintaining the fiscal integrity of the Hanauma Bay Nature Preserve Fund. However, we found that master planning documents for the preserve are outdated, and the responsibilities for managing fund revenues and expenditures are fragmented between the Department of Budget and Fiscal Services and operating agencies. To maintain the unique characteristics of the preserve and continuity of this fund, the Departments of Parks and Recreation and Budget and Fiscal Services should initiate planning efforts to ensure the most effective use of the preserve fund to support preserve requirements.
Chapter 2: Revenues and Expenditures of the Hanauma Bay Nature Preserve Fund Appear to be Appropriate, But Coordinated Planning for the Continuity of This Fund Needs Improvement

Summary of Findings

1. The Departments of Parks and Recreation and Budget and Fiscal Services are properly accounting for fund revenues and expending program funds under the law.

2. The Department of Parks and Recreation should improve its planning efforts in identifying current and projected needs of the preserve.

3. The Departments of Parks and Recreation and Budget and Fiscal Services need to better coordinate their planning efforts.

The Departments of Parks and Recreation and Budget and Fiscal Services Are Properly Accounting for Fund Revenues and Expending Program Funds Under the Law

For the period FY2003-04 to FY2005-06, the Departments of Parks and Recreation (DPR) and Budget and Fiscal Services (BFS) properly accounted for fund revenues and expenditures associated with the Hanauma Bay Nature Preserve Fund as required by law. Revenues from all fund sources including fees from parking, admission and concessions operating at the preserve are tracked and monitored by various BFS and DPR personnel. Additional fund revenues due the fund from a court order and other reimbursements were also tracked and properly applied. Expenditures for the Hanauma Bay Nature Preserve including operating and capital improvements were properly accounted for by BFS and related operating agencies. Further, the revenues attributed to and expenditures from the fund appear to be appropriate. City officers and employees who are assisting in the management of the fund are doing a commendable job of maintaining the fiscal integrity of this special revenue fund.

Revenues are effectively tracked by BFS and DPR

Revenues from income generated at the preserve consist of the parking and admission fees for entrance as well as monthly concession fee payments from concessionaires for food, shuttle, gift shop, and snorkel rental concessions at the preserve. The DPR is responsible for collecting parking and admission fees, keeping accurate account of cash transactions, keeping data on total fee paying and non-fee paying visitors to the preserve, and managing the cash vault. BFS personnel work with DPR personnel to ensure that appropriate cash handling practices are followed. On a daily basis, personnel from the BFS Fiscal Services Division will verify and monitor daily revenue deposit transactions prepared by DPR personnel at Hanauma Bay. Periodic cash handling
audits are conducted by personnel from the BFS Internal Control Division.

Another revenue source is the monthly concession fee payments which are sent directly to BFS Treasury Division for processing by accounts receivable staff. Pursuant to the terms of the concession contract, each concessionaire submits monthly gross receipt statements and fee payments directly to BFS Treasury Division.

We reviewed the execution of these responsibilities with the personnel in BFS Treasury Division. These duties appear appropriately performed.

Lastly, another revenue source to the fund consists of other miscellaneous revenues. During FY2003-04 to FY2005-06, there were two miscellaneous revenues to the fund – a federal court ordered reimbursement to the fund and a refund from a prior year’s contract.

Our review of BFS practices to track parking and admission fees, concession fee payments and miscellaneous revenues indicated that the fees were being adequately tracked and monitored. Finally, the fund balance available at end of the fiscal year is consistently referenced in the city’s annual financial statements as the Unreserved – Undesignated Fund Balance – June 30 (GAAP basis). Accordingly, the fund balance on June 30, 2003 was identified as $531,000 and ending with a fund balance on June 30, 2006, of $2,908,000. In review of the Unreserved – Undesignated Fund Balances, Exhibit 2.1 presents the total fund revenues, expenditures and carryover fund balances for the three fiscal years covered by this audit.
Chapter 2: Revenues and Expenditures of the Hanauma Bay Nature Preserve Fund Appear to be Appropriate, But Coordinated Planning for the Continuity of This Fund Needs Improvement

Exhibit 2.1

<table>
<thead>
<tr>
<th>Description</th>
<th>FY2003-04</th>
<th>FY2004-05</th>
<th>FY2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unreserved-Undesignated Fund</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Carry-over Balance From Previous Fiscal Year</strong></td>
<td>$531,000</td>
<td>$1,416,000</td>
<td>$2,546,000</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Admission</td>
<td>$3,210,000</td>
<td>$3,575,000</td>
<td>$3,209,000</td>
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<tr>
<td>Parking</td>
<td>$201,000</td>
<td>$212,000</td>
<td>$206,000</td>
</tr>
<tr>
<td>Concession - Food</td>
<td>$265,000</td>
<td>$199,000</td>
<td>$244,000</td>
</tr>
<tr>
<td>Concession - Gift Shop</td>
<td>$28,000</td>
<td>$62,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Concession - Shuttle</td>
<td>$15,000</td>
<td>$15,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>Concession - Snorkel</td>
<td>$724,000</td>
<td>$790,000</td>
<td>$855,000</td>
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<tr>
<td>Concession - Refund</td>
<td>$42,000</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Non-Revenue Receipt</td>
<td>$500,000</td>
<td>$500,000</td>
<td>$500,000</td>
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<tr>
<td><strong>Total Revenues</strong></td>
<td>$4,985,000</td>
<td>$5,353,000</td>
<td>$5,119,000</td>
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<tr>
<td><strong>Expenditures</strong></td>
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<td></td>
</tr>
<tr>
<td>Operating - DPR</td>
<td>($1,549,000)</td>
<td>($1,845,000)</td>
<td>($1,689,000)</td>
</tr>
<tr>
<td>Operating - HESD</td>
<td>($414,000)</td>
<td>($518,000)</td>
<td>($546,000)</td>
</tr>
<tr>
<td>Operating - DES</td>
<td>($10,000)</td>
<td>$0</td>
<td>($2,000)</td>
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<tr>
<td>Retirement/Health</td>
<td>($252,000)</td>
<td>($247,000)</td>
<td>($289,000)</td>
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<td>Debt Service Financing</td>
<td>($1,505,000)</td>
<td>($1,602,000)</td>
<td>($1,583,000)</td>
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<tr>
<td>CASE fee</td>
<td>($191,000)</td>
<td>($216,000)</td>
<td>($237,000)</td>
</tr>
<tr>
<td>Capital Improvements</td>
<td></td>
<td></td>
<td>($425,000)</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>($3,921,000)</td>
<td>($4,428,000)</td>
<td>($4,771,000)</td>
</tr>
<tr>
<td><strong>Unreserved-Undesignated Balance, June 30 (budgetary basis)</strong></td>
<td>$1,595,000</td>
<td>$2,341,000</td>
<td>$2,894,000</td>
</tr>
<tr>
<td><strong>Adjustments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Encumbrances</td>
<td>$196,000</td>
<td>$128,000</td>
<td>$125,000</td>
</tr>
<tr>
<td>Prior year encumbrances</td>
<td>($137,000)</td>
<td>($192,000)</td>
<td>($124,000)</td>
</tr>
<tr>
<td>Accrued expenditures</td>
<td>($200,000)</td>
<td>$200,000</td>
<td>$0</td>
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<tr>
<td>Increase in reserve for encumbrances</td>
<td>($38,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease in reserve for encumbrances</td>
<td></td>
<td>$69,000</td>
<td>$13,000</td>
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<tr>
<td><strong>Total Adjustments</strong></td>
<td>($179,000)</td>
<td>$205,000</td>
<td>$14,000</td>
</tr>
<tr>
<td><strong>Unreserved-Undesignated Balance, June 30 (GAAP basis)</strong></td>
<td>$1,416,000</td>
<td>$2,546,000</td>
<td>$2,908,000</td>
</tr>
</tbody>
</table>

