

OVERVIEW

Financial Audit of the Department of the Attorney General

Report No. 05-04, May 2005

Summary

The Office of the Auditor and the certified public accounting firm of PricewaterhouseCoopers LLP conducted a financial audit of the Department of the Attorney General, State of Hawai'i, for the fiscal year July 1, 2003 to June 30, 2004. The audit examined the financial records and transactions of the department; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

In the opinion of the firm, the financial statements present fairly, in all material respects, the department's financial position and changes in its financial position for the fiscal year ended June 30, 2004, in conformity with generally accepted accounting principles. However, the firm was unable to apply auditing procedures to satisfy itself regarding the amounts reported as due to and held for Child Support Enforcement Agency recipients in the agency funds in the statement of fiduciary net assets and therefore, the scope of the firm's work was not sufficient to enable it to express an opinion on the aggregate remaining fund information of the department.

With respect to the department's internal control over financial reporting and operations, we found several deficiencies, including a significant reportable condition considered to be a material weakness. In the material weakness, we found that the department has never reconciled its Child Support Enforcement Agency bank account to the child support subsidiary records. Therefore, the department cannot accurately determine the amount that should be reflected as "due to and held for agency recipients."

We also found that the department's poor procurement practices resulted in noncompliance with certain provisions of the Hawai'i Public Procurement Code. Our testing of the department's procurement practices revealed that small purchase forms were not properly utilized; vendor quotations were not obtained for small purchases; competitive sealed proposal selections were not properly documented; bid opening procedures were not followed; and performance bond requirements were not met. As a result, there was no assurance that fair competition was sought by the department and that state funds were spent in an effective and cost-beneficial manner.

Finally, we found that the department's reporting process is inefficient. Compiled financial statements for the year ending June 30, 2004, were not available until February 23, 2005, nearly eight months after the fiscal year-end. Additionally, three out of 40 federal categorical assistance progress reports were not filed by their respective due dates.



Recommendations and Response

We recommend that the department maintain accurate and complete child support subsidiary records and ensure that the balances reconcile to the related bank accounts.

We also recommend that the department ensure compliance with the Hawai'i Public Procurement Code by 1) providing procurement training to all responsible personnel, 2) requiring division heads to ensure responsible personnel have copies of current procurement guidance, and 3) ensuring all required procurement forms and procedures are completed and complied with.

We also recommend that the department develop procedures that ensure timely year-end financial reporting. Finally, the department should establish and enforce formal written procedures to delineate responsibilities and deadlines for federal financial report completion and submission.

In its written response, the department disagrees with several of our findings and recommendations. The department disagrees with the merit and severity of our finding involving the failure to reconcile child support cash accounts and subsidiary records. In support of its stance, the department details its child support cash reconciliation procedures, while simultaneously admitting that some of the reconciling items will never be completely resolved. The department further states that we failed to consider reconciliations of and between subsidiary ledgers extracted from the automated child support system and the child support bank account, none of which support the focus of our finding—the child support benefits liability reported as “due to and held for agency recipients.” The department concludes that since the problem was *created* so long ago (1987), it cannot be severe enough to warrant a “material weakness” and should at least be downgraded to a “reportable condition.”

The department also objects to two separate procurement findings; however, evidence cited to support its claims was not found in the respective procurement files and was not mentioned by department personnel at the time of our testwork.

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