

**FINANCIAL AUDIT OF THE  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS**

**Conducted by the  
Office of the Legislative Auditor  
State of Hawaii  
and  
Coopers & Lybrand  
Certified Public Accountants**

**A Report to the Governor and the Legislature of the State of Hawaii**

**Submitted by the  
Legislative Auditor of the State of Hawaii  
Honolulu, Hawaii**

**Report No. 87-12**

**February 1987**

## FOREWORD

This financial audit report is the result of an examination of the financial statements and records of the Department of Commerce and Consumer Affairs for the fiscal year ended June 30, 1986. The audit was conducted by the Office of the Legislative Auditor and the certified public accounting firm of Coopers & Lybrand.

This report is divided into three parts. Part I contains an introduction and some background information on the Department of Commerce and Consumer Affairs. Part II presents our findings and recommendations on the department's financial and accounting practices. It also includes the department's financial statements and the audit opinion of the fairness and accuracy of the statements. We have followed our customary practice of requesting the agency affected by the audit to comment on the findings and recommendations. Part III contains the response of the Department of Commerce and Consumer Affairs to this report and our comments on the department's response.

We wish to express our sincere appreciation for the cooperation and assistance extended by the staff of the Department of Commerce and Consumer Affairs.

Clinton T. Tanimura  
Legislative Auditor  
State of Hawaii

February 1987

## TABLE OF CONTENTS

<i>Chapter</i>		<i>Page</i>
<b>PART I</b>		
<b>INTRODUCTION AND BACKGROUND</b>		
1	INTRODUCTION .....	3
	Objectives of the Audit .....	3
	Scope of the Audit .....	4
	Organization of the Report .....	4
2	BACKGROUND .....	5
	Functions of the Department .....	5
	Departmental Organization and Activities .....	5
<b>PART II</b>		
<b>FINDINGS AND RECOMMENDATIONS</b>		
3	FINANCIAL ACCOUNTING AND INTERNAL CONTROL .....	13
	Summary of Findings .....	13
	Delays in Depositing Collections of Taxes on Insurance Premiums .....	14
	Failure to Implement Recommendations Made in Prior Audits .....	15
	Excessive Number of Rejections of Business Registration Documents Filed .....	19
4	FINANCIAL STATEMENTS AND ACCOUNTANTS' OPINION .....	23
	Summary of Findings .....	23
	Accountants' Opinion .....	23
	Descriptions and Definitions .....	25
	General Notes to the Financial Statements .....	28
	Notes to the Financial Statements of the General Fund Accounts (Exhibits B and C) and the Special Revenue Funds (Exhibits B, C, and E) .....	36

**PART III  
RESPONSE OF THE AFFECTED AGENCY**

	<i>Page</i>
Comments on Agency Response .....	49

**LIST OF TABLES**

<i>Table</i>		<i>Page</i>
3.1	Deficit Incurred by the Division of Financial Institutions .....	17
3.2	Comparison Between Hourly Compensation and Hourly Rate Charge, June 30, 1986 .....	18
3.3	Rejection of Business Registration Documents Filed .....	20

**LIST OF EXHIBITS**

<i>Exhibit</i>		<i>Page</i>
A	Combined Balance Sheet, Special Revenue, Trust and Agency Funds, June 30, 1986 .....	37
B	Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Fund Types and Account Groups for the Year Ended June 30, 1986 .....	38
C	Combined Statement of Revenues and Expenditures—Budget and Actual, General Fund Accounts and Special Revenue Funds for the Year Ended June 30, 1986 .....	39
D	Special Revenue Funds, Combining Balance Sheet—June 30, 1986 .....	40
E	Special Revenue Funds, Combining Statement of Revenues, Expenditures and Changes in Fund Balances for the Year Ended June 30, 1986 .....	41

<i>Exhibit</i>		<i>Page</i>
F	Trust and Agency Funds, Combining Balance Sheet—June 30, 1986 .....	42
G	Trust Funds, Combining Statement of Revenues, Expenditures and Changes in Fund Balance for the Year Ended June 30, 1986 .....	43
H	Agency Fund, Statement of Changes in Assets and Liabilities for the Year Ended June 30, 1986 .....	44

### LIST OF SCHEDULES

<i>Schedule</i>		<i>Page</i>
I	General Fund Accounts, Schedule of Expenditures—Budget and Actual, for the Year Ended June 30, 1986 .....	45
II	Special Revenue Funds, Schedule of Expenditures—Budget and Actual, for the Year Ended June 30, 1986 .....	46

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**PART I**

**INTRODUCTION AND BACKGROUND**

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## Chapter 1

### INTRODUCTION

This is a report of our financial audit of the Department of Commerce and Consumer Affairs. The audit was conducted by the Office of the Legislative Auditor and the certified public accounting firm, Coopers & Lybrand.

The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the State Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions.

#### Objectives of the Audit

The objectives of the audit were:

1. To assess the adequacy, effectiveness, and efficiency of the systems and procedures for the financial accounting, internal control, and financial reporting of the Department of Commerce and Consumer Affairs; to recommend improvements to such systems, procedures, and reports; and to render an opinion on the reasonable accuracy of the financial statements of the department.
2. To ascertain whether expenditures and other disbursements have been made and all revenues and other receipts have been collected and accounted for in accordance with state laws, rules and regulations, and policies and procedures.
3. To ascertain the extent to which prior audit recommendations pertaining to financial accounting and internal control have been implemented.

## **Scope of the Audit**

This audit examined the financial statements of the Department of Commerce and Consumer Affairs for the period July 1, 1985 to June 30, 1986. The audit opinion as to the reasonable accuracy of the financial statements is that of the independent certified public accounting firm of Coopers & Lybrand.

In addition to the financial statements, the audit examined the financial accounting practices and internal control system of the department.

## **Organization of the Report**

This report is organized as follows:

Part I (Chapters 1 and 2) presents this introduction and background information on the department.

Part II (Chapters 3 and 4) presents our audit findings and recommendations on the financial and accounting practices and procedures of the department. It also includes the department's financial statements and the accountants' opinion on such statements.

Part III contains the response of the Department of Commerce and Consumer Affairs to our recommendations, together with our comments on the department's response.

## Chapter 2

### BACKGROUND

This chapter describes the functions, organization, and activities of the Department of Commerce and Consumer Affairs (DCCA).

#### **Functions of the Department**

By law,<sup>1</sup> DCCA is responsible for protecting the interests of consumers, depositors, and investors throughout the State. It is responsible for setting standards and enforcing all laws, and rules and regulations governing the licensing, registration, and supervision of trades, businesses, and professions including banks, insurance companies, brokerage firms, and other financial institutions. The department serves as consumer advocate on matters relating to public utilities. In addition, the Hawaii Public Broadcasting Authority is assigned to the department for administrative purposes.

#### **Departmental Organization and Activities**

The DCCA is headed by an executive officer known as the Director of Commerce and Consumer Affairs and the department is organized primarily by type

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1. Section 26-9, HRS.

of industry being regulated. A brief description of the organizational units and their activities follows.<sup>2</sup>

**Office of the Director.** The director is responsible for the general administration of the department including the establishment of departmental policies and organizational plans and the implementation of such policies and plans and all administrative rules, regulations, and procedures.

**Operating units.** The operating units and their activities are as follows:

1. *Division of Financial Institutions.* This division administers state laws relating to the chartering, licensing, examination, supervision, and regulation of financial institutions.

2. *Cable Television Division.* This division is charged with the responsibility for ensuring that quality cable communication services are available to potential subscribers in all locations within the State at reasonable rates. The division issues permits and enforces the rules and regulations governing the practices, procedures, quality, and quantity of services of cable communication companies.

