

AUDIT REPORT NO. 69-3  
JANUARY 1969

OFFICE COPY



# FINANCIAL AUDIT OF THE STATE DEPARTMENT OF BUDGET AND FINANCE

ORIGINAL

FOR THE FISCAL YEAR ENDED  
JUNE 30, 1968

A REPORT TO THE GOVERNOR AND THE  
LEGISLATURE OF THE STATE OF HAWAII



SUBMITTED BY THE LEGISLATIVE AUDITOR OF THE STATE OF HAWAII

## **THE OFFICE OF THE LEGISLATIVE AUDITOR**

The office of the legislative auditor is a public agency attached to the Hawaii State legislature. It is established by Article VI, Section 8, of the Constitution of the State of Hawaii. The expenses of the office are financed through appropriations made by the legislature.

The primary function of this office is to strengthen the legislature's capabilities in making rational decisions with respect to authorizing public programs, setting program levels, and establishing fiscal policies and in conducting an effective review and appraisal of the performance of public agencies.

The office of the legislative auditor endeavors to fulfill this responsibility by carrying on the following activities.

1. Conducting examinations and tests of state agencies' planning, programming, and budgeting processes to determine the quality of these processes and thus the pertinence of the actions requested of the legislature by these agencies.
2. Conducting examinations and tests of state agencies' implementation processes to determine whether the laws, policies, and programs of the State are being carried out in an effective, efficient and economical manner.
3. Conducting systematic and periodic examinations of all financial statements prepared by and for all state and county agencies to attest to their substantial accuracy and reliability.
4. Conducting tests of all internal control systems of state and local agencies to ensure that such systems are properly designed to safeguard the agencies' assets against loss from waste, fraud, error, etc.; to ensure the legality, accuracy and reliability of the agencies' financial transaction records and statements; to promote efficient operations; and to encourage adherence to prescribed management policies.
5. Conducting special studies and investigations as may be directed by the legislature.

Hawaii's laws provide the legislative auditor with broad powers to examine and inspect all books, records, statements, documents and all financial affairs of every state and local agency. However, the office exercises no control functions and is restricted to reviewing, evaluating, and reporting its findings and recommendations to the legislature and the governor. The independent, objective, and impartial manner in which the legislative auditor is required to conduct his examinations provides the basis for placing reliance on his findings and recommendations.



LEGISLATIVE AUDITOR  
IOLANI PALACE  
HONOLULU, HAWAII 96813

## FOREWORD

This financial audit report is the result of the examination of the financial statements and records of the department of budget and finance for the fiscal year ended June 30, 1968. The audit was conducted jointly by the certified public accounting firms of Hokada & Hayashi; Inagaki, Mukai & Fo; Clay, Wulfekuhler & Company; Ishimoto, Imamoto & Company; and Lemke and Company.

The audit was performed in accordance with the generally accepted auditing standards adopted by the membership of the American Institute of Certified Public Accountants. In addition, the audit was governed by the *Instructions to Independent Certified Public Accountants on Audit Engagements of Agencies of the State of Hawaii*, issued by our office.

The audit report is divided into three parts. Part I, entitled, *Accountant's Report—Financial Statements*, is concerned with displaying the financial statements of the department of budget and finance and expressing the auditors' opinion as to the reasonable accuracy of these statements.

Part II, the *Management Letter*, includes the auditors' evaluation of the adequacy and effectiveness of the system of internal control and the adequacy of the financial records, financial reporting, and budgetary controls. In addition, it discusses the weaknesses and inadequacies in the financial system and operations that the audit has uncovered and makes appropriate recommendations for their rectification.

It is our practice to request each of the agencies affected by our examination to submit in writing its comments on our findings and recommendations and to indicate what action it has taken or intends to take therefor. Agency response resulting from this audit is shown in Part III of this report as *Memorandum on the Comments Made by Affected Agency*.

We wish to express our sincere appreciation for the excellent cooperation and assistance rendered by the management and staff of the department of budget and finance:

Clinton T. Tanimura  
Legislative Auditor

SUMMARY TABLE OF CONTENTS

Page

PART I: FINANCIAL STATEMENTS

. Accountants' Opinion . . . . .	2
. General Notes to the Financial Statements. . . . .	3
. General Fund	
. Statement of Revenues and Reimbursements . . . . .	6
. Statement of Appropriations, Expenditures and Encumbrances . . . . .	9
. Notes to the Financial Statements. . . . .	13
. Additional Financial Information (Unaudited) . . . . .	21
. Schedule of General Obligation Bonds . . . . .	22
. Schedule of Revenue Bonds. . . . .	25
. Schedule of General Obligation Bonds and Other Instruments of Indebtedness to Which the Public Faith and Credit of the State are Pledged - Authorized but Unissued. . . . .	26
. Schedule of Computation of Compliance with Statutory Debt Limitation. . . . .	27
. Schedule of Gross Assessed Valuation of Real Property in the State of Hawaii. . . . .	28

PART II: MANAGEMENT LETTER

. Accountants' Report on Internal Control. . . . .	2
. Deficiencies and Weaknesses in the System of Accounting and Internal Control and Recommendations for Corrective Action	
. General. . . . .	4
. Cash Management. . . . .	6
. Debt Management. . . . .	20
. Collection of Revenues . . . . .	21
. Purchasing . . . . .	23
. Payroll. . . . .	25
. Summary. . . . .	28

PART III: COMMENTS BY AFFECTED AGENCIES

PART I

FINANCIAL STATEMENTS

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

Accountants' Report

June 30, 1968

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

Table of Contents

	<u>Page</u>
Accountants' Opinion	2
General Notes to the Financial Statements	3
Financial Statements	
General Fund	
Statement of Revenues and Reimbursements	6
Statement of Appropriations, Expenditures and Encumbrances	9
Notes to the Financial Statements	13
Additional Financial Information	21
Financial Statements (Unaudited)	
Schedule of General Obligation Bonds	22
Schedule of Revenue Bonds	25
Schedule of General Obligations Bonds and Other Instruments of Indebtedness to Which the Public Faith and Credit of the State are Pledged - Authorized but Unissued	26
Schedule of Computation of Compliance with Statutory Debt Limitation	27
Schedule of Gross Assessed Valuation of Real Property in the State of Hawaii	28

To the Auditor  
State of Hawaii

We have examined the statement of revenues and reimbursements and the statement of appropriations, expenditures and encumbrances of that portion of the General Fund that relates to the Department of Budget and Finance of the State of Hawaii for the year ended June 30, 1968. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the results of the operations of that portion of the General Fund that relates to the Department of Budget and Finance of the State of Hawaii for the year ended June 30, 1968 in conformity with generally accepted governmental accounting principles.

CLAY, WULFEKUHLER & CO.

Clay, Wulfekuhler & Co.  
HOKADA & HAYASHI

Hokada & Hayashi  
INAGAKI, MUKAI & FO

Schupler, Mukai & Co.  
ISHIMOTO, IMAMOTO & CO.

Ishimoto, Imamoto & Co.  
LEMKE AND COMPANY

Lemke and Company

Honolulu, Hawaii  
December 2, 1968

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

General Notes to the Financial Statements  
June 30, 1968

NOTE A - Organizational History

Act I, Section 14 of the Hawaii State Government Reorganization Act of 1959, Second Special Session Laws of Hawaii, created the Department of Budget and Review (subsequently renamed the Department of Budget and Finance) to undertake the preparation and execution of the executive budget of the state government; to review the finances, organizations and methods of each department of the State in order to assist in achieving the effective expenditure of public funds and in determining that such expenditures are in accordance with the budget laws and controls in force; to have custody and responsibility for the safekeeping, management, investment and disbursement of state funds; and to administer state debts. The functions and authority previously exercised by the Bureau of the Budget (excluding insurance management, surplus property management and central purchasing), the Commission on Children and Youth and the funds custody, cash management, debt management and administering of veterans loan functions of the treasurer, as previously constituted, were transferred to the Department of Budget and Finance. In addition, the Employees' Retirement System was placed within the Department for administrative purposes.

June 30 has been selected by the State as the end of the fiscal year for its operations.

NOTE B - Accounting Principles and Procedures

The accounts of the Department of Budget and Finance are maintained during the year on a cash basis; however, at the end of the year the

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

General Notes to the Financial Statement - (continued)  
June 30, 1968

NOTE B - Accounting Principles and Procedures (continued)

expenditures are adjusted to include unpaid liabilities. Revenues are recognized only when collected. This effectively converts the method of accounting to a modified accrual basis and is in conformity with generally accepted governmental accounting principles.

Commitments for contractual obligations and any unfilled orders for equipment, construction, services and supplies are represented as encumbrances in the accompanying financial statements and are necessary to reflect obligations against appropriations.

Items of equipment purchased by the Department are recorded as expenditures of the fund. Assets represented by these expenditures are reflected in the General Fixed Assets of the State. In conformity with generally accepted governmental accounting principles, depreciation is not reflected in the accompanying financial statements.

NOTE C - Contingent Liabilities

The Department of the Attorney General of the State of Hawaii has reported that there is no pending litigation which would result in liability to the Department as of June 30, 1968.

NOTE D - Commitments

As previously mentioned in Note B, outstanding contractual commitments for construction, supplies and expenses are reflected as encumbrances in the accompanying statements.

A determination has not been made of the accumulated vacation pay commitment of the Department of Budget and Finance at June 30, 1968.

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

General Notes to the Financial Statements - (continued)  
June 30, 1968

NOTE D - Commitments (continued)

Vacation and sick leave records for State employees are maintained at the departmental level; however, the information is summarized only once a year at December 31. Subject to certain limitations, State employees are entitled to receive cash payments for vacation pay upon termination of employment; however, it is the policy of the State of Hawaii to pay accumulated vacation pay from current appropriations and, therefore, current earned vacation pay is not charged against current operations and the liability for accumulated vacation pay is not reflected on the Department's books of account. As of the date of the last determination, December 31, 1967, the Department of Budget and Finance had 5,330 man days of accumulated vacation, which at estimated prevailing wage rates within the State government, results in a liability of approximately \$137,000.

Sick leave for government employees accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness.

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
GENERAL FUND

Statement of Revenues and Reimbursements  
for the year ended June 30, 1968

	<u>Estimated</u>	<u>Actual</u>	Actual over (under) estimated
<u>REVENUES</u>			
<u>REVENUE FROM USE OF MONEY</u>			
Interest earned			
Interest on current deposits	\$ 1,857,936	\$ 1,952,139	\$ 94,203
Interest on investments	5,517	5,517	-
Interest on litigated claims	111,009	131,239	20,230
Interest on loans to State of Hawaii agencies	<u>20,000</u>	<u>15,572</u>	<u>( 4,428)</u>
Total revenue from use of money	<u>1,994,462</u>	<u>2,104,467</u>	<u>110,005</u>
<u>REVENUE FROM OTHER AGENCIES</u>			
Federal grants-in-aid			
Services rendered to Employment Security Program	7,500	1,958	( 5,542)
Higher Education Act of 1965	114,338	117,338	3,000
Economic Opportunity Act	-	97,695	97,695
Older Americans Act	<u>114,995</u>	<u>82,750</u>	<u>( 32,245)</u>
	236,833	299,741	62,908
Grants for vacations earned with Counties	-	895	895
Donations and contributions for special program purposes	<u>-</u>	<u>430</u>	<u>430</u>
Total revenue from other agencies	<u>236,833</u>	<u>301,066</u>	<u>64,233</u>
<u>REVENUE FROM PRIVATE SOURCES</u>			
Escheat			
Unclaimed dividends	1,500	1,474	( 26)
Unclaimed estates	<u>240</u>	<u>2,914</u>	<u>2,674</u>
Total revenue from private sources	<u>1,740</u>	<u>4,388</u>	<u>2,648</u>
<u>CHARGES FOR CURRENT SERVICES</u>			
Assessments			
Expenses of administration of Employees' Retirement System	45,000	46,874	1,874
Expenses of Central Services and Departmental administration	<u>900,000</u>	<u>1,882,437</u>	<u>982,437</u>
Total charges for current services	<u>945,000</u>	<u>1,929,311</u>	<u>984,311</u>

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
GENERAL FUND

Statement of Revenues and Reimbursements (continued)  
for the year ended June 30, 1968

