
Financial Audit of the Department of the Attorney General

A Report to the
Governor
and the
Legislature of
the State of
Hawai'i

Report No. 92-21
November 1992



THE AUDITOR
STATE OF HAWAII

The Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds and existing funds meet legislative criteria.
7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



THE AUDITOR STATE OF HAWAII

Kekuanao'a Building
465 South King Street, Room 500
Honolulu, Hawaii 96813

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Financial Audit of the Department of the Attorney General

Summary

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

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

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

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

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

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

Recommendations and Response

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

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

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

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

Marlon M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830

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Governor
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Legislature of
the State of
Hawaii

Conducted by

The Auditor
State of Hawaii
and
Deloitte & Touche
Certified Public
Accountants

Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 92-21
November 1992

Foreword

This is a report of our financial audit of the Department of the Attorney General for the fiscal year July 1, 1991 to June 30, 1992. The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the State Auditor to conduct post audits of all departments, offices, and agencies of the State. The audit was conducted by the Office of the Auditor and the certified public accounting firm of Deloitte & Touche.

We wish to express our appreciation for the cooperation and assistance extended by officials and staff of the Department of the Attorney General.

Marion M. Higa
State Auditor

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Chapter 1

Introduction

This is a report of our financial audit of the State of Hawaii Department of the Attorney General. The audit was conducted by the Office of the Auditor and the independent certified public accounting firm of Deloitte & Touche.

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

Objectives of the Audit

1. Report on the fair presentation of the financial statements of the department.
2. Assess the adequacy, effectiveness, and efficiency of the department's systems and procedures for financial accounting, internal control, and financial reporting; and recommend improvements.
3. Ascertain whether expenditures and other disbursements have been made and all revenues and other receipts have been collected and accounted for in accordance with federal and state laws, rules and regulations, and policies and procedures.
4. Ascertain the extent to which recommendations addressing the policies and procedures for processing forfeited property contained in Chapter 5 of the State Auditor's Report No. 90-6, *Management Audit of the Narcotics Enforcement Division and the Investigation Division of the Department of the Attorney General*, have been implemented.

Scope and Methodology

We audited the financial records and transactions and the related systems of accounting and internal controls of the department for the fiscal year July 1, 1991 to June 30, 1992. Included were all fund types and account groups, except the general fixed assets account group. We also reviewed those transactions, systems, and procedures tested for compliance with applicable laws and regulations.

The audit examined the accounting, reporting, and internal control structure to identify deficiencies and weaknesses and to make appropriate recommendations for improvements. Covered were the forms, records, and the accounting and operating procedures.

The accountants' opinion as to the fairness of the financial statements presented is that of Deloitte & Touche. The audit was conducted from June 1992 through September 1992 in accordance with generally accepted government auditing standards.

Background

In the Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959), the Legislature created the Department of the Attorney General. Section 26-7, Hawaii Revised Statutes, describes the department's responsibilities:

The department shall administer and render state legal services, including furnishing of written legal opinions to the governor, legislature, and such state departments and officers as the governor may direct; represent the State in all civil actions in which the State is a party; approve as to legality and form all documents relating to the acquisition of any land or interest in lands by the State; and unless otherwise provided by law, prosecute cases involving agreements, uniform laws, or other matters which are enforceable in the courts of the State.

Organization of the Department

The department is headed by the attorney general. The Office of the Attorney General directs and coordinates the various activities of the department within the scope of laws, rules, and established policies.

Administrative Services Office

This central office supports the department with budgeting, accounting, personnel, data processing, purchasing, and other administrative functions.

Divisions

Seventeen divisions administer a variety of legal services to state government agencies.

Administration Division. Provides legal services to the Judiciary, the Office of the Governor; the Office of the Lieutenant Governor; the Department of Education; the University of Hawaii; the Department of Accounting and General Services; the Department of Budget and Finance; and boards, commissions, and agencies attached administratively to these departments.

Child Support Enforcement Agency. Administers the state child support enforcement program.

Commerce and Economic Development/Antitrust Division. Provides legal services to the Department of Commerce and Consumer Affairs; the Department of Business, Economic Development and Tourism; and the Office of State Planning; mediates, investigates, and prosecutes violations of antitrust laws.

Criminal Justice Division. Reviews and prosecutes cases referred to the Office of the Attorney General for criminal action, assists prosecuting attorneys in each county, and coordinates investigations and prosecutions of crime occurring in more than one county.

Employment Relations Division. Advises, counsels, and represents the State in all its activities as an employer.

Hawaii Criminal Justice Data Center Division. Manages criminal justice information systems, a criminal justice telecommunications network, and Hawaii's civil identification process.

Investigation Division. Conducts statewide administrative, civil, and criminal investigations as directed by the attorney general.

Labor Division. Provides legal services to the Department of Labor and Industrial Relations.

Land/Transportation Division. Provides legal services on all matters relating to the Department of Transportation and the Department of Land and Natural Resources.

Law Enforcement & Building Security Division. Provides personal protective services to the Governor and the Lieutenant Governor.

Litigation Division. Represents all State departments and agencies that are sued in personal injury/tort cases.

Medicaid Fraud Division. Investigates fraud and abuse in the Medicaid program.

Regulatory Division. Provides legal services to the Department of Agriculture, the Department of Hawaiian Home Lands, the Department of Health, the Hawaii Housing Authority, and the Criminal Justice Data Center of the Department of the Attorney General.

Social Services Division. Provides legal services to the Department of Human Services.

Special Assignment Division. Performs special assignments as determined by the attorney general.

Tax Division. Furnishes legal services to the Department of Taxation.

Resource Coordination Division. Serves as a central agency for information on financial and non-financial resources that may be available to coordinate programs of the criminal justice and juvenile justice systems and agencies.

Other agencies

Three agencies are attached to the Department of the Attorney General for administrative purposes:

Commission to Promote Uniform Legislation. Promotes uniformity of Hawaii State laws with legislation in other states.

Hawaii Educational Council. Considers all matters relating to public educational policy and recommendations of the Education Commission of the States.

Office of Information Practices. Administers the Uniform Information Practices Act, a public records law that promotes open government while protecting the individual's constitutional right to privacy.

Chapter 2

Internal Control Practices

Internal controls are steps instituted by management to assure that objectives are met and resources are safeguarded. This chapter presents our findings and recommendations on the financial accounting and internal control practices and procedures of the Department of the Attorney General.

Summary of Findings

1. We found a deplorable lack of internal controls at the Child Support Enforcement Agency that resulted in two reportable conditions. First, the agency has no internal controls over its bank accounts held outside the state treasury. This matter is of such magnitude as to be classified as a material weakness. Second, the agency does not investigate unidentified child support collections in a timely manner.
2. The Department of the Attorney General engages in some practices that need correction. Most of these practices were found in the Child Support Enforcement Agency.

Reportable Conditions at the Child Support Enforcement Agency

We found two reportable conditions at the agency. Reportable conditions are significant deficiencies in the design or operation of an agency's internal control structure that could adversely affect its ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness in the internal control structure is the worst possible reportable condition. A material weakness exists when the design or operation of an agency's internal controls would not reduce to a relatively low level the risk that material errors or irregularities may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

No Controls Over Bank Accounts

The agency has two checking accounts at a bank, but it does not maintain a check register or similar record of its checking accounts to keep track of what their balances should be. As a result, it is impossible to perform bank reconciliations and the agency does not

know: (1) what the proper checking account balances are, (2) whether all deposits have been properly recorded in the bank accounts, (3) whether checks issued have been properly cashed, and (4) if there are any unusual or erroneous charges to the bank accounts.

Section 576D-10, HRS, authorizes the Child Support Enforcement Agency to maintain a separate bank account outside the state treasury to collect and disburse child support payments. The agency had one checking account and on October 1, 1991, it established a second checking account.

The agency estimates it processes 22,000 to 24,000 child support payment checks per month. Monthly checks cleared against the accounts ranged between \$3.3 million and \$5.8 million. Bank statements for the year show deposits to the accounts exceeded \$55 million and checks cleared against the accounts were about \$54 million. More than 245,000 child support payment checks cleared the bank accounts during the year. At June 30, 1992 the two accounts had combined bank balances totalling \$3,106,637.