3. *Insurance Division.* This division administers state laws relating to the licensing, supervision, and regulation of all insurance transacted in the State by insurance companies, insurance agents, and nonprofit corporations and associations engaged in insurance transactions. Specifically, the division is required to analyze, review, and take action, as required, on insurance company reports, premium rates, insurance contracts, agency operations, and certificates of authority. It is also

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2. Hawaii, Department of Commerce and Consumer Affairs, *Major Functions*, Honolulu, July 1, 1986.

required to perform field examinations of domestic insurers and rating bureaus, and investigate, examine, and license all classes of insurance agents.

4. *Office of Consumer Protection.* This office, assigned to DCCA for administrative purposes, is responsible for protecting consumers and businesses from persons engaged in unfair or deceptive practices. The division investigates consumer complaints, mediates equitable settlements between parties, conducts consumer education programs, and files lawsuits against businesses and individuals engaged in unfair or deceptive business practices.

5. *Business Registration Division.* The Business Registration Division is responsible for administering state laws relating to corporations; partnerships; registration of trademarks, trade names, prints and labels; miscellaneous business registrations; charitable organizations; franchises; takeover bids; and sales of securities.

6. *Professional and Vocational Licensing Division.* This division provides administrative and technical assistance to approximately 40 regulatory boards and commissions. Specifically, the division is responsible for reviewing and processing applications for all occupational licenses and license renewals and for maintaining records of licensees. It also develops testing materials, provides technical assistance to the various boards and commissions in the construction of test questions, and maintains a system of internal control to ensure that licensees are meeting their respective continuing education requirements.

7. *Division of Consumer Advocacy.* The Division of Consumer Advocacy functions on behalf of the director as the State's consumer advocate on public utility matters. The division has the responsibility for representing, advancing, and protecting the interests of consumers of utility services. The division is responsible

for conducting investigations, promoting the interests of the consumer in the public utilities field, studying the operations of laws affecting consumers of utility services, and representing the interests of the consumer in public utility matters.

8. *Hawaii Public Broadcasting Authority.* The authority, assigned to DCCA for administrative purposes, is responsible for managing and operating the State's public broadcasting facilities. It broadcasts television programs which are intended to enlighten the people of the State. The affairs and activities of the authority are administered by the Board of Public Broadcasting.

**Support offices.** Three offices, the Regulated Industries Complaints Office (RICO), the Hearings Office, and the Administrative Services Office, provide specialized staff support services to all divisions and boards. The offices and their activities are described below.

1. *Regulated Industries Complaints Office.* This office provides support to the director and divisions within DCCA in resolving complaints. Specifically, RICO directs and maintains a complaints resolution program; coordinates complaints resolution with other governmental agencies; analyzes and researches trends in consumer complaints; and recommends changes to laws, policies, and regulations. For the most part, the activities of this office are directed towards providing staff support to the business registration, financial institutions, and professional and vocational licensing divisions.

2. *Hearings Office.* This office is responsible for conducting hearings to ensure impartial and uniform treatment in the resolution of complaints filed with the department.

3. *Administrative Services Office.* This office renders fiscal, personnel, and other administrative services to all divisions and offices of the department.

**Conciliation panels.** Two conciliation panels are assigned to DCCA for administrative purposes.

1. *Medical claim conciliation panel.* This panel provides a means for prompt disposition or settlement of medical tort claims without court action. By statute, any person claiming that a medical tort has been committed must submit a claim to the panel before a suit can be filed in court. The panel is composed of three members: a person familiar with and experienced in the personal injury claims settlement process, an active trial attorney, and a physician. The chairperson of the panel is appointed by the Chief Justice of the Supreme Court of Hawaii, and the attorney and physician are appointed by the chairperson. A new panel is formed for each claim filed.

2. *Design professional conciliation panel.* This panel provides a means for prompt and fair settlement of claims of professional negligence against an engineer, architect, or surveyor licensed by DCCA. The panel is composed of a chairperson who is experienced in the tort claims settlement process, an attorney, and a licensed design professional. The chairperson is appointed by the Chief Justice of the Supreme Court of Hawaii, and the attorney and design professional are appointed by the chairperson. A new panel is formed for each claim filed.



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**PART II**

**FINDINGS AND RECOMMENDATIONS**

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## Chapter 3

### FINANCIAL ACCOUNTING AND INTERNAL CONTROL

This chapter assesses the Department of Commerce and Consumer Affairs' (DCCA) financial accounting practices and internal control system. Although the focus is on the present practices of the department, this chapter also discusses specific deficiencies reported in our prior financial audits of the department which have not yet been corrected.

#### Summary of Findings

Our findings are as follows:

1. There are substantial delays in depositing collections of taxes on insurance premiums which result in lost interest earnings. Our estimate is that the State lost approximately \$100,000 in interest earnings in fiscal year 1986 because of these delays.

2. The Division of Financial Institutions has failed to correct certain conditions noted in our prior audits of the department as follows:

a. The hourly billing rate charged for examinations of financial institutions is insufficient to recover all costs of conducting such examinations.

b. The time lag between completion of examinations of financial institutions and preparation of bills to recover examination costs is excessive.

3. The Business Registration Division has been experiencing an excessive number of rejections of documents filed, thereby causing an inconvenience to all parties involved.

## **Delays in Depositing Collections of Taxes on Insurance Premiums**

The Insurance Division administers state laws relating to the regulation of all insurance transacted in the State by insurance companies, insurance agents, and nonprofit organizations and associations engaged in insurance transactions. Section 431-318, Hawaii Revised Statutes, provides that taxes on insurance premiums shall be paid to the Director of Finance through the Insurance Commissioner who heads the Insurance Division. The Insurance Commissioner is responsible for reporting to the Department of Taxation all amounts of taxes collected.

For the fiscal year ended June 30, 1986, total collections of taxes on insurance premiums amounted to approximately \$42 million. Collections are made on a monthly basis when individuals and businesses are required to file their interim insurance premium tax returns with accompanying remittances. Upon receipt by the Insurance Division, these tax returns and remittances are forwarded to the fiscal office cashier and the remittances are then deposited into the State Treasury. The total amount of monthly remittances received during fiscal year 1986 ranged from \$700,000 to \$8,000,000.

During our examination of the collections of taxes on insurance premiums, we noted that the time lag between the date of receipt by the Insurance Division and the date of deposit into the State Treasury ranged from 5 to 28 working days. We were unable to determine whether the delay in depositing collections occurred at the Insurance Division, the fiscal office cashier, or both. This is because there is no time stamp as to when the cashier receives the collection documents from the Insurance Division. Also, we understand that the department has not investigated the causes of these delays.

One of the basic principles of internal control concerning collections is that all moneys should be deposited daily. This practice would provide some safeguard against losses from theft, robbery, or embezzlement. In addition, the consequence of not depositing collections promptly is that the State is losing the opportunity to earn thousands of dollars annually in interest. Based on the State Treasury's effective interest rate for the fiscal year 1986 of 7.2 percent, we estimate that the State lost approximately \$100,000 in interest earnings in fiscal year 1986.

*Recommendation.* We recommend that the department investigate the delays in depositing collections of taxes on insurance premiums and take appropriate action to ensure that collections are deposited promptly.

## **Failure to Implement Recommendations**

### **Made in Prior Audits**

This is our fourth financial audit of the Department of Commerce and Consumer Affairs, and as such, we gave special attention to the extent to and the adequacy with which recommendations made in our 1968,<sup>1</sup> 1974,<sup>2</sup> and 1982<sup>3</sup> audits of the department have been implemented. These audits were conducted when the department was known as the Department of Regulatory Agencies.