Source: Office of the City Auditor based on various BFS financial statements, schedules and worksheets.
BFS verifies DPR revenue receipts

Parking and admission fee revenues counted and prepared for deposit by DPR staff are verified and monitored by staff in BFS Accounting Division, Fiscal Services Section. Located behind the cashier’s window at the preserve is a locked facility within the DPR manager’s office. Under the supervision of the preserve manager, the supervising clerk is responsible for all cashiering operations including providing supervision to the cashiering staff in performing duties of receiving over-the-counter admissions and parking fees. Additional duties of the supervising clerk involve audits of cashier’s receipts to register, preparation of monetary receipts for armored car pick up, submission of fiscal and statistical reports, investigating and reporting cash overages or shortages, and maintaining visitor attendance records. A photo of the cashier windows at the Hanauma Bay Nature Preserve is shown in Exhibit 2.2.

Exhibit 2.2
Photo of Cashier Windows to Pay Admission Fee at the Hanauma Bay Nature Preserve

Source: Office of the City Auditor
Chapter 2: Revenues and Expenditures of the Hanauma Bay Nature Preserve Fund Appear to be Appropriate, But Coordinated Planning for the Continuity of This Fund Needs Improvement

After receipt and verification of DPR cashier reports, BFS fiscal staff prepare the city treasury deposit summary forms to issue the deposit into the city treasury. We found that recordation for these transactions was appropriate to account for sources of fund revenue from cash and credit sales received from admission and parking fees.

**BFS records the transactions on deposits and accounts for concession fee payments**

BFS personnel in the accounts receivable section of the Treasury Division receive the monthly payments directly from the concessionaires operating in the preserve and record the payments for deposit to the city treasury. According to the BFS Policy and Procedures Manual, the BFS Treasury Division is responsible for directly receiving payments from concessionaires and processing concession fee payments by preparing the treasury deposit slip no later than the following business day.

In accordance with Section 02.1 of the BFS Policy and Procedures Manual, BFS Treasury Division duties include, but are not limited to the following:

- maintain a file for each concession contract;
- receive payments from concessionaires;
- process concession fee payments;
- maintain subsidiary accounting records by posting the transactions in appropriate spreadsheet files;
- review gross receipt statements for appropriateness and thus, ensuring that concessionaire’s reporting is prepared in compliance with contract specifications; and
- notify the Department of Enterprise Services of any concessionaire not in compliance with reporting requirements.

In accounting for the payments from Hanauma Bay Nature Preserve concessionaires, personnel in the accounts receivable section at the Treasury Division also maintain concession accounting records that identify gross receipts reported by the concessionaires according to the concession contract terms. The concession receipt transactions are
recorded and filed in Treasury Division files, reconciled in accounting spreadsheet summaries, and copies are provided monthly to the Department of Enterprise Services for their reference. Amounts from the summaries prepared by BFS personnel showing total gross sales receipts reported from concessionaires and the total revenues recorded to the fund from concession fee payments received for each fiscal year ending FY2003-04 to FY2004-05 are shown in Exhibit 2.3.

Exhibit 2.3
Summary of Concessionaires' Gross Sales Receipts and Fee Payments at the Hanauma Bay Nature Preserve—FY2003-04 to FY2005-06

<table>
<thead>
<tr>
<th>Concession</th>
<th>FY2003-04</th>
<th>FY2004-05</th>
<th>FY2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross Sales Receipts</td>
<td>Concession Fee Payments</td>
<td>Gross Sales Receipts</td>
</tr>
<tr>
<td>Food</td>
<td>$1,073,151</td>
<td>$264,880</td>
<td>$1,160,152</td>
</tr>
<tr>
<td>Gift Shop</td>
<td>$370,498</td>
<td>$28,327</td>
<td>$628,976</td>
</tr>
<tr>
<td>Shuttle Bus</td>
<td>$254,500</td>
<td>$15,500</td>
<td>$252,381</td>
</tr>
<tr>
<td>Snorkel</td>
<td>$1,360,000</td>
<td>$723,800</td>
<td>$1,648,937</td>
</tr>
<tr>
<td>Total</td>
<td>$3,058,149</td>
<td>$1,032,507</td>
<td>$3,690,446</td>
</tr>
</tbody>
</table>

Note: Food, shuttle bus and snorkel concessions pay a fixed monthly concession fee. Gift concession pays a percentage rent of not less than ten percent of adjusted gross monthly income for the preceding month.

Source: Department of Budget and Fiscal Services, Treasury Division

BFS records transactions and accounts for revenues from all other sources

BFS personnel in the Fiscal/Long Range Planning Branch of the Fiscal/Capital Improvement Program Administration Division monitors and records miscellaneous revenues. For the period from FY2003-04 to FY2005-06, miscellaneous revenues include two items:

- reimbursement to the fund pursuant to a November 2002 federal court decision; and

- a refund from the previous year’s education program contract with the University of Hawai‘i.
Pursuant to a federal court order, the city was ordered to repay approximately $3,166,589 expended prior to 2002 from the fund for neighboring park and recreation areas. A federal court decision filed in November 2002 concluded that such use was not permitted and ordered the reimbursement to the fund of prior monies expended in such manner. Based upon information provided by the BFS, the court determined that the fund should be reimbursed $3,166,588.84. This created a temporary source of revenue to the fund in increments of $500,000 per fiscal year, which began in FY2003-04, and will continue until the fund is fully reimbursed by FY2008-09.

In addition, another miscellaneous revenue item was recorded in FY2003-04 for $41,760 which represents a sundry refund received in October 2004 from the UH Sea Grant Program relating to its previous FY2002-03 education program contract.