The agency does not maintain check registers for these accounts, nor are the accounts recorded with the Department of Accounting and General Services (DAGS) as required by law. This is not a new problem. A 1990 single audit report of the department was not issued until May 23, 1991 because of the time it took to determine the appropriate cash balance for the one checking account the agency had at that time. Similarly, it was not possible to determine the proper account balance for June 30, 1991 until July 1992.

In a misguided attempt to correct the problem of its lack of information about the checking account balance, the agency opened a second account at the same bank. Staff thought that by using the new account for deposits and payments, the old account would be allowed to "flush itself out." When no more outstanding checks were processed against the account, the remaining balance would somehow be "clean" and therefore correct.

The agency's logic is terribly flawed. Its approach does not address the root cause of the problem—the lack of proper controls. Without check registers or other records against which the bank statements can be reconciled, the correct balance cannot be determined and errors or irregularities can remain undetected. These errors or irregularities may be material to the department's financial statements, but more importantly, may be material to the agency's clients—those entitled to child support payments.

The agency should have internal controls that would enable it to know the status of its bank accounts at any given time. The most fundamental and simplest control over a checking account is a check register where deposits and checks written are recorded and a running balance is known. The next control is to then reconcile the monthly bank statements to the balance recorded in the check register.

Recommendations

We recommend that the Child Support Enforcement Agency establish and maintain a check register or other accounting record to record cash deposited to and disbursed from its child support checking accounts. We further recommend that bank reconciliations be prepared on a monthly basis.

Unidentified Child Support Payments

At June 30, 1992, the agency was holding in its checking accounts more than 1,000 child support payments amounting to \$465,000. The agency had not credited the payments to particular payors. Some of these payments date back more than three years.

The Child Support Enforcement Agency maintains case records for its clients. Sometimes the agency receives child support payments which it cannot match to its case records. As a result, the agency does not know which absent parents should be credited for the payments and which custodial parents should receive the payments. Payments that cannot be matched to a particular case record are deposited into the agency's checking account and recorded in a suspense account.

When payments are not investigated in a timely manner, custodial parents do not receive the moneys to which they are entitled. The agency holds more than 1,000 payments received over a three-year period amounting to \$465,000. This balance is far too large for a "suspense account." The agency should investigate payments received immediately and resolve them within a reasonable amount of time.

Recommendation

We recommend that the agency take immediate steps to investigate and resolve all child support payments that it maintains in the suspense account.

Other Departmental Practices That Need Correction

The department engages in several other practices listed below that need correction. Four of the five problems are at the Child Support Enforcement Agency.

1. The Child Support Enforcement Agency bank accounts are not reported to DAGS as required by statute.
2. Incentive payments received by the Child Support Enforcement Agency from the federal government are improperly accounted for and retained in a trust fund account.
3. The Child Support Enforcement Agency has not transferred interest earned on its bank accounts to the general fund as required by law.
4. The Child Support Enforcement Agency does not submit required fixed asset inventory purchase forms and other inventory records to DAGS on a timely basis.
5. The department has not fully implemented the recommendations of the State Auditor included in report 90-6, *“Management Audit of the Narcotics Enforcement Division and the Investigation Division of the Department of the Attorney General.”*

Accounts Not Reported to DAGS

We found that the Child Support Enforcement Agency’s bank checking accounts had not been reported to DAGS as required by law. DAGS maintains the official accounting records of the State. Section 40-81, HRS, requires agencies collecting or receiving any moneys not required by law to be deposited in the state treasury to report to the comptroller all receipts and disbursements for each quarterly period. DAGS can then record these accounts in the state accounting records.

Recommendation

We recommend that the child support checking accounts be reported to DAGS as required by statute.

Incentive Payments

The department receives incentive payments from the federal government for the Child Support Enforcement Agency’s role in collecting child support payments. The agency has improperly deposited these incentive payments into a trust fund account instead of the general fund. In addition, the agency has held on to funds in the trust account instead of transferring the moneys to the general fund.

Improper deposit of receipts into trust fund account

Incentive payments from the federal government are being accounted for in a trust fund account instead of the general fund. Generally, trust funds are used to account for moneys held by the State for others. Moneys held in trust do not belong to the State. Incentive payments received are not moneys to be held in trust, but are revenues to the State and should be accounted for accordingly. Accounting for those receipts as trust funds has resulted in a misrepresentation of the true financial statements of the department and has hidden from legislative scrutiny moneys available to finance state programs. As a result, the auditors have declared an exception as to the fairness of the financial statements of the department. Further, the financial activities of the trust fund account have not been available for review and approval by the Legislature.

Holding of funds in the trust account

Section 576D-9, Hawaii Revised Statutes, says that incentive payments received by the State shall be shared with counties that participate in carrying out child support activities in the State. Those moneys not paid to counties as their share belong to the State. At June 30, 1991, the trust account had a cash balance of \$1,366,000. During 1992, \$563,000 was received and deposited to the account and \$503,000 was paid to the counties, leaving a cash balance of \$1,426,000 in the account. Holding excess cash in this account deprives the state general fund of needed cash.

Recommendations

We recommend that the department deposit federal incentive payments to the general fund and that the payments to counties be authorized through the general fund appropriation process. We also recommend that the cash balance held in the trust fund account be transferred to the general fund.

Interest Income Belongs to General Fund

The department has not transferred interest earned on the Child Support Enforcement Agency's separate bank accounts to the state general fund. Section 576D-10, HRS, states:

“The interest realized from the account shall be used for related costs of the maintenance and operation of the account and the balance shall be deposited into the state treasury to the credit of the general fund.”

During 1992, we estimate that interest earned on the checking accounts exceeded the bank service charges for maintaining the accounts by more than \$70,000. This excess should have been deposited to the general fund. In addition, excess interest earnings from prior fiscal years had not been deposited to the general fund. These moneys should also be deposited to the general fund.

Recommendation

We recommend that the department comply with state law and deposit excess interest earnings into the state general fund.

Fixed Asset Inventory

The Child Support Enforcement Agency did not submit required fixed asset inventory purchase forms and other inventory records to DAGS on a timely basis. DAGS maintains the official fixed asset inventory records of the State. These records are essential to have accountability for assets purchased with public funds. The *DAGS Inventory Systems Manual* requires each department to report all inventory transactions to DAGS within 15 days after the end of each quarter. The agency did not submit these forms for any of the four quarters of fiscal year 1992. As a result, assets acquired by the agency during the year are not accounted for on the official inventory records of the State.

Recommendation

We recommend that the department comply with DAGS' and submit required forms to update inventory records on a timely basis.

Forfeited Property

We were pleased to note that the department has implemented many of the recommendations made in Chapter 5 of the State Auditor's report 90-6, *Management Audit of the Narcotics Enforcement Division and the Investigation Division of the Department of the Attorney General*. We did note, however, that the department has not implemented our recommendation to establish formal procedures and timetables for auctioning or otherwise disposing of forfeited non-cash assets. Timely disposal of these assets is still essential to maximize auction proceeds which may then be used for program activities.

We also found differences between the total forfeited cash recorded in the department's database maintained by the Criminal Justice Division (which administers the forfeiture program) and the official departmental accounting records maintained by the Administrative Services Office (ASO). We were informed that the department does

not reconcile the database amounts to ASO's records on a timely basis. While the differences were not so large as to affect the department's operations, the possibility of significant differences going undetected is increased if the amounts are not reconciled.

Recommendations

We recommend that the department fully implement the recommendation to establish formal procedures and timetables for auctioning or otherwise disposing of forfeited non-cash assets.

We also recommend that the department periodically reconcile the Criminal Justice Division's records of forfeited cash with the ASO's records.

Chapter 3

Financial Audit

This chapter presents the results of the financial audit of the State of Hawaii, Department of the Attorney General for the year ended June 30, 1992. It displays financial statements of all fund types and account groups administered by the department, together with explanatory notes. It also includes the reports on the internal control structure and compliance with laws and regulations.