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1. Hawaii, Legislative Auditor, *Financial Audit of the Department of Regulatory Agencies*, Report No. 68-3, Honolulu, January 1968.

2. Hawaii, Legislative Auditor, *Financial Audit of the Department of Regulatory Agencies*, Report No. 74-1, Honolulu, March 1974.

3. Hawaii, Legislative Auditor, *Financial Audit of the Department of Regulatory Agencies*, Report No. 82-6, Honolulu, May 1982.

During our examination, we noted that while the department has implemented most of our recommendations, it has failed to initiate corrective action for two deficiencies which we have repeatedly cited in the prior audit reports. As a result, we continue to find that the hourly billing rate charged for examinations of financial institutions is still not sufficient and the time lag between completion of examinations of financial institutions and preparation of bills continues to be excessive. This is particularly disappointing since the department, in its written comments on the prior audit reports, indicated that it was in agreement with our recommendations and had taken necessary steps to implement them.

**Insufficient hourly billing rate.** The Division of Financial Institutions administers state laws relating to the chartering, licensing, examination, supervision, and regulation of financial institutions. With regard to examinations, Section 401-8, HRS, states that the Commissioner of Financial Institutions shall charge an examination fee based on cost per hour per examiner plus travel, per diem, and other related expenses for all financial institutions examined by the commissioner or the commissioner's staff.

In our 1982 audit, we reported that the total cost of conducting examinations of financial institutions exceeded fees collected by \$211,812 for the fiscal year ended June 30, 1981. Since then, a deficit has continually occurred for each subsequent fiscal year of approximately \$89,000 in 1982, \$239,000 in 1983, \$294,000 in 1984, \$543,000 in 1985, and \$269,000 in 1986, as shown in Table 3.1. It should be noted that other related expenses, such as supervisory time spent reviewing the examination reports, clerical time spent typing the examination reports and bills, and allocated costs for the department's administration, were not included for purposes of this computation.

Table 3.1

Deficit Incurred by the  
Division of Financial Institutions

	1982	1983	1984	1985	1986
Examination fees collected	\$533,000	\$489,000	\$432,000	\$209,000	\$393,000
Cost of examinations:					
Examiners' salaries	515,000	567,000	545,000	564,000	496,000
Employee benefits	<u>107,000</u>	<u>161,000</u>	<u>181,000</u>	<u>188,000</u>	<u>166,000</u>
	<u>622,000</u>	<u>728,000</u>	<u>726,000</u>	<u>752,000</u>	<u>662,000</u>
Cost in excess of fees	\$ 89,000	\$239,000	\$294,000	\$543,000	\$269,000

In our prior audit reports, we noted that deficits occurred because the hourly rate charged for providing examinations of financial institutions was insufficient to recover all costs related to the examinations. The last time the division revised its rate schedule was in 1974 when it adopted a flat hourly rate of \$16 for its three classifications of examiners, i.e., Examiners I, II, and III.

For the fiscal year ended June 30, 1986, the difference between the actual hourly compensation including employee benefits for Examiners II and III and the \$16 flat hourly rate charge was approximately \$9 and \$14, respectively, as shown in Table 3.2. No comparison is made for examiners in the Examiner I classification because they were not utilized in the examination of financial institutions.

In its response to our 1982 audit report, the department indicated that it agreed with our recommendation to revise the hourly billing rates to recover the cost of conducting examinations and that it was conducting a study to determine the best method of structuring the examination rates. The current commissioner is not aware of such a study.

Table 3.2

Comparison Between Hourly Compensation  
and Hourly Rate Charge  
June 30, 1986

Staff Classification	Hourly Compensation*	Hourly Rate Charge	Difference
Examiner II	\$25	\$16	\$( 9)
Examiner III	30	16	(14)

\*The hourly compensation is based on the annual salary (including employee benefits) and actual hours billed during the fiscal year ended June 30, 1986.

As we recommended in our prior audit reports, the Division of Financial Institutions needs to revise its hourly billing rates if it is to recover the cost of conducting examinations. In revising its rates, the division should include the examiners' salaries, employee benefits, and other related expenses.

**Untimely billings.** The Division of Financial Institutions bills for the cost of examinations after the examination report has been issued. For the fiscal year ended June 30, 1986, we found that this results in billing delays which are sometimes as long as nine months. Consequently, these delays unnecessarily postpone the availability of funds for use by the State.

In both our 1974 and 1982 financial audits of the department, we noted the same situation of untimely billings. To enable the division to recover costs sooner, we recommended that the division bill financial institutions for examination costs monthly. Although the department stated that it agreed with our recommendation, financial institutions are still not being billed monthly.

As we recommended in our 1974 and 1982 audits, the Division of Financial Institutions should prepare and submit bills to financial institutions for examination costs on a monthly basis as the costs are incurred.

*Recommendation. We recommend that the Division of Financial Institutions develop the following:*

*1. Hourly billing rates which enable the division to recover all costs of conducting examinations of financial institutions. In this regard, the hourly billing rate for examiners should include the examiners' salaries, employee benefits, and other related expenses.*

*2. Timely bill preparation and submission procedures to enable the division to recover financial institution examination costs on a monthly basis as the costs are incurred.*

#### **Excessive Number of Rejections of**

#### **Business Registration Documents Filed**

The Business Registration Division is responsible for administering state laws relating to corporations; partnerships; registration of trademarks, trade names, prints and labels; miscellaneous business registrations; charitable organizations; franchises; takeover bids; and sales of securities. As part of this responsibility, the division receives various business registration documents that are filed by businesses and individuals. These documents include annual corporation, partnership, and nonprofit exhibits; articles of incorporation; foreign corporation and partnership registrations; registrations and assignments of trademarks and trade names; certificates of good standing; and others.

We were informed that during fiscal year 1985, the division noticed that many of the documents received were rejected. As a result, the division began tabulating the number of documents received and the rejections. The division did not, however, account for documents that were filed or rejected after the first rejection. During the fiscal year ended June 30, 1986, the division determined that approximately 24,000 of the 73,000 documents filed for the first time were rejected. This amounts to a rejection rate of 33 percent. Rejection rates were highest among annual corporation exhibits (52 percent), registration of trademarks and trade names (33 percent), and assignment of trademarks and trade names (33 percent). A breakdown of these rejections is shown in Table 3.3.

Table 3.3

Rejection of Business Registration Documents Filed

Document	Received	Rejected	
		Amount	Percent
Annual corporation exhibits	27,000	14,000	52
Registration of trademarks and trade names	6,000	2,000	33
Assignment of trademarks and trade names	6,000	2,000	33
Other	<u>34,000</u>	<u>6,000</u>	<u>17</u>
TOTAL	73,000	24,000	33

We understand that the division has not investigated or analyzed the reasons for rejections and has not explored ways to minimize this problem. We were informed that documents were rejected primarily because of failure to provide a Hawaii residence address, inadequate description, or for not using black ink (for microfilming purposes) when filing certain documents. In addition to the

inconvenience to all parties involved, the rejection of business registration documents postpones the ability of individuals and businesses to perform certain functions, such as operating as a corporation or using a trademark or trade name. These rejections also postpone the availability of these documents for public inspection.

*Recommendation. We recommend that the Business Registration Division investigate and analyze the reasons for the high rejection rate of business registration documents that are filed with the division and develop ways to minimize rejections of such documents.*



## Chapter 4

### FINANCIAL STATEMENTS AND ACCOUNTANTS' OPINION

This chapter presents the results of the examination of the financial statements of the Department of Commerce and Consumer Affairs (DCCA) for the fiscal year ended June 30, 1986. It contains the opinion of Coopers & Lybrand regarding the fairness and accuracy of the department's financial statements. It also displays various financial statements of the general fund accounts, and special revenue, trust, and agency funds administered by the department, together with explanatory notes, and supplemental information presented for analysis purposes only.

