

## *Letter Audit Report*

# Division of Public Lands Audit of the Lease Payments of InterPacific Resorts (Saipan) Corporation, doing business as Pacific Islands Club

Lease Years 1990 to 1994

(Letter Report No. LT-96-05)



*Office of the Public Auditor*  
Commonwealth of the Northern Mariana Islands



# Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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July 29, 1996

Mr. Benigno M. Sablan  
Secretary  
Department of Lands and Natural Resources  
Lower Base, Saipan, MP 96950

Dear Mr. Sablan:

**Subject: Final Letter Report on the Audit of Lease Payments of Pacific Islands Club for Lease Years 1990 to 1994 (Report No. LT-96-05)**

This letter report presents the results of our audit of the lease payments of InterPacific Resorts (Saipan) Corporation, doing business as Pacific Islands Club (PIC), to the Division of Public Lands, formerly Marianas Public Land Corporation (MPLC), for lease years 1990 to 1994. The objectives of our audit were to determine whether (a) rental payments were computed by PIC in accordance with the terms set forth in its lease agreement with MPLC, and (b) PIC has paid all rentals due MPLC for lease years 1990 to 1994, including underpayments shown in our previous audit for lease year 1989.

The audit showed that (1) PIC did not compute its gross receipts rent in accordance with its lease agreement with MPLC for lease years 1990 to 1994, and (2) PIC did not fully pay the underpayment of gross receipts rent disclosed in our previous audit for lease year 1989. As a result, as of June 7, 1996, PIC had underpaid rentals to MPLC totaling \$196,077, including interest amounting to \$58,887. We recommended that the Director of DPL (1) develop and implement written procedures to verify the accuracy of computations of gross receipts rent submitted by the lessees, and (2) send a letter to PIC reminding the lessee of how certain revenues and deductions should be computed for determining gross receipts rent.

In his letter response dated July 12, 1996 (**Appendix A**), the Secretary of the Department of Lands and Natural Resources generally agreed with our findings and recommendations. The Secretary added that an Account Compliance Section has been established to improve collections and more effectively manage leases and permits. The letter response included a draft of the procedures detailing the functions of program activities on leases, contracts,

and permits. These procedures, according to the Secretary, are being further refined and will be forwarded to the Governor for approval. Regarding PIC, the Secretary stated that his office will communicate with the lessee regarding inclusions and/or exclusions of gross receipts, including the limitation on interest expense that can be deducted from gross receipts. We therefore consider the two recommendations resolved pending receipt of the (1) final procedures on activities relating to leases, contracts, and permits, and (2) correspondence clarifying the inclusions and exclusions of gross receipts, including allowed deductions from gross receipts.

PIC was originally included in the audit of the lease payments of ten hotels, resorts, and golf courses which we started in 1995. The final audit report dated March 4, 1996 and numbered AR-96-03<sup>1</sup> covered seven of these hotels, resorts, and golf courses. PIC was among three lessees which were not included in this final report because documents for the audit of these lessees were not available when the report was prepared.

## **INTRODUCTION**

### **Background**

Article XI, Section 4 of the Constitution of the Commonwealth of the Northern Mariana Islands (CNMI) established the Marianas Public Land Corporation (MPLC) to manage public lands in the CNMI. A five-member Board of Directors, appointed by the Governor and confirmed by the Senate, governed MPLC. All policies and decisions formulated by the Board were executed and implemented by an Executive Director appointed by the Board.

On August 23, 1994, Executive Order 94-3 (Government Reorganization Plan) dissolved MPLC, and its functions were transferred to the Division of Public Lands (DPL) under the Department of Lands and Natural Resources (DLNR). At present, the Division is headed by a Director under the supervision of the Secretary of DLNR. For the purpose of this report, we shall refer to the Division as MPLC.

MPLC's functions include the control of public lands use through lease and permit arrangements and collection of all revenues due from the lease of public lands. In its administration of public land leases, MPLC granted land leases to operators of hotels, resorts and golf courses. As of December 31, 1994, MPLC had land leases with 17 current

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<sup>1</sup> OPA Report no. AR-96-03 disclosed rental underpayments totaling \$883,793. The letter report for PIC therefore brings the amount of rental underpayment to \$1,079,870 (total of \$196,077 and \$883,793) from our audit of lease years 1990 to 1994 representing eight hotels, resorts, and golf courses. PIC immediately paid the total underpayment of \$196,077 after OPA discussed the result of the audit with the lessee on June 7, 1996. Regarding the underpayment reported in AR-96-03, MPLC had received full payment from all lessees, except for one lessee which is paying MPLC by installments until October 1996. The majority of the \$883,793 underpayments have been collected by MPLC.

and prospective operators of hotels, resorts, and golf courses. Of the 17 lessees, ten were already operating as of that date, one started operations in June 1995, one has just started operations in March 1996, one is still under construction, two were terminated in 1995, and two were terminated in March 1996.