Summary of Findings

In the opinion of Deloitte & Touche, based on their audit, except for the general fixed asset account group, the child support enforcement agency bank accounts, and the accounting for the child support incentive payments, the financial statements present fairly, in all material respects, the financial position of the department as of June 30, 1992, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Deloitte & Touche noted matters involving the internal control structure and its operation that they considered to be reportable conditions and a material weakness as defined in the report on the internal control structure. They also noted, with respect to items tested, that the department has complied, in all material respects, with laws and regulations applicable to the department.

Independent Auditors' Report

Deloitte & Touche's report filed with the Auditor is as follows:

To the Auditor
State of Hawaii

We have audited the following financial statements of the State of Hawaii, Department of the Attorney General (department):

Combined balance sheet--all fund types and account groups, June 30, 1992 (Exhibit A);

Combined statement of revenues, expenditures, and changes in fund balances--all governmental fund types and expendable trust funds, for the year ended June 30, 1992 (Exhibit B);

Combined statement of revenues and expenditures--budget and actual (budgetary basis)--general and special revenue fund types for the year ended June 30, 1992 (Exhibit C).

These financial statements are the responsibility of the department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following two paragraphs, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with the terms of our engagement, our audit of the financial statements did not include the financial activities of the department's general fixed assets account group, which had total assets of \$4,117,772 as of June 30, 1992.

The department did not maintain a check register for its child support enforcement agency bank accounts, and did not reconcile those accounts during all of fiscal year 1992. As a result, we were unable to satisfy ourselves concerning the amount of cash for the child support enforcement agency nor the amounts due to specific parties at June 30, 1992. The bank balances at June 30, 1992 totaled \$3,106,637.

Incentive payments received from the federal government for certain child support enforcement activities have been accounted for in an expendable trust fund although a trust agreement does not exist. Such payments should be accounted for in the general fund. At June 30, 1992, the accumulated trust fund balance approximated \$1,426,000.

As discussed in the notes to the financial statements, the accompanying financial statements present only the activities of the State of Hawaii, Department of the Attorney General, as included in the fund type categories and are not intended to present the financial position and results of operations of the State of Hawaii in conformity with generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the financial statements of the general fixed assets account group and the child support enforcement agency bank accounts as discussed in the fourth and fifth paragraphs, and except for the effects of accounting for incentive payments for child support enforcement activities in an expendable trust fund rather than in the general fund as discussed in the sixth paragraph, such financial statements present fairly, in all material respects, the financial position of the State of Hawaii, Department of the Attorney General as of June 30, 1992, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The following combining fund financial statements, which are also the responsibility of the management of the State of Hawaii, Department of the Attorney General are presented for purposes of additional analysis and are not a required part of the financial statements of the State of Hawaii, Department of the Attorney General:

Combining balance sheet--special revenue funds, June 30, 1992 (Schedule I);

Combining statement of revenues, expenditures and changes in fund balances--special revenue funds, year ended June 30, 1992 (Schedule II);

Combining balance sheet--trust and agency funds, June 30, 1992 (Schedule III);

Combining statement of revenues, expenditures and changes in fund balances--expendable trust funds, year ended June 30, 1992 (Schedule IV);

Combining statement of changes in assets and liabilities--agency funds, year ended June 30, 1992 (Schedule V).

Such additional information has been subjected to the auditing procedures applied in our audit of the financial statements and in our opinion, except for the effects on the combining fund financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to audit the child support enforcement agency bank accounts as discussed in the fifth paragraph, and except for the effects of accounting for incentive payments for child support enforcement activities in an

expendable trust fund rather than in the general fund as discussed in the sixth paragraph, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

/s/ Deloitte & Touche

Honolulu, Hawaii
September 22, 1992

Descriptions and Definitions

This section describes the financial statements audited and definitions of technical terms used in this chapter.

Descriptions of financial statements and schedules

The following is a brief description of the financial statements audited by Deloitte & Touche. Financial statements are attached at the end of this chapter.

Combined balance sheet --all fund types and account groups (Exhibit A). This statement presents assets, liabilities, and fund balances of all fund types and account groups used by the department on an aggregate basis.

Combined statement of revenues, expenditures, and changes in fund balances --all governmental fund types and expendable trust funds (Exhibit B). This statement presents revenues, expenditures, and changes in fund balances for all governmental fund types and expendable trust funds used by the department on an aggregate basis. Revenues include state appropriations mandated by the General Appropriations Act of 1991 (Act 296, Session Laws of Hawaii 1991), as amended by other specific appropriations acts. Revenues also include federal grant revenues.

Combined statement of revenues and expenditures - budget and actual (budgetary basis)-- general and special revenue fund types (Exhibit C). This statement summarizes revenues and expenditures by source and type on the budgetary basis and compares such amounts to the budget as adopted by the Legislature.

Combining balance sheet --special revenue funds, June 30, 1992 (Schedule I). This schedule presents assets, liabilities and fund balances of the special revenue funds of the department.

Combining statement of revenues, expenditures and changes in fund balances-- special revenue funds, year ended June 30, 1992 (Schedule II). This schedule presents revenues, expenditures and fund balances of the special revenue funds of the department.

Combining balance sheet --trust and agency funds, June 30, 1992 (Schedule III). This schedule presents assets, liabilities and fund balances of the trust and agency funds of the department.

Combining statement of revenues, expenditures and changes in fund balances--expendable trust funds, year ended June 30, 1992 (Schedule IV). This schedule presents revenues, expenditures and fund balances of the expendable trust funds of the department.

Combining statement of changes in assets and liabilities--agency funds, year ended June 30, 1992 (Schedule V). This schedule presents changes in assets and liabilities of the agency funds of 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:

Appropriation. An authorization granted by the State Legislature permitting a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures.

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 State Legislature.

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.

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.

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

Notes to the Combined 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 in this section.

Financial statement presentation

General. The accompanying financial statements of the State of Hawaii, Department of the Attorney General present the financial position of the various fund types and account groups and the results of operations of the various fund types for the year ended June 30, 1992.

Reporting Entity. The Department of the Attorney General is a department of the State of Hawaii. The department's financial statements reflect only its activities. The state comptroller maintains the central accounts for all state funds and publishes comprehensive financial statements for the State annually which includes the department's financial activities.

Fund Accounting. The financial activities are recorded in individual funds classified by type and described in the following sections, each of which is deemed to be a separate accounting entity. The financial position and operations of each fund are accounted for in separate self-balancing accounts which represent the fund's assets, liabilities, equity, revenues and expenditures.

Account groups are used to establish accounting control and accountability for the department's general fixed assets and general long-term debt. Account groups are not funds as they do not reflect available financial resources and related liabilities.

Governmental Fund Types. Financial resources which are not accounted for in other funds are accounted for in the general fund. The measurement focus of governmental funds (general and special revenue funds) is on current financial resources. The budget adopted by the Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for. The general fund of the department is a part of the State's general fund and the accompanying general fund financial statements are limited to and reflect only the appropriations, expenditures, and obligations of the general fund accounts used by the department, and the general fund allotments received by the department.

Financial resources obtained from specific revenue sources and used for restricted purposes are accounted for in special revenue funds.

Fiduciary Fund Type. The measurement focus of the expendable trust funds is also on current financial resources. The agency funds are used to account for receipts and disbursements of amounts collected by the department in a custodial capacity.

Account Groups. The general fixed assets account group is used to account for all fixed assets of the department. The general long-term debt account group is used to account for accrued vacation payable.

Total Columns on Financial Statements. Total columns on the accompanying financial statements are captioned "memo only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not purport to present the financial position or results of operations of the department in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation.

***Summary of
significant
accounting policies***

Basis of Accounting. The accounts of the governmental funds and fiduciary fund type are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to finance operations of the current fiscal year. Measurable means that the amount of the transaction can be determined. Available means that the amount is collected in the current fiscal year or soon enough after year-end to liquidate liabilities existing at the end of the fiscal year. Expenditures are generally recognized when the related liability is incurred, except for accumulated unpaid vacation which is recognized as an expenditure when payable from expendable available financial resources. Encumbrances are recorded obligations in the form of purchase orders or contracts. The department records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

Cash. The State maintains a cash pool used by all agencies. The department's portion of this pool is indicated on the combined balance sheet as "Cash in state treasury."