#### **Summary of Findings**

In the opinion of Coopers & Lybrand, the department's financial statements present fairly the financial position of the department's special revenue, trust, and agency funds as of June 30, 1986, and the results of operations of the department's general fund accounts, and special revenue, trust, and agency funds for the fiscal year then ended.

#### **Accountants' Opinion**

Coopers & Lybrand's statement filed with the Legislative Auditor is as follows:

"To the Legislative Auditor  
State of Hawaii

We have examined the following financial statements of the Department of Commerce and Consumer Affairs (DCCA), as of June 30, 1986 and for the year then ended:

Combined balance sheet – special revenue, trust and agency funds (Exhibit A)

Combined statement of revenues, expenditures and changes in fund balances – all fund types and account groups (Exhibit B)

Combined statement of revenues and expenditures – budget and actual – general fund accounts and special revenue funds (Exhibit C)

As discussed in the notes to the financial statements, the general fund accounts of the Department of Commerce and Consumer Affairs are a part of the State of Hawaii's general fund and our opinion expressed herein, insofar as it relates to the amounts included for the general fund, is limited to the transactions of the Department of Commerce and Consumer Affairs only. 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 combined financial statements referred to above present fairly the financial position of the special revenue, trust and agency funds of the Department of Commerce and Consumer Affairs as of June 30, 1986, and the results of operations of the department's general fund accounts, and special revenue, trust and agency funds for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the combined financial statements referred to in the first paragraph, taken as a whole. The combining financial statements and Schedules I and II are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in the examination of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

/s/ Coopers & Lybrand

COOPERS & LYBRAND  
Certified Public Accountants

Honolulu, Hawaii  
October 3, 1986"

## Descriptions and Definitions

**Descriptions of financial statements and schedules.** The following is a brief description of the financial statements and schedules examined by Coopers & Lybrand. The financial statements and schedules are attached at the end of this chapter as Exhibits A to H and Schedules I and II.

1. *Combined Balance Sheet—Special Revenue, Trust, and Agency Funds (Exhibit A).* This statement presents the assets, liabilities, and fund balances of the special revenue, trust, and agency funds used by the department on an aggregate basis.

2. *Combined statement of Revenues, Expenditures, and Changes in Fund Balances—All Fund Types and Account Groups (Exhibit B).* This statement presents revenues and expenditures for each type of fund and account group used by the department on an aggregate basis. It also presents changes in fund balances for the department's combined special revenue and trust funds.

3. *Combined Statement of Revenues and Expenditures—Budget and Actual—General Fund Accounts and Special Revenue Funds (Exhibit C).* This statement presents a comparison of budgeted and actual revenues and expenditures for the general fund accounts and special revenue funds used by the department.

4. *Special Revenue Funds—Combining Balance Sheet (Exhibit D).* This statement presents the balance sheets for all of the individual special revenue funds maintained by the department.

5. *Special Revenue Funds—Combining Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit E).* This statement presents the revenues, expenditures, and changes in fund balances for all of the individual special revenue funds maintained by the department.

6. *Trust and Agency Funds—Combining Balance Sheet (Exhibit F)*. This statement presents the balance sheets for all of the individual trust and agency funds maintained by the department.

7. *Trust Funds—Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Exhibit G)*. This statement presents the revenues, expenditures, and changes in fund balances for all of the individual trust funds maintained by the department.

8. *Agency Fund—Statement of Changes in Assets and Liabilities (Exhibit H)*. This statement presents the activity of the agency fund maintained by the department.

9. *General Fund Accounts—Schedule of Expenditures—Budget and Actual (Schedule I)*. This schedule presents a comparison of the budgeted and actual expenditures for the general fund accounts, classified by function, within the department.

10. *Special Revenue Funds—Schedule of Expenditures—Budget and Actual (Schedule II)*. This schedule presents a comparison of the budgeted and actual expenditures for the special revenue funds, classified by function, within the department.

**Definition of terms.** Technical terms are used in the financial statements and in the notes to the financial statements. The more common terms and their definitions are as follows:

1. *Allotment*. An authorization by the Director of Finance to a state agency to incur obligations and to make expenditures pursuant to the appropriation made by the Legislature.

2. *Appropriation.* An authorization granted by the Legislature permitting a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are of two types: (a) funds which are available for use until completely expended, and (b) funds which lapse if not expended by or encumbered at the end of the fiscal year.

3. *Appropriated receipts.* Funds received by the State for designated purposes and specifically authorized by the Legislature to be expended by the state agency. Depending upon the designated purposes of the receipts, the funds may lapse at the end of the fiscal year or be carried over until completely expended.

4. *Encumbrance.* An obligation in the form of a purchase order or contract which is chargeable to an appropriation, the incurring of which sets aside the appropriation for the amount of the obligation.

5. *Expenditure.* The actual disbursement of funds for the payment of goods delivered or services rendered, the obligation to pay for such goods or services having been incurred against authorized funds.

6. *Lapse of appropriated balance.* The balance of funds authorized, which is unexpended and uncommitted at the end of the prescribed time period. The balance reverts to the designated fund and is available for appropriation by the Legislature in the ensuing fiscal year.

7. *Reserve.* An account used to earmark a portion of the fund balance to indicate that it is not available for expenditure.

8. *Transfers.* The transactions between funds, departments, and/or programs which are approved by the appropriate authority.

9. *Unallotted appropriations.* An appropriation balance that is available for allotment.

10. *Unliquidated encumbrances.* Encumbrances that are outstanding and are to be liquidated.

### **General Notes to the Financial Statements**

Explanatory notes which are pertinent to an understanding of the financial statements and financial condition of the funds administered by the department are discussed below:

**Reporting entity.** The Department of Commerce and Consumer Affairs is a department of the State of Hawaii.

**Basis of accounting.** The accounts of the funds maintained by the department and the accompanying financial statements have been prepared on a modified accrual basis of accounting. Under this method, revenues are generally recognized in the period in which they become available and measurable and expenditures are recorded when liabilities are incurred.

Short-term cash investments include temporary investments of time certificates of deposit.

The accounting procedures generally provide for the recording of commitments at the time contracts are awarded and orders for equipment, construction, services, and supplies are placed. These commitments are represented as encumbrances in the accompanying financial statements and are necessary to reflect obligations against appropriations. General fund appropriations that are not expended or encumbered by the end of the fiscal year generally lapse. Appropriations for special revenue funds generally do not lapse until completely expended or the purpose for which the appropriations were established have been completely satisfied.

Capital assets constructed for or purchased by the department are recorded as expenditures in the year in which the cost is incurred. These assets are not reflected as assets in the accompanying financial statements, but are reflected in the general fixed assets account group of the State. Depreciation of these assets is not recorded by the State.

Costs for pension, health, and social security benefits of state employees are allocated to the respective fund from which the employee is paid. The costs allocated to general fund employees are expended by the Department of Budget and Finance and are not reflected in the department's general fund financial statements. The costs allocated to special and trust funds are included in the accompanying financial statements.

Required contributions to the Employees' Retirement System are based upon actuarial valuation and include amortization of accrued unfunded liability over a period of 50 years from July 1, 1964. The State's policy is to fund its required contribution annually.