These lessees are required to compute and pay rentals to MPLC for use of public lands based on the terms of their respective lease agreements. PIC was one of the ten lessees already operating as of December 31, 1994. The lease agreement between PIC and MPLC was executed on October 31, 1986 but the operation of the hotel only started in 1988. PIC's lease year starts on January 1st and ends December 31st of each year.

This audit was part of the Office of the Public Auditor's (OPA) plan for 1995. It was initiated in the latter part of 1995 and was carried forward to 1996.

### **Objectives, Scope, and Methodology**

The objectives of our audit were to determine whether (a) rental payments were computed by PIC in accordance with the terms set forth in its lease agreement, and (b) PIC has paid all rentals due MPLC. This audit covers PIC's lease payments for lease years 1990 to 1994, including an update of the underpayment shown in our previous audit for lease year 1989.

Our audit was conducted at the lessee's accounting office and at MPLC from September 1995 to January 1996 and in April 1996. The audit was made, where applicable, in accordance with "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures as we considered necessary under the circumstances.

We obtained and reviewed available records, financial statements, tax returns, and other documents related to the computation of rentals due MPLC. We determined the correct amount of rentals due from PIC based on the audit. We also held discussions with the lessee and current MPLC employees.

### **Prior Audit Coverage**

The Office of the Public Auditor previously conducted a review of lease payments made by hotel lessees in lease years 1988 and 1989. The audit report dated June 17, 1991 disclosed rental underpayments of \$217,931, excluding interest. The majority of this amount was owed by PIC whose underpayment for lease year 1989 amounted to \$119,474, excluding interest. The audit report stated that, in many cases, the underpayment resulted from misinterpretation of certain provisions of the lease agreements by the lessees, particularly the items included in gross receipts and allowable deductions. Accordingly, OPA recommended that MPLC discuss and clarify the definition of gross receipts with the lessees, and admonish lessees who consistently fail to compute and pay the additional gross receipts rent, among other recommendations.

PIC was originally included in the audit of the lease payments of ten hotels, resorts, and golf courses which were operating as of December 31, 1994. The final audit report dated March 4, 1996 and numbered AR-96-03 covered seven of these hotels, resorts, and golf courses. PIC was among three lessees which were not included in the report because documents for the audit of these lessees were not available when the report was being prepared. Audit Report No. AR-96-03 disclosed rental underpayments totaling \$883,793. MPLC has received full payment of the underpayment from all lessees, except for one lessee which agreed to pay MPLC in installments from January to October 1996. The installment payments started in January 1996 and, to date, the lessee has been current in its payment. To date, the majority of the \$883,793 underpayments have been collected by MPLC.

## RESULTS OF THE AUDIT

Lessees of public lands should compute and pay the required rentals in accordance with their lease agreements with MPLC. Our audit showed, however, that (1) PIC did not compute its gross receipts rent in accordance with its lease agreement with MPLC for lease years 1990 to 1994, and (2) PIC did not fully pay the underpayment of gross receipts rent disclosed in our previous audit for lease year 1989. This occurred because (1) PIC failed to comply with the lease agreement in its computation of gross receipts rent and a mathematical error was made, (2) MPLC did not verify the accuracy of rental computations provided by the lessee, and (3) the lessee and MPLC did not communicate on the proper composition of gross receipts for purposes of computing rentals. As a result, as of June 7, 1996, PIC had underpaid rentals to MPLC totaling \$196,077, including interest amounting to \$58,887.