At June 30, 1992, the department's cash (\$9,325,885) was included in state pooled funds held in local banks. For disclosure regarding collateralization of such deposits, as required by Section 38-3, Hawaii Revised Statutes, refer to the Comprehensive Annual Financial Report of the State of Hawaii.

General Fixed Assets. General fixed assets (principally furniture and equipment) have been acquired for general governmental purposes. Assets purchased are recorded as expenditures in the governmental account group. No depreciation has been provided for general fixed assets.

Accrued Vacation. Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarters working days for each month of service up to 720 hours at calendar year-end, and is convertible to pay upon termination of employment. In the governmental funds, the amounts expected to be liquidated with expendable available financial resources are accrued in the respective funds, and the amounts payable from future resources are recorded as "accrued vacation payable" in the general long-term debt account group.

Sick leave can accumulate 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. Accumulated sick leave as of June 30, 1992 was \$7,546,241.

Assets held for sale. The fair market value of non-cash forfeited property is not readily determinable; therefore, assets held for sale are valued at a nominal amount at the time of forfeiture.

Budgeting and budgetary control

The budget of the department is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the program, services and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented and controlled. Revenue estimates are provided to the Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as state appropriations in Exhibit C are those compiled by the department. Budgeted expenditures are derived primarily from the General Appropriations Act of 1991 (Act 296, SLH 1991) and other specific appropriations acts.

All expenditures of these appropriated funds are made pursuant to the appropriation in the 1989-1991 biennial budget as amended by subsequent supplemental appropriations. The final legally adopted budget in Exhibit C represents the original appropriations, supplemental appropriations, transfers and other legally authorized legislative and executive changes.

Budgetary control is maintained at the appropriation line item as established in the appropriations acts. The governor is authorized to transfer appropriations within a state agency; however, transfers of appropriations between state agencies generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the department. During the year ended June 30, 1992, there were no expenditures in excess of appropriations at the legal level of budgetary control.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year in which the appropriations were made. The Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations.

Budgets adopted by the Legislature for the general and special revenue fund types are represented in Exhibit C. The department's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to treatment of encumbrances for purchase orders and contract obligations as expenditures for budgetary purposes. These differences represent departures from generally accepted accounting principles (GAAP).

	General Fund	Special Revenue Fund
Excess (deficiency) of revenues over expenditures--actual on budgetary basis	\$ 790,732	\$(1,197,616)
Encumbrances of current year appropriations	3,890,258	1,307,350
Expenditures for liquidation of prior year encumbrances	(4,219,146)	(260,065)
Net accrued revenues and expenditures	182,727	150,331
Unbudgeted revenues over expenditures	<u>---</u>	<u>195,213</u>
Excess of revenues over expenditures--actual (GAAP basis)	<u>\$ 644,571</u>	<u>\$ 195,213</u>

Employee benefits

Defined Benefit Pension Plan

All full-time employees of the department participate in the Employees' Retirement System of the State of Hawaii (System), a cost-sharing, multiple-employer public employee retirement plan.

For the year ended June 30, 1992, total payroll for the department was \$16,139,106. Total pension contributions to the System approximated 6.17% of payroll costs.

Information on covered payroll, actuarially determined contribution, and actual contributions to the System is not available on a departmental basis.

The plan consists of a contributory option and a noncontributory option. Eligible employees, in service and a member of the plan on June 30, 1984, were allowed either to remain with the existing contributory option or to select the new noncontributory option, effective January 1, 1985. Most new eligible employees hired after June 30, 1984 automatically become members under the noncontributory option. Both options provide death and disability benefits and cost of living increases. Benefits are established by state statute.

Under the contributory option, employees may elect normal retirement at age 55 with five years of credited service or elect early retirement at any age with 25 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 2% of their average final salary for each year of credited service. Benefits fully vest on reaching five years of service; retirement benefits are actuarially reduced for early retirement.

Employees covered under the contributory option are required by state statute to contribute 7.8% of their salary to the plan; the State is required to contribute the remaining amounts necessary to pay retirement benefits when due. Under the noncontributory option, employees may elect normal retirement at age 62 with 10 years of credited service or at age 55 with 30 years of credited service, or elect early retirement at age 55 with 20 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life up to 1.25% of their average final salary for each year of credited service. Benefits fully vest on reaching ten years of service; retirement benefits are actuarially reduced for early retirement. The State is required by statute to contribute all amounts necessary to pay retirement benefits when due.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employers.

The system does not make separate measurements of assets and pension benefit obligations for individual employers. The pension benefit obligation at June 30, 1991 (the latest date available) for the system as a whole, determined through an actuarial valuation performed as of that date, was \$5.5 billion. The system's net assets available for benefits on that date (valued at market) was \$4.1 billion, leaving an unfunded pension benefit obligation of \$1.4 billion.

For historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due, see the system's June 30, 1991 annual financial report.

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all employees who retire from the State (including the department) on or after age 62 with at least 10 years of service or age 55 with at least 30 years of service under the noncontributory option and age 55 with at least 5 years of service under the contributory option. Approximately 15,000 State retirees now receive such benefits. Retirees credited with at least 10 years of service, excluding sick leave credit, qualify for free medical insurance premiums; however, retirees with less than 10 years must assume a portion of the monthly premiums. All disability retirees who retired after June 30, 1984, with less than 10 years of service also qualify for free medical insurance premiums. Free life insurance coverage and dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement of the basic medical coverage premiums. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. During fiscal 1991, expenditures of approximately \$34,500,000 were recognized for post-retirement health care and life insurance by the State of Hawaii.

Nonimposed employee fringe benefits

Nonimposed employee fringe benefits related to general fund salaries are assumed by the State and are not charged to the department. These costs, totaling \$3,410,044 for the year ended June 30, 1992, have been reported as revenues and expenditures of the department's general fund.

Payroll fringe benefit costs related to federally-funded salaries are not assumed by the State and are recorded as expenditures in the special revenue fund.

General fixed assets account group (Unaudited)

The following is a summary of changes in general fixed assets for the year ended June 30, 1992:

Balance at July 1, 1991	\$4,190,671
Additions	447,405
Retirements	<u>520,304</u>
Balance at June 30, 1992	<u>\$4,117,772</u>

General long-term debt account group

The change in general long-term debt was as follows:

Balance at July 1, 1991	\$2,728,780
Net increase in accrued vacation	<u>350,032</u>
Balance at June 30, 1992	<u>\$3,078,812</u>

Lease commitments

The department leases various office facilities on a long-term basis as provided for in the lease agreements. The following is a schedule of minimum future rentals on noncancelable operating leases at June 30, 1992:

Year ending June 30:

1993	\$ 620,802
1994	558,787
1995	558,639
1996	<u>412,881</u>
Total	<u>\$2,151,109</u>

Litigation

As the legal representative of the State, the department is a party to numerous legal proceedings. Although these cases are in various stages of pleadings, motions, discovery, trial or appeals, any damages

found against the department would be legislatively approved and paid out of the State's general fund and, accordingly, have no impact upon the department's financial statements. Under the State's policy, legislatively approved litigation payments on behalf of the entire state government is transferred into the department as the agent for actual disbursement.

Criminal forfeiture revolving fund

The department is the coordinating agency for Chapter 712A, Hawaii Revised Statutes, the Hawaii Omnibus Criminal Forfeiture Act. Pursuant to this Act, the department must process petitions for administrative forfeiture of personal property and distribute administratively or judicially forfeited property, or its proceeds, to law enforcement agencies according to a specific formula.

Forfeited property is recorded as revenue in a special fund at the time of forfeiture. Any undistributed funds or property are recorded as cash or assets held for sale in that fund. Currency seized by a law enforcement agency and held by the department pending a forfeiture decision are recorded in an agency fund. Any bonds posted in connection with judicial forfeitures are similarly recorded.