**Commitments and contingencies.**

1. *Accumulated vacation and sick leave.* In accordance with the general practice followed by other state agencies, the department does not reflect accrued and potential liability for earned vacation and sick leave credits.

The State has provided for the recognition of a liability in the general long-term debt group of accounts for liabilities associated with governmental fund compensated absence programs which are not expected to be liquidated with expendable available resources. Accordingly, the State provided for the department's accumulated vacation accrual of approximately \$1,471,000 at June 30, 1986.

Sick leave 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 and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the retirement system. Accumulated sick leave as of June 30, 1986, was approximately \$3,358,000 and has not been accrued in the financial statements.

2. *Employees' Retirement System.* All eligible employees of the department are required by Chapter 88, Hawaii Revised Statutes, to become members of the Employees' Retirement System of the State. Prior to June 30, 1984, the plan was only contributory. In 1984, legislation was enacted to create a new noncontributory plan for members of the system who are also covered under social security. The noncontributory plan which provides for reduced benefits covers most eligible employees hired after June 30, 1984. Employees hired before that date were given the option of remaining in the contributory plan or joining the new noncontributory plan and receiving a refund of the employee contributions. The system consists of a Pension Accumulation Fund which provides basic pension benefits, and a Post Retirement Fund which provides annual increases to individuals receiving pensions.

Actuarial valuations are made for the entire system and are not separately computed for the State and each county. The department's general fund and other state agencies' share of the retirement system expense for the fiscal year ended June 30, 1986, was included in the general appropriation bill as an item to be expended by the Department of Budget and Finance and is not reflected in the department's general fund financial statements. The department's special and trust

funds' share of the retirement expense for the fiscal year ended June 30, 1986, was approximately \$229,000 and is included in the respective funds' financial statements.

3. *Insurance coverage.* The State is self-insured for substantially all perils including workers' compensation. Expenditures for workers' compensation are appropriated annually and are not considered material.

**Fund categories and description.** Moneys to finance the department's programs are accounted for in several different funds. These funds have been established by legislative actions, and each fund has a specific purpose or objective to fulfill. Each fund is an independent fiscal and accounting entity and a separate group of accounts is maintained for each to show its revenues and expenditures. There are three categories of these funds. The categories and the funds within each are described briefly below:

1. *General fund.* The general fund accounts for all resources not otherwise accounted for in other funds. Any activity not financed through another fund is financed through this fund. The budget as adopted by the Legislature provides the basic framework within which the resources and obligations of the general fund are accounted. The general fund of the department is a part of the State's general fund and the accompanying general fund financial statement is limited to and reflects only the appropriations, expenditures, and obligations of the general fund accounts used by the department, and the general fund revenues collected by the department.

2. *Special revenue funds.* Special revenue funds are operated to account for revenues and expenditures designated for specified purposes. A description of the department's various special revenue funds is presented below:

a. *Educational television.* This special fund is used to account for federal grant moneys received by the Hawaii Public Broadcasting Authority for capital improvement projects.

b. *Communications, utilities, and transportations.* This special fund was established in accordance with Chapter 440G of the Hawaii Revised Statutes to account for moneys collected from community cable television companies. The funds are used to offset the cost of administering the Cable Television Systems Law.

c. *Hawaii Public Broadcasting Authority.* This special fund was established in accordance with Section 314-13, HRS, to account for revenues and expenditures relating to the production and broadcasting activities of the State's public broadcasting facility.

d. *Driver education fund underwriters' fee.* This special fund was established in accordance with Section 294-35.5, HRS, to account for moneys collected from insurance companies. The moneys are allocated to the Insurance Commissioner and to the Superintendent of Education to fund various aspects of driver education programs.

e. *Compliance resolution.* This special fund was established in accordance with Section 26-9(m), HRS. The moneys collected are used for any activity related to compliance resolution.

f. *Business registration special handling.* This special fund was established in accordance with Section 416-97, HRS. The moneys collected are used for the expeditious processing of documents by the Business Registration Division.

g. *Insurance examiners revolving.* This revolving fund was established in accordance with Section 431-59.1, HRS. This fund is used to hire independent

contract examiners to conduct examinations of the affairs, transactions, accounts, records, documents, and assets of each authorized insurer.

3. *Trust and agency funds.* Trust and agency funds are used to account for assets held by the department in a trustee capacity or as an agency for individuals, private organizations, other governments, and/or other funds. These include expendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as other governmental funds. Agency funds are custodial in nature and do not involve measurement of results of operations. A description of the department's various trust and agency funds is presented below:

a. *Expendable trust funds.*

- . Temporary deposits—This fund was established by the department to account for temporary deposits. Moneys deposited in this fund are later transferred to the appropriate fund.
- . Real estate recovery—This fund was established in accordance with Section 467-16, HRS, to account for fees paid by real estate brokers and salespersons. All revenues derived from the investment of moneys in the fund are transferred to the real estate education fund. Expenditures made from the fund are used to pay court ordered claims arising from grievances filed against brokers and salespersons.
- . Real estate education—This fund was established in accordance with Section 467-19, HRS, to account for moneys transferred from the real estate recovery fund. The moneys in the fund are available to the Real Estate Commission for educational purposes.

- . Contractors recovery—This fund was established pursuant to Section 444-26, HRS, to account for moneys collected from contractors. Moneys derived from the investment of the fund are transferred to the contractors education fund. All moneys held in the fund are used to pay court ordered claims arising from grievances filed against licensed contractors.
- . Contractors education—This fund was established pursuant to Section 444-29, HRS, to account for moneys transferred from the contractors recovery fund. The moneys are made available to the Contractors License Board for educational purposes.
- . Travel agency recovery—This fund was established pursuant to Section 468K-3, HRS, to account for fees paid by travel agents and travel agencies. All revenues derived from the investment of moneys in the fund are transferred to the travel agency education fund. All moneys held in the recovery fund are used to pay for claims arising from grievances filed against licensed agents and agencies.
- . Travel agency education—This fund was established pursuant to Section 468K-6, HRS, to account for moneys received from the travel agency recovery fund. The moneys are made available to the trustees for educational purposes.
- . Hawaii Public Broadcasting Authority (HPBA) appreciation—The HPBA appreciation fund was established by the department to be used as a depository for designated donations. These funds are to be used to provide refreshments and other amenities.

- . Hawaii Public Broadcasting Authority promotion—The HPBA promotion fund is a depository for donations received from fundraising and promotional type activities.
  - . Medical malpractice patients' compensation—This fund was established pursuant to Chapter 671, HRS, to provide excess medical malpractice insurance coverage to health care providers and facilities. The director is the custodian of the fund. Act 232, Session Laws of Hawaii 1984, effective May 31, 1984, repealed the operation of the fund. The fund is currently involved in final disposition of its outstanding obligations.
- b. *Agency fund.*
- . Premium taxes paid pending appeal—This fund was established to maintain and account for taxes paid under protest by insurers, pending final adjudication. The U.S. Supreme Court has questioned the constitutionality of state laws which give preferential treatment to domestic insurance companies in *Metropolitan Life Insurance, et al. v. Ward, W. G., et al.* Hawaii is one of the states which gives preferential tax treatment to domestic insurers and many foreign insurance companies are paying their premium tax under protest pursuant to Sections 231–23 and 40–35, HRS, pending resolution of the issue.