Findings	Underpaid Rent	Interest	Total
Inaccurate Computation of Gross Receipts Rent for Lease Years 1990 to 1994	\$109,788	\$42,635	\$152,423
Underpayment in OPA's Prior Audit for Lease Year 1989	27,402	16,252	43,654
Total	\$137,190	\$58,887	196,077

### Inaccurate Computation of Gross Receipts Rent

PIC's lease agreement with MPLC required payment of any gross receipts rent exceeding the guaranteed minimum annual rent of \$100,980. Gross receipts rent was computed at three percent of PIC's quarterly gross receipts. Under the lease, gross receipts include all income or revenue whatsoever, including money and any other thing of value, received by or paid to the lessee and its sublessees or concessionaires derived from doing business, sales made or services rendered directly or indirectly from or on the premises or derived from

the subleasing, subrenting, permitting, contracting, or other use of the premises or any portion thereof. In addition, certain expenses are allowed to be deducted from gross receipts, including interest paid on long-term construction loans up to the amount of \$500,000 per year, premiums on fire and damage insurance, and rental income from sublessees whose gross receipts are included by PIC in the computation of gross receipts rent. PIC is required to pay its gross receipts rent within 45 days from the end of each quarter. Past due rental bears interest at the prevailing bank lending rate from the date the rent becomes due, as provided in the lease agreement.

Our audit showed, however, that PIC did not compute gross receipts rent in accordance with the lease agreement by (1) deducting from gross receipts interest amounting to more than \$500,000 per year, (2) inaccurate calculations resulting in underpayment of gross receipts rent, (3) nonpayment of interest on past due rentals, and (4) understatement of gross receipts on pay-per-view services. This resulted in an underpayment of \$152,423 for lease years 1990 to 1994, including interest of \$42,635 as of June 7, 1996, as shown in the following table.

Particulars	Lease Year	Underpaid Rent	Interest <sup>2</sup>	Total
Overdeduction of Interest on Construction Loans	1992-94	\$73,340	\$21,252	\$94,592
Underpayment of Gross Receipts Rent	1990	25,245	16,085	41,330
Nonpayment of Interest on Past Due Rent	1990	8,933	5,298	14,231
Understatement of Pay-Per-View Receipts	1994	2,270	--	2,270
Total		\$109,788	\$42,635	152,423

PIC has been deducting the actual amount of interest on construction loans from its gross receipts since inception of the hotel's operation in 1988. However, a 1992 amendment to the lease agreement put a cap on the amount of interest on long-term construction loans that PIC can deduct from gross receipts. The amendment which took effect on May 22, 1992 amended Article 35.I(10) by limiting to \$500,000 per year the amount of interest paid on long-term construction loans that can be deducted from gross receipts. After this amendment took effect, PIC continued to deduct interest from gross receipts; however, the amount deducted significantly exceeded the \$500,000 per year limit. From July 1992 to December 1994, PIC deducted total interest of \$3,694,668 although the allowable deduction was only \$1,250,000, that is, \$500,000 multiplied by two and one-half years. Accordingly, PIC overdeducted interest totaling \$2,444,668 which understated its gross receipts rent by \$73,340 (three percent of \$2,444,668).

<sup>2</sup> As in lease years 1988 and 1989, interest was computed on underpayment that resulted mainly from the lessee's oversight. Interest was computed at the prevailing bank lending rate, as provided in the lease agreement, from the due date which is 45 days from the end of each lease year to June 7, 1996. The interest rate used was 12 percent, which was the same rate used in OPA's audit for lease years 1988 and 1989.

After certain inaccuracies in its computation of gross receipts rent were reported in OPA's audit of lease years 1988 and 1989, PIC computed the correct gross receipts rent for lease year 1990 based on OPA's findings and recommendations. PIC computed gross receipts rent for lease year 1990 at \$336,270. This amount was reduced by the gross receipts rent previously paid for lease year 1990 which, according to PIC's computation, totaled \$133,510. Accordingly, PIC paid the balance of \$202,760 to MPLC on June 29, 1991. However, our audit showed that PIC's payments before June 29, 1991 for lease year 1990 was only \$108,265 and not \$133,510 as computed by PIC. Therefore, gross receipts rent for lease year 1990 was still understated by \$25,245.

Our audit also showed that PIC's payment of past due gross receipts rent on June 29, 1991 did not include the amount of applicable interest. The payment of \$202,760 on June 29, 1991 was only for the underpaid rental for lease year 1990 as stated in PIC's transmittal letter to MPLC. Based on our computations, interest at 12 percent from due date to June 29, 1991 was \$8,933. Accordingly, PIC's payment on June 29, 1991 for lease year 1990 was additionally understated by \$8,933.