Expenditures from the fund were properly accounted for according to BFS expenditure and allocation plans. Pursuant to Sections 9-106(2)(a) and 9-106(3)(a), Revised Charter of Honolulu (RCH), executive agencies are authorized to incur obligations or expenditures under the operating and capital improvements budget ordinance for proper purposes to the extent that moneys are available. Further, Section 6-51.3, Revised Ordinances of Honolulu (ROH), provides that the preserve’s funds can only be expended for purposes authorized by this article, based on appropriations in the operating and capital budget ordinances, or amendments thereto. As the city’s central financial and budget agency, BFS staff assists agencies with operating and capital improvement budget requirements appropriate to expenditures authorized according to the budget ordinance. Besides these appropriated expenditures, other expenditures pertaining to support services are calculated and deducted from the fund. These include retirement and health benefits for which all city employees are eligible, debt service amortized payments to the fund and reimbursements for central administrative service expenses (CASE) fees for treasury, personnel, purchasing and other services that the city provides on an ongoing basis and deducted from the preserve fund.

Resources from the fund cover expenditures itemized in operating and capital budget documents

Expenditures from the fund must be allocated according to provisions in the approved budget appropriation bills adopted by the city council. Pursuant to Sections 9-106(2)(a) and 9-106(3)(a), RCH, executive
agencies are authorized to incur obligations or expenditures under the executive operating and capital improvements budget ordinance for proper purposes to the extent that the money are available. Section 6-51.3, ROH, provides that the preserve’s funds can only be expended for purposes authorized by this article, based on appropriations in the operating and capital budget ordinances, or amendments thereto.

The appropriations from the Hanauma Bay Nature Preserve Fund are primarily expended through the DPR budget for its management of the operations, maintenance and improvement at the preserve. In addition to the parks department, fund expenditures are also authorized in appropriations for ocean safety and lifeguard services in the operating budgets for the Ocean Safety Division at Honolulu Emergency Services Department and for monitoring concession contracts by the enterprise services department. Emergency services provides ocean safety and lifeguard services at the preserve while enterprise services initiates and monitors the day-to-day operations of concessionaires according to the terms and conditions of their contract. Along with fund revenues, Exhibit 2.4 provides a summary of fund expenditures pertaining to operational services performed by the three departments for FY2003-04 to FY2005-06. Exhibit 2.5 provides position counts financed by the fund to DPR and emergency services only to operate and maintain the Hanauma Bay Nature Preserve.
## Exhibit 2.4
### Summary of Total Fund Revenues and Expenditures of the Hanauma Bay Nature Preserve Fund—FY2003-04 to FY2005-06

<table>
<thead>
<tr>
<th>Description</th>
<th>FY2003-04</th>
<th>FY2004-05</th>
<th>FY2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Admission and Parking Fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hanauma Bay - Admission</td>
<td>$3,209,909</td>
<td>$3,575,476</td>
<td>$3,208,955</td>
</tr>
<tr>
<td>Hanauma Bay - Parking</td>
<td>$201,252</td>
<td>$211,667</td>
<td>$206,400</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>$3,411,161</td>
<td>$3,787,143</td>
<td>$3,415,355</td>
</tr>
<tr>
<td>Concession Fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hanauma Bay - Food</td>
<td>$264,880</td>
<td>$198,660</td>
<td>$244,445</td>
</tr>
<tr>
<td>Hanauma Bay - Gift Shop</td>
<td>$28,327</td>
<td>$62,092</td>
<td>$69,356</td>
</tr>
<tr>
<td>Hanauma Bay - Shuttle Bus Service</td>
<td>$15,500</td>
<td>$15,000</td>
<td>$34,703</td>
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<tr>
<td>Hanauma Bay - Snorkel Rental</td>
<td>$723,800</td>
<td>$789,600</td>
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<tr>
<td><strong>Sub-total</strong></td>
<td>$1,032,507</td>
<td>$1,065,352</td>
<td>$1,203,904</td>
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<td><strong>Total Fees</strong></td>
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<td>$4,852,495</td>
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<td><strong>Other Miscellaneous Revenues</strong></td>
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</tr>
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<td>Transfer from the General Fund*</td>
<td>$500,000</td>
<td>$500,000</td>
<td>$500,000</td>
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<tr>
<td>Non-revenue receipts**</td>
<td>$41,760</td>
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<td>$0</td>
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<td><strong>Total Miscellaneous Revenues</strong></td>
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<td>$500,000</td>
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<td><strong>Total Fund Revenues</strong></td>
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<td>$5,352,495</td>
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<td><strong>Expenditures</strong></td>
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<td></td>
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<tr>
<td>Operating Agency</td>
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<tr>
<td>For DPR:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>$764,882</td>
<td>$770,972</td>
<td>$820,973</td>
</tr>
<tr>
<td>Current Expenses</td>
<td>$762,535</td>
<td>$1,074,139</td>
<td>$866,070</td>
</tr>
<tr>
<td>Equipment</td>
<td>$21,246</td>
<td>$0</td>
<td>$2,564</td>
</tr>
<tr>
<td><strong>Sub-total for DPR</strong></td>
<td>$1,548,663</td>
<td>$1,845,111</td>
<td>$1,689,607</td>
</tr>
<tr>
<td>For HESD:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>$340,987</td>
<td>$430,493</td>
<td>$442,648</td>
</tr>
<tr>
<td>Current Expenses</td>
<td>$27,890</td>
<td>$33,100</td>
<td>$30,734</td>
</tr>
<tr>
<td>Equipment</td>
<td>$45,317</td>
<td>$54,000</td>
<td>$72,749</td>
</tr>
<tr>
<td><strong>Sub-total for HESD</strong></td>
<td>$414,194</td>
<td>$517,593</td>
<td>$546,131</td>
</tr>
<tr>
<td>For DES:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>$0</td>
<td>$0</td>
<td>$2,058</td>
</tr>
<tr>
<td>Current Expenses</td>
<td>$10,019</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Equipment</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Sub-total for DES</strong></td>
<td>$10,019</td>
<td>$0</td>
<td>$2,058</td>
</tr>
<tr>
<td><strong>Total Operating Agency Expenditures</strong></td>
<td>$1,972,876</td>
<td>$2,362,704</td>
<td>$2,237,796</td>
</tr>
<tr>
<td><strong>Other Miscellaneous Expenditures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement and Health Benefits</td>
<td>$252,000</td>
<td>$247,000</td>
<td>$289,000</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$1,505,000</td>
<td>$1,602,000</td>
<td>$1,583,000</td>
</tr>
<tr>
<td>Central Administrative Service Expenses (CASE)</td>
<td>$191,000</td>
<td>$216,000</td>
<td>$237,000</td>
</tr>
<tr>
<td>Capital Improvement</td>
<td>$0</td>
<td>$0</td>
<td>$425,000</td>
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<tr>
<td><strong>Total Miscellaneous Expenditures</strong></td>
<td>$1,948,000</td>
<td>$2,065,000</td>
<td>$2,534,000</td>
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<td><strong>Total Fund Expenditures</strong></td>
<td>$3,920,876</td>
<td>$4,427,704</td>
<td>$4,771,796</td>
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<tr>
<td><strong>Net Revenues</strong></td>
<td>$1,064,552</td>
<td>$924,791</td>
<td>$347,463</td>
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</table>

*Court order repayment in $500,000 installments until the original amount of $3,166,589 is fully reimbursed by FY2008-09.