	<u>Estimated</u>	<u>Actual</u>	<u>Actual over (under) estimated</u>
<u>REVENUES</u>			
<u>REVENUE FROM MISCELLANEOUS SOURCES</u>			
Premium on original issue of general obligation bonds sold	\$ -	\$ 4,495	\$ 4,495
Accrued interest on original issue of general obligation bonds sold	-	179,500	179,500
Total revenue from miscellaneous sources	-	183,995	183,995
 TOTAL REVENUES	 <u>3,178,035</u>	 <u>4,523,227</u>	 <u>1,345,192</u>
<u>REIMBURSEMENTS</u>			
<u>REIMBURSEMENTS OF PRINCIPAL PAID ON STATE OF HAWAII BONDS</u>			
Bonds issued for highways	2,690,478	2,690,478	-
Bonds issued for County purposes	2,753,497	2,753,497	-
Bonds issued for airports	560,296	560,296	-
Bonds issued for veterans' home and farm loans	1,370,974	1,370,974	-
Bonds issued for land development	117,019	117,019	-
Bonds issued for Sand Island	69,282	69,282	-
Total reimbursements of principal paid on State of Hawaii bonds	<u>7,561,546</u>	<u>7,561,546</u>	<u>-</u>
 <u>REIMBURSEMENTS OF INTEREST PAID ON STATE OF HAWAII BONDS</u>			
Bonds issued for highways	1,825,616	1,864,380	38,764
Bonds issued for County purposes	724,340	724,340	-
Bonds issued for airports	245,927	245,926	( 1)
Bonds issued for harbors	168,220	168,220	-
Bonds issued for veterans' home and farm loans	494,309	494,309	-
Bonds issued for land development	101,810	101,810	-
Bonds issued for Sand Island	45,850	45,851	1
Total reimbursements of interest paid on State of Hawaii bonds	<u>3,606,072</u>	<u>3,644,836</u>	<u>38,764</u>

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
GENERAL FUND

Statement of Revenues and Reimbursements (continued)  
for the year ended June 30, 1968

	<u>Estimated</u>	<u>Actual</u>	<u>Actual over (under) estimated</u>
<u>REIMBURSEMENTS</u>			
<u>REIMBURSEMENTS FOR EMPLOYEES' BENEFIT</u>			
<u>PREMIUMS</u>			
Medical, dental and group life insurance premiums	\$ 550,000	\$ 636,748	\$ 86,748
<u>MISCELLANEOUS REIMBURSEMENTS</u>			
Refunds and reimbursed expenses	-	7,215	7,215
Vacations earned with other funds	-	1,217	1,217
Reimbursed expenses from prior period appropriations	-	28,401	28,401
Total miscellaneous reimbursements	-	36,833	36,833
 TOTAL REIMBURSEMENTS	 <u>11,717,618</u>	 <u>11,879,963</u>	 <u>162,345</u>
 TOTAL REVENUES AND REIMBURSEMENTS	 <u>\$14,895,653</u>	 <u>\$16,403,190</u>	 <u>\$1,507,537</u>

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
GENERAL FUND

Statement of Appropriations, Expenditures and Encumbrances  
For the year ended June 30, 1968

	Authorizations				Appropriated receipts	Expenditures	Encumbrances	Unencumbered balances June 30, 1968
	1967 Encumbrances forwarded	Appropriations	Adjustments	Total				
<b>OPERATING APPROPRIATIONS</b>								
<b>Departmental Administration</b>								
Personal services	\$ -	\$ 90,302	\$( 2,107)	\$ 88,195	\$ -	\$ 79,388	\$ -	\$ 8,807
Other expenses	<u>1,114</u>	<u>6,060</u>	<u>-</u>	<u>7,174</u>	<u>-</u>	<u>5,668</u>	<u>832</u>	<u>674</u>
Total departmental administration	<u>1,114</u>	<u>96,362</u>	<u>( 2,107)</u>	<u>95,369</u>	<u>-</u>	<u>85,056</u>	<u>832</u>	<u>9,481</u>
<b>Budget Division</b>								
<b>Budget Services</b>								
Personal services	-	191,862	-	191,862	-	152,947	36	38,879
Other expenses	<u>2,608</u>	<u>48,285</u>	<u>( 15,550)</u>	<u>35,343</u>	<u>-</u>	<u>17,063</u>	<u>993</u>	<u>17,287</u>
Total budget services	<u>2,608</u>	<u>240,147</u>	<u>( 15,550)</u>	<u>227,205</u>	<u>-</u>	<u>170,010</u>	<u>1,029</u>	<u>56,166</u>
Bonuses to pensioners	-	2,797,300	( 78,821)	2,718,479	-	2,488,803	-	229,676
Equipment contingencies	-	<u>25,000</u>	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
Total budget division	<u>2,608</u>	<u>3,062,447</u>	<u>( 94,371)</u>	<u>2,970,684</u>	<u>-</u>	<u>2,658,813</u>	<u>1,029</u>	<u>310,842</u>
<b>Management Division</b>								
<b>Management services</b>								
Personal services	-	56,077	-	56,077	-	54,528	182	1,367
Other expenses	<u>260</u>	<u>12,314</u>	<u>-</u>	<u>12,574</u>	<u>-</u>	<u>2,437</u>	<u>253</u>	<u>9,884</u>
Total management services	<u>260</u>	<u>68,391</u>	<u>-</u>	<u>68,651</u>	<u>-</u>	<u>56,965</u>	<u>435</u>	<u>11,251</u>
<b>Commission on Children and Youth</b>								
Personal services	-	19,701	3,114	22,815	-	21,675	-	1,140
Other expenses	<u>-</u>	<u>5,181</u>	<u>-</u>	<u>5,181</u>	<u>430</u>	<u>3,577</u>	<u>60</u>	<u>1,974</u>
Total Commission on Children and Youth	<u>-</u>	<u>24,882</u>	<u>3,114</u>	<u>27,996</u>	<u>430</u>	<u>25,252</u>	<u>60</u>	<u>3,114</u>
Total management division	<u>260</u>	<u>93,273</u>	<u>3,114</u>	<u>96,647</u>	<u>430</u>	<u>82,217</u>	<u>495</u>	<u>14,365</u>
<b>State-wide Information System Division</b>								
Personal services	3,411	322,586	( 13,325)	312,672	2,113	300,648	5,469	8,668
Other expenses	<u>392</u>	<u>56,695</u>	<u>19,001</u>	<u>76,088</u>	<u>-</u>	<u>17,703</u>	<u>58,224</u>	<u>161</u>
Total state-wide information system division	<u>3,803</u>	<u>379,281</u>	<u>5,676</u>	<u>388,760</u>	<u>2,113</u>	<u>318,351</u>	<u>63,693</u>	<u>8,829</u>

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
GENERAL FUND

Statement of Appropriations, Expenditures and Encumbrances (continued)  
For the year ended June 30, 1968

	<u>Authorizations</u>				<u>Appropriated receipts</u>	<u>Expenditures</u>	<u>Encumbrances</u>	<u>Unencumbered balances June 30, 1968</u>
	<u>1967 Encumbrances forwarded</u>	<u>Appropriations</u>	<u>Adjustments</u>	<u>Total</u>				
Finance Division								
Cash and debt management								
Personal services	\$ -	\$ 55,105	\$ -	\$ 55,105	\$ -	\$ 55,103	\$ -	\$ 2
Other expenses	<u>1,023</u>	<u>6,668</u>	<u>550</u>	<u>8,241</u>	<u>-</u>	<u>7,999</u>	<u>42</u>	<u>200</u>
Total cash and debt management	<u>1,023</u>	<u>61,773</u>	<u>550</u>	<u>63,346</u>	<u>-</u>	<u>63,102</u>	<u>42</u>	<u>202</u>
Public debt service								
Other expenses	<u>21,102</u>	<u>43,816</u>	<u>-</u>	<u>64,918</u>	<u>-</u>	<u>50,296</u>	<u>1,941</u>	<u>12,681</u>
Bonded debt								
Interest	-	7,763,717	-	7,763,717	-	7,763,717	-	-
Principal	-	<u>13,633,600</u>	-	<u>13,633,600</u>	-	<u>13,633,600</u>	-	-
Total bonded debt	<u>-</u>	<u>21,397,317</u>	<u>-</u>	<u>21,397,317</u>	<u>-</u>	<u>21,397,317</u>	<u>-</u>	<u>-</u>
Total finance division	<u>22,125</u>	<u>21,502,906</u>	<u>550</u>	<u>21,525,581</u>	<u>-</u>	<u>21,510,715</u>	<u>1,983</u>	<u>12,883</u>
Employees' Retirement System								
Administration								
Personal services	-	110,535	-	110,535	-	110,535	-	-
Other expenses	-	<u>57,897</u>	<u>( 30,000)</u>	<u>27,897</u>	<u>-</u>	<u>27,896</u>	<u>-</u>	<u>1</u>
Total administration	<u>-</u>	<u>168,432</u>	<u>( 30,000)</u>	<u>138,432</u>	<u>-</u>	<u>138,431</u>	<u>-</u>	<u>1</u>
Contributions								
Pension accumulation fund	-	9,503,226	<u>( 16,800)</u>	9,486,426	-	9,486,426	-	-
Post retirement fund, Act 175/61	-	652,506	-	652,506	-	652,506	-	-
Members on military leave	-	12,000	16,800	28,800	-	28,800	-	-
Social security	-	<u>4,435,175</u>	<u>-</u>	<u>4,435,175</u>	<u>-</u>	<u>4,435,175</u>	<u>-</u>	<u>-</u>
Total contributions	<u>-</u>	<u>14,602,907</u>	<u>-</u>	<u>14,602,907</u>	<u>-</u>	<u>14,602,907</u>	<u>-</u>	<u>-</u>
Pensions								
Veterans Hawaii Guard	-	288	-	288	-	288	-	-
Legislative	-	6,500	-	6,500	-	6,500	-	-
Minimum	-	<u>29,000</u>	<u>-</u>	<u>29,000</u>	<u>-</u>	<u>24,000</u>	<u>-</u>	<u>5,000</u>
Total pensions	<u>-</u>	<u>35,788</u>	<u>-</u>	<u>35,788</u>	<u>-</u>	<u>30,788</u>	<u>-</u>	<u>5,000</u>
Total employees' retirement system	<u>-</u>	<u>14,807,127</u>	<u>( 30,000)</u>	<u>14,777,127</u>	<u>-</u>	<u>14,772,126</u>	<u>-</u>	<u>5,001</u>

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
GENERAL FUND

Statement of Appropriations, Expenditures and Encumbrances (continued)  
For the year ended June 30, 1968

	<u>Authorizations</u>				<u>Appropriated receipts</u>	<u>Expenditures</u>	<u>Encumbrances</u>	<u>Unencumbered balances June 30, 1968</u>
	<u>1967 Encumbrances forwarded</u>	<u>Appropriations</u>	<u>Adjustments</u>	<u>Total</u>				
Employees' Group Medical and Hospital Care Administration								
Personal services	\$ 405	\$ 47,864	\$ 13,726	\$ 61,995	\$ -	\$ 59,397	\$ 940	\$ 1,658
Other expenses	<u>1,879</u>	<u>31,590</u>	<u>3,816</u>	<u>37,285</u>	<u>-</u>	<u>32,333</u>	<u>2,039</u>	<u>2,913</u>
Total administration	2,284	79,454	17,542	99,280	-	91,730	2,979	4,571
Contributions	<u>99,836</u>	<u>3,508,882</u>	<u>10,208</u>	<u>3,618,926</u>	<u>-</u>	<u>3,474,043</u>	<u>66,383</u>	<u>78,500</u>
Total employees' group medical and hospital care	<u>102,120</u>	<u>3,588,336</u>	<u>27,750</u>	<u>3,718,206</u>	<u>-</u>	<u>3,565,773</u>	<u>69,362</u>	<u>83,071</u>
Commission on Aging Administration								
Personal services	-	20,704	-	20,704	-	19,788	64	852
Other expenses	<u>7,656</u>	<u>39,070</u>	<u>-</u>	<u>46,726</u>	<u>-</u>	<u>36,311</u>	<u>9,072</u>	<u>1,343</u>
Total Commission on Aging	<u>7,656</u>	<u>59,774</u>	<u>-</u>	<u>67,430</u>	<u>-</u>	<u>56,099</u>	<u>9,136</u>	<u>2,195</u>
Student Aid Loan Program	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Electronic Data Processing Survey	<u>5,189</u>	<u>-</u>	<u>-</u>	<u>5,189</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,189</u>
Consulting Services for the Implementation of a Statewide Data Processing System	<u>6,000</u>	<u>-</u>	<u>-</u>	<u>6,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,000</u>
Deficiency Appropriations	<u>-</u>	<u>2,312,109</u>	<u>(2,312,109)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OPERATING APPROPRIATIONS	<u>200,875</u>	<u>45,901,615</u>	<u>(2,401,497)</u>	<u>43,700,993</u>	<u>2,543</u>	<u>43,049,150</u>	<u>146,530</u>	<u>507,856</u>
<b>SPECIAL AND CONTINUOUS APPROPRIATIONS</b>								
Expenses of escheat proceedings on unclaimed dividends and bank accounts	-	94	-	94	-	94	-	-
State grants-in-aid								
City and County of Honolulu	-	2,566,775	-	2,566,775	-	2,566,775	-	-
City and County of Maui	-	2,797,345	-	2,797,345	-	2,797,345	-	-
City and County of Hawaii	-	3,758,696	-	3,758,696	-	3,758,696	-	-
City and County of Kauai	-	2,304,287	-	2,304,287	-	2,304,287	-	-