**Notes to the Financial Statements  
of the General Fund Accounts  
(Exhibits B and C) and the Special  
Revenue Funds (Exhibits B, C, and E)**

**Budgeting and budgetary control.** Amounts reflected as budgeted revenues in the Combined Statement of Revenues and Expenditures—Budget and Actual are estimates as compiled by the Director of Finance. Budgeted expenditures are derived primarily from the Supplemental Appropriations Act of 1986 (Act 345, SLH 1986) and from other authorizations contained in the Hawaii Constitution, the Hawaii Revised Statutes, other specific appropriations acts in various Session Laws of Hawaii, and transfers instituted by the Department of Budget and Finance. To provide for comparability, actual expenditures in this statement have been adjusted to include encumbrances and continuing appropriations at year end and exclude current year expenditures for liquidation of prior year encumbrances and continuing appropriations.

STATE OF HAWAII  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

Combined balance sheet  
special revenue, trust and agency funds  
June 30, 1986

	<u>Governmental</u> <u>Fund Types</u> <u>Special</u> <u>Revenue</u> <u>(Exhibit D)</u>	<u>Fiduciary</u> <u>Fund Types</u> <u>Trust and</u> <u>Agency</u> <u>(Exhibit F)</u>
<u>ASSETS</u>		
Cash and short-term investments	<u>\$3,738,896</u>	<u>\$21,150,318</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Vouchers and contracts payable	\$ 74,574	\$ 28,777
Premium taxes received under protest by insurers	<u>          -</u>	<u>17,701,093</u>
	<u>74,574</u>	<u>17,729,870</u>
Fund balances:		
Reserved for continuing appropriations -		
Unallotted appropriations	3,407,641	-
Unliquidated encumbrances	256,681	-
Reserved for amounts held in trust	<u>          -</u>	<u>3,420,448</u>
	<u>3,664,322</u>	<u>3,420,448</u>
	<u>\$3,738,896</u>	<u>\$21,150,318</u>

The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

Combined statement of revenues, expenditures, and  
changes in fund balances - all fund types and account groups  
for the year ended June 30, 1986

	<u>Governmental</u>	<u>Fund Types</u>	<u>Fiduciary</u>
	<u>General</u>	<u>Special</u>	<u>Fund Types</u>
		<u>Revenue</u>	<u>Expendable</u>
		(Exhibit E)	Trust
			(Exhibit G)
<b>REVENUES:</b>			
Taxes	\$33,812,214	\$ -	\$ -
Licenses and permits	2,958,737	161,028	-
Charges for current services	2,143,672	4,614,247	-
Interest	699,871	99,378	176,416
Fines, forfeits and penalties	85,361	-	-
Intergovernmental	-	69,356	-
Donations, contributions and deposits	-	-	721,813
Other	11,294	4,062	1,502
	<u>39,711,149</u>	<u>4,948,071</u>	<u>899,731</u>
<b>EXPENDITURES:</b>			
Public safety	5,156,336	2,895,626	-
Education	3,101,070	332,189	-
Economic development and assistance	61,182	-	-
Expendable trust funds	-	-	800,497
Other	-	1,327,951	-
	<u>8,318,588</u>	<u>4,555,766</u>	<u>800,497</u>
Excess of revenues over expenditures	31,392,561	392,305	99,234
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers in	567,811	-	-
Operating transfers out	(121,467)	-	-
Total other financing sources	<u>446,344</u>	-	-
Excess of revenues and other sources over expenditures and other uses	<u>\$31,838,905</u>	392,305	99,234
<b>FUND BALANCES:</b>			
Beginning of year		<u>3,272,017</u>	<u>3,321,214</u>
End of year		<u>\$3,664,322</u>	<u>\$3,420,448</u>

The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

Combined statement of revenues and expenditures - budget and actual  
general fund accounts and special revenue funds  
for the year ended June 30, 1986

	General Fund Accounts			Special Revenue Funds		
	Budget	Actual On A Budgetary Basis	Variance - Favorable (Unfavorable)	Budget	Actual On A Budgetary Basis	Variance - Favorable (Unfavorable)
REVENUES:						
Taxes	\$36,100,000	\$33,812,214	\$(2,287,786)	\$ -	\$ -	\$ -
Licenses and permits	3,130,000	2,958,737	( 171,263)	247,000	161,028	(85,972)
Charges for current services	2,228,000	2,143,672	( 84,328)	1,902,000	4,614,247	2,712,247
Interest	-	699,871	699,871	-	99,378	99,378
Fines, forfeits and penalties	33,000	85,361	52,361	-	-	-
Intergovernmental	-	-	-	-	69,356	69,356
Other	12,000	11,294	( 706)	-	4,062	4,062
	<u>41,503,000</u>	<u>39,711,149</u>	<u>(1,791,851)</u>	<u>2,149,000</u>	<u>4,948,071</u>	<u>2,799,071</u>
EXPENDITURES:						
Public safety	5,734,612	5,461,830	272,782	1,631,352	1,629,158	2,194
Education	3,214,064	3,454,292	( 240,228)	-	-	-
Economic development and assistance	100,000	85,134	14,866	-	-	-
Other	-	-	-	1,374,466	1,425,278	(50,812)
	<u>9,048,676</u>	<u>9,001,256</u>	<u>47,420</u>	<u>3,005,818</u>	<u>3,054,436</u>	<u>(48,618)</u>
Excess of revenues over (under) expenditures	32,454,324	30,709,893	(1,744,431)	(856,818)	1,893,635	2,750,453
OTHER FINANCING SOURCES (USES):						
Operating transfers in	-	567,811	567,811	-	-	-
Operating transfers out	-	(121,467)	(121,467)	-	-	-
Total other financing sources	-	446,344	446,344	-	-	-
Excess of revenues and other sources over expenditures and other uses	<u>\$32,454,324</u>	<u>\$31,156,237</u>	<u>\$(1,298,087)</u>	<u>\$ (856,818)</u>	<u>\$1,893,635</u>	<u>\$2,750,453</u>

The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
SPECIAL REVENUE FUNDS  
Combining balance sheet - June 30, 1986

	<u>Educational Television</u>	<u>Communications, Utilities, and Transportation</u>	<u>Hawaii Public Broadcasting Authority</u>	<u>Driver Education Fund Underwriters' Fee</u>	<u>Compliance Resolution</u>	<u>Business Registration Special Handling</u>	<u>Insurance Examiners Revolving</u>	<u>Total</u>
<u>ASSETS</u>								
Cash and short-term investments	<u>\$34,076</u>	<u>\$411,519</u>	<u>\$2,132,219</u>	<u>\$640</u>	<u>\$839,554</u>	<u>\$199,049</u>	<u>\$121,839</u>	<u>\$3,738,896</u>
<u>LIABILITIES AND FUND BALANCES</u>								
Liabilities:								
Vouchers and contracts payable	\$ -	\$ 605	\$ 52,329	\$ -	\$ 2,786	\$ 28	\$ 18,826	\$ 74,574
Fund balances:								
Reserved for continuing appropriations -								
Unallotted appropriations	9,814	374,860	1,931,994	640	810,704	181,142	98,487	3,407,641
Unliquidated encumbrances	<u>24,262</u>	<u>36,054</u>	<u>147,896</u>	<u>-</u>	<u>26,064</u>	<u>17,879</u>	<u>4,526</u>	<u>256,681</u>
	<u>34,076</u>	<u>410,914</u>	<u>2,079,890</u>	<u>640</u>	<u>836,768</u>	<u>199,021</u>	<u>103,013</u>	<u>3,664,322</u>
	<u>\$34,076</u>	<u>\$411,519</u>	<u>\$2,132,219</u>	<u>\$640</u>	<u>\$839,554</u>	<u>\$199,049</u>	<u>\$121,839</u>	<u>\$3,738,896</u>

The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

SPECIAL REVENUE FUNDS  
Combining statement of revenues, expenditures and changes in fund balances  
for the year ended June 30, 1986