Furthermore, our audit showed that in lease year 1994, PIC reported only its share of revenues earned by a local company that provided pay-per-view services to hotel guests. The pay-per-view services arose from an agreement dated March 29, 1994 between PIC and a local provider of pay-per-view video services. The agreement entitled PIC to 15 percent of the revenues. From May to December 1994, total pay-per-view revenues amounted to \$89,036; however, only PIC's share of \$13,355 was used in the gross receipts rent computation instead of the gross pay-per-view revenue. Accordingly, PIC's gross receipts rent for 1994 was understated by \$2,270 (three percent of the understated receipts of \$75,681).

This occurred because PIC failed to comply with the lease agreement in its computation of gross receipts rent and a mathematical error was made. In an interview, the current Controller of PIC stated that he was not aware of the amendment to the lease agreement made on May 22, 1992 until he was provided a copy in September 1995. The Controller then corrected the amount of interest that was deducted from lease year 1995 gross receipts. The inaccurate computation of gross receipts rent also occurred because MPLC did not verify the accuracy of rental computations provided by the lessee. In addition, MPLC did not communicate with the lessee on the proper computation of gross receipts rent.

#### **Underpayment in OPA'S Prior Audit**

Our previous audit of MPLC's land leases showed that for lease year 1989, PIC underpaid its gross receipts rent by \$119,474, excluding interest. As stated in our audit report dated June 17, 1991, the underpayment resulted from misinterpretation of gross revenues and allowable deductions in the computation of gross receipts rent.

Our audit showed that PIC has not fully paid the underpayment for lease year 1989. PIC paid \$116,382 on June 29, 1991 out of the \$119,474 underpayment, which resulted in an

unpaid balance of \$3,092. In addition, PIC's payment of \$116,382 did not include the amount of applicable interest. The payment on June 29, 1991 was only for the underpaid rental as stated in PIC's transmittal letter to MPLC. Based on our computations, interest at 12 percent from the due date to June 29, 1991 amounted to \$24,310. Accordingly, PIC's payment on June 29, 1991 for lease year 1989 was understated by \$27,402 (sum of \$3,092 and \$24,310).

PIC's payment of \$116,382 was based on its own computation which was prepared after the audit report was released on June 17, 1991. PIC claimed that OPA missed a deductible item in its computation which overstated the audited figure by \$3,092. However, our review of the lease year 1989 audit workpapers showed that OPA did not miss that deduction in its computation.

This occurred because PIC did not verify with OPA whether the error claimed on the computation of lease year 1989 rent was valid. Also, MPLC did not either verify the accuracy of the computation provided by the lessee or communicate with the lessee to resolve the correct amount of gross receipts rent for lease year 1989.

As a result, PIC underpaid its lease year 1989 gross receipts rent by \$43,654, including interest of \$16,252 as of June 7, 1996.

### **Subsequent Action**

On April 14, 1996, OPA provided PIC with a list of the preliminary findings together with the amount of rental underpayment as of March 31, 1996. The Controller of PIC reviewed the findings and the amount of rental underpayment and found them to be in order. On May 31, 1996, the PIC Controller asked that we provide him with the updated amount of rental underpayment, including interest. On June 7, 1996, we discussed our findings with the PIC Controller and also provided him the updated underpayment as at June 3, 1996. The computation of the underpayment amounted to \$195,899 which included interest as of June 3, 1996. The PIC Controller paid this amount to MPLC on the same day.

Since the underpayment as of June 3, 1996 was paid on June 7, 1996, we computed the additional interest and determined the total amount due from PIC. We provided MPLC our computation of the amount due from PIC which totaled \$196,077. MPLC then informed PIC of the amount due, and the lessee paid the additional interest of \$178 (\$196,077 less previous payment of \$195,899). Accordingly, PIC had fully paid its underpayment of \$196,077 from our audit of lease years 1989 to 1994.

### **CONCLUSION AND RECOMMENDATIONS**

Our audit showed that PIC failed to compute and pay rentals due MPLC in accordance with its lease agreements from lease years 1989 to 1994. To ensure collection of all rentals due from the lessees, MPLC needs to develop and implement procedures to monitor



collection of lease payments and to verify the accuracy of computations of gross receipts rent provided by lessees. Also, the lessees need to ensure the accuracy of gross receipts reported to MPLC and the corresponding computation of rentals due. In addition, MPLC and the lessees need to better communicate on matters affecting the computation and payment of rentals. Accordingly, we recommend that the Director of DPL:

1. Develop and implement written procedures to verify the accuracy of computations of gross receipts rent submitted by the lessees. The written procedures should include:
  - (a) Verifying rental computations in accordance with the terms of the lease, and the mathematical accuracy of the computations.
  - (b) Comparing each lessee's reported gross receipts with its business gross revenue tax returns and audited financial statements.
  - (c) Communicating to lessees any decisions by DPL affecting computation of rent, manner of payment, and other provisions of the lease agreement related to rent.
2. Send a letter to PIC reminding the lessee of how certain revenues and deductions should be computed for determining gross receipts rent. The following common errors may be cited and clarified in the letter:
  - (a) Reporting of sublessee's gross receipts to MPLC. The lessee should include the gross receipts of sublessees and other operators that provide services at the hotel, such as pay-per-view services. The related rent income or commissions received from such sublessees or operators should be deducted from gross receipts.
  - (b) Deduction of interest expense from gross receipts. The lessee should monitor and ensure that interest expense paid on construction loans is deducted only up to \$500,000 per year.

## **DLNR RESPONSE**

The Secretary of DLNR generally agreed with our findings and recommendations in his letter response dated July 12, 1996 (**Appendix A**). The Secretary added that an Account Compliance Section has been established to improve collections and more effectively manage leases and permits. The letter response included a draft of the procedures detailing the functions of program activities on leases, contracts, and permits, including the functions of the newly-established Account Compliance Section. These procedures, according to the Secretary, are being further refined and will be forwarded to the Governor for approval. Regarding PIC, the Secretary stated that his office will communicate with the lessee regarding inclusions and/or exclusions of gross receipts, including the limitation on interest expense that can be deducted from gross receipts.

## OPA COMMENTS

Based on the letter response, we consider the two recommendations resolved pending receipt of the (1) final procedures on activities relating to leases, contracts, and permits, and (2) correspondence clarifying the inclusions and exclusions of gross receipts, including allowed deductions from gross receipts. These documents are needed for us to consider the two recommendations closed.

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Our office has implemented an audit recommendation tracking system. All audit recommendations will be included in the tracking system as open or resolved until we have received evidence that the recommendations have been implemented. An open recommendation is one where no action or plan of action has been made by the client (department or agency). A resolved recommendation is one in which the auditors are satisfied that the client cannot take immediate action, but has established a reasonable plan and time frame for action. A closed recommendation is one in which the client has taken sufficient action to meet the intent of the recommendation or we have withdrawn it. Please provide to us the status of recommendation implementation along with documentation showing the specific actions taken.

Sincerely,

  
Leo L. LaMotte  
Public Auditor, CNMI

cc: Governor  
Lt. Governor  
10th CNMI Legislature  
Attorney General  
Secretary of Finance  
Special Assistant for Management and Budget  
Public Information Officer  
Director, Division of Public Lands  
Press



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July 12, 1996



Mr. Leo L. LaMotte  
Public Auditor, CNMI  
Office of the Public Auditor  
P. O. Box 1399  
Saipan, MP 96950

Subject: Draft Letter Report on the Audit of Lease Payments of Pacific Islands Club for Lease Years 1990 to 1994

Dear Mr. LaMotte:

We are generally in concurrence to the findings and recommendations on the audit of Pacific Islands Club for Lease Years 1990-1994. Therefore, in our continuing effort to improve collections and more effectively manage leases and permits (on the use of public lands) we have established an Account Compliance Section, whose functions are essentially as described on the attached draft "Procedures Detailing The Functions of Program Activities". The procedures are being further refined, and will subsequently be forwarded to the DLNR Secretary and the Governor for approval.

Further, we will communicate with Pacific Islands Club regarding the inclusion/exclusion of the gross receipts, and the limitation of claims on interest expense will be defined further.

Should you need additional information, please feel free to contact us.

Sincerely,

BENIGNO M. SABLAN  
Secretary

Attachment

cc: Director, Division of Public Lands

DRAFT

**DIVISION OF PUBLIC LANDS**  
Department of Lands and Natural Resources

**PROCEDURES DETAILING THE FUNCTIONS OF PROGRAM ACTIVITIES  
ON LEASES, CONTRACTS AND PERMITS**

**A. ACCOUNT COMPLIANCE SECTION - CONTROL OF ACCOUNTS**

The Account Compliance Section, after receiving copy of leases, permits, or other documents on the use/assignment of public land for commercial purposes shall:

1. Establish and maintain accurate and organized files and ledgers, and assign appropriate numbers to identify each file account.