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
GENERAL FUND

Statement of Appropriations, Expenditures and Encumbrances (continued)  
For the year ended June 30, 1968

	<u>Authorizations</u>				<u>Appropriated receipts</u>	<u>Expenditures</u>	<u>Encumbrances</u>	<u>Unencumbered balances June 30, 1968</u>
	<u>1967 Encumbrances forwarded</u>	<u>Appropriations</u>	<u>Adjustments</u>	<u>Total</u>				
Research, planning, services and facilities and training fund in problems of the aged	\$ 3,217	\$ -	\$ -	\$ 3,217	\$ 7,183	\$ 4,655	\$ 1,000	\$ 4,745
Administrative costs of the counties for services rendered the State under contractual arrangement in connection with Act 97, Sessions Laws of Hawaii 1965	-	350,000	-	350,000	-	300,494	-	49,506
Contributions to Employees' Retirement System for Act 97 functions	339,944	1,433,364	-	1,773,308	-	1,625,788	15,000	132,520
Night shift work for public officers and employees	-	126,900	-	126,900	-	72,695	-	54,205
Costs for implementation of compensation plan for blue-collar positions of public employees	-	3,458,996	-	3,458,996	-	-	-	3,458,996
Contributions for group life insurance benefits	-	385,763	52,642	438,405	-	434,007	-	4,398
Judgments and claims against the State of Hawaii	-	18,835	-	18,835	-	17,770	-	1,065
Federal funds								
Commission on Aging	6,134	-	-	6,134	97,695	85,725	-	18,104
Older Americans Act of 1965	15,959	-	-	15,959	82,782	94,657	-	4,084
Higher Education Act of 1965	3,000	-	( 114,338)	( 111,338)	117,338	1,116	-	4,884
TOTAL SPECIAL AND CONTINUOUS APPROPRIATIONS	<u>368,254</u>	<u>17,201,055</u>	<u>( 61,696)</u>	<u>17,507,613</u>	<u>304,998</u>	<u>14,064,104</u>	<u>16,000</u>	<u>3,732,507</u>
TOTAL APPROPRIATIONS	<u>\$ 569,129</u>	<u>\$ 63,102,670</u>	<u>\$(2,463,193)</u>	<u>\$61,208,606</u>	<u>\$ 307,541</u>	<u>\$ 57,113,254</u>	<u>\$ 162,530</u>	<u>\$ 4,240,363</u>

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

Notes to the Financial Statements  
June 30, 1968

NOTE 1 - Description of Revenues and Reimbursements

The following is a brief description of the major items of revenues and reimbursements of the Department of Budget and Finance:

Revenue from use of money includes interest earned on State of Hawaii funds deposited with banks, investments in United States governmental obligations, claims litigated by the State of Hawaii and temporary loans to agencies of the State of Hawaii.

Revenue from other agencies consists essentially of Federal grants-in-aid. These grants include assessments for fees for the processing of claims for the Federal Employment Security Program, funds provided under the Higher Education Act of 1965 primarily utilized for a continuing program of labor-management education and to solve the problems of poverty and social dislocation; funds provided under the Economic Opportunity Act of 1964 to support the foster grandparents program at Waimano Home; and funds provided under the Older Americans Act of 1965 for community planning, services and training related to new and unproved programs for the elderly.

Charges for current services includes assessments for expenses of administering the Employees' Retirement System (.2% of the gross payroll of the State of Hawaii), for

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

Notes to the Financial Statement - (continued)  
June 30, 1968

NOTE 1 - Description of Revenues and Reimbursements (continued)

defraying the expenses of Central Service (5% of receipts of special funds, with certain exceptions) and for defraying departmental administration expenses (pro rata charges to special funds within the departments).

Revenue from miscellaneous sources includes premiums and accrued interest received on three general obligation bond issues sold during the year ended June 30, 1968.

Reimbursements for principal and interest paid on State of Hawaii bonds represent General Fund receipts from Counties and other funds of the State to pay that portion of general obligation bonds issued by the State of Hawaii for the benefit of these Counties and funds.

Reimbursements for employees' benefit premiums represent receipts from employees for their share of medical insurance premiums and from special funds of the State and County governments for the employer's portion of medical, dental and group life insurance premiums for employees of these funds.

NOTE 2 - Statement of Appropriations, Expenditures and Encumbrances

The columnar headings in the statement of appropriations, expenditures and encumbrances for the year ended June 30, 1968 are described briefly in the following paragraphs:

The 1967 encumbrances forwarded represent purchase orders and contracts outstanding at June 30, 1967 against

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

Notes to the Financial Statements - (continued)  
June 30, 1968

NOTE 2 - Statement of Appropriations, Expenditures and Encumbrances  
(continued)

which deliveries of goods and services were not made as of that date.

Appropriations include amounts authorized by the State Legislature to be expended from general revenues. Certain of these appropriations are available for use until completely expended. Other appropriations which are not expended are no longer available for use by the Department of Budget and Finance.

Appropriation adjustments are transfers of appropriations authorized by the Director of Finance as chief fiscal officer of the State.

Appropriated receipts are additional appropriations available from earmarked revenues.

Expenditures represent expenses incurred against current appropriations, as well as, against encumbrances at June 30, 1967.

Encumbrances include purchase orders and contracts outstanding at June 30, 1968 against which deliveries of goods and services were not made as of that date.

Unencumbered balances are authorizations against which expenditures have not been incurred or purchase commitments made.

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

Notes to the Financial Statements - (continued)  
June 30, 1968

NOTE 3 - Description of Programs and Appropriations

The programs of the Department of Budget and Finance are described briefly as follows:

The departmental administration of the Department of Budget and Finance consists of the operations of the Office of the Director of Finance and the administrative services office. The Office of the Director of Finance is charged with the responsibility of planning, organizing and coordinating the activities of the Department of Budget and Finance. In addition, the Director of Finance serves as financial advisor to the Governor, as an ex-officio member of the Board of Trustees of the Employees' Retirement System and as a member of the Board of Trustees to administer the Hawaii Public Health Employees' Health Fund. The administrative services office provides the Department with internal management, fiscal and office services and personnel management functions.

The Budget Division of the Department of Budget and Finance reviews and analyzes the budget requests from the departments of the State of Hawaii and prepares the budget submitted by the Governor to the Legislature. In this function it recommends program priorities to the Governor and appropriation ceilings for the operating and capital improvement budgets. The Division also renews and approves

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

Notes to the Financial Statements - (continued)  
June 30, 1968

NOTE 3 - Description of Programs and Appropriations (continued)

expenditure plans, allotment requests and transfers of funds between programs.

The Management Division provides management assistance and services to State of Hawaii agencies in the areas of administration, organization, program evaluation and management processes. It conducts studies of organizational problems, methods and procedures and makes recommendations for more efficient and economical operations. It also provides staff services to the Commission on Children and Youth and conducts evaluations related to problems, assistance and needs of children and youth.

The State-wide Information System is charged with data processing management of the State of Hawaii and is placed within the Department of Budget and Finance for administrative purposes.

The Finance Division of the Department of Budget and Finance administers the financial affairs of the State of Hawaii through cash and debt management activities and certain loan programs. It receives, accounts for and has custody of State of Hawaii funds and securities. It is responsible for investing and depositing State of Hawaii monies. The Division also determines the needs for bond issues, assists

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

Notes to the Financial Statements - (continued)  
June 30, 1968

NOTE 3 - Description of Programs and Appropriations (continued)

in the marketing of bonds and administers the payments of interest and redemptions of matured bonds.

The Employees' Retirement System, under direction of a Board of Trustees, plans and directs a retirement benefit program for State of Hawaii and other public employees and is placed within the Department of Budget and Finance for administrative purposes.

The Employees' Group Medical and Hospital Care Division contracts for, implements and administers medical and hospital care benefits, dental care benefits and group life insurance benefits and is placed within the Department of Budget and Finance for administrative purposes.

The Commission on Aging is responsible for the coordination of governmental and non-governmental plans and policies regarding the State's aging population, for the creation of a public awareness regarding the needs of the aging and for the recommendation of legislation to meet these needs. The Commission is placed within the Department of Budget and Finance for administrative purposes.

Deficiency appropriations were provided by the Legislature of the State of Hawaii during the 1968 session to cover deficiencies in the Department of Budget and Finance for employees' group medical and hospital care and group life insurance premiums; in the

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

Notes to the Financial Statements - (continued)  
June 30, 1968

NOTE 3 - Description of Programs and Appropriations (continued)

Department of Social Services for economic assistance program payments for indigents; in the Department of Health for the maintenance of two hospitals; and in the operations of the Governor's Office.

State grants-in-aid to Counties were authorized by Act 155, Session Laws of Hawaii 1965, which sets forth the basis of distributing State of Hawaii revenues from the collections of general excise, use and public service company taxes.

Administrative costs of the Counties for services rendered the State under contractual arrangement in connection with Act 97 represents direct reimbursements of expenses incurred by the Counties under Act 97 which provides for the fixing of responsibility within the State government of certain functions which are of statewide concern.

Contributions to Employees' Retirement System for Act 97 functions represent reimbursements to the Counties for contributions made by the Counties on behalf of employees whose functions were transferred to the State.

The appropriation for night-shift work for public officers and employees provides for an additional compensation of five cents an hour to employees performing work between 6:00 p.m. and 6:00 a.m., other than those employees assigned to regular shifts of more than eight hours per day.

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

Notes to the Financial Statements - (continued)  
June 30, 1968

NOTE 3 - Description of Programs and Appropriations (continued)

The appropriations for costs for implementation of a compensation plan for blue-collar positions was made to provide pay increases for blue-collar workers. The plan was implemented subsequent to June 30, 1968.

Contributions for group life insurance benefits represents the State's portion of insurance premiums under a group insurance plan provided for by the 1968 Legislature. The State's contribution is \$2.25 per employee per month.

To the Auditor  
State of Hawaii

ADDITIONAL FINANCIAL INFORMATION

The primary purpose of our examination was to formulate an opinion on the statement of revenues and reimbursements and the statement of appropriations, expenditures and encumbrances of that portion of the General Fund that relates to the Department of Budget and Finance of the State of Hawaii for the year ended June 30, 1968. The accompanying additional financial information, while not considered necessary for a fair presentation of the results of operations, is presented for supplementary analysis purposes. We did not examine this supplemental information and accordingly do not express an opinion on them.

CLAY, WULFEKUEHLER & CO.

Clay Wulfekuehler & Co.  
HOKADA & HAYASHI

Hokada & Hayashi  
INAGAKI, MUKAI & FO

Inagaki, Mukai & Fo  
ISHIMOTO, IMAMOTO & CO.

Ishimoto, Imamoto & Co.  
LEMKE AND COMPANY

Lemke and Company

Honolulu, Hawaii  
December 2, 1968

STATE OF HAWAII  
Schedule of General Obligation Bonds  
June 30, 1968  
(Unaudited)

<u>Date of issue</u>	<u>Interest rate</u>	<u>Amount of original issue</u>	<u>Description</u>	<u>Balance outstanding July 1, 1967</u>	<u>Additions</u>	<u>Serial redemptions</u>	<u>Balance outstanding June 30, 1968</u>	<u>Annual Serial Redemptions</u>	
								<u>Date</u>	<u>Amount</u>
Issued by the Territory of Hawaii									
October 1, 1949	1.90%	\$ 8,000,000	Series A, non-callable	\$ 1,325,000	\$ -	\$ 445,000	\$ 880,000	10/1/68	\$ 445,000
								10/1/69	435,000
December 1, 1950	1.80%	14,000,000	Series B, non-callable	3,108,000	-	778,000	2,330,000	12/1/68-69	778,000
								12/1/70	774,000
July 2, 1951	2.50%	5,000,000	Series A, non-callable	1,386,000	-	278,000	1,108,000	7/2/68-70	278,000
								7/2/71	274,000
April 15, 1952	2.00%	6,000,000	Series A, non-callable	1,671,000	-	333,000	1,338,000	4/15/69-71	333,000
								4/15/72	339,000
September 15, 1953	2.90%	5,500,000	Series A, non-callable	2,145,000	-	305,000	1,840,000	9/15/68-72	305,000
								9/15/73	315,000
November 1, 1954	2.25%	6,500,000	Series A, non-callable	2,900,000	-	360,000	2,540,000	11/1/68-73	360,000
								11/1/74	380,000
November 15, 1955	2.50%	7,500,000	Series A, non-callable	3,747,000	-	417,000	3,330,000	11/15/68-74	417,000
								11/15/75	411,000
May 1, 1956	3.25%	7,500,000	Series A, non-callable	3,747,000	-	417,000	3,330,000	5/1/69-75	417,000
								5/1/76	411,000
October 15, 1956	3.70%	12,000,000	Series B, non-callable	6,664,000	-	667,000	5,997,000	10/15/68-75	667,000
								10/15/76	661,000
May 15, 1957	3.75%	14,000,000	Series A, non-callable	7,776,000	-	778,000	6,998,000	5/15/69-76	778,000
								5/15/77	774,000
November 15, 1957	3.70%	7,000,000	Series B, non-callable	4,277,000	-	389,000	3,888,000	11/15/68-76	389,000
								11/15/77	387,000
June 1, 1958	3.10%	8,000,000	Series A, non-callable	4,885,000	-	445,000	4,440,000	6/15/69-77	445,000
								6/15/78	435,000
March 15, 1959	3.30%	6,500,000	Series A, non-callable	4,340,000	-	360,000	3,980,000	3/15/69-78	360,000
								3/15/79	380,000
June 15, 1959	4.10%	20,000,000	Series B, non-callable	13,340,000	-	1,110,000	12,230,000	6/15/69-78	1,110,000
								6/15/79	1,130,000
Totals of Territory of Hawaii issues				61,311,000	-	7,082,000	54,229,000		