Child Support Enforcement Agency

The U.S. Department of Health and Human Services (DHS) determined that the Child Support Enforcement Agency (agency) did not comply substantially with the requirements of Title IV-D of the Social Security Act (Act) during the period October 1, 1987 to September 30, 1988. In response, the agency submitted a corrective action plan and DHS is currently determining whether the plan has been implemented and whether the requirements of Title IV-D of the Act have been met. In the event that the agency is found not to have complied substantially with the requirements, a penalty will be assessed against the State's Title IV-A program which is administered by another State department. The amount of such penalty, if any, cannot be determined at this time.

**Independent
Auditors' Report
on the Internal
Control Structure**

To the Auditor
State of Hawaii

We have audited the financial statements of the State of Hawaii, Department of the Attorney General as of and for the year ended June 30, 1992, and have issued our report thereon dated September 22, 1992.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the State of Hawaii, Department of the Attorney General for the year ended June 30, 1992, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the State of Hawaii, Department of the Attorney General is responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Revenues/Receipts cycle
- Purchases/Disbursements cycle

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions that we noted are described in Chapter 2.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we believe that the reportable condition described in Chapter 2 relating to the bank accounts of the Child Support Enforcement Agency is also a material weakness.

This report is intended for the information of the Auditor, State of Hawaii and management of the State of Hawaii, Department of the Attorney General. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

/s/ Deloitte & Touche

Honolulu, Hawaii
September 22, 1992

**Independent
Auditors'
Compliance
Report Based on
an Audit of the
Financial
Statements**

To the Auditor
State of Hawaii

We have audited the financial statements of the State of Hawaii, Department of the Attorney General as of and for the year ended June 30, 1992, and have issued our report thereon dated September 22, 1992.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the State of Hawaii, Department of the Attorney General is the responsibility of the department's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the department's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the State of Hawaii, Department of the Attorney General complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the department had not complied, in all material respects, with those provisions.

We noted certain instances of noncompliance that are described in Chapter 2.

This report is intended for the information of the Auditor, State of Hawaii and management of the State of Hawaii, Department of the Attorney General. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

/s/ Deloitte & Touche

Honolulu, Hawaii
September 22, 1992

STATE OF HAWAII, DEPARTMENT OF THE ATTORNEY GENERAL

**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1992**

	Governmental Fund Types		Fiduciary Fund Type	Account Groups (Unaudited)			Total (memo only)
	General	Special Revenue		Trust and Agency	General Fixed Assets	General Long-Term Debt	
ASSETS							
Cash in State treasury	\$6,702,173	\$ 634,677	\$1,989,035			\$ 9,325,885	
Cash in bank			3,106,637			3,106,637	
Petty cash	23,100					23,100	
Receivables			12,063			12,063	
Due from other fund		101,566				101,566	
Due from subgrantees	249,419	4,733				254,152	
Due from Federal government		415,331				415,331	
Equipment				\$4,117,772		4,117,772	
Assets held for sale		82				82	
Amount to be provided for retirement of general long-term debt					\$3,078,812	3,078,812	
TOTAL	<u>\$6,974,692</u>	<u>\$1,156,389</u>	<u>\$5,107,735</u>	<u>\$4,117,772</u>	<u>\$3,078,812</u>	<u>\$20,435,400</u>	

STATE OF HAWAII, DEPARTMENT OF THE ATTORNEY GENERAL

**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1992**

	Governmental Fund Types		Fiduciary Fund Type	Account Groups (Unaudited)			Total (memo only)
	General	Special Revenue		Trust and Agency	General Fixed Assets	General Long-Term Debt	
LIABILITIES, FUND BALANCES AND OTHER CREDIT							
LIABILITIES:							
Due to State general fund	\$ 23,100					\$ 23,100	
Vouchers payable	96,414	\$ 358,795				455,209	
Legislative relief payable	1,284,957					1,284,957	
Due to subgrantees		121,612				121,612	
Due to other fund			\$ 101,566			101,566	
Accrued payroll	46,334					46,334	
Agency funds held for others			3,538,198			3,538,198	
Accrued vacation payable					\$ 3,078,812	3,078,812	
Due to Federal government		68,829				68,829	
Total liabilities	1,450,805	549,236	3,639,764		3,078,812	8,718,617	
FUND BALANCES AND OTHER CREDIT:							
Investment in general fixed assets				\$ 4,117,772		4,117,772	
Fund balances:							
Reserved for encumbrances	5,521,391					5,521,391	
Reserved for child support enforcement services and other			1,467,971			1,467,971	
Reserved for criminal forfeiture program and other		607,153				607,153	
Unreserved	2,496					2,496	
Total fund balances and other credit	5,523,887	607,153	1,467,971	4,117,772		11,716,783	
TOTAL	\$ 6,974,692	\$ 1,156,389	\$ 5,107,735	\$ 4,117,772	\$ 3,078,812	\$ 20,435,400	

See notes to combined financial statements.

(Concluded)

STATE OF HAWAII, DEPARTMENT OF THE ATTORNEY GENERAL

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
YEAR ENDED JUNE 30, 1992**

	Governmental Fund Types		Fiduciary Fund Type Expendable Trust Funds	Total (memo only)
	General	Special Revenue		
REVENUES:				
State appropriations	\$ 26,919,089			\$ 26,919,089
Intergovernmental revenues		\$ 9,166,484		9,166,484
Nonimposed fringes	3,410,044			3,410,044
Other revenues		1,203,094	\$ 685,317	1,888,411
Total revenues	30,329,133	10,369,578	685,317	41,384,028
EXPENDITURES:				
Personal services	16,125,591	3,469,893		19,595,484
Operating expenditures	13,558,971	6,704,472	630,501	20,893,944
Total expenditures	29,684,562	10,174,365	630,501	40,489,428
EXCESS OF REVENUES OVER EXPENDITURES	644,571	195,213	54,816	894,600
OTHER CHANGES IN FUND BALANCE- Lapsed appropriations	(1,097,708)			(1,097,708)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER CHANGES IN FUND BALANCE	(453,137)	195,213	54,816	(203,108)
FUND BALANCES, JUNE 30, 1991	5,977,024	411,940	1,413,155	7,802,119
FUND BALANCES, JUNE 30, 1992	\$ 5,523,887	\$ 607,153	\$ 1,467,971	\$ 7,599,011

See notes to combined financial statements.

STATE OF HAWAII, DEPARTMENT OF THE ATTORNEY GENERAL

COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS) GENERAL AND SPECIAL REVENUE FUND TYPES YEAR ENDED JUNE 30, 1992

	General Fund		Special Revenue Funds		Variance Favorable (Unfavorable)
	Actual (Budgetary Basis)	Budget	Actual (Budgetary Basis)	Budget	
REVENUES:					
State appropriations	\$ 26,919,089	\$ 26,919,089	\$ 7,759,025	\$ 9,636,500	\$ (1,877,475)
Intergovernmental revenues					
Total revenues	26,919,089	26,919,089	7,759,025	9,636,500	(1,877,475)
EXPENDITURES:					
Personal services	12,624,862	12,568,015	3,409,891	3,428,770	18,879
Operating expenditures	13,503,495	14,351,074	5,546,750	6,207,730	660,980
Total expenditures	26,128,357	26,919,089	8,956,641	9,636,500	679,859
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 790,732	\$ -	\$ (1,197,616)	\$ -	\$ (1,197,616)

See notes to combined financial statements.