	<u>Educational Television</u>	<u>Communications, Utilities, and Transportation</u>	<u>Hawaii Public Broadcasting Authority</u>	<u>Driver Education Fund Underwriters' Fee</u>	<u>Compliance Resolution</u>	<u>Business Registration Special Handling</u>	<u>Insurance Examiners Revolving</u>	<u>Total</u>
REVENUES:								
Licenses and permits	\$ -	\$161,028	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 161,028
Charges for current services	-	-	1,541,022	1,228,919	1,361,766	298,091	184,449	4,614,247
Interest	-	18,587	69,088	-	5,256	-	6,447	99,378
Intergovernmental	69,356	-	-	-	-	-	-	69,356
Other	-	-	10	-	4,052	-	-	4,062
	<u>69,356</u>	<u>179,615</u>	<u>1,610,120</u>	<u>1,228,919</u>	<u>1,371,074</u>	<u>298,091</u>	<u>190,896</u>	<u>4,948,071</u>
EXPENDITURES:								
Public safety	-	196,036	-	1,228,279	1,129,495	253,933	87,883	2,895,626
Education	332,189	-	-	-	-	-	-	332,189
Other	-	-	1,327,951	-	-	-	-	1,327,951
	<u>332,189</u>	<u>196,036</u>	<u>1,327,951</u>	<u>1,228,279</u>	<u>1,129,495</u>	<u>253,933</u>	<u>87,883</u>	<u>4,555,766</u>
Excess of revenues over (under) expenditures	(262,833)	(16,421)	282,169	640	241,579	44,158	103,013	392,305
FUND BALANCES:								
Beginning of year	<u>296,909</u>	<u>427,335</u>	<u>1,797,721</u>	-	<u>595,189</u>	<u>154,863</u>	-	<u>3,272,017</u>
End of year	<u>\$ 34,076</u>	<u>\$410,914</u>	<u>\$2,079,890</u>	<u>\$ 640</u>	<u>\$ 836,768</u>	<u>\$199,021</u>	<u>\$103,013</u>	<u>\$3,664,322</u>

The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

TRUST AND AGENCY FUNDS  
Combining balance sheet - June 30, 1986

	Expendable Trust Funds										Agency Fund	Total
	Temporary Deposits	Real Estate Recovery	Real Estate Education	Contractors Recovery	Contractors Education	Travel Agency Recovery	Travel Agency Education	Hawaii Public Broadcasting Authority Appreciation	Hawaii Public Broadcasting Authority Promotion	Medical Malpractice Patients' Compensation	Premium Taxes Paid Pending Appeal	
<u>ASSETS</u>												
Cash and short-term investments	\$47,352	\$1,006,628	\$1,170,864	\$558,585	\$50,681	\$108,879	\$25,925	\$409	\$1,127	\$478,775	\$17,701,093	\$21,150,318
<u>LIABILITIES AND FUND BALANCES</u>												
Liabilities:												
Vouchers and contracts payable	\$ 3,925	\$ 250	\$ 8,397	\$ 6,769	\$ -	\$ 568	\$ -	\$ -	\$ -	\$ 8,868	\$ -	\$ 28,777
Premium taxes received under protest by insurers	-	-	-	-	-	-	-	-	-	-	17,701,093	17,701,093
	<u>3,925</u>	<u>250</u>	<u>8,397</u>	<u>6,769</u>	<u>-</u>	<u>568</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,868</u>	<u>17,701,093</u>	<u>17,729,870</u>
Fund Balances:												
Reserved for amounts held in trust	43,427	1,006,378	1,162,467	551,816	50,681	108,311	25,925	409	1,127	469,907	-	3,420,448
	<u>\$47,352</u>	<u>\$1,006,628</u>	<u>\$1,170,864</u>	<u>\$558,585</u>	<u>\$50,681</u>	<u>\$108,879</u>	<u>\$25,925</u>	<u>\$409</u>	<u>\$1,127</u>	<u>\$478,775</u>	<u>\$17,701,093</u>	<u>\$21,150,318</u>

The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

TRUST FUNDS  
Combining statement of revenues, expenditures and changes in fund balance  
for the year ended June 30, 1986

	<u>Temporary Deposits</u>	<u>Real Estate Recovery</u>	<u>Real Estate Education</u>	<u>Contractors Recovery</u>	<u>Contractors Education</u>	<u>Travel Agency Recovery</u>	<u>Travel Agency Education</u>	<u>Hawaii Public Broadcasting Authority Appreciation</u>	<u>Hawaii Public Broadcasting Authority Promotion</u>	<u>Medical Malpractice Patients' Compensation</u>	<u>Total</u>
REVENUES:											
Interest	\$ 425	\$ -	\$ 132,216	\$ -	\$ 11,847	\$ -	\$ 8,367	\$ -	\$ -	\$ 23,561	\$ 176,416
Donations, contributions and deposits	77,033	112,600	75,174	444,760	-	14,825	-	762	2,782	( 6,123)	721,813
Other	-	-	1,502	-	-	-	-	-	-	-	1,502
	<u>77,458</u>	<u>112,600</u>	<u>208,892</u>	<u>444,760</u>	<u>11,847</u>	<u>14,825</u>	<u>8,367</u>	<u>762</u>	<u>2,782</u>	<u>17,438</u>	<u>899,731</u>
EXPENDITURES	<u>76,926</u>	<u>162,738</u>	<u>221,146</u>	<u>155,665</u>	<u>49,096</u>	<u>23,798</u>	<u>-</u>	<u>437</u>	<u>2,039</u>	<u>108,652</u>	<u>800,497</u>
Excess of revenues over (under) expenditures	532	(50,138)	(12,254)	289,095	(37,249)	(8,973)	8,367	325	743	(91,214)	99,234
FUND BALANCES:											
Beginning of year	<u>42,895</u>	<u>1,056,516</u>	<u>1,174,721</u>	<u>262,721</u>	<u>87,930</u>	<u>117,284</u>	<u>17,558</u>	<u>84</u>	<u>384</u>	<u>561,121</u>	<u>3,321,214</u>
End of year	<u>\$43,427</u>	<u>\$1,006,378</u>	<u>\$1,162,467</u>	<u>\$551,816</u>	<u>\$ 50,681</u>	<u>\$108,311</u>	<u>\$25,925</u>	<u>\$409</u>	<u>\$1,127</u>	<u>\$469,907</u>	<u>\$3,420,448</u>

The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
AGENCY FUND  
Statement of changes in assets and liabilities  
for the year ended June 30, 1986

	<u>Balance</u> <u>July 1, 1985</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1986</u>
<u>ASSETS</u>				
Cash and short-term investments	<u>\$9,053,881</u>	<u>\$8,647,212</u>	<u>\$ -</u>	<u>\$17,701,093</u>
<u>LIABILITIES</u>				
Premium taxes received under protest by insurers	<u>\$9,053,881</u>	<u>\$8,647,212</u>	<u>\$ -</u>	<u>\$17,701,093</u>

The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
GENERAL FUND ACCOUNTS  
Schedule of expenditures - budget and actual  
for the year ended June 30, 1986