2. Review each account file (lease, permit, etc.) and monitor to ensure compliance of all conditions, provisions and requirements concerning rentals, submission of appraisal reports, audited financial statements, business gross revenues and royalty reports (for rock quarry operations), and other documents or reports having financial implications.

3. Make periodic reviews and reconcile with the records of the Land Enforcement and Accounting Sections to ascertain accuracy on major provisions of the lease, contract or permit.

4. Issue on a regular basis monthly collection notice/letter on delinquent accounts. In addition to written collection demands, make follow-up telephone calls, on a weekly basis, of all delinquent accounts.

a) DELINQUENT ACCOUNTS. Only two notices for collection of debts were to be issued.

- FIRST NOTICE. The First Notice should be sent immediately following the date the account becomes delinquent. This notice states that: (i) debts be paid in full within 30 days of notice; and, (ii) Failure to pay within the 30-day period may result in the termination of lease/permits, etc.

- SECOND & FINAL NOTICE. To be sent during the second month if payments were not made pursuant to the First Notice. The Second Notice should states: (i) Full payment of debt be remitted within 30 days of (second/final) notice; (ii) if debt is NOT paid within the 30-day deadline, the lease/permit is to be terminated IMMEDIATELY; and, (iii) legal action will be taken against the delinquent account holder.

**IMPORTANT:** Arreared accounts should not be allowed to go beyond 60 days. Accounts in arrear by 60 days are subject to immediate termination.

B. ACCOUNT COMPLIANCE SECTION - SUBMISSION OF AUDITED FINANCIAL STATEMENTS, ROYALTY AND OTHER REPORTS.

Two notices were to be served, similar to those sent for collection of debts, to demand for the submission of reports and documents required by lease agreements, permits or contracts.

The Second/Final Notice should indicate clearly that if compliance is not made within the deadline stated in notice, the lease agreement, permit or contract will be terminated.

IMPORTANT. If the Second/Final Notice is not heeded, advise the Director in writing, through the Consultant for Administration & Fiscal Affairs, of the existence of serious defaults, and recommend for immediate termination.

II. LAND ENFORCEMENT SECTION - TECHNICAL ENFORCEMENT

The Land Enforcement Section is the official custodian of lease agreements, permits and contracts relating to the leasing of public lands.

It shall have the duties to:

1. Immediately examine to determine that all required signatures, processing and recordings are obtained and/or performed.
2. Immediately provide to the Account Compliance Section a complete file (copy) of the signed lease agreements, permits and contracts.
3. Review details of leases, permits and contracts pertaining to such issues as effectivity, acquisition of other performance permits, submission of construction plans, specifications and schedules, insurance policies, etc.
4. Conduct site inspection to project sites to determine compliance with provision of lease, permit and contract.
5. Issue written default notices for non-compliance with technical provisions of leases, permits and contracts, particularly with regard to Item II(3) hereinabove.
  - a) FIRST NOTICE. Itemize violations and cite specific article, section or provision violated. Notice should state violations to be corrected within 30 days of notice.
  - b) SECOND/FINAL NOTICE. Make reference to the first notice, and give another 30 days for correction. The Second/Final Notice shall clearly state that failure to correct defaults/violations by the 30-day deadline will result in the termination of lease, permit or contract.

IMPORTANT. If the Second/Final Notice is not heeded, a written advise to the Director, through the Consultant for Programs & Development, of the existence of serious defaults, and recommend for immediate termination of lease, permits or contracts.

III. TERMINATION OF LEASE, PERMIT OR CONTRACT

1. The Director, upon receipt of written request for termination of lease, permit or contract, shall refer the matter to the Legal Counsel and either the Consultant for Administration & Fiscal Affairs or Consultant for Programs & Development, as the case may be, for their review and recommendation.

2. The review by the legal counsel and either consultants must be completed and recommendation on the proposed termination be submitted in writing to the Director, within five (5) work days from transmittal by the Director.

3. If the Director agrees with the recommendation to terminate a lease agreement, permit or contract, she shall direct either the Legal Counsel, the Consultant for A&F, if the termination was recommended by Account Compliance Section, or the Consultant for P&D if the termination was recommended by the Land Enforcement Section, to prepare (for the Governor's signature) and addressed to the default lessee, permittee or contractor, a letter for lease, permit or contract termination. The letter should be detailed and specific, making reference to prior notices on default, requests for correction, and articles, sections, or provisions violated.