STATE OF HAWAII, DEPARTMENT OF THE ATTORNEY GENERAL

COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS

JUNE 30, 1992

	Budgeted	Unbudgeted Funds			Total
	Fund	Other	HCJC	Criminal	
ASSETS	Federal	Federal	Special	Forfeiture	
	Grants	Grants	Fund	Revolving	
				Fund	
Cash in State treasury	\$ 4,125	\$59,971	\$3,657	\$ 566,924	\$ 634,677
Due from other fund				101,566	101,566
Due from subgrantees		4,733			4,733
Due from Federal government	388,832	26,499			415,331
Assets held for sale				82	82
TOTAL	<u>\$ 392,957</u>	<u>\$91,203</u>	<u>\$3,657</u>	<u>\$ 668,572</u>	<u>\$1,156,389</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Vouchers payable	\$ 267,220	\$26,499		\$ 65,076	\$ 358,795
Due to subgrantees	121,612				121,612
Due to Federal government	4,125	64,704			68,829
Total liabilities	392,957	91,203		65,076	549,236
Fund balances - Reserved for criminal forfeiture program and other			\$3,657	603,496	607,153
TOTAL	<u>\$ 392,957</u>	<u>\$91,203</u>	<u>\$3,657</u>	<u>\$ 668,572</u>	<u>\$1,156,389</u>

STATE OF HAWAII, DEPARTMENT OF THE ATTORNEY GENERAL

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 1992

	Budgeted	Unbudgeted Funds			Total
	Fund	Other	HCJC	Criminal	
	Federal	Federal	Special	Forfeiture	
	Grants	Grants	Fund	Revolving	
				Fund	
REVENUES:					
Intergovernmental					
revenues	\$8,143,731	\$1,022,753			\$ 9,166,484
Other revenues				\$1,203,094	1,203,094
Total revenues	8,143,731	1,022,753		1,203,094	10,369,578
EXPENDITURES:					
Personal services	3,409,891	60,002			3,469,893
Operating expenditures	4,733,840	962,751		1,007,881	6,704,472
Total expenditures	8,143,731	1,022,753		1,007,881	10,174,365
EXCESS OF REVENUES OVER EXPENDITURES				195,213	195,213
FUND BALANCES, JUNE 30, 1991					
			\$3,657	408,283	411,940
FUND BALANCES, JUNE 30, 1992					
	\$ -	\$ -	\$3,657	\$ 603,496	\$ 607,153

STATE OF HAWAII, DEPARTMENT OF THE ATTORNEY GENERAL

**COMBINING BALANCE SHEET - TRUST AND AGENCY FUNDS
JUNE 30, 1992**

	Expendable Trust Funds				Agency Funds			Total
	Temp Dep - Child Support Enforcement Services	Litigation Settlement Clearance Account	HCJC Donations	CSEA Interest- Bearing Account (Unaudited)	Seized- Final Disposition Pending Fund	Criminal Forfeiture Bond Holding Fund		
ASSETS								
Cash in State treasury	\$1,426,295	\$20,714	\$8,899	\$3,106,637	\$480,523	\$52,604	\$1,989,035	
Cash in bank		12,063					3,106,637	
Receivables							12,063	
TOTAL	<u>\$1,426,295</u>	<u>\$32,777</u>	<u>\$8,899</u>	<u>\$3,106,637</u>	<u>\$480,523</u>	<u>\$52,604</u>	<u>\$5,107,735</u>	
LIABILITIES AND FUND BALANCES								
Liabilities:								
Due to other fund					\$101,566		\$ 101,566	
Agency funds held for others					378,957	\$52,604	3,538,198	
Total liabilities				3,106,637	480,523	52,604	3,639,764	
Fund balances - Reserved for child support enforcement services and other	<u>\$1,426,295</u>	<u>\$32,777</u>	<u>\$8,899</u>				<u>1,467,971</u>	
TOTAL	<u>\$1,426,295</u>	<u>\$32,777</u>	<u>\$8,899</u>	<u>\$3,106,637</u>	<u>\$480,523</u>	<u>\$52,604</u>	<u>\$5,107,735</u>	

STATE OF HAWAII, DEPARTMENT OF THE ATTORNEY GENERAL

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - EXPENDABLE TRUST FUNDS
YEAR ENDED JUNE 30, 1992

	Temp Dep - Child Support Enforcement Services	Litigation Settlement Clearance Account	HCJC Donations	Total
REVENUES - Other revenues	\$ 563,403	\$62,809	\$ 59,105	\$ 685,317
EXPENDITURES - Operating expenditures	<u>503,033</u>	<u>49,746</u>	<u>77,722</u>	<u>630,501</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	60,370	13,063	(18,617)	54,816
FUND BALANCES, JUNE 30, 1991	<u>1,365,925</u>	<u>19,714</u>	<u>27,516</u>	<u>1,413,155</u>
FUND BALANCES, JUNE 30, 1992	<u><u>\$1,426,295</u></u>	<u><u>\$32,777</u></u>	<u><u>\$ 8,899</u></u>	<u><u>\$1,467,971</u></u>

STATE OF HAWAII, DEPARTMENT OF THE ATTORNEY GENERAL

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
YEAR ENDED JUNE 30, 1992

ASSETS	Balance, June 30, 1991	Additions	Deductions	Balance, June 30, 1992
Cash in State treasury:				
Funds Seized - Final Disposition				
Pending Fund		\$ 491,344	\$ 10,821	\$ 480,523
Criminal Forfeiture Bond Holding Fund	\$ 51,520	38,313	37,229	52,604
Cash in bank:				
CSEA - interest-bearing account (unaudited)	<u>3,842,565</u>	_____	<u>735,928</u>	<u>3,106,637</u>
TOTAL	<u><u>\$3,894,085</u></u>	<u><u>\$ 529,657</u></u>	<u><u>\$ 783,978</u></u>	<u><u>\$3,639,764</u></u>
 LIABILITIES				
Due to other fund:				
Funds Seized - Final Disposition				
Pending Fund		\$ 101,566		\$ 101,566
Agency funds held for others:				
Funds Seized - Final Disposition				
Pending Fund		389,778	\$ 10,821	378,957
Criminal Forfeiture Bond Holding Fund	\$ 51,520	38,313	37,229	52,604
CSEA - interest-bearing account (unaudited)	<u>3,842,565</u>	_____	<u>735,928</u>	<u>3,106,637</u>
TOTAL	<u><u>\$3,894,085</u></u>	<u><u>\$ 529,657</u></u>	<u><u>\$ 783,978</u></u>	<u><u>\$3,639,764</u></u>

Response of the Affected Agency

Comments on Agency Response

We transmitted a draft of this report to the Department of the Attorney General on October 9, 1992. A copy of the transmittal letter to the department is included as Attachment 1. The department's response is included as Attachment 2.

The department included in the response a great deal of explanation about actions taken and planned for the Child Support Enforcement Agency as well as information on the operation of the Criminal Forfeiture Revolving Fund.

The department disagrees that the Child Support Enforcement Agency does not maintain a record of its checking accounts. It states the agency has data files, financial data screens of the computer system, bank deposit receipts, copies of checks written, and bank statements. This misses the point of the problem which is that the agency has no one record where deposits, disbursements, and a running cash balance are maintained.

An agency whose mission is to collect and distribute child support payments is responsible for maintaining adequate controls to safeguard the receipt and disbursement of those payments. In 1992 alone, more than \$55 million flowed through the checking accounts of the agency--all without sufficient controls to safeguard that: (1) the moneys received were properly deposited and accounted for; (2) all disbursements were to the proper persons in the correct amounts; and (3) no unauthorized or illegal transactions were processed.

The department acknowledges that reconciliation of the bank accounts is not timely. It contends that it has sufficient records to determine which receipts and disbursements have been made, and that, when brought together and analyzed, the proper account balance can be determined and the accounts reconciled. We reiterate *that an internal control system should always maintain control records of the bank account balances, and without one central control record, bank reconciliations cannot be timely, or even possible.* The department believes that added staff and computer resources will give it better controls over the cash accounts. This will have to be verified in the future.

The department agrees with our recommendation that the Child Support Enforcement Agency take immediate steps to investigate and

resolve all child support payments that it has not matched to case records. The department points out that investigating these unidentified payments is a time consuming process and has outlined procedures it follows to resolve the problem. It also believes that a new computer system, to be in place in 1994, should facilitate the process. The fact remains that the number and dollar amount of unidentified payments continues to grow and needs to be resolved.