**Reimbursement from FY2002-03 education program contract.

Source: Office of the City Auditor based on various BFS financial statements, schedules and worksheets.
Exhibit 2.5
Summary of Full-Time Equivalent Positions Financed by the Hanauma Bay Nature Preserve Fund—FY2003-04 to FY2005-06

<table>
<thead>
<tr>
<th>FTE Positions</th>
<th>FY2003-04</th>
<th>FY2004-05</th>
<th>FY2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td>DPR:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent</td>
<td>18.00</td>
<td>14.00</td>
<td>17.00</td>
</tr>
<tr>
<td>Temporary</td>
<td>13.60</td>
<td>13.60</td>
<td>13.60</td>
</tr>
<tr>
<td>Contract</td>
<td>5.00</td>
<td>5.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Sub-total</td>
<td>36.60</td>
<td>32.60</td>
<td>35.60</td>
</tr>
<tr>
<td>Emergency Services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent</td>
<td>6.00</td>
<td>6.00</td>
<td>6.00</td>
</tr>
<tr>
<td>Temporary</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Contract</td>
<td>1.50</td>
<td>1.34</td>
<td>1.34</td>
</tr>
<tr>
<td>Sub-total</td>
<td>7.50</td>
<td>7.34</td>
<td>7.34</td>
</tr>
<tr>
<td>Total</td>
<td>44.10</td>
<td>39.94</td>
<td>42.94</td>
</tr>
</tbody>
</table>

Source: Department of Parks and Recreation and Honolulu Emergency Services Department

Preserve fund also covers other expenses

The preserve fund also covers expenses associated with other non-agency specific expenditures such as employees’ health benefit costs and retirement benefit contributions, annual debt service amortized payments, and CASE fees. Fiscal accounting officials in BFS Fiscal/CIP Division determine the proportion of retirement, FICA, health and fiscal support service costs applicable to the fund. For example, during the three fiscal years covered during this audit, retirement costs were based on 13.7 percent of total payroll, health costs were based on projected health fund rate increases then split among all funds based on certain percentage of total payroll costs, debt service was based on the amortized debt service schedules from the total costs of prior capital projects, and the CASE fee was based on 5 percent of estimated expenditures in the agencies’ operating and capital budgets. Exhibit 2.4 also depicts fund expenditures for retirement and health benefits, debt service and reimbursement for CASE amounts per fiscal year identified in BFS financial statements as other miscellaneous expenses associated with the Hanauma Bay Nature Preserve Fund from FY2003-04 to FY2005-06.
Chapter 2: Revenues and Expenditures of the Hanauma Bay Nature Preserve Fund Appear to be Appropriate, But Coordinated Planning for the Continuity of This Fund Needs Improvement

Revenues and expenditures appear to be properly tracked and accounted for

As the central budgeting and accounting agency for the executive branch, BFS accounts for all revenues and expenditures associated with the Hanauma Bay Nature Preserve Fund in accordance with requirements in Section 6-51.4, ROH. After review of fund responsibilities with various BFS officials in Accounting, Treasury, Fiscal/CIP Administration and Internal Control Divisions, as well as applicable operating agency responsibilities to the preserve fund, we found that those responsibilities were properly executed. In addition, BFS generated financial reports appear to correctly reflect the resulting preserve fund balances as reported in quarterly and annual financial statements. We commend the department and operating agencies for appropriately tracking and monitoring revenues and expenditures applicable to the Hanauma Bay Nature Preserve Fund.

The Department of Parks and Recreation needs to improve its planning efforts to properly meet the needs of the preserve. Proper planning for the maintenance, operations and improvements to the preserve ensures that the preserve operations and park facilities are meeting the needs of Hanauma Bay and its unique character. The preserve is not only valued as a recreational beach but a significant and protected nature resource area. Designated the first state Marine Life Conservation District, the preserve is regulated and evaluated for compliance with state conservation rules and regulations specific to maintaining its qualities as a marine sanctuary. Sustaining conservation efforts to protect natural resources unique to the Hanauma Bay continues to be a challenge that requires proper planning to guide future operations, maintenance and improvements to the protected district and its surrounding facilities. Planning documents are useful tools that can provide the framework for implementing preserve operations and evaluating their results against the required purposes in city ordinance. However, the most recent master plan prepared in 1992 is outdated and obsolete because its recommendations have already been implemented. Meanwhile, the preserve fund is restricted to support three prioritized supportive uses, but lacks a useful planning document upon which to assess and evaluate expenditures needed to continue protection of bay marine resources and its surrounding facilities. As the lead agency in the management of protection of the preserve, the parks department needs to improve its planning efforts to identify current and projected needs of the preserve and uses of the preserve fund.
Hanauma Bay has long been recognized as one of the state’s few remaining natural resources. Its unique character and needs require strict regulations to protect the bay from adverse recreational impacts. The city recognized this uniqueness by creating the preserve fund because the preserve requires unique and special treatment. Today, this fundamental commitment to the protection of marine life resources of Hanauma Bay continues to be observed while offering recreational opportunities unlike any other destination on O‘ahu.

**Preserve fund established to support needs of the preserve**

The city council enacted Ordinance 96-19 in 1996, instituting a fee schedule for entrance to the preserve, and subsequently in Ordinance 00-25 included all concession revenues from on-site concession operations. To protect the preserve’s unique character, the Hanauma Bay has long been regarded as a special place with great potential for viewing and studying the diversity of marine life in the special habitat of its unique, sheltered bay. As a Marine Life Conservation District, Hanauma Bay is protected from certain activities that could alter, deface, destroy, or remove uniquely recognized marine life or other geological features. Recognizing the need to protect the valuable natural resources of the bay, the council found that the city park facilities in and around the bay require a unique degree of quality maintenance, operations and improvements to harmonize them with the existing and future natural resources in the sheltered bay. Moreover, the city ordinance establishes a special revenue source and delineates the purposes for how the fund monies are to be expended to support the marine life conservation aspects of the preserve in priority order.