STATE OF HAWAII  
Schedule of General Obligation Bonds - cont'd.  
June 30, 1968  
(Unaudited)

<u>Date of issue</u>	<u>Interest rate</u>	<u>Amount of original issue</u>	<u>Description</u>	<u>Balance</u>	<u>Additions</u>	<u>Serial</u>	<u>Balance</u>	<u>Annual Series Redemptions</u>	
				<u>outstanding July 1, 1967</u>		<u>redemptions</u>	<u>outstanding June 30, 1968</u>	<u>Date</u>	<u>Amount</u>
Issued by the State of Hawaii									
November 15, 1961	3.00%	\$ 4,448,000	Series A, non-callable	\$ 2,780,000	\$ -	\$ 556,000	\$ 2,224,000	11/15/68-71	\$ 556,000
	3.25%	3,336,000		3,336,000	-	-	3,336,000	11/15/72-77	556,000
	3.40%	2,216,000		2,216,000	-	-	2,216,000	11/15/78-80	556,000
									11/15/81
		<u>10,000,000</u>		<u>8,332,000</u>	<u>-</u>	<u>556,000</u>	<u>7,776,000</u>		
May 15, 1962	2.50%	4,450,000	Series B, non-callable	2,775,000	-	555,000	2,220,000	5/15/69-72	555,000
	2.75%	4,440,000		4,440,000	-	-	4,440,000	5/15/73-80	555,000
	2.90%	1,110,000		1,110,000	-	-	1,110,000	5/15/81-82	555,000
		<u>10,000,000</u>		<u>8,325,000</u>	<u>-</u>	<u>555,000</u>	<u>7,770,000</u>		
May 15, 1963	3.50%	1,120,000	Series C, non-callable	-	-	-	-		
	2.80%	4,995,000		4,995,000	-	555,000	4,440,000	5/15/69-76	555,000
	3.00%	3,885,000		3,885,000	-	-	3,885,000	5/15/77-83	555,000
		<u>10,000,000</u>		<u>8,880,000</u>	<u>-</u>	<u>555,000</u>	<u>8,325,000</u>		
November 1, 1963	2.70%	4,400,000	Series D, non-callable, refunding	2,640,000	-	1,760,000	880,000	11/15/68	880,000
	3.40%	28,160,000		28,160,000	-	-	28,160,000	5/15 & 11/15 1969-1984	880,000
	3.50%	7,040,000		7,040,000	-	-	7,040,000	5/15 & 11/15 1985-1988	880,000
		<u>39,600,000</u>		<u>37,840,000</u>	<u>-</u>	<u>1,760,000</u>	<u>36,080,000</u>		
February 3, 1964	2.75%	<u>2,328,000</u>	Series E, callable	<u>1,396,800</u>	<u>-</u>	<u>465,600</u>	<u>931,200</u>	8/3/68 & 2/3/69	465,600
May 15, 1964	3.50%	1,660,000	Series F, non-callable	830,000	-	830,000	-		
	3.00%	4,155,000		4,155,000	-	-	4,155,000	5/15/69-72	830,000
	3.25%	9,185,000		9,185,000	-	-	9,185,000	5/15/73	835,000
								5/15/74-84	835,000
		<u>15,000,000</u>		<u>14,170,000</u>	<u>-</u>	<u>830,000</u>	<u>13,340,000</u>		
October 15, 1964	3.60%	830,000	Series G, non-callable	830,000	-	830,000	-		
	3.10%	5,820,000		5,820,000	-	-	5,820,000	10/15/68-72	830,000
	3.25%	8,350,000		8,350,000	-	-	8,350,000	10/15/73-74	835,000
								10/15/75-84	835,000
		<u>15,000,000</u>		<u>15,000,000</u>	<u>-</u>	<u>830,000</u>	<u>14,170,000</u>		
Balance carried forward				<u>93,943,800</u>	<u>-</u>	<u>5,551,600</u>	<u>88,392,200</u>		

STATE OF HAWAII  
Schedule of General Obligation Bonds - cont'd.

June 30, 1968

(Unaudited)

<u>Date of issue</u>	<u>Interest rate</u>	<u>Amount of original issue</u>	<u>Description</u>	<u>Balance outstanding</u>	<u>Additions</u>	<u>Serial redemptions</u>	<u>Balance outstanding</u>	<u>Annual Series Redemptions</u>	
				<u>July 1, 1967</u>			<u>June 30, 1968</u>	<u>Date</u>	<u>Amount</u>
Balance brought forward				\$ 93,943,800	\$ -	\$ 5,551,600	\$ 88,392,200		
May 1, 1965	3.50%	\$ 1,000,000	Series H, non-callable	1,000,000	-	1,000,000	-		
	3.10%	12,000,000		12,000,000	-	-	12,000,000	5/1/69-80	\$1,000,000
	3.20%	5,000,000		5,000,000	-	-	5,000,000	5/1/81-85	1,000,000
		<u>18,000,000</u>		<u>18,000,000</u>	<u>-</u>	<u>1,000,000</u>	<u>17,000,000</u>		
December 1, 1965	4.25%	1,550,000	Series I, non-callable	1,550,000	-	-	1,550,000	12/1/68-69	775,000
	3.40%	9,330,000		9,330,000	-	-	9,330,000	12/1/70-75	775,000
	3.50%	3,120,000		3,120,000	-	-	3,120,000	12/1/76-81	780,000
		<u>14,000,000</u>		<u>14,000,000</u>	<u>-</u>	<u>-</u>	<u>14,000,000</u>	12/1/82-85	780,000
June 1, 1966	4.75%	1,675,000	Series J, non-callable	1,675,000	-	-	1,675,000	6/1/69-70	560,000
	3.80%	6,660,000		6,660,000	-	-	6,660,000	6/1/71	555,000
	3.90%	1,665,000		1,665,000	-	-	1,665,000	6/1/72-83	555,000
		<u>10,000,000</u>		<u>10,000,000</u>	<u>-</u>	<u>-</u>	<u>10,000,000</u>	6/1/84-86	555,000
May 15, 1967	3.80%	13,340,000	Series K, non-callable	13,340,000	-	-	13,340,000	5/15/70-73	1,115,000
	3.90%	3,330,000		3,330,000	-	-	3,330,000	5/15/74-81	1,110,000
	4.00%	3,330,000		3,330,000	-	-	3,330,000	5/15/82-84	1,110,000
		<u>20,000,000</u>		<u>20,000,000</u>	<u>-</u>	<u>-</u>	<u>20,000,000</u>	5/15/85-87	1,110,000
September 1, 1967	4.90%	910,000	Series L, non-callable	-	910,000	-	910,000	9/1/70-71	455,000
	4.00%	4,990,000		-	4,990,000	-	4,990,000	9/1/72-79	455,000
	4.10%	2,250,000		-	2,250,000	-	2,250,000	9/1/80-82	450,000
		<u>8,150,000</u>		<u>-</u>	<u>8,150,000</u>	<u>-</u>	<u>8,150,000</u>	9/1/83-87	450,000
March 1, 1968	4.80%	1,120,000	Series M, non-callable	-	1,120,000	-	1,120,000	11/1/70	1,120,000
	4.40%	16,660,000		-	16,660,000	-	16,660,000	11/1/71-85	1,110,000
	4.35%	2,220,000		-	2,220,000	-	2,220,000	11/1/86-87	1,110,000
		<u>20,000,000</u>		<u>-</u>	<u>20,000,000</u>	<u>-</u>	<u>20,000,000</u>		
March 1, 1968	4.15%	6,680,000	Series L, non-callable	-	6,680,000	-	6,680,000	3/1/71-74	1,670,000
	4.40%	18,325,000		-	18,325,000	-	18,325,000	3/1/75-76	1,670,000
	4.50%	4,995,000		-	4,995,000	-	4,995,000	3/1/77-85	1,665,000
		<u>30,000,000</u>		<u>-</u>	<u>30,000,000</u>	<u>-</u>	<u>30,000,000</u>	3/1/86-88	1,665,000
Totals of State of Hawaii issues				<u>155,943,800</u>	<u>58,150,000</u>	<u>6,551,600</u>	<u>207,542,200</u>		
Total general obligation bonds				<u>\$217,254,800</u>	<u>\$58,150,000</u>	<u>\$13,633,600</u>	<u>\$ 261,771,200</u>		

STATE OF HAWAII  
Schedule of Revenue Bonds  
June 30, 1968  
(Unaudited)

Description	Amount of original issue	Maturity date	Interest rate	Balance outstanding July 1, 1967	Additions	Serial redemptions	Balance outstanding June 30, 1968
<b>HARBOR REVENUE BONDS</b>							
Harbor Revenue Bonds Issue of 1950	\$ 3,650,000	October 1, 1974	2.25%) and ) 3.25%)	\$ 2,045,000	\$ -	\$ 370,000	\$ 1,675,000
Harbor Revenue Bonds Issue of 1960	6,500,000	October 1, 1984	4.3%	6,500,000	-	-	6,500,000
Harbor Revenue Bonds Issue of 1965	763,000	October 1, 1985	3.7%	763,000	-	-	763,000
Harbor Revenue Bonds Issue of 1966	1,080,000	November 1, 1995	4.125%	1,080,000	-	-	1,080,000
Harbor Capital Improvement Revenue Bonds Issue of 1967	20,000,000	July 1, 1997	5.2%	-	<u>20,000,000</u>	-	<u>20,000,000</u>
				<u>10,388,000</u>	<u>20,000,000</u>	<u>370,000</u>	<u>30,018,000</u>
<b>AIRPORT REVENUE BONDS</b>							
Aviation Revenue Bonds, Series A, Issued April 1, 1959	14,000,000	July 1, 1984	4.3%	<u>13,310,000</u>	-	<u>370,000</u>	<u>12,940,000</u>
<b>OFF-STREET PARKING REVENUE BONDS</b>							
Off-Street Parking Revenue Bonds, Issued 1963	920,000	November 1, 1983	5%	832,000	-	32,000	800,000
<b>UNIVERSITY OF HAWAII REVENUE BONDS</b>							
University of Hawaii Housing System Revenue Bonds, Series A, Issued October 1, 1962	437,000	October 1, 1999	3%	332,000	-	7,000	325,000
University of Hawaii, Series B, Issued October 1, 1962	444,000	October 1, 2001	3.5%	426,000	-	6,000	420,000
University of Hawaii Faculty Housing Bonds, Issued April 1, 1960	640,000	April 1, 2000	2.875%	<u>590,000</u>	-	<u>11,000</u>	<u>579,000</u>
				<u>1,348,000</u>	-	<u>24,000</u>	<u>1,324,000</u>
<b>Total</b>				<u>\$ 25,878,000</u>	<u>\$20,000,000</u>	<u>\$ 796,000</u>	<u>\$ 45,082,000</u>

STATE OF HAWAII  
 Schedule of General Obligations Bonds and Other Instruments  
 of Indebtedness to Which the Public Faith and Credit of  
 the State are Pledged - Authorized but Unissued

June 30, 1968

(Unaudited)

