

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Financial Audit of the Department of the Attorney General

### Summary

The Office of the Auditor and the certified public accounting firm of Deloitte & Touche conducted a financial audit of the Department of the Attorney General for the fiscal year July 1, 1991 to June 30, 1992. The audit examined the department's financial records and its systems of accounting and internal controls, and tested these for compliance with applicable laws and regulations.

In the opinion of Deloitte & Touche, except for the checking accounts maintained by the Child Support Enforcement Agency (CSEA), a division within the department, the department's financial statements present fairly its financial position and the results of its operations as of June 30, 1991. Further, except for the accounting for incentive payments received by the department as trust fund receipts instead of receipts of the general fund, all were in conformity with generally accepted accounting principles. Deloitte & Touche found no instances where the department did not comply with applicable laws and regulations that would affect an opinion on the financial statements.

We did find, however, a deplorable lack of internal controls at the CSEA that resulted in two reportable conditions. First, the agency has no internal controls over its bank accounts held outside the state treasury. It has no check register or similar record of the balances in its checking accounts. The bank accounts cannot be reconciled and the agency does not know: (1) what the proper checking account balances are, (2) whether all deposits have been properly recorded, (3) whether checks issued have been properly cashed, and (4) if there are any unusual or erroneous charges to the bank accounts. This matter is of such magnitude as to be classified as a material weakness and affected Deloitte & Touche's opinion on the financial statements of the department. The agency also has not transferred interest earned in these accounts to the general fund as required by law.

Second, the agency does not investigate unidentified child support collections in a timely manner. At June 30, 1992, the agency was holding in its checking accounts more than 1,000 child support payments amounting to \$465,000 that had not been matched to its case records. The agency does not know which absent parents should be credited for the payments and which custodial parents should receive the payments. Some of these payments date back more than three years.

We found also that the agency improperly retains incentive payments received from the federal government in a trust fund account. In addition, it does not update its inventory records as required by regulations.

Some improvements are still needed but we note with pleasure that the department has implemented many of the recommendations made in Chapter 5 of the State Auditor's report 90-6 "*Management Audit of the Narcotics Enforcement Division and the Investigation Division of the Department of the Attorney General.*"

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## Recommendations and Response

We recommended that the agency establish a check register and reconcile the check register with bank statements monthly. We also recommended that the agency take action to identify the unknown payors and payees of child support payments. Further, we recommended that the agency deposit federal incentive payments to the general fund and transfer the cash balance in the trust fund account to the general fund. The agency should also transfer excess interest earnings of the checking accounts to the general fund, and update inventory records on a timely basis.

The department disagrees that the CSEA does not maintain a record of its checking accounts. The agency says it has data files, financial data screens of the computer system, bank deposit receipts, copies of checks written, and bank statements. The agency acknowledges that reconciliation of the bank accounts is not timely. This misses the point. An agency whose mission is to collect and distribute child support payments is responsible for maintaining adequate controls to safeguard the receipt and disbursement of those payments. We reiterate *that an internal control system should always maintain control records of the bank account balances, and without one central control record, bank reconciliations cannot be timely, or even possible.*

The department agrees with our recommendation that the CSEA investigate and resolve all unidentified child support payments. However, the department does not concur with our recommendation to transfer federal incentive payments received to the general fund. It says that the fund, established by the Department of Human Services, was authorized under Section 346-8, HRS. We reviewed Section 346-8, HRS, and could find no authorization for a trust or other fund and stand by our recommendation that the moneys be transferred to the general fund.

The department concurs with our recommendations concerning the Criminal Forfeiture Revolving Fund and is taking steps to implement our recommendations.

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