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# Financial Audit of the Department of Public Safety

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

Report No. 92-26  
December 1992



**THE AUDITOR**  
STATE OF HAWAII

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## Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawai'i 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 are 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.

Hawai'i'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 S. King Street, Room 500

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# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Financial Audit of the Department of Public Safety

### Summary

The Office of the Auditor and the certified public accounting firm of Coopers & Lybrand conducted a financial audit of the Department of Public Safety 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 Coopers & Lybrand, the department's financial statements present fairly its combined financial position and the combined results of its operations for the fiscal year ended June 30, 1992. All were in conformity with generally accepted accounting principles.

Coopers & Lybrand noted no matters involving the internal control structure and its operation that they considered to be material weaknesses 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.

However, Coopers & Lybrand noted reportable conditions involving the department's internal control structure concerning controls over the use and payment of overtime at the correctional facilities. The State paid \$8.4 million in overtime pay to employees at the correctional facilities; the appropriation for this purpose was \$3.8 million. The department's lack of supervisory controls over employee scheduling, overtime, timesheets, attendance records, and leave records jeopardizes the validity of its payroll payments and records and contributes to the large overage in its overtime expenditures.

We found that a pattern of abuse of overtime has been allowed. Employees consistently have been allowed to work a double shift on their scheduled days off and then take vacation or sick leave on their next scheduled work day. Thus they get the same number of days off as originally scheduled, but receive 24 hours' pay for working on their scheduled day off.

We also found that shift supervisors have been approving erroneous timesheets, resulting in payments for unearned overtime. Employees are claiming overtime for working during their normal shifts or for working three consecutive weekends when, in fact, they had not worked three consecutive weekends.

Additionally we found that attendance records were missing, incomplete, or improperly completed. We also found that employees' leave records did not accurately reflect leave actually taken and earned. The department needs to improve its control of inmates' accounts and stores inventory at its correctional facilities and to develop a policies and procedures manual.

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## Recommendations and Response

We recommend that the department review its policies and procedures for establishing employee work schedules and institute controls over the approval and use of overtime. We also recommend that the department take whatever steps necessary to ensure that timesheets are accurately filled out when they are approved. Further, we recommend that the department take steps to ensure that attendance records are properly prepared and kept, and that leave taken is properly recorded on DPS Form 7.

In addition, we recommend that reconciliations of inmate trust accounts be performed on a regular basis, cash receipt functions be properly segregated, and inventory controls be improved at the Halawa facility. Finally, we recommend that the department expedite the development of its policies and procedures manual and distribute it to all staff upon its completion.

The department did not respond to our report draft.

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State of Hawaii

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# Financial Audit of the Department of Public Safety

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

Conducted by

The Auditor  
State of Hawaii  
and  
Coopers & Lybrand  
Certified Public  
Accountants

Submitted by

**THE AUDITOR**  
STATE OF HAWAII

Report No. 92-26  
December 1992

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## Foreword

This is a report of our financial audit of the Department of Public Safety 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 Coopers & Lybrand.

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

Marion M. Higa  
State Auditor

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# Chapter 1

## Introduction

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This is a report of our financial audit of the State of Hawaii Department of Public Safety. The audit was conducted by the Office of the Auditor and the certified public accounting firm of Coopers & Lybrand.

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.

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### 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 the 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.

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### 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 asset account group. We also reviewed for compliance with applicable laws and regulations those transactions, systems, and procedures tested.

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

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

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## **Background**

Act 211, Session Laws of Hawaii 1989 created the Department of Public Safety effective July 1, 1990. The new department was formed by transferring its predecessor, the Department of Corrections, as well as the operations and employees of various other state public safety agencies. The Department of Corrections had itself been established in 1987, succeeding the Department of Human Services in administering the State's correctional facilities and related services.

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## **Organization of the Department**

The department is headed by a single executive, the director of public safety. The director is supported by three deputy directors, each with a separate area of responsibility.

### ***Office of the Deputy Director for Administration***

The office provides services pertaining to budgeting, capital improvements, fiscal accounting and auditing, procurement and supply, management information, repairs and maintenance, equipment management, personnel management, training and staff development, civil rights compliance, files management, duplication services, and other relevant functions.

Operating divisions within this office include the following:

- Management Services
- Research Information and Statistics
- Fiscal
- Planning and Budgeting
- Personnel

### ***Office of the Deputy Director for Corrections***

The office administers programs and facilities for the detention, custody, care, and redirection of persons committed to the control of the department pursuant to law.

Operating divisions within this office include the following:

- Correction Program Services
- Community Correctional Centers
- Correctional Facilities
- Intake Service Center
- Health Care Office

***Office of the Deputy  
Director for Law  
Enforcement***

The office is responsible for programs and services for protecting the public and preserving the peace, guarding public property and facilities; enforcing specified laws, rules and regulations to prevent and control crime; and serving legal process.

Operating divisions within this office include:

- Harbor Patrol/Marine Patrol
- Protective Services
- Special Services
- Narcotics Enforcement

***The Hawaii Paroling  
Authority***

This is a quasi-judicial body which is attached to the department for administrative purposes. The mission of this body is to evaluate and grant parole when there is reasonable probability that the prisoner concerned will live and remain at liberty without violating the law and that the prisoner's release is not incompatible with the welfare and safety of the public.

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# Chapter 2

## Internal Control Practices

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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 Public Safety.

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### Summary of Findings

1. We found a lack of internal controls at correctional facilities that resulted in two reportable conditions. First, there is a disturbing pattern of approval and use of overtime at the Halawa Correctional Facility. Second, there is a pronounced lack of exercise of proper controls over the review and approval of timesheets at correctional facilities.
2. There are other areas of the department's internal control structure that need to be improved.

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### Reportable Conditions at Correctional Facilities

We found that some employees almost doubled their annual salary by working overtime. Payments for overtime at the correctional facilities totalled more than \$8 million in 1992. The Legislature had authorized \$3.8 million for overtime payments. Because of the significant cost to the State, we looked at the controls over these costs.

We found two reportable conditions relating to the controls over overtime at the correctional facilities. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that 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.

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### Pattern of Abuse of Overtime Allowed

In our sample selection of the year's payroll records, we found a problematical pattern in the authorization and use of overtime. At least two employees at the Halawa facility were allowed to work two unscheduled eight-hour shifts on the first of two consecutive days they were scheduled to be off and for which they were paid at overtime rates. They then took the next day off, as scheduled, and took vacation, sick leave, or compensatory time off on their next scheduled

work day. Thus they were still able to take two consecutive days off and yet receive overtime pay for working on their scheduled day off. One individual did this 25 times, the other 30 times (out of a possible 52 times during the year). This was allowed by shift supervisors who signed the timesheets.

This pattern indicates that overtime may be avoided, or reduced, through better scheduling or tighter controls. Supervisors should stop the pattern of allowing persons to work a double shift on a scheduled day off followed by their taking paid time