<u>Authority</u>	<u>Purpose</u>	Balance July 1, 1967	Additional indebtedness authorized	Allocation to Series N Bonds dated March 1, 1968	Appropriations from General Fund	Balance June 30, 1968
<b>General Obligation Bonds</b>						
Act 193, Session Laws of Hawaii 1961	Veterans' Home Loans	\$ 211,500	\$ -	\$ -	\$ -	\$ 211,500
Act 194, Session Laws of Hawaii 1961	Middle Income Home Loans	500,000	-	-	-	500,000
Act 195, Session Laws of Hawaii 1961	Public Improvements	2,053,477	-	289,254	-	1,764,223
Act 30, Session Laws of Hawaii 1962	Public Improvements	2,240,755	-	137,700	-	2,103,055
Act 201, Session Laws of Hawaii 1963	Public Improvements	4,683,287	-	649,200	-	4,034,087
Act 52, Session Laws of Hawaii 1964	Public Improvements	9,329,953	-	2,440,121	-	6,889,832
Act 195, Session Laws of Hawaii 1965	Public Improvements	25,251,594	-	5,440,523	-	19,811,071
Act 38, Session Laws of Hawaii 1966	Public Improvements	72,568,189	-	18,066,599	-	54,501,590
Act 217, Session Laws of Hawaii 1967	Public Improvements	-	94,450,008	2,976,603	7,487,000	83,986,405
Act 278, Session Laws of Hawaii 1967	Moderate Income Home Loans	-	<u>5,000,000</u>	-	-	<u>5,000,000</u>
		<u>116,838,755</u>	<u>99,450,008</u>	<u>30,000,000</u>	<u>7,487,000</u>	<u>178,801,763</u>
<b>Instrument of Indebtedness</b>						
Act 4, Session Laws of Hawaii 1965	Hawaiian Home Land Loan	<u>375,000</u>	-	-	-	<u>375,000</u>
		<u>\$117,213,755</u>	<u>\$ 99,450,008</u>	<u>\$30,000,000</u>	<u>\$7,487,000</u>	<u>\$ 179,176,763</u>

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

Schedule of Computation of Compliance  
with Statutory Debt Limitation  
June 30, 1968

(Unaudited)

Funded debt

General obligation bonds payable	\$ 261,771,200
Matured general obligation bonds unredeemed	1,752,000
Matured Highway revenue bonds unredeemed	103,000
Aviation revenue bonds payable	12,940,000
Matured aviation revenue bonds unredeemed	208,043
General obligation bonds, authorized but unissued	178,801,763
Hawaiian Home Lands loan, authorized but unissued	<u>375,000</u>
Total funded debt subject to limitation	<u><u>\$ 455,951,006</u></u>

Tax assessment values per certificate from Director of Taxation dated August 15, 1968

Gross assessed valuation of real property in the State of Hawaii on January 1, 1968	\$4,454,739,085
Less assessed valuation of real property exempted from valuation	<u>787,468,341</u>
Net valuation of real property assessed by the Director of Taxation	3,667,270,744
Less fifty per cent of assessed valuation of real property on appeal by the owners	<u>28,055,316</u>
Total of assessed valuation of real property for tax rate purposes in the State of Hawaii as of January 1, 1968	<u><u>\$3,639,215,428</u></u>
Total of assessed valuation	\$3,639,215,428
Statutory limitation	<u>15%</u>
Debt limitation	<u><u>\$ 545,882,314</u></u>

Percentage of funded debt to assessed valuation 12.53%

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

Schedule of Gross Assessed Valuation of Real Property  
in the State of Hawaii  
Twelve-year period from 1957 through 1968

(Unaudited)

As of January 1, 1957	\$1,933,325,220
1958	2,053,410,089
1959	2,211,809,857
1960	3,174,073,042
1961	3,327,737,284
1962	3,630,203,140
1963	3,810,422,358
1964	2,988,027,806
1965	3,293,188,220
1966	3,670,377,750
1967	4,074,537,420
1968	4,454,739,085

PART II

MANAGEMENT LETTER

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

Management Letter

June 30, 1968

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
TABLE OF CONTENTS

	<u>Page</u>
Accountants' Report on Internal Control	2
Deficiencies and Weaknesses in The System of Accounting and Internal Control and Recommendations for Corrective Action	
General	
Lack of Financial Reports	4
Cash Management	
Lack of Written Policies and Procedures	6
Cash Forecasts	7
Schedule of Average Monthly Balances in Time and Demand Deposits	8
Cash Balances	9
Allocation of Funds Between Banks	12
Adequacy of Collateral Pledged by Banks	14
Cash and Security Receiving and Custodianship	
Lack of Security Measures	16
Perpetual Inventories of Securities	18
Closing of Cashier's Office	18
Surprise Audits of the State Treasury	19
Debt Management	
Outstanding Matured Bond Interest Coupons	20
Collection of Revenues	
Escheat of Unclaimed Dividends	21
Reimbursements of Health Fund Premiums	21
Purchasing	
Separation of Duties	23
Informality of Purchasing Methods	23
Use of The Petty Cash Fund	23
Purchase Orders Dated After Commitments	24
Payroll	
Separation of Duties	25
Specimen Signature Cards	25
Personnel Records	25
Retroactive Compensation	26
Summary	28

To the Auditor  
State of Hawaii

ACCOUNTANTS' REPORT ON INTERNAL CONTROL

In accordance with the requirements of Section II of the Instructions to Independent Certified Public Accountants on Audit Engagements of Agencies of the State of Hawaii with which we have agreed to comply under the terms of our agreement with you dated June 20, 1968, we submit this report on the system of internal control and accounting of the Department of Budget and Finance of the State of Hawaii for the year ended June 30, 1968.

The objectives of our examination of the accounting records of the Department of Budget and Finance were as follows:

1. To provide a basis for an independent accountant's opinion of the reasonable accuracy of the financial statements of the Department of Budget and Finance.
2. To ascertain that the expenditures were made in accordance with the laws of the State of Hawaii and the applicable rules and regulations and to reasonably ascertain that the revenues and other receipts to which the state is entitled have been collected and properly accounted for.
3. To ascertain the adequacy of the financial reports in providing responsible public employees and officials at the different levels of the organization with the proper information to plan, evaluate, and control program activities.
4. To evaluate the adequacy, effectiveness and efficiency of the systems and procedures for financial accounting and internal control and to recommend improvements to such systems and procedures.

To the Auditor

State of Hawaii (Page 2)

We were not engaged to make a comprehensive study of the system of internal control and accounting of all phases of departmental operations. Accordingly, our comments and recommendations are limited to observations made by our staff in the course of reaching our objectives. In addition, any qualifications as to the scope of our examinations contained in the Accountants' Report - Financial Statements as of June 30, 1968 would be equally applicable here.

The system of internal control of the Department of Budget and Finance, taken as a whole, is adequate. While we noted some deficiencies, they were not of such material significance as to detract from the adequacy of the system taken as a whole.

CLAY, WULFEKUEHLER & CO.

Clay Wulfekuehler & Co.  
HOKADA & HAYASHI

Hokada & Hayashi  
INAGAKI, MUKAI & FO

Ishigaki, Mukai & Fo  
ISHIMOTO, IMAMOTO & CO.

Ishimoto, Imamoto & Co.  
LEMKE AND COMPANY

Lemke and Company

Honolulu, Hawaii  
December 2, 1968

GENERAL

Lack of Financial Reports

The Department of Budget and Finance does not furnish any of its divisions with a type of financial report which may be used by responsible officials to evaluate their respective activities. At the beginning of the fiscal year, the divisions are furnished with allotment schedules which indicate the plan for expenditures; however, they do not receive anything further.

We recommend that reports, which summarizes revenues, appropriations, expenditures, encumbrances and unencumbered balances, be prepared as frequently as required so that the individuals responsible for departmental activities may judge whether or not they are meeting their responsibilities.

In order to provide this financial information it will be necessary to improve the system of recording encumbrances. By definition, an encumbrance is an obligation in the form of a purchase order, contract or salary commitment chargeable against an appropriation. The encumbrances must be recorded when the commitments are made and the expenditures recorded as the liabilities are incurred to determine the present status of an appropriation. At the present time, encumbrances are recorded on separate ledger sheets, that are not being maintained in a manner which will provide the necessary data.

We recommend that purchase orders be immediately encumbered and that consideration be given to revising the present ledger sheets to present appropriations, expenditures, encumbrances and unencumbered amounts in one place. The revised ledger sheets should be headed with a proper identification of the appropriation and provide for memoranda entries of allotments. Columnar entries may be provided as follows:

1. Date
2. Description

General

Lack of Financial Reports - (continued)

3. Encumbrances
  - a. Purchase order number
  - b. Amount of purchase order
  - c. Reversal of purchase order amount
  - d. Balance of encumbrances
4. Expenditures
  - a. Warrant voucher number
  - b. Object code
  - c. Amount
  - d. Accumulated total
5. Appropriation
6. Unencumbered balance

Current maintenance of ledger sheets which contain the above information should provide responsible individuals with adequate information on the status of appropriations, expenditures and encumbrances to control departmental expenditures.

## CASH MANAGEMENT

Under Act I, Section 14 of the Hawaii State Government Reorganization Act of 1959, Second Special Session Laws of Hawaii, the Department of Budget and Finance is charged with the responsibility of management, investment and safekeeping of State funds. Our review of these functions revealed that proper planning and controls are not in effect to insure the effective utilization and security of State funds.

### Lack of Written Policies and Procedures

Except to the extent that the Revised Laws of Hawaii may outline policies and procedures relating to certain of its operations, the Finance Division of the Department of Budget and Finance has no written policies and procedures. This fact was disclosed upon inquires into matters relating to the manner in which cash management decisions were made and the procedures followed to arrive at and implement these conclusions.

We recommend the adoption of written policies and procedures for the following reasons:

1. Provide the Division Chief and his assistants with guidelines to make management decisions.
2. Enable successors to continue and maintain the policies and procedures in effect, in the event of illness or transfer of key personnel.
3. Provide more uniformity in decisions.
4. Facilitate decision making at lower levels, which would enable the Division Chief to devote more time to other matters.
5. Make short and long-range planning more feasible.

## Cash Management

### Cash Forecasts

The Department of Budget and Finance does not prepare any cash forecasts for the purpose of determining its short and long-term cash requirement. A cash forecast or budget is a projection of the cash receipts and disbursements for a specified period of time and is a necessary prelude to effective cash administration. The operation of any financial activity must be planned in advance and within limits of available funds and necessary funds must be provided to carry out the plan.

In the absence of cash forecasts, it has been necessary for the Department to maintain relatively large sums of money in demand deposits to avoid overdrafts in their bank accounts. Consequently, the Finance Division, which is responsible for investing State funds, attempts to maintain 60% of the State's funds in interest-bearing time deposits and 40% in demand deposits. Division personnel were not able to tell us how or when this rule of thumb was established and whether it was based on any study of actual cash requirements.

Schedule 1 on page 8 shows the average monthly balance in demand and time deposits for various State funds for the year ended June 30, 1968. The overall ratio of 60.37% in time deposits and 39.63% in demand deposits conforms to the aforementioned rule of thumb<sup>1</sup>. The General Fund, which has the greatest volume of transactions, requires substantial demand deposits to provide for the uncertainties resulting from lack of planning. The Bond Fund maintained a high ratio in time deposits, because cash requirements for capital improvements projects, which comprise the bulk of the fund, are predictable and do not require much planning.

1. It is interesting to note that during the same period the City and County of Honolulu was able to maintain an average of 85% of its available cash in time deposits, which earned interest at an average rate of 5.2% per annum.

STATE OF HAWAII

DEPARTMENT OF BUDGET AND FINANCE

Schedule of Average Monthly Balances in Demand and Time Deposits  
For the year ended June 30, 1968  
(000 omitted)

(Prepared without audit)

AVERAGE MONTHLY BALANCE

	<u>General Fund</u>		<u>Special Fund</u>		<u>Bond Fund</u>		<u>Trust Fund</u>		<u>All Funds</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
Demand Deposit	\$10,199	36.69%	\$ 6,778	24.88%	\$ 1,145	7.40%	\$20,108	77.48%	\$38,230	39.63%
Time Deposits	<u>17,601</u>	<u>63.31</u>	<u>20,465</u>	<u>75.12</u>	<u>14,323</u>	<u>92.60</u>	<u>5,846</u>	<u>22.52</u>	<u>58,235</u>	<u>60.37</u>
Total	<u>\$27,800</u>	<u>100.00</u>	<u>\$27,243</u>	<u>100.00</u>	<u>\$15,468</u>	<u>100.00</u>	<u>\$25,954</u>	<u>100.00</u>	<u>\$96,465</u>	<u>100.00</u>

## Cash Management

### Cash Forecasts - (continued)

The high ratio of demand deposits in the Trust Funds is partly attributable to property tax collections which are deposited in these funds for a short period of time and subsequently turned over to the Counties.

It appears that better cash planning could result in the investment of more State funds, in time certificates of deposit or other interest-bearing obligations. We recommend that the Director of Finance take immediate steps to provide cash forecasts to this end and also consider the investment of proceeds from tax collections in short term obligations of 30 days or less.

### Cash Balances

Effective cash forecasts will require that the Department of Budget and Finance obtain current and reliable information on cash available in the State treasury at any given time. This information is not currently available because the Department does not have up-to-date information on the following items:

1. Deposits made with the respective depositories by the various departments of the State.
2. Warrants which have been issued by the State but not presented for payment.

The correct cash balance of the State is generally represented by cash as shown on the books of account plus deposits in transit less the warrants outstanding.