**Master plan established as guiding document for the care and maintenance of the preserve**

The *Hanauma Bay Nature Park Master Plan* was prepared for the parks department in May 1992. It examined the problems associated with operations of the preserve and established an analytical framework for planning for the care, maintenance and future development of the preserve. In its introduction, the plan reiterates several key characteristics unique to the preserve within O‘ahu’s system of parks and recreation areas:

- ranks second to Waikiki Beach as O‘ahu’s popular beach recreation area;
Chapter 2: Revenues and Expenditures of the Hanauma Bay Nature Preserve Fund Appear to be Appropriate, But Coordinated Planning for the Continuity of This Fund Needs Improvement

- a major sightseeing stop for many tour groups;
- established in 1967 as the first marine life sanctuary for scientific study; and
- the place of much appreciation of marine life by the public.

The elements and concluding recommendations of the plan serve as a means to clearly reinforce the intended purposes and requirements as codified in Section 6-51.1, ROH. It has served the parks department as an informative reference as well as a guiding document in its efforts to develop and execute noticeable improvements in the care and maintenance of the preserve.

*Current master plan is dated and ineffective as a guide*

While the current master plan has served the parks department well in guiding management’s planning efforts and development of the preserve in the past, we found that the plan is outdated and currently ineffective as a planning guide. Recommended improvements to the preserve contained in the 1992 master plan have been completed on an incremental basis since 1992 such as the completion of construction surrounding the new Marine Education Center, overall improvements to the physical design and public programs and appropriate park rules based on scientific research studies about environmental impacts to the bay. We reviewed each of the recommendations contained in the master plan with the manager of the preserve, who concluded that the recommendations had been sufficiently met to be considered achieved. The Friends of Hanauma Bay also recognize that the existing plan is ineffective and obsolete and has already initiated preliminary meetings with the preserve manager to update the master planning document to meet current needs and future requirements for the preserve.

*Plan should be used to identify and justify needs and budgetary requirements of the preserve*

An updated master plan should contain planning elements that provide management with reasonable expectations for meeting intended purposes and define the relationships between the unique conservation and educational characteristics of the preserve and its financing and budgetary requirements. After gathering all ideas, the completed plan should formulate short and long term needs for the preserve. For the budgetary process, an updated master plan would facilitate management’s coordination with other operating agencies to achieve
greater effectiveness and efficiency of operations at the preserve, including greater emphasis on internal controls, reliability in financial reporting, and compliance with applicable laws and regulations.

**Plan should establish goals and benchmarks to evaluate the effectiveness of the preserve’s programs**

The updated master plan should include goals and performance benchmarks to evaluate the effectiveness of the preserve programs in meeting the intended purposes and requirements as codified in Section 6-51.1, ROH, as follows:

There shall be deposited into the Hanauma Bay Nature Preserve fund all receipts from the fees imposed under Section 10-2.11 and all concession revenues from the Hanauma Bay Nature Preserve concessions. All moneys deposited into this fund shall be used for the following purposes in the order of priority as indicated:

- first, for the operation, maintenance and improvement of the Hanauma Bay Nature Preserve;

- second, for educational and orientation programs for visitors to the preserve; and

- third, for a carrying capacity study of the preserve and for other studies relating to the environmental condition of the preserve.

In accordance with these purposes, the plan would set goals, objectives and indicators of achievement or benchmarks to measure progress and justify financing requirements for the maintenance of the buildings and surrounding areas.

**Recommendations contained in current master plan implemented**

Improvements to the preserve had taken place on an incremental basis since the most recent master plan was prepared in 1992. Since then, improvements to the physical design, public programs, park rules, and execution of scientific studies on environmental impacts to the bay have been implemented. Both the preserve and Friends of Hanauma Bay, a community advocacy group for continued protection of the bay, agree that existing plan is obsolete since its recommendations have been realized.
Carrying capacity provides useful data

Elements identified in the carrying capacity study of 2000 have yet to be formally incorporated into planning efforts. This study, called for in the required expense from the fund, provides valuable data for parks department officials. More importantly, the report provides specific considerations for developing benchmarks and indicators to facilitate the planning processes in achieving the fund and preserve’s purposes. Therefore, a current master plan that incorporates carrying capacity information is useful and should be part of the parks department’s strategies in assessing projected needs and developing financial requirements to sustain the preserve.

The parks department’s management team should be actively involved in identifying and updating operational and capital needs of the preserve

The parks department’s management team should be actively involved in identifying the operational and capital needs of the preserve to support the efforts of the preserve manager. The department is organized into districts. The manager of the preserve is a part of the District 1 management team supported by the supervision of the park maintenance and recreation services division administrator. Additional support is provided for the district and division management team by executive services officials who provide budget, contract, fiscal, personnel and other administrative support. For example, general building and facility repair and maintenance needs of the preserve are forwarded internally to the park maintenance management staff for further action and resolve.

The park maintenance administrator oversees the District 1 manager and the preserve manager. The major function of this division is to provide a comprehensive park maintenance and community recreation program for the city by managing and coordinating the activities of five geographic districts, and two support sections—Recreation Support Services and Maintenance Support Services. Preserve staff maintains almost daily contact with the Maintenance Support Services staff to meet the many repair and maintenance needs to buildings, grounds, and equipment at the preserve. Preserve staff are also supported by the department’s Urban Forestry Division for landscaping needs at the preserve through the city’s tree program, nurseries, and landscaping systems. Lastly, the department’s Executive Services Division provides administrative support to preserve management in areas relating to: 1) budget management; 2) parks planning; 3) property management; 4) public permits; and 5) related parks research, safety, personnel management and labor relations/training. Along with these support services, the department’s management team should be directly involved in supporting
the unique and special characteristics, including identifying and updating operational and capital needs of the preserve.

However, we found through interviews with officers and employees that documentation to measure whether the needs of the preserve are being met was limited. This can be problematic for determining the appropriate budgetary needs for unique and special conservation and education requirements established for the preserve. Except for the preserve manager, staff were unaware of planning documents and not presented as part of their review and approval functions. While administrative support in the parks department have contributed to many positive outcomes, more active participation by the department’s management team in identifying and updating operational needs of the preserve with the preserve manager is encouraged.

**District and departmental staff must continue to work closely with preserve staff and others to evaluate existing programs to meet preserve’s requirements**

In recognition of unique circumstances pertaining to the fund for the management of the preserve, district and department staff must work closely with preserve staff and others to identify needs, and evaluate existing programs and timelines to meet preserve’s requirements. For example, the executive services officials in the parks department provide oversight for the intergovernmental agreement between the department and the UH Sea Grant Program to operate the education program. The management of this administrative component is an important function since it utilizes fund resources as intended in city ordinance. The partnership developed with the UH Sea Grant Program for the education program has historical and institutional origins at the bay. This partnership receives support from community citizen volunteers and groups, who advocate for the protection of the fragile resources of the bay and preservation of its present environmental condition. The professional relationships developed from within the various levels in the parks department and the education program agreements are integral not only to the success and stability of the education program but also for complying with Section 6-51.2(2) ROH. While the district and division staff provide significant administrative support, they must continue to work closely with preserve staff and others to improve coordination and understanding of preserve needs and engage in evaluations of existing programs, carrying capacity studies and timelines to meet preserve requirements established in city ordinance. In addition, a Friends of Hanauma Bay representative expressed concern that existing staff with many years of service and expertise may soon retire, and personnel
succession planning would be in the best interest to the future stability of the preserve’s operations. We believe that proactive review and reassessment of overall personnel needs may also be needed to maintain the integrity of goals established to protect the environmental conditions of the preserve.