45

<u>Functions</u>	<u>Actual Expenditures</u>	<u>Carryover Appropriations</u>		<u>Lapses Of Prior Appropriations</u>	<u>Expenditures Adjusted For Carryover Appropriations</u>	<u>Budgeted Appropriations</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Transfers And Other Credits</u>	<u>Lapses Of Current Appropriations</u>
		<u>June 30, 1985</u>	<u>June 30, 1986</u>						
Public safety	\$5,156,336	\$565,294	\$ 850,568	\$20,220	\$5,461,830	\$5,734,612	\$ 272,782	\$(28,615)	\$244,167
Education	3,101,070	277,007	604,008	26,221	3,454,292	3,214,064	(240,228)	474,959	234,731
Economic development and assistance	<u>61,182</u>	<u>-</u>	<u>23,952</u>	<u>-</u>	<u>85,134</u>	<u>100,000</u>	<u>14,866</u>	<u>-</u>	<u>14,866</u>
	<u>\$8,318,588</u>	<u>\$842,301</u>	<u>\$1,478,528</u>	<u>\$46,441</u>	<u>\$9,001,256</u>	<u>\$9,048,676</u>	<u>\$ 47,420</u>	<u>\$446,344</u>	<u>\$493,764</u>

STATE OF HAWAII  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
SPECIAL REVENUE FUNDS  
Schedule of expenditures - budget and actual  
for the year ended June 30, 1986

<u>Function</u>	<u>Actual Expenditures</u>	<u>Nonbudgeted Expenditures (Actual)</u>	<u>Budgeted Expenditures (Actual)</u>	<u>Encumbrances</u>	<u>Expenditures Adjusted For Encumbrances</u>	<u>Budgeted Expenditures</u>	<u>Variance Favorable (Unfavorable)</u>
Public safety	\$2,895,626	\$1,341,622	\$1,554,004	\$ 75,154	\$1,629,158	\$1,631,352	\$ 2,194
Education	332,189	332,189	-	-	-	-	-
Other	<u>1,327,951</u>	<u>50,569</u>	<u>1,277,382</u>	<u>147,896</u>	<u>1,425,278</u>	<u>1,374,466</u>	<u>(50,812)</u>
	<u>\$4,555,766</u>	<u>\$1,724,380</u>	<u>\$2,831,386</u>	<u>\$223,050</u>	<u>\$3,054,436</u>	<u>\$3,005,818</u>	<u>\$(48,618)</u>

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**PART III**

**RESPONSE OF THE AFFECTED AGENCY**

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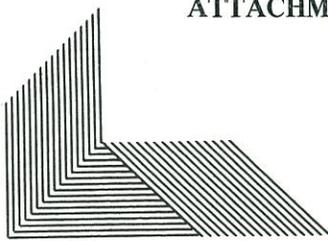


## COMMENTS ON AGENCY RESPONSE

On January 30, 1987, copies of a preliminary report of this financial audit were transmitted to the Governor, the presiding officers of the Legislature, and the Department of Commerce and Consumer Affairs. A copy of the letter of transmittal to the department is included here as Attachment 1. As is our practice, we invited the department to comment on the recommendations made in the report. The department responded by letter dated February 10, 1987, which is included here as Attachment 2.

The department agrees with the recommendations made in the report. The department states that it appreciates the overall positive evaluation given to the department by the audit, and that it will continue to study the specific recommendations with a view towards implementing the most cost-effective systems in the department.

THE OFFICE OF THE AUDITOR  
STATE OF HAWAII  
465 S. KING STREET, RM. 500  
HONOLULU, HAWAII 96813



CLINTON T. TANIMURA  
AUDITOR

January 30, 1987

Mr. Robert A. Alm, Director  
Department of Commerce and Consumer Affairs  
Kamamalu Building  
1010 Richards Street  
Honolulu, Hawaii 96813

Dear Mr. Alm:

Enclosed are two preliminary copies, numbered 4 and 5, of our report on the *Financial Audit of the Department of Commerce and Consumer Affairs*. We call your attention to the recommendations affecting your department which are made in Chapter 3 of the report. If you have any comments on our recommendations, we ask that you submit them in writing to our office by February 9, 1987, for inclusion in the final report.

The Governor and the presiding officers of the Legislature have been provided with copies of this preliminary report.

Since the report is not in final form and there may be changes to it, access to this report should be restricted to those officials whom you might wish to call upon to assist you in the review of the report. Public release of the report will be made solely by our office and only after the report is published in its final form and submitted to the Legislature.

We appreciate the assistance and cooperation extended to us.

Sincerely,

Clinton T. Tanimura  
Legislative Auditor

Enclosures

ATTACHMENT 2



JOHN WAIHEE  
GOVERNOR

ROBERT A. ALM  
DIRECTOR  
COMMISSIONER OF SECURITIES

SUSAN DOYLE  
DEPUTY DIRECTOR

STATE OF HAWAII  
OFFICE OF THE DIRECTOR  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
1010 RICHARDS STREET  
P. O. BOX 541  
HONOLULU, HAWAII 96809

February 10, 1987

RECEIVED

FEB 10 10 05 AM '87

OFF. OF THE AUDITOR  
STATE OF HAWAII

Mr. Clinton T. Tanimura  
Legislative Auditor  
The Office of the Auditor  
465 South King Street, Room 500  
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

Thank you for the opportunity to review and comment on the "Financial Audit of the Department of Commerce and Consumer Affairs. We were, of course, gratified the essential findings of the audit sustained the fiscal and accounting practices of the Department.

In Chapter 3, the Audit discusses three areas of concern which we would briefly want to address. We will, of course, continue to review our practices in these areas and nothing said below should in any way be taken as an indication that we will ignore the concerns raised by the auditors.

**Deposits of Insurance Premium Tax Collections**

The immediate deposit of premium tax collections has been the subject of continuing review and discussion with the Department of Budget and Finance. On one hand, there is the potential loss of interest income which is raised by the audit. On the other hand, we have a requirement to audit the statements that accompany collections. We have experienced substantial difficulty in attempting to collect underpaid amounts once the initial check is deposited or in securing partial or total refunds when that is appropriate. There are costs and delays whichever processing route is taken and we will continue to review this matter in order to select the method which is the most cost-effective for the State.

### Billing for Financial Institutions Examinations

The audit raises issues both as to the hourly rate charged for such billings as well as the timeliness of billings.

In terms of the hourly rate, we believe the current method of assessment is not that generally used around the country and should be reviewed. In the proposed 1987-1989 Executive Budget, we are seeking funds to have the operations of the Division of Financial Institutions reviewed by the Conference of State Bank Supervisors (CSBS). One of the subjects for review will be our system for assessing institutions for the costs of the examinations. Thus, while we agree that revision is necessary, the nature of the revision to be made should await the recommendations of the CSBS review team.

As to the timeliness of billings, we agree with the recommendation that monthly billings be instituted and will implement such a procedure immediately. However, in case where the examination and report will be completed within six weeks, we will bill at completion. This will accommodate both the need to recover costs as well as the minimizing of administrative burdens when multiple billings are wasteful.

### Rejection Rate for Business Registration Documents

We have carefully reviewed the items cited by the audit and believe that the rejections basically result from a failure to follow clear and precise instructions. And while the items which cause the rejections may appear minor, an example should help demonstrate the importance of these items. The requirement of black ink for example is an essential part of the microfilming process which is in turn related to the division's desire to address storage concerns and to allow for quicker access to the records.

We will continue to review both our procedures and our forms in an effort to improve operations and to more clearly set forth requirements. We will also be moving to upgrade our computer system and increase the staff resources assigned to the division, which in turn should allow us to provide more assistance to individuals in completing the necessary forms.

Mr. Clinton T. Tanimura  
February 10, 1987  
Page 3

Again, we do appreciate both the overall positive evaluation given to the Department by the audit, and we will continue to study the specific recommendations made by the auditor with a view towards implementing the most cost effective systems in the Department.

Very truly yours,

A handwritten signature in black ink, appearing to read "Robert A. Alm", with a long horizontal flourish extending to the right.

ROBERT A. ALM  
Director

RAA:kh