The policy of recording cash receipts only from validated deposit slips has resulted in a significant delay in recording many deposits since such deposit slips must be received before receipts can be recorded. The Finance Division has experienced delays in receiving these validated deposit slips because some

Cash Management

Cash Balances - (continued)

of the deposits are made on the outer islands and other remote locations, and because of present depositing procedures. Current procedures call for armored car service to return the validated deposit slips to the originating agency on the day following the deposit, whereupon the originating agency prepares a Treasurer's Deposit Slip (Form B13) which, together with the validated deposit slips, are transmitted to the Department of Budget and Finance. We found that the time involved between the date of deposit and the date the validated deposit slip was received by the Finance Division varied from one to five days. In an extreme case, a deposit made in December 1967 was not recorded on the cash book as of June 30, 1968 because the deposit slip was not received by the Finance Division.

Because the delay in the recording of the deposits results in numerous unaccountable items, the Finance Division has been unable to reconcile some of the cash balances reported by the banks with the cash balances shown on its books. The reconciliation of these bank accounts is performed by the Internal Auditor's Office of the Department of Accounting and General Services only once a year. Bank reconciliations should be performed monthly to assure the Finance Division that all deposits have been properly credited by the bank and recorded on the books of the Department of Budget and Finance on a timely basis and that the book balances actually represent the cash available to the State. Therefore, it becomes even more important to find a method to eliminate this delay in the recording of deposits.

We recommend that the Department of Budget and Finance evolve a plan for the timely recording of deposits and offer the following alternatives for solving this problem:

Cash Management

Cash Balances - (continued)

1. Require the various agencies to phone in the amount of their daily deposits to the Finance Division or
2. Arrange with the two main banks involved to notify the Finance Division daily of all deposits. All deposit slips should readily identify the agency involved or
3. Revise the depositing system for all agencies of the State as follows:
  - a. Originating agency will prepare bank deposit slip in five copies and Treasurer's Deposit Slip (Form B13) in triplicate.
  - b. Three bank deposit slips will accompany the funds to be deposited to the bank. The fourth will be attached to a Form B13 and sent to the Finance Division. The fifth will be retained with one copy of Form B13. The last Form B13 will be sent to the Comptroller.
  - c. The armored car service will make the deposit and deliver one validated deposit slip to the Finance Division and the other, together with the deposit bag, to the originating agency.
  - d. The Finance Division will record the validated deposit slip immediately in its cash book and match it with the copy attached to the Form B13 upon its receipt.

If the problem of the delay in recording deposits can be resolved, the State's books should provide current information on cash availability. During the year ended June 30, 1968, our analysis of the cash balances shown on the Finance Division's books at the end of each month disclosed that on the average they should have been higher by approximately \$2,800,000, which is quite

## Cash Management

### Cash Balances - (continued)

significant if the information is to be utilized in the determination of amounts available for investment.

The Department of Accounting and General Services is responsible for the issuing of warrants and the Finance Division of the Department of Budget and Finance is responsible for the redemption of warrants issued. Information on the amount of warrants outstanding is vital in determining the true cash balance and, although the Finance Division was previously furnished with such reports, they were discontinued because the information was not being utilized by Division personnel. We recommend that these reports be resumed when the Division begins to make cash forecasts.

### Allocation of Funds Between Banks

The Department of Budget and Finance follows a practice of depositing State funds in the various banks throughout the State. We were not able to determine the criteria used by the Director of Finance in allocating funds between banks and, therefore, were not able to determine the reasonableness of the allocations. Our review indicated that a significant portion of the total assets of the smaller banks is comprised of State deposits as shown in the following table:

Cash Management

Allocation of Funds Between Banks - (continued)

<u>Bank</u>	<u>Average total assets June 30, 1967 and 1968</u>	<u>Average monthly cash balance of State funds</u>	<u>Ratio</u>
Bank of Hawaii	\$500,616,125	\$22,185,189	4.43%
First National Bank of Hawaii	445,613,489	19,539,618	4.38%
American Security Bank	92,433,159	11,564,110	12.51%
Central Pacific Bank	82,938,491	11,762,957	14.18%
City Bank of Honolulu	62,406,727	10,313,780	16.53%
Hawaii National Bank	55,026,929	10,270,356	18.66%
Liberty Bank of Honolulu	63,923,792	11,770,737	18.41%

The ratio of banks' total assets to the average monthly cash balance of State funds averages 7.48% for all banks but varies for individual banks from a low of 4.38% for the First National Bank of Hawaii to a high of 18.66% for the Hawaii National Bank.

The Director of Finance is authorized under Section 14A-13, Revised Laws of Hawaii, 1955, as amended, to determine how much money will be deposited in any bank within the limits of Section 133-1, Revised Laws of Hawaii, 1955, as amended, which requires that no more than sixty percent of the State's monies be deposited in one bank. The following criteria, among others, should be considered by the Director of Finance in establishing a policy on deposits:

1. Security. Ability to provide adequate collateral under the provisions of Section 133-3, Revised Laws of Hawaii, 1955, as amended, which is discussed later in this report.
2. Service. Willingness and ability to provide normal and special banking services required by the State.

Cash Management

Allocation of Funds Between Banks - (continued)

3. Fluidity. Ability to meet the State's demand for funds when the State finds it necessary to withdraw them.
4. Investments. Willingness to invest in obligations of the State of Hawaii to support the market for these bonds. As of June 30, 1968 the seven banks had the following investments in State of Hawaii bonds in the portfolios placed as collateral with the State of Hawaii:

<u>Bank</u>	<u>Total collateral</u>	<u>State of Hawaii bonds</u>	<u>Ratio of Hawaii bonds to collateral</u>	<u>Ratio of Hawaii bonds to total assets</u>
Bank of Hawaii	\$52,360,000	\$3,805,000	7.27%	0.65%
First National Bank of Hawaii	48,525,000	3,320,000	6.84%	0.71%
American Security Bank	15,678,000	1,000,000	6.38%	1.04%
Central Pacific Bank	14,588,700	820,000	5.62%	0.92%
City Bank of Honolulu	16,204,000	2,340,000	14.44%	3.42%
Hawaii National Bank	15,709,000	680,000	4.33%	1.13%
Liberty Bank of Honolulu	15,177,000	2,905,000	19.14%	4.26%

We recommend that the Director of Finance review the allocation of deposits to determine if the best interest of the State of Hawaii are being served.

Adequacy of Collateral Pledged by Banks

Section 133-3, Revised Laws of Hawaii, 1955, as amended, provides for the protection of funds deposited in various banks by the Director of Finance by requiring the banks to deposit collateral at least equal in value to the

Cash Management

Adequacy of Collateral Pledged by Banks - (continued)

amount of deposits with the bank. The form of the collateral may be either bonds of the State or of any County of the State, which are valued at par value, or other stated acceptable obligations, which are valued at market value.

We found that the Department of Budget and Finance does not ascertain whether the valuations of those securities, that are valued at market, are in accordance with the Law. Because of the difficulty in obtaining such market valuations, the Finance Division has required the banks to pledge an amount of securities whose par value is at least 110% of the amount on deposit with such banks to allow for bonds, which may be valued at less than par. We were not able to determine how this 110% standard was established.

Our tests of the securities pledged to determine compliance with Section 133-3 by the banks as of June 30, 1968 were confined to securities which were direct obligations of the State of Hawaii and its Counties and bonds, notes, bills or certificates of indebtedness of the United States or its agencies. Except for United States government obligations which are generally expected to be of a higher grade, we did not test those securities that are required to be valued at market because they do not have an active market and, therefore, market valuations are difficult to obtain. Valuations can be obtained, if necessary, from certain brokers specializing in government bonds.

Our tests indicated that all of the banks except the Central Pacific Bank had sufficient securities pledged as of June 30, 1968 to meet the 110% criterion of the Department of Budget and Finance. The amount of securities pledged by Central Pacific Bank was 109% of the funds on deposit.

## Cash Management

### Adequacy of Collateral Pledged by Banks - (continued)

The Department of Budget and Finance should make at least an annual determination of the market value of the securities pledged so that it can be assured that the provisions of the Law are being met and the 110% of par value criterion presently employed is adequate. We, therefore, recommend that the Department require the banks' securities brokers to confirm the market value of the pledged securities directly to the Department at least annually.

### Cash and Security Receiving and Custodianship

The Finance Division of the Department of Budget and Finance is responsible for the maintenance of the State Treasury which includes the collection of monies, the redemption of obligations of the State of Hawaii and the safekeeping of securities owned by the State and the Employees' Retirement System or pledged to the State and its Counties.

#### Lack of Security Measures

We found that there is a lack of satisfactory security measures with respect to the safekeeping of monies and securities as follows:

1. The enclosed area occupied by the cashiering staff in the Department's Finance Division includes the cashier's section where monies are received and accounted for and the vault where securities and cash in excess of normal requirements are stored. The entrance to this enclosed area is not kept locked and it is possible for an unauthorized individual to gain entry into the enclosure. Although a buzzer sounds when the door is opened, an undetected unauthorized entry could

Cash Management

Cash and Security Receiving and Custodianship - (continued)

Lack of Security Measures - (continued)

very likely occur, if the employees in the immediate vicinity are absent or preoccupied. Even if such entry is detected, the individual would already be in a good position to carry out a robbery attempt if that was his motive. We recommend that the doors be kept locked and that control of entry be maintained by the treasury cashier who would allow entry only after recognition of the individual.

2. The vault is not kept locked during working hours and presents a vulnerable security problem. We recommend that the sliding door into the vault be locked and that the key for the door be kept in the possession of an employee in the cashier's section.
3. The safe in the vault, where the cashier maintains her excess cash, does not appear to be kept locked, although substantial sums of cash are kept in the safe. We recommend that the combination lock on the safe be utilized by the cashier to assure better safeguarding.
4. The vault drawers, where securities are stored, are designed with two separate locks so that two individuals should be required to open the drawers; however, we found that the keys to both locks are now maintained unattended on the same key chain, which enables an individual to open a drawer by himself. We recommend that the individual keys be entrusted to two individuals as intended and that these individuals, or their

## Cash Management

### Cash and Security Receiving and Custodianship - (continued)

#### Lack of Security Measures - (continued)

designees, be required to open the drawers simultaneously.

5. The practice of permitting State employees to cash payroll warrants at the Finance Division involves an additional element of security risk, since this requires additional cash on hand in excess of \$100,000 every pay period and imposes a time consuming burden upon the cashier. We recommend that consideration be given to prohibiting this practice inasmuch as ample banking facilities are located within short distances of the State offices.

#### Perpetual Inventories of Securities

The perpetual inventories of securities that are maintained by the Finance Division are recorded on typewritten schedules, with incoming securities and security withdrawals being posted manually. We noted in several instances during our securities count that the schedules did not reflect the correct serial numbers of securities on hand. We recommend that consideration be given to the adoption of a method of data processing to minimize the errors in recording additions and withdrawals of securities.

#### Closing of Cashier's Office

It is the practice of the cashier's office to accept deposits and transact other business until 4:30 p.m. each working day, which does not allow sufficient time nor does it provide a quiet enough atmosphere for the cashiering staff to carry out the balancing of cash actually on hand with the cash that should be on hand. We recommend that the cashier's

Cash Management

Cash and Security Receiving and Custodianship - (continued)

Lack of Security Measures - (continued)

office be closed not later than 3:30 p.m. in order that the employees have more time under better conditions in which to balance the cash.

Surprise Audits of the State Treasury

The Internal Auditor's Office of the Department of Accounting and General Services conducts an annual audit of the State Treasury as of June 30. Employees of the Finance Division anticipate these audits and are on notice to rectify any deficiencies prior to being audited. Under these circumstances defalcations and other serious deficiencies which might have been discovered by the element of surprise may go undetected for many years or may not be discovered at all. We recommend that these audits be conducted on a surprise basis on a date other than June 30 to encourage the employees to keep their records in order all of the time.

DEBT MANAGEMENT

Outstanding Matured Bond Interest Coupons

During our review we noted that many matured bond interest coupons have been outstanding for a long period of time and were not able to ascertain whether these coupons represent valid claims against the State of Hawaii, because there is apparently no specific statute dealing with the length of time within which the coupons may be honored. Section 34-47 of the Revised Laws of Hawaii, 1955, as amended, provides for the cancellation of warrants not presented for payment before the close of the fiscal period subsequent to the fiscal period in which they were issued; however, we were not able to specifically determine the statute of limitations as it applies to matured bond interest coupons. Matured bond interest coupons outstanding for two years and longer at June 30, 1968 are summarized as follows:

	<u>Total</u>	<u>General Obligation Bonds</u>	<u>Revenue Bond</u>
2 - 5 years old	\$12,550	\$ 4,671	\$ 7,879
Over 5 years old	<u>13,291</u>	<u>9,482</u>	<u>3,809</u>
	<u>\$25,841</u>	<u>\$ 14,153</u>	<u>\$11,688</u>

Approximately \$8,500 of the matured interest coupons of the General Obligation Bonds has been outstanding for over twenty years.

We recommend that the Department of Budget and Finance obtain an opinion from the Attorney General of the State of Hawaii as to what statute of limitations applies to matured bond interest coupons.