**Department should ensure oversight of concessionaire contracts for compatibility with objectives and purpose of the preserve**

The parks department’s management should be proactively involved in providing input, review, and the inclusion of special conditions for any concessionaire contracts activities located within the preserve. BFS Policy and Procedures, Index Code 02.1 lists responsibilities of agencies such as the parks department when concessionaire contracts are negotiated for activities located in departmental facilities. These include:

- receiving suggestions from other departments and the public on the desirability of establishing a concession;
- investigating and determining need for a concession at a particular site;
- approving or disapproving the proposed concession;
- preparing a map designating a concession area; and
- coordinating with the Department of Enterprise Services for drafting of bid document.

While the parks department may not be required to monitor concessionaire operations for compliance with concession contract terms, the department’s own rules state that the department should enforce rules pertaining to commercial activities in the preserve. During our review we found that the preserve manager was unaware and consequently had no input on the most recent concession contract negotiations for the preserve’s shuttle bus. Therefore there was no opportunity to provide input or advice on any specific conditions or terms in the contract which is necessary to ensure compatibility of the concessionaire’s operations with the preserve’s objectives. Concession operations at the preserve should be operated in a manner consistent and in concert with the goals and objectives of the preserve. To ensure this compatibility, the department needs to proactively provide input, including any special conditions and operational requirements, in the
special terms of any concessionaire contract within the preserve’s operations. Exhibit 2.6 provides a photo of the snorkel rental concession at the Hanauma Bay Nature Preserve.

Exhibit 2.6
Photo of the Snorkel Rental Concession at the Hanauma Bay Nature Preserve

The Departments of Parks and Recreation and Budget and Fiscal Services need to better coordinate their planning efforts to ensure the most effective use of the preserve fund in support of the preserve’s marine conservation and education requirements. Fund information is an essential evaluation component to assess how to meet the short and long term needs of the preserve. While the departments already have useful and pertinent information in different formats, there needs to be accurate, timely and most importantly, user friendly financial information about the preserve, including information on the preserve’s revenues, expenditures and unreserved fund balance for budget development.
Chapter 2: Revenues and Expenditures of the Hanauma Bay Nature Preserve Fund Appear to be Appropriate, But Coordinated Planning for the Continuity of This Fund Needs Improvement

Realistic, accurate and user friendly information about the preserve fund is essential for parks department to effectively budget for the preserve’s needs.

Realistic, accurate, timely and user friendly financial reports on the preserve fund can promote awareness on the fund balance from year-to-year, which is necessary for the parks department to properly manage the preserve. BFS officials should be providing pertinent financial information such as information on the fiscal integrity and long term financial planning considerations to DPR officials for consideration in their planning for the needs of the preserve. This may also help DPR to effectively budget annual and future fund resources earmarked for the operation and maintenance of the preserve. While such information exists, it is currently difficult to retrieve in a user friendly form. We reviewed financial information and reports available and found that several statements and schedules must be referenced from separate city reports in order to determine fund revenues, expenditures and fund balance. Also, the parks department does not include evaluations of the preserve fund’s ability to meet projected long-term needs as part of its budget review process. The department’s review of its budgetary needs for the preserve is based on the previous years’ request and new budget items in the current budget request, and lacks supplemental facts or data specific to the current requirements of the preserve and the fund. While financial information and data are readily accessible from city websites, improvements are needed to summarize fund information contained in budgetary comparisons, statistics and other financial data into simpler, realistic and more user friendly reports which would facilitate utilization by parks department personnel in budgeting for the preserve’s current and long-term needs.

Preserve fund is intended to provide the financial resources to meet needs of the preserve

The fund provides the financial resources to meet the needs of the preserve based on specified purposes prioritized in Section 6-51.2, ROH, as listed earlier. This type of fund is used to account for the proceeds of specific revenue sources, that are legally restricted to expenditures for specified purposes. If the fund is intended to provide the financial resources of the preserve, then financial information showing how this fund had been utilized to meet the intended needs of the preserve should be presented. However, while financial transactions are being recorded and reported in financial statements, there are no clear indicators or benchmarks provided in current master planning documents to ascertaining with some certainty that the fund is meeting the needs of the preserve and protecting its unique character, and supporting facilities.
BFS preserve fund information is not user friendly and not easily identified

The financial documents that account for the special fund revenues, expenditures and fund balances are not user friendly or easy to reference from various financial statements prepared by BFS. The Comprehensive Annual Financial Report (CAFR) was referenced by BFS officials as a complete source of reference on fund revenues, expenditures and fund balance and specific to the Hanauma Bay Nature Preserve Fund, including the Balance Sheet, Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Schedule of Revenues – Budget and Actual. In addition to the CAFR, BFS officials provided references to fund information located in statements and schedules of other fiscal and accounting documents such as The Executive Program and Budget, and the Budget and Fiscal Services Director’s Financial Report. Therefore, in order to derive a complete fund accounting for the three fiscal years, FY2003-04 to FY2005-06, several statements and schedules need to be referenced. For requests on how monies were spent for preserve needs, BFS officials suggested contacting the operating agencies, but BFS could provide information on miscellaneous expenditures or revenues. While these separate financial documents were readily accessible and contain necessary information, we found that these reports were generally not user friendly and lacked similar comparison for prior years’ information.

Fund information is not effectively communicated between departments

Fund information on revenues, expenditures and resulting unreserved – undesignated fund balance at fiscal year end is not effectively communicated between departments. Many staff from BFS and DPR as well as the emergency services and enterprise services departments were not informed or familiar with the preserve fund balance when asked. However, in any special funded type operation, some review of fund balance should be accessible and shared with staff in departments if it impacts the operations of the preserve. While there is no formal definition for surplus, BFS officials referenced the more accurate term of Fund Balance, Unreserved which is defined as follows:

Actual or estimated, unreserved fund balance carried over from the prior fiscal year and available for appropriation. The estimated fund balance together with the estimated revenues and inter-fund transfers for the upcoming year determine the
maximum amount available for appropriation in the proposed year’s budget.