The department does not concur with our recommendation to transfer federal incentive payments for child support enforcement to the general fund. The fund was established by the Department of Human Services under Section 346-8, HRS, and the department cites that as authority for its continuance. We reviewed Section 346-8, HRS, and find no authorization for a trust or other fund. We stand by our recommendation that the moneys be transferred to the general fund.

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

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

C O P Y

October 9, 1992

The Honorable Robert Marks
Attorney General
State of Hawaii
425 Queen Street
Honolulu, Hawaii 96813

Dear Mr. Marks:

Enclosed are three copies, numbered 6 through 8, of our draft report, *Financial Audit of the Department of the Attorney General*. We ask that you telephone us by October 14, 1992, on whether you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than October 23, 1992.

The Governor and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa
State Auditor

Enclosures

JOHN WAIHEE
GOVERNOR



ROBERT A. MARKS

ATTORNEY GENERAL

RUTH I. TSUJIMURA

FIRST DEPUTY ATTORNEY GENERAL

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
425 QUEEN STREET
HONOLULU, HAWAII 96813
(808) 586-1500

October 23, 1992

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OFF. OF THE AUDITOR
STATE OF HAWAII

Ms. Marion M. Higa
State Auditor
Office of the Auditor
State of Hawaii
465 South King Street, Room 500
Honolulu, Hawaii 96813

Dear Ms. Higa:

We have reviewed the preliminary draft of the Financial Audit of the Department of the Attorney General and submit our comments on the recommendations made in this report. More specifically, our comments address the major recommendations for the Child Support Enforcement Agency and the forfeited asset program.

No Controls Over Bank Accounts For The Child Support Enforcement Agency (CSEA)

The Department agrees that as a matter of sound financial principle, check registers and other accounting records to record cash deposited and disbursements made from checking accounts should be established and maintained. We also agree that bank reconciliations be prepared on a monthly or more frequent basis, as necessary.

However, contrary to the findings of the audit, the CSEA does maintain a record of its checking accounts. In addition to its data files, the CSEA maintains bank deposit receipts, copies of the disbursement checks processed and maintained in hard copy by the CSEA, bank statements, micrographic records of cashed checks that are maintained by the bank, and the financial data screens of the computer system. Therefore, the bank accounts can be reconciled by using the above information. However, the Department concurs that the reconciliation of the bank account is not timely.

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October 23, 1992
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Therefore, to rectify this, in July of this year, a computer consultant completed a program to reconcile CSEA's newly established checking account and that the account is presently in the process of being reconciled on a monthly basis.

As for the existence of the two checking accounts, the Department respectfully responds that it is important to understand the historical reason for the existence of two accounts in order to put the "problem" in its proper perspective.

The collections/disbursements functions for child support was placed in the Judiciary and remained there until June 30, 1986. Thereafter, this function was transferred to the Department of Human Services, Child Support Enforcement Agency (CSEA) for one year (July 1, 1986 to June 30, 1987), until it was permanently placed in the Department of the Attorney General effective July 1, 1987.

When the collections/disbursements functions for child support was transferred to the Department of Human Services on July 1, 1986, the Judiciary transferred the balance of the checking account to the Department of Human Services. Prior to the transfer of these funds, the Judiciary DID NOT reconcile the balance. Upon receipt of the funds from Judiciary, the Department of Human Services DID NOT reconcile those funds. In fact, when the CSEA was transferred to the Department of the Attorney General for the third time in as many years, on July 1, 1987, the funds were transferred to the Department unreconciled by the Department of Human Services. The Department of the Attorney General, upon receipt of the funds in July 1987, DID NOT reconcile the balance.

When the child support program was first established in 1974, CSEA was not the sole State agency providing child support services. As a result, child support payments received by CSEA and from other agencies providing child support services, were deposited into the various agencies child support accounts. This may have resulted in the Judiciary carrying a "balance of undisbursed support monies" in their respective accounts.

Because the Department of the Attorney General ("Department") recognized that there were problems with the checking account due both to historical and current practices, the Department, in 1990, retained the consultant services of Kodani, Yim, Shiraki, and Hattori, certified public accounting firm, to conduct a single audit of the checking account. In addition to the single audit, the accounting firm was also contracted to reconcile the existing bank account through FY '91.

Kodani, Yim, Shiraki, and Hattori, in their audit report, recommended that a new checking account be established to facilitate the reconciliation of the existing account. And, it was with the dual desire to facilitate the reconciliation of the existing account and to take

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Page 3

control of the need to reconcile the funds received and disbursed by the CSEA, that a new checking account was opened on October 1, 1991. The opening of the new account seemed the most responsible step to take from the perspective that CSEA could now take absolute control over the money it received beginning October 1, 1991, rather than to perpetuate the problem created five years prior.

It is the Department's belief that the new checking account, which was opened on October 1, 1991, has accomplished the goal that CSEA set out to accomplish. Also, the computer program to reconcile the new checking account has been fully implemented. CSEA will now be able to reconcile the automated data files and balances maintained by the CSEA against the data files provided by the bank on a monthly basis.

The Department agrees that there is still the concern of the original checking account. While progress has been slow, the Department is able to say that this checking account has been reconciled through 1991. It has not been completed due to a number of reasons, including budgetary constraints. However, using the interest monies which have accumulated in the account, the CSEA plans to complete the reconciliation of this account this fiscal year by bidding for a qualified accounting/consulting firm.

The use of contracted consultants to provide these added services has been necessary due to the lack of personnel and computer staff resources. In addition, the lack of system support and system design enhancements to the now existing fragmented system has not enabled CSEA to run as efficiently as we would want them to.

Thankfully, due to the approval of converting over fifty temporary positions to permanent and partial funding for a new computer system during the 1992 legislative session, CSEA is making strides.

The conversion of the temporary positions to permanent will soon create more stability at CSEA. Also with the partial funding for the computer system, CSEA envisions a new Hawaii Child Support Enforcement system for implementation in 1994, which will incorporate the financial control requirements under a single system and that will meet the increasing federal requirements and demands, such as the Family Support Act of 1988.

For the reasons provided above, while we concur with the Auditor's Report that the initial checking account is not reconciled completely, the Department has made noticeable progress to improve the situation pertaining to the unreconciled checking account. And, the problem has been all but eliminated for funds received and deposited in the new checking account which was opened on October 1, 1991.

Unidentified Child Support Payments

With regards to the unidentified child support payments, the Department acknowledges that as of June 30, 1992, there was a balance of \$465,000 in the "suspense account." The Department also agrees with the Auditor's recommendation that the CSEA "take immediate steps to investigate and resolve all child support payments that it maintains in the suspense account."

While we concur with the Auditor's report and recommendation, we believe that it would be helpful to understand how the "suspense account" came into existence and why it is maintained.

The CSEA's primary goals are to collect child support payments and to disburse them to the appropriate custodial parents. The bulk of the payments received by the CSEA are clearly identifiable as to the payor and the custodial parent who is to receive the payments. However, the CSEA also receives payments from the following sources and under circumstances described below:

1. A parent makes support payment(s) to the CSEA in anticipation of the entry of a support order.
2. A payment is received by the CSEA but because the information provided with the payment is inaccurate, the CSEA staff is unable to apply the payment to the proper account.
3. A payment is received by the CSEA but because the information provided with the payment is insufficient, the CSEA staff is unable to apply the payment to the proper account and the payor cannot be contacted.
4. A payment has been made in error to the CSEA.

It is the CSEA's practice to deposit all payments received by them on the assumption that the payments are received on behalf of a particular child and in accordance with child support orders issued or to be issued. In each of the circumstances described above, it is not until after the payments are deposited that the CSEA determines which one of the four conditions listed above applies to a particular payment.

With the exception of condition number 4, the CSEA must proceed on the assumption that the payments have been properly made and that there is a child who is entitled to receive the payment.

In addition of trying to contact the payor for accurate information, the CSEA has implemented the following procedures to monitor the balance in the suspense account and to seek to identify the proper payee for the payments in that account:

1. An updated list of all payments posted to the suspense account is generated each day.
2. Cashiers have been assigned to monitor the "new support obligations" established daily to determine a match with the payments placed in the suspense account.
3. CSEA staff has been conducting researches of the court files for any reference to the payor(s). For example, if a payment is received in the form of a money order with no return address, etc., an attempt is made to obtain information about the payor and the prospective payee from collateral sources such as court files.