## COLLECTION OF REVENUES

During our review of the policies and procedures relating to the collection of revenues by the Department of Budget and Finance we noted that there is no enforcement program on the escheat of unclaimed dividends and reimbursements of certain Health Fund Premiums are not being made on a timely basis. These matters are discussed in this section.

### Escheat of Unclaimed Dividends

Section 235-15, Revised Laws of Hawaii, 1955, as amended, provides for corporations to remit to the State those dividends which have been outstanding for more than five years and have not been collected by stockholders. The Department of Budget and Finance relies solely on voluntary compliance by corporations and does not have a program of enforcement.

We recommend that the Director of Finance confer with the Director of Taxation to ascertain if it is feasible for the latter department to follow up on enforcement during the course of periodic audits of corporations.

### Reimbursements of Health Fund Premiums

Employees of the State of Hawaii and its Counties are participants in the Hawaii Public Employees Health Fund. The State of Hawaii provides for a portion of the benefits and advances all premiums for the program from the General Fund. The State is then reimbursed for that portion of the premiums borne by the employees and by the Counties for the premiums paid for employees who are paid from special funds. We noted that there are often delays of several months before the Counties submit their reimbursements. We recommend that the Department of Budget and Finance follow up on the delinquencies and require the Counties to remit their share of premiums at the same time that payments are made for Hawaii income taxes withheld which would be at least by

Collection of Revenues

Reimbursements of Health Fund Premiums - (continued)

the end of the month following the month in which the advances are made. These remittances should be made promptly because these monies are trust funds and should be treated as such.

## PURCHASING

This section deals with our observations of the internal control and accounting relating to the preparation, approving, issuing and accounting for purchase requisitions and purchase orders.

### Separation of Duties

The functions of preparing purchase orders, approving purchase orders and accounting for purchase orders are performed by one individual in the Department of Budget and Finance. We recommend that these duties be reassigned to more than one individual in order to provide the necessary checks and balances.

### Informality of Purchasing Methods

Requests for purchases of goods and services are done informally by oral communication or by memoranda on slips of paper directed to the Department's purchasing agent, who is required to prepare the purchase order immediately and is interrupted from his normal work routine. The reasons offered for this informal approach are that requisitioned amounts are too small and that purchases of certain goods and services have previously been set by contract or statute. We recommend that all purchase requests be made in writing on requisition forms provided by the Department of Accounting and General Services and such forms should be prepared at the division level. This procedure would provide written evidence of the goods and services desired, tend to minimize errors in purchasing and allow the purchasing agent to plan his work more effectively.

### Use of the Petty Cash Fund

The Department should consider the use of the existing petty cash imprest fund for expenditures of \$5.00 or less. Our test of the purchase orders indicates a large number of orders issued in this category. The operation of a petty cash imprest fund should save time by expending purchases of small

## Purchasing

### Use of the Petty Cash Fund - (continued)

amounts, since it would eliminate the necessity of preparing a purchase order, a summary warrant voucher and a warrant for every minor expenditure and would lighten the workload of the Accounting Division of the Department of Accounting and General Services as well.

### Purchase Orders Dated After Commitments

Our test of the records revealed that approximately 18% of the purchase orders examined were dated after the date of the vendor's invoice, which indicates that purchase commitments were made before they were properly authorized. The purpose of a purchase order is to establish price, quantity and quality of goods and services prior to performance by the vendor. If the purchase order is prepared subsequent to performance, there is no assurance that the goods or services received were as originally ordered. Furthermore, a purchase commitment should not be made without written authorization. We recommend that all purchase orders be prepared at the time the commitments are made.

## PAYROLL

The preparation of the payroll is perhaps the most highly automated function in the State government machinery. No problems were encountered in this area, except for certain matters relating to the distribution of payroll warrants, maintenance of unnecessary and incomplete records and payment of retroactive compensation.

### Separation of Duties

We noted that one person is responsible for the preparation of the payroll and the distribution of payroll warrants at the Department of Budget and Finance and the Commission on Aging. It is desirable to have the payroll warrants distributed by an individual other than the person responsible for the preparation of the payroll to safeguard against the possibility of payments being made to unauthorized individuals.

### Specimen Signature Cards

The Specimens of Employees' Signatures (Department of Accounting and General Services Form 30) are ostensibly maintained to compare the specimen signatures with the endorsements on cancelled warrants. We were informed, however, that the specimen signature cards are not being used for the purpose intended. If these cards are not being used for any useful purpose and other personnel documents can be relied upon for comparison of signatures, we suggest the discontinuance of maintaining these cards, which should otherwise be utilized for the purpose mentioned above.

### Personnel Records

Our review of the Department's personnel files revealed that many of the files did not contain written authorizations for payroll assignments and deductions, which are necessary to support deductions made from employees' pay.

Payroll

Personnel Records - (continued)

The Department of Accounting and General Services memorandum on Procedures for New Payroll System dated September 1, 1964, requires that duplicate copies of authorizations for assignments and deductions, other than garnishee deductions, will be forwarded by the Department of Accounting and General Services Pre-Audit Branch to the departmental personnel officer.

We recommend that the written authorizations for deductions be obtained from each employee and that departmental personnel files be periodically reviewed to determine that they are being properly maintained.

We further recommend that the Department of Personnel Services study the feasibility of centralizing personnel records of all State employees in its Department and eliminating the duplicate records maintained by other departments.

Retroactive Compensation

During the year certain Departmental employees were granted salary increases, that were retroactive to July 1, 1966 and paid in April 1968. The budget for the fiscal year ended June 30, 1968 does not indicate whether these retroactive pay increases were included. The budget request form provides for payments for current services only and there are no provisions for retroactive pay increases.

The following information relative to retroactive pay increases for the year is presented:

	<u>Total Retroactive Pay</u>	<u>Portion Applicable to Current Year</u>	<u>Portion Applicable to Prior Year</u>
Employee A	\$ 987	\$423	\$564
Employee B	1,278	576	702
Employee C	1,218	522	696
Employee D	735	315	420
Employee E	987	423	564
Employee F	1,092	468	624
Employee G	956	415	541

Payroll

Retroactive Compensation - (continued)

We were informed by the Director of Finance that these promotions were requested during the preceding fiscal year, but personnel action was not completed until the current fiscal year.

We recommend that the Department of Budget and Finance take the necessary steps to clearly delineate in the budget those expenses incurred for past services to give the reader a clearer understanding of the budgeted amounts. We further recommend that the Department of Personnel Services expeditiously process future promotion requests.

## SUMMARY

Section 32, Chapter 2, Revised Laws of Hawaii, 1955, as amended, requires the Office of the Legislative Auditor to conduct post-audits of all transactions and of all books and accounts kept by State departments and its political subdivisions. Pursuant to this requirement and in accordance with the requirements of Section II of the Instructions to Independent Certified Public Accountants, we have reviewed the system of internal control and accounting of the Department of Budget and Finance of the State of Hawaii for the year ended June 30, 1968.

Our examination was made to provide a basis for an independent accountant's opinion on the financial statements of the Department of Budget and Finance, to ascertain the propriety of expenditures and revenue collections, to ascertain the adequacy of financial reports and to evaluate the system of accounting and internal control.

Our major findings and recommendations are summarized as follows:

### General

The Department does not provide its divisions with adequate financial reports which are necessary for intelligent decision making. We recommend that reports summarizing revenues, appropriations, expenditures, encumbrances and unencumbered balances be prepared and circulated periodically.

Encumbrances are not being recorded on a current basis. This is necessary to determine the present status of an appropriation. We, therefore, recommend the immediate encumbrance of all purchase orders.

## Summary

### Cash Management

The Department's Finance Division operates without written policies and procedures which are essential in providing guidance to employees in carrying out their duties. We recommend that written policies and procedures be adopted.

The investment policy of the Department does not seem to be based on a study of actual cash requirements. Because of this lack of information, the Department has adopted a necessarily conservative practice of maintaining an average of only 60% of its funds in interest-bearing deposits. We recommend that cash forecasts be made and that the Department strive to increase the ratio of interest-bearing deposits.

The records of the Department do not reflect the current cash available to the State. This information is essential in preparing cash forecasts and, therefore, steps should be taken to revise the accounting system in order that cash receipts can be recorded promptly.

The Department is not furnished information on outstanding warrants. This information is also important in determining cash requirements and should be made available to the Department.

The allocation of funds between banks, should be based on considerations of security, service, fluidity and bank investment policies relating to State bond issues. We recommend that these criteria be utilized in determining the allocation of funds between banks.

We found that satisfactory security measures are lacking with respect to the control of entry into the cashier's cage and the securing of the vault, the safe in the vault and the vault drawers. We recommend that steps be taken to improve security measures in this area.

## Summary

### Cash Management - (continued)

There are no surprise audits of the Department, which enables employees to anticipate the scheduled audits. We recommend that surprise audits be conducted.

### Collection of Revenues

The Department relies solely on voluntary compliances by corporations with regard to escheat of unclaimed dividends. We recommend that the Director of Finance consult the Director of Taxation on methods of enforcing collection.

### Debt Management

Many matured bank interest coupons have been outstanding for a long period of time. The Attorney General should be consulted to determine how long after maturity these matured coupons continue to be valid claims against the State of Hawaii.

### Purchasing

The functions of purchasing are performed by one individual in the Department. A separation of these duties is necessary so that one individual does not handle all of the phases of the purchasing function.

Communication of purchase requests is handled informally, either orally or on slips of paper. We recommend that written purchase requisition forms be utilized.

Commitments for purchases are sometimes incurred prior to the issuance of purchase orders. We recommend that all purchase orders be prepared at the time the commitments are made.

Summary

Payroll

One person is responsible for the preparation of the payroll and the distribution of payroll warrants. We recommend that these duties be separated to safeguard against the possibility of payments being made to unauthorized individuals.

Many of the personnel files did not contain written authorization for payroll assignments and deductions. We recommend that personnel files be periodically reviewed to determine that they are being properly maintained.

Retroactive pay increases were granted to certain departmental personnel. These increases were retroactive to July 1, 1966 and thus represented expenditures for past services. The budget did not provide for these past services and we recommend that if such increases are to be granted in the future, that they be clearly delineated in the budget.

PART III

COMMENTS BY AFFECTED AGENCIES

**A MEMORANDUM ON THE COMMENTS  
MADE BY THE AFFECTED AGENCY**

This financial audit report of the department of budget and finance was completed in January 1969 by a joint venture of certified public accounting firms. On January 25, 1969, we distributed a copy of the report to the department of budget and finance via a transmittal letter, a copy of which is attached as Attachment No. 2. The department of budget and finance was requested to submit its comments on the recommendations contained in the report, including information as to the specific action it has taken or intends to take with respect to the recommendations.

The department of budget and finance submitted its response on February 13, 1969. (See Attachment No. 3) They were in general agreement with the recommendations made by the contract auditors and have indicated that they are implementing or will implement most of the changes recommended.

After receiving the reply from the department of budget and finance, we requested the contract auditors to submit their comments on the department's response. A copy of the contract auditors' reply is attached as Attachment No. 1. The auditors limited their reply to those areas where the agency had some special comment to make. We concur with the comments made by the contract auditors.

We also concur with all of the findings and recommendations contained in the report, except that we reserve comment at this time with reference to the centralization of personnel records in the department of personnel services (page 26 of report).

RECEIVED

FEB 17 1969

OFFICE OF THE AUDITOR  
TIME \_\_\_\_\_

February 17, 1969

Mr. Clinton T. Tanimura  
Auditor  
State of Hawaii  
Iolani Palace  
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

In compliance with your request, we submit the following comments to the letter which you received from the Director of Finance dated February 13, 1969 in response to the comments and recommendations contained in the Management Letter which resulted from our audit of the Department of Budget and Finance for the year ended June 30, 1968. Our remarks are limited to the two areas where the Director of Finance had special comments to make.

We are pleased to note that the Director of Finance recognizes the need for a reasonably accurate cash flow projection to effectively administer State funds. We recognize that the task is a large and complex one and will take some time to systematize. However, we urge the Director of Finance to move with all the swiftness possible in providing these forecasts. With the price of money being what it is today, the State cannot afford to have any funds idle. Furthermore, we are confident that any cost incurred by the State in developing these forecasts will be recovered many times over in additional investment income.

The comments in our report on the allocation of funds between banks were made because it was not apparent from our discussions with the Director of Finance that the State had established any criteria at all for making decisions in this area. We did not make any direct suggestions as to what this allocation should be because this is a matter which requires much study and we merely suggested some of the possible criteria to be used in making such a determination. We did recommend that the Director of Finance study this matter and arrive at a solution which would be in the best interests of the State of Hawaii. The stated policy to "fairly distribute deposits among all banks" seems somewhat vague.

Clinton T. Tanimura  
Page 2  
February 17, 1969

The letter addressed to the Director of Finance from the Department of Personnel Services requires no comment on our part.