We noted that for the three year fiscal period included in this audit, the prior administration made reference to surplus revenues in the fund when reporting revisions to their Executive Operating Budget and Program during the budget process for FY2004-05. In addition, it noted that due to the non-passage of Bill 19 in June 2004, which sought to remove concession revenues deposited into the fund, concession revenues for the year in the amount of $1,135,200 were deleted from the general fund and placed back into the Hanauma Bay Nature Preserve Fund. In a cover letter signed by the former mayor, he added that, “This action therefore creates a potentially unlawful surplus of revenues in the Hanauma Bay Nature Preserve Fund.” Without further information provided by the mayor in his letter, we are unable to determine what this means. As mentioned earlier for budget review purposes, the term *surplus* revenues or funds as used in the BFS’ *Detailed Statement of Revenues and Surplus* for the Hanauma Bay Nature Preserve Fund each year is actually the amount referenced as the *Unreserved Fund Balance* remaining at the end of each fiscal year for budget review purposes. Staff we spoke to from BFS, DPR as well as emergency services were not informed or familiar with the revenue surplus compared to the fund balance when asked.

**Parks department budgeting process for the preserve needs some improvement**

The parks department budgeting process for the preserve fails to evaluate the preserve funds projected ability to fund future preserve needs. The fund was created to provide the financial resources to properly manage the operations, maintenance, and improvements of the preserve to finance educational and orientation programs for visitors to the preserve, and for studies relating to carrying capacity and the environmental condition of the preserve. Identification of projected preserve needs is inadequate and there is little attempt to determine whether the fund will be able to adequately meet the needs that are identified.

**Budgeting does not include a comprehensive evaluation of the preserve fund and ability to meet preserve’s needs**

Generally, the parks department does not include a comprehensive evaluation on the fund balance and ability of the fund to meet preserve’s needs as part of its budgeting processes. We inquired with district and department officers and found that most were not aware of the preserve’s fund balance over the years and had not seen any evaluative
Chapter 2: Revenues and Expenditures of the Hanauma Bay Nature Preserve Fund Appear to be Appropriate, But Coordinated Planning for the Continuity of This Fund Needs Improvement

report on the fund revenues, expenditures and fund balances. The budgeting process for the preserve’s needs normally starts with instructions to the preserve manager to submit a budget request to the district supervisor. This submittal then receives review and approval by the Parks Maintenance and Recreation Services administrator by approximately June 30 of each year. After the district team budget request is reviewed and approved by the district management team, meetings are scheduled with executive services officials and the parks director to review and subsequently approve the preserve’s budget request. The department’s final budget request is submitted to the BFS director or Department of Design and Construction director for capital improvement program requests. The parks department and assigned budget analyst do meet as part of the budget preparation process prior to submission of the final budget. The mayor normally submits his final city budget request to the council by the first week of March. The city council adopts the fiscal year’s city budget normally by mid-June and agencies submit their final budget expenditures reports before the beginning of the new fiscal year. The preserve manager is given the opportunity to comment on the preserve’s needs but there was little evidence that higher level department officials were as cognizant of these needs. Thus, further review and scrutiny of budgeted needs for the preserve were generally based on inquiries and perceptions surrounding whether the expenditure justifies a need or want for the preserve operations rather than on benchmarks based on preserve objectives and plans.

While this method may be appropriate for higher level managers in review of the preserve manager’s expenditures for preserve needs, we found at least one situation where the preserve was needlessly impacted by a restriction on an approved budget expense allocation. We were informed that the former director of DPR had imposed spending restrictions during fiscal year 2004 which was applied to all parks divisions. A DPR official informed us that the operations at the preserve and the preserve fund were not excluded from the directive, although funds were available in the preserve fund and the department’s general fund expenditures were not impacted. In this instance, office furniture had been approved for purchase by the preserve manager and delivery had been completed for the purchase. However, when the former DPR director became aware of the office furniture purchase and delivery in violation of the spending restriction directive, the former DPR director directed that the items be returned. Moreover, the DPR official added that the city was assessed a fee for the return of the items.
We observed that the administrative offices at the preserve were not furnished with city-purchased desks, chairs and bookcases. When asked about the furniture, preserve staff explained the origins of furniture in the office, most of which were personal belongings or surplus items brought to the offices from their home or from other sources. From an appearance perspective, the office was furnished with used chairs repaired with duct tape while desks vary from classroom size metal desks to wood desks in need of repair. Also, we note that computer equipment and software appear outdated, and the copy machine is inefficient for the needs of the preserve’s office causing the preserve staff to travel to other district offices to produce medium to high volume copy material. We also note that while such restrictions appear to have been removed under the present administration there has been no action to address these unmet needs. Finally, an evaluation on the preserve fund balance and projected revenues as well as other preserve plans should be incorporated into the budgeting processes for the preserve.

**Preserve budget requests should be based on a master plan and evaluated according to needs established in preserve’s planning**

The preserve’s annual budget request for executive management review and approval should be based on the master plan and be evaluated according to needs established in benchmarks or indicators of accomplishment. The fund was created and established for the purposes of the operation, maintenance, and improvement of the preserve, educational and orientation programs for visitors to the preserve, and studies relating to carrying capacity and the environmental condition of the preserve. Despite those guidelines, the preserve’s fund and budget is loosely constructed and may become unnecessarily guided by instructions provided by BFS in budget request guidelines that are general to all city agencies. As noted earlier, the existing master planning document is also obsolete. With the exception of the manager of the preserve, planning documents were not used as reference by other district or department officers who have authority to approve or reject preserve budget items.

**Assessment of preserve entrance fees, concessionaire contract payments and other fund revenue sources should be integral to budgeting process**

Pertinent information to preserve requirements concerning the adequacy of fee assessments, sources and status of miscellaneous revenues, concession contract concerns and issues, and other preserve and fund related information are also integral to the budgeting and planning
process. Updates on fiscal concerns and issues, concession monitoring activities, or other preserve information resulting from functions performed by departments other than the DPR should be also incorporated in planning efforts by DPR, as lead agency for the preserve. For example, the achievements and results in monitoring compliance to concession contract terms by the enterprise services department should become integral to the budgeting process for the parks department since this information is equally concerning to the management of the preserve. In addition, business information such as the submission of monthly gross receipt statements are submitted directly to BFS Treasury Division, with summaries forwarded to DES but not to DPR. Moreover, the receipt of required annual Sale Audit Reports from concessionaires are forwarded to DES with copies to BFS, but again no copies provided to DPR. Furthermore, copies of concession contracts and pertinent information to negotiated terms are not provided for reference to DPR, the lead operating agency at the preserve. Such products and services provided by the concession operations at the preserve are an integral component to the on-site operations and management of the preserve by DPR.

Although a review and assessment of management practices for issuance of the concession contract and monitoring the day-to-day operations of concessionaires was not included in the scope of this audit, we have several concerns with monitoring efforts by the departments. We found incomplete concession contract files and the lack of documentation and adherence for concession contract policies provided in the BFS Policy and Procedures Manual. In order to maintain the consistency of quality needed to adequately support the unique operational needs at the preserve, increased involvement by DPR is needed.

