

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Financial Audit of the Department of Accounting and General Services

Summary

The Office of the Auditor and the certified public accounting firm of Coopers & Lybrand conducted a financial audit of the Department of Accounting and General Services pursuant to Section 23-4, *Hawaii Revised Statutes*, which requires the auditor to conduct post audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State.

In the opinion of Coopers & Lybrand, the department's financial statements present fairly its financial position, the results of its operations, and the changes in its proprietary funds as of June 30, 1990. All were in conformity with generally accepted accounting principles. Coopers & Lybrand found no instances where the department did not comply with applicable laws and regulations, nor did the firm find weaknesses in the department's control measures that would affect an opinion of the financial statements.

We found, however, certain weaknesses in the way the department set aside, or *encumbered*, appropriated moneys. The department was unable to substantiate, with proper documentation, the validity of long-outstanding encumbrances. Only 15 percent of a random sample of long-outstanding encumbrances had documentation to support their being continued. Further, the department did not periodically review its encumbrances for validity. For those encumbrances with supporting documentation, we could find no evidence of periodic review.

When encumbrances are kept open, the sums set aside do not lapse and therefore cannot be used for other government programs or operations. Some of the department's outstanding encumbrances dated back to the 1960s and 1970s.

Recommendations and Response

We recommended that the department take steps to identify and substantiate the validity of long-outstanding encumbrances and to lapse those that cannot be substantiated. We further recommended that the department institute procedures to review encumbrances and to remove those that are no longer necessary.

The department agreed with our recommendations. It has established a new internal policy and procedure to require all divisions and offices to review outstanding encumbrances every year and to lapse those that are no longer valid.

Background

The financial audit was for the fiscal year July 1, 1989, to June 30, 1990. Examined were the department's financial records and its systems of accounting and internal controls. We also reviewed all records and systems for compliance with applicable laws and regulations. The audit did not include the general fixed assets account group of the department, nor did it include an audit of the Stadium authority, whose records were audited by another certified public accounting firm.

Since its creation in 1959, the Department of Accounting and General Services has been responsible for the State's financial accounting and internal control system. It also manages and oversees the State's inventory, equipment, surplus property, insurance, and centralized purchasing programs. It is responsible for the State's motor pools and engineering services, the preservation and disposal of records, and the survey of public lands.

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