We are happy to note that the Department of Budget and Finance and the Department of Personnel Services have accepted our comments and recommendations in the same constructive spirit in which they were made. Should you have any questions on the above comments or if we can be of any further assistance to you, please call us.

Very truly yours,



---

Hokada & Hayashi  
Clay, Wulfekuhler & Co.  
Inagaki, Mukai & Fo  
Ishimoto, Imamoto & Company  
Lemke and Company

COPY

Attachment No. 2

CLINTON T. TANIMURA  
AUDITOR



THE OFFICE OF THE AUDITOR  
STATE OF HAWAII  
IOLANI PALACE  
HONOLULU, HAWAII 96813

January 25, 1969

The Honorable Andrew T. F. Ing  
Director, Department of Budget and Finance  
State of Hawaii  
Honolulu, Hawaii

Dear Mr. Ing:

Under a contract with this office, Hokada & Hayashi, et al., certified public accountants, examined the accounting records and system of internal control of the General Fund of the State of Hawaii for the fiscal year ended June 30, 1968. The examination was conducted pursuant to the duties and powers vested in our office by Article VI, Section 8, of the Constitution of the State of Hawaii and Chapter 2, Part III, of the Revised Laws of Hawaii 1955, as amended.

Enclosed are three copies of the preliminary report of the audit. The expression "preliminary" indicates that the report has not been released for general distribution. However, copies of this report have been forwarded to the Governor and the presiding officers of both Houses of the Fifth State Legislature.

The report is presented in two parts—the first entitled, "Accountants' Report," and the second, "Management Letter." It contains a number of recommendations for improvement of fiscal operations. I would appreciate receiving your written comments on those recommendations which are directed to your department, including comments as to the specific steps you have taken or intend to take with respect to each of them. The findings and recommendations contained in the management letter also affect other agencies. Attached is a listing of the other agencies affected by this report and cites the recommendations directed to them. In order that we might receive a single, cohesive and comprehensive commentary we would like to have you coordinate the agencies' responses and include their comments with your reply. All comments must be in our hands by February 5, 1969. The report will be finalized and released for general distribution shortly thereafter.

If you wish to discuss the report with us, we will be pleased to meet with you on or before January 31, 1969. We await a call from your office to fix the appointment. A "no call" will be assumed to mean that a meeting is not necessary.

We sincerely appreciate the assistance and cooperation extended by your staff to our contract auditors.

Sincerely,

Clinton T. Tanimura  
Legislative Auditor

Enclosures

## OTHER AFFECTED AGENCIES

### Department of Accounting and General Services

Page 19 -- Recommendation that internal audits be conducted on a surprise basis on a date other than June 30.

### Department of Personnel Services

Page 26 -- Recommendation to study the feasibility of centralizing all personnel records in the Department of Personnel Services.

Page 27 -- Recommendation that personnel action on promotion requests be expeditiously processed in the future.

JOHN A. BURNS  
GOVERNOR



ANDREW T. F. ING  
DIRECTOR

COMMISSION ON CHILDREN AND YOUTH  
(ADVISORY)

EMPLOYEES' RETIREMENT SYSTEM  
(ADMINISTRATIVE)

EMPLOYEES' GROUP MEDICAL AND  
HOSPITAL CARE INSURANCE PLAN  
(ADMINISTRATIVE)

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE

STATE OFFICE BUILDING

P. O. BOX 150

HONOLULU, HAWAII 96810

February 13, 1969

DIVISIONS:

BUDGET

FINANCE

MANAGEMENT SERVICES

RECEIVED

FEB 14 1969

OFFICE OF THE AUDITOR  
TIME \_\_\_\_\_

Mr. Clinton T. Tanimura  
Auditor  
State of Hawaii  
Iolani Palace  
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

We appreciate the opportunity to comment on the preliminary report of the first management audit of the Department of Budget and Finance conducted by Hokada & Hayashi, et. al., under contract with your office.

Because of the close proximity of the Office of the Director of Finance and the Finance Division, written guidelines were not deemed necessary. However, greater attention will be given towards formal written instructions in the future as the scope and depth of the operations broadens.

The audit report deals with a number of items and areas. For easy reference, we have responded to each of them in the order as they appear in the report by page and paragraph.

Page 4, Par. 2: It is agreed that regular financial reports are useful for planning to any operating agency particularly the large administrative units. The Department of Accounting and General Services is presently in the process of reevaluating and revising the accounting system of the State which, when completed and tied in with data processing, will provide the necessary financial data on a uniform and timely basis.

Page 6, Par. 3: Formal written policies and procedures will be adopted as soon as is practicable.

Page 9, Par. 2: The proper ratio of State funds to be deposited in time deposits and in demand deposits will depend on cash flow forecasts. In accordance with the policy guideline issued by the Chief Executive at the outset of this Administration, this department has sought to maximize earnings from investments rather than to follow a fixed ratio. While interest rates

have fluctuated and the amounts deposited have increased, nevertheless it should be noted that earnings have almost doubled since 1963. The department recognizes the need for a reasonably accurate cash flow projection and for the past several years has been collecting information and historical data that can be used to develop an effective projection.

Forecasting general revenues for any period is difficult because of the many complex and variable factors that affect our State economy. In the present fiscal year, the estimate of general fund revenues have been increased from \$238 million to \$266 million, an increase of \$28 million. Since the change in tax laws in 1965, the pattern of tax collections has been erratic. Normal departmental expenditure forecasts can be achieved, though cash advances for capital improvement projects required by departments will necessitate better planning. As soon as a meaningful cash flow statement can be achieved, the maximum of funds will be invested. The recommendation that investments in short-term obligations of 30 days or less will be implemented.

The fact that a multiplicity of bank accounts hinders effective cash management was given early recognition by this Administration. Again, in accordance with the goal set forth by the Chief Executive to achieve maximum efficiency in government, we have sought to consolidate existing major fund accounts into a single account. Inasmuch as this involves the development of a coded system for identifying vouchers as to their basis of origin, we are working with the State Comptroller toward this goal of establishing a single fund account.

Page 10, Par. 3: We will study the problem of delay in the recording of deposits carefully. The suggested alternative will be given careful consideration. Statewide deposit activities add to the complexity of this problem.

Page 12, Par. 2: We are in complete agreement that information on the amount of warrants outstanding is a necessary factor in making an effective cash flow forecast and such information will be utilized.

Page 14, Par. 2: The present policy on allocation of deposits among the several banks of this State was established at the very outset of this Administration because it impinges upon the total economic, political and social web of this State. The policy today is to fairly distribute deposits among all banks, irrespective of size in terms of assets and balanced against the banking services required by the State. This policy fosters competition and encourages growth among all banks. It also creates the financial climate for a healthy banking industry, which is vital to the continued growth of the State's economy.

Prior to 1963 the policy on deposit allocations was to keep about 80 per cent in the two large banks and 20 per cent in the smaller banks. The suggestion that deposits be distributed according to the total assets of the individual banks would virtually restore the ratio that prevailed before 1963. Under such a distribution, the two larger banks would receive 73 per cent of State deposits and the five smaller banks about 27 per cent.

While there is merit in encouraging Hawaii banks to increase their investments in State and County bonds, the suggestion that such bonds be required as collateral for deposits should be viewed with some caution. For one thing, Hawaii bonds are generally given a highly favorable reception on the Mainland bond market today. It is this Administration's view that such "outside" investment in our economy is good for Hawaii. Moreover, it should be borne in mind that banks are in business to earn dividends for their stockholders, and there is question as to the prudence of directly or indirectly attempting to dictate the investment policy of the banks.

Page 16, Par. 1: Banks will be asked to confirm the market value of the pledged securities directly to the department at least annually.

Page 17, Pars. 1-4: We recognize the need for security measures as recommended and we concur that the recommendations are valid. These security measures will be complied with and the cashing of warrants will be discontinued when the Finance Division is relocated in the new State Capitol Building in April 1969.

Page 18, Par. 1: The practice of permitting State employees to cash payroll warrants at the Finance Division will be discontinued and this recommendation will be adopted when the Finance Division is relocated.

Page 18, Par. 2: The mechanization of inventories of securities was considered a year ago and discussed with SWIS. It was determined that the volume was not sufficient to warrant mechanization since a data processing system would require the nearly same number of manhours as manual posting and that there were higher priorities of application of data processing within State government. However, we agree that posting errors should be eliminated through cross checking.

Page 18, Par. 3: The recommendation that the cashier's office be closed not later than 3:30 p.m. to allow employees more time to balance the cash is a sound one and this recommendation will be adopted.

Page 19, Par. 2: The Director of Finance supports the unannounced audits and when possible that this principle be applied on a statewide basis. The State Comptroller is also in complete agreement, but is subject to staff limitations for such audits.

Page 20, Par. 3: The Attorney General will be consulted as to what statute of limitations applies to matured bond interest coupons.

Page 21, Par. 3: It is difficult to implement an enforcement program in unclaimed dividends in view of the many corporations. The amount of dividends subject to escheat in 1968 was \$1,508.58. However, we will discuss the matter of enforcement not only with the Department of Taxation, but with the Attorney General and the Department of Regulatory Agencies.

Page 21, Par. 4: Every effort to have the counties promptly remit their share of the Health Fund premium will be made.

Page 23, Par. 2: The purchasing duties will be reassigned to more than one individual.

Page 23, Par. 3: Written requisitions will be made standard operating procedure for purchasing.

Page 23, Par. 4: Some of our divisions are already using the petty cash fund. We will extend the use of such fund to other divisions of the department.

Page 24, Par. 2: Corrective action will be taken immediately since this violation can be traced to a single division of the department.

Page 25, Par. 2: Action will be taken to insure that the payroll warrants will be distributed by an individual other than the person responsible for the preparation of the payroll.

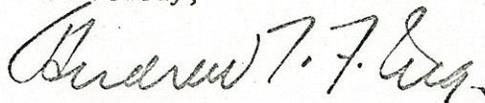
Page 25, Par. 3: The discontinuance of the maintenance of specimen signature cards of employees is a matter for the State Comptroller to decide. It appears there is no valid use for such signature cards.

Page 26, Par. 2: Although the department has grown rapidly, we lack a personnel technician. We agree that our personnel files have been neglected and we will attempt to make improvements within the staff limitations.

Page 26, Par. 3: Comments relating to the centralization of all personnel records in the Department of Personnel Services were prepared by the Department of Personnel Services which are attached.

Page 27, Par. 2: Comments relating to the expeditious processing of promotion requests were prepared by the Department of Personnel Services which are attached.

Sincerely,



Andrew T. F. Ing  
Director

JOHN A. BURNS  
GOVERNOR OF HAWAII



RECEIVED  
FEB 4 1969  
BUDGET AND FINANCE  
STATE OF HAWAII

EDNA TAVARES TAUFAASAU  
DIRECTOR OF PERSONNEL SERVICES  
DAVID K. TRASK, JR.  
DEPUTY DIRECTOR OF PERSONNEL SERVICES

STATE OF HAWAII  
DEPARTMENT OF PERSONNEL SERVICES  
825 MILILANI STREET  
HONOLULU, HAWAII 96813

February 4, 1969

RECEIVED

FEB 14 1969

OFFICE OF THE AUDITOR  
TIME \_\_\_\_\_

Mr. Andrew T. F. Ing, Director  
Department of Budget and Finance  
State of Hawaii  
Honolulu, Hawaii

Dear Mr. Ing:

Reference is made to your letter of January 30, 1969 seeking our comments on two sections of the preliminary report of an audit of your Department.

We concur with the recommendation that the Department of Personnel Services should study "the feasibility of centralizing all personnel records in the Department of Personnel Services and eliminating the duplicate records maintained by other departments." Our concurrence is qualified by the conditions that the utilization of personnel data for payroll, budget, and other fiscal activities and that the responsibility for the proper utilization of this data remain with each of the respective departments.

The other recommendation we are concerned with reads: "We further recommend that the Department of Personnel Services expeditiously process future promotion requests." In order that our comments may be understood better, we will distinguish between a promotion and a re-allocation or re-classification.

Our average delay time for a promotion is one to two days. Here, we have reference to the movement of an employee from one position to another position with a higher salary. Both the positions and the two classes of work involved were established previously.

Considerably different is the re-allocation or re-classification of a position. In either case, the employee remains in the position, but the position is re-assigned to another class of work. Many factors are involved in a re-classification or re-allocation action and each of these factors contributes to delay.

Two key factors are the quality of classification standards and the arrangement of various occupational categories and series of classes into appropriate salary patterns. Salary patterns have been established and others are being formulated, and we are continuing to up-date our classification standards. Our work thus far on professional classes in several of your Divisions, such as Budget and Management Services, indicates that classification actions in these areas will be handled

Mr. Andrew T. F. Ing, Director  
Department of Budget and Finance

February 4, 1969

- 2 -

promptly hereafter. We are optimistic that the same result will occur in all occupational areas after the completion of our project to up-date our classification-compensation plans.

Sincerely,



DAVID K. TRASK, JR.

Deputy Director of Personnel Services