Conclusion

For the period FY2003-04 to FY2005-06, the Departments of Parks and Recreation and Budget and Fiscal Services were found to be properly accounting for fund revenues and expending program funds as required by law. In review of BFS responsibility for overseeing the administration of the Hanauma Bay Nature Preserve Fund, we found that revenues from parking and admission fees as well as concession fee payments were tracked and summarized appropriately. In addition, we found that staff involved in utilizing fund resources for operations, maintenance and improvements at the preserve properly tracked and summarized expenditures for the fund’s purposes. We commend the budget and fiscal services department and other operating agencies for
maintaining the fiscal integrity of the Hanauma Bay Nature Preserve Fund.

The preserve is recognized as a significant city asset. The preserve continues to steadily provide approximately one million visitors the unique opportunity to learn and explore its natural resources. Designated as the first Marine Life Conservation District, the Hanauma Bay is regulated by and evaluated for maintaining the qualities of a marine sanctuary in accordance with state conservation rules. We found that master planning documents for the preserve were outdated. Although the preserve manager has acknowledged the need to update preserve needs and develop new planning documents, the department should improve its planning efforts to ensure that needs of the preserve are being met as intended. In addition, the concession contract guidelines provide adequate authority for the park’s department to provide input relating to concession operations at the preserve however the park’s department should do more to proactively participate and provide input for consideration in the concession contract processes to ensure compatibility with objectives of the preserve, in accordance with stated purposes for the use of the special funds in Section 6-51.2, ROH, and as provided in Index 02.1 of the BFS Policy and Procedures Manual. We also found that responsibilities for managing fund resources earmarked to preserve needs are fragmented between the departments of budget and fiscal services and operating agencies. Financial reports on the fund are not reader-friendly and not easily identified. Several statement and schedules must be referenced to develop a more comprehensive understanding of fund revenues, expenditures for operations, and resulting carry over fund balance. Proper planning for the future needs of the preserve is compromised by the lack of coordinated planning efforts and should be improved to maintain the unique characteristics of the preserve.

**Recommendations**

1. The Director of the Department of Parks and Recreation should:

   a. ensure that a new or updated master plan for the Hanauma Bay Nature Preserve is completed which will serve as a basis for development and identification of specific programs and items necessary to achieve the master plan objectives;
b. ensure that the updated master plan be used as the basis for specific development and budgetary elements that will achieve objectives of master plan;

c. ensure that budgeting is based upon elements developed to implement the preserve’s master plan;

d. assess past and projected preserve fund revenues, expenditures and fund balances;

e. assess adequacy of fund revenues and projected expenses in accordance with preserve’s goals and objectives;

f. ensure that preserve staff is actively involved in all levels of planning for preserve’s use; and

g. ensure that copies of the concession contracts and current detailed information relating to concession revenue gross receipts, payments and amendments to contract terms are provided to the appropriate parks department personnel for budget planning and program evaluation purposes.

2. The Director of the Department of Budget and Fiscal Services should ensure that copies of the following information are provided to the appropriate parks department personnel for budget planning and program evaluation purposes regarding the Hanauma Bay Nature Preserve Fund:

a. BFS Accounting Division summary worksheets on *Hanauma Bay Revenues and Deposits* and monthly Monarch report *Revenue Summary by Sub-Class*;

b. BFS Fiscal/CIP Administration report on Hanauma Bay Nature Park Capital Improvement Projects and related debt service calculator schedules;

c. BFS Treasury Division accounts receivable annual worksheet summaries on concessionaire gross receipts and payment recap; and

d. BFS Purchasing Division concession contracts and amendments.
Responses of Affected Agencies

Comments on Agency Responses

We transmitted drafts of this report to the Departments of Budget and Fiscal Services and Parks and Recreation on May 24, 2007. A copy of the transmittal letter to the Department of Budget and Fiscal Services is included as Attachment 1. On June 7, 2007, the departments’ directors submitted a combined written response to the draft report dated May 31, 2007, which is included as Attachment 2. In their response, the directors thanked the auditor for recognizing efforts to properly account for and maintain the fiscal integrity of the fund and further expressed appreciation for feedback received through an independent audit process. The departments noted that while they have been working together on budget-related issues, the budget and fiscal services department will now furnish the parks department with monthly copies of various reports for budget planning and program evaluation purposes. The Department of Parks and Recreation stated that it would address recommendations related to the Hanauma Bay Nature Preserve Master Plan. We are encouraged by the departments’ willingness to actively work together for planning, budgeting and evaluation efforts necessary to ensure that the preserve fund continues to be utilized to meet the Hanauma Bay Nature Preserve’s operational and capital improvement requirements.
May 24, 2007

Ms. Mary Patricia Waterhouse, Director  
Department of Budget and Fiscal Services  
530 South King Street, Room 208  
Honolulu, Hawai‘i 96813

Dear Ms. Waterhouse:

Enclosed for your review are two copies (numbers 14 and 15) of our confidential draft audit report, *Audit of the Hanauma Bay Nature Preserve Fund*. If you choose to submit a written response to our draft report, your comments will generally be included in the final report. However, we ask that you submit your response to us no later than 12:00 noon on Friday, June 8, 2007.

For your information, the mayor, managing director, parks and recreation director, and each councilmember have also been provided copies of this *confidential* draft report.

Finally, since this report is still in draft form and changes may be made to it, access to this draft report should be restricted to those assisting you in preparing your response. Public release of the final report will be made by my office after the report is published in its final form.

Sincerely,

[Signature]

Leslie I. Tanaka, CPA  
City Auditor

Enclosures
May 31, 2007

Mr. Leslie I. Tanaka, CPA
City Auditor
Office of the City Auditor
1000 Ulouhia Street, Ste 120
Kapolei, Hawaii 96707

Dear Mr. Tanaka:

Thank you for recognizing the City’s efforts to properly account for and maintain the fiscal integrity of the Hanauma Bay Nature Preserve Fund. Budget and Fiscal Services (BFS) will abide by your recommendation that monthly copies of Hanauma Bay revenues, deposits, expenditures and concession contracts be transmitted to the Department of Parks and Recreation (DPR) for budget planning and program evaluation purposes. In the past, both agencies worked together as needed to achieve these results. In addition, DPR will address your recommendations related to the Hanauma Bay Nature Preserve master plan.

We are committed to fiscal accountability and integrity and appreciate the feedback through your independent audit process.

Sincerely,

Mary Patricia Waterhouse, Director
Budget and Fiscal Services

Lester K. C. Chang, Director
Department of Parks and Recreation

MPW/LKCC/ve

APPROVED:

Wayne M. Hashiro, P.E.
Managing Director
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