An attempt is being made each day by CSEA cashiers to disburse the funds in the suspense balance to the appropriate account. Because the identification process is done manually, it is a time-consuming and laborious task. While they are successful in many instances, there are payments which have eluded the identification process, and they are unable to find the proper payee or locate the payor. These funds will continue to remain in the suspense account until the payor contacts the CSEA or until the balance is transferred to a State trust account (which is a mechanism that the CSEA has contemplated but has not yet implemented).

The new Hawaii Child Support Enforcement system, once in place in 1994, will maintain an accounting of the suspense file and provide automated review. The new system should facilitate a more expeditious review than CSEA is able to conduct currently under the manual system.

However, for reasons provided above, the maintenance of the suspense account, even if its balance is \$465,000, is a necessity and is more beneficial to the children involved than its only alternative, which is to return the payments to the payor.

The Department is monitoring the available records each day to attempt to identify the proper custodial parents. And, the payments are being made to the appropriate custodial parents when they are identified. The Auditor's report, states that "when payments are not investigated in a timely manner, custodial parents do not receive the moneys to which they are entitled." We are not quite sure if the Auditor is saying that the

CSEA is not investigating the payments in a timely manner or just making an observation. We certainly concur with her observations, however, with regards to the CSEA's response to the payments received, we believe that the information provided above clearly establishes that the CSEA is making every effort, on a timely basis, to verify all available information source to make sure that the proper custodial parent is credited with the payments received by the CSEA. Of course, the CSEA would appreciate any assistance from any source with regards to how what else the CSEA can do to expedite the verification process.

Incentive Payments

Pursuant to 45 Code of Federal Regulations, section 304.12, States and their political subdivisions are eligible to receive incentive payments from the federal government. The State's incentive payment is computed at a percentage of the State's support collections which satisfy both the assigned and non-assigned support obligations.

The State of Hawaii, through the collections efforts of the CSEA, both past and present, has received incentive payments from the federal government over the years. As the Auditor correctly notes in her report, there is a trust fund account into which the State has deposited all the incentive payments received thus far. And, although the amount received by the State this year was \$60,000, the trust fund boasts a balance of \$1,426,000.

The Auditor suggests that the cash balance should be transferred to the general fund. The Department does not concur and offers an alternative which we believe will bolster the efficiency of the CSEA's operations and generate perhaps larger incentive payments in future years.

As noted, the CSEA has embarked on a plan to implement the Hawaii Child Support Enforcement System in 1994. As currently planned, the State will bear either a 10% or 34% of the cost of implementation and the federal government will bear the remaining 90% or 66% of the total cost. This new system will be implemented in two phases. The total cost to the State will be approximately \$2,458,000. The federal government's share will be approximately \$15,306,000.

The new system will enable the CSEA to meet the federal requirements of the 1988 Family Support Act. The CSEA failed a 1988 federal audit which concluded that the Agency failed to meet the 1984 requirements established by the federal government. The failure was due largely to the Agency's antiquated automated system. A re-audit is now in progress. If the Agency fails the re-audit, it could result in approximately \$650,000 to \$1.2 million in penalty. Clearly, if the automated system did not meet the 1984 federal requirements, it is unlikely that the system will meet the 1988 federal requirements by 1995,

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Page 7

as mandated by the Family Support Act. If the State's automated system does not meet the 1988 federal requirements by 1995, the State will face more sanctions and will be required to enhance the existing system with only 66% federal funding. If the State continues its automated system project at this time, the State will receive 90% federal funding until 1995. There is no question that the State must act now in order to insure a 90% federal funding until 1995.

The initial creation of the fund by the Department of Human Services appears to have been done with legislative approval. We believe that section 346-8, Hawaii Revised Statutes, gave the Department authorization to create the fund. When the CSEA was transferred to the Department of the Attorney General in 1987, the fund, with the balance intact, was transferred to the Department along with the CSEA. The Department of the Attorney General continued to deposit the incentive payments received into that fund.

Forfeited Property

We are pleased that the draft report recognizes the significant progress we have made in implementing the recommendations made by the Auditor Report No. 90-6, Management Audit of the Narcotics Enforcement Division and the Investigation Division of the Department of the Attorney General. To date, we have implemented five of the six financial management recommendations: 1) a timely schedule for retrieving and depositing forfeited cash; 2) a process for development of a control list of assets at the time of their forfeiture; 3) disbursement procedures for forfeiture administration expenses and distribution of forfeited cash; 4) a formal accounting period and financial statements for the criminal forfeiture revolving fund; and 5) procedures for depositing forfeited cash in the bank.

However, the draft report also correctly notes that the Department has not yet implemented the recommendation to establish formal procedures and timetables for auctioning or otherwise disposing of forfeited non-cash assets. There are historical reasons for our inability to fully implement this recommendation. As we noted in our response to Report No. 90-6, the enactment of the Hawaii Omnibus Criminal Forfeiture Act ("Act"), in 1988 was not accompanied by an appropriation for personnel to implement a forfeiture management program. Perhaps this was due to a "sunset" date of June 30, 1990 was included in the Act.

In order to cope with the shortage of necessary resources, a deputy attorney general was assigned one-half time to provide legal and administrative support to the program and an investigator from the Narcotics Enforcement Division, was assigned one-half time to property management duties. As a result, disposition of forfeited cash, by far the largest

component of forfeited assets, and maintenance of forfeited non-cash assets became the top priorities with actual disposition of non-cash forfeited assets assuming less urgency.

Based in large part on our progress toward implementation of the recommendations made by the Auditor in Report No. 90-6, the Legislature extended the Act's "sunset" date by three years, or until June 30, 1993. Recognizing the need to address disposition of forfeited non-cash assets and faced with the imminent departure of the Narcotics Enforcement Division to the newly created Department of Public Safety, the Department began to explore alternative means of funding the positions and obtaining the equipment necessary to implement the Report's recommendations. These efforts yielded a federal grant in 1990 and then a legislative appropriation for FY 91-92 and FY 92-93, the latter being specifically for the creation of a Seized Asset Manager position. Unfortunately, the temporary nature of the positions (due to the 1993 "sunset" of the Act) made these positions extremely difficult to fill and keep filled.

Nonetheless, as of this date we have a deputy attorney general assigned full time to the forfeiture program, thus fulfilling another recommendation made by the Auditor in Report No. 90-6. We also have a Seized Asset Manager who has arranged for our own seized asset storage facility, including security and maintenance. His top priority is now the establishment of formal procedures for the timely disposition of forfeited non-cash assets, including preparation of a contract for auctioneering services through the bid procedure. In addition, we now have a paralegal who has been instrumental in expediting the disposition of administrative forfeiture proceedings conducted by the Department and a secretary to provide the necessary clerical support to the program.

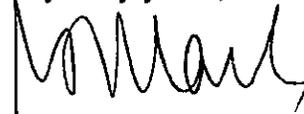
The draft report also correctly identifies the need to periodically reconcile the database maintained by the Criminal Justice Division ("CJD"), (which administers the forfeiture program) and the official departmental accounting records maintained by the Administrative Services Office ("ASO"), because of a small difference found between the two at the time the audit was conducted. In order to implement this recommendation, as of September 1992, the Department has adopted procedures, including a monthly reconciliation of CJD and ASO records, to eliminate any further discrepancies.

We believe that the draft report demonstrates that the Department has made tremendous strides in the development and management of a forfeiture program. It also makes clear that the work done to date will be for naught, and the work that remains to be done will not be accomplished, if the Act is not extended or permanently enacted during the 1993 Legislative session.

Ms. Marion M. Higa
October 23, 1992
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We thank you for affording us the opportunity to review the audit findings and to submit our comments.

Very truly yours,

A handwritten signature in black ink, appearing to read "R. Marks", written in a cursive style.

Robert A. Marks
Attorney General

RAM/CN:ls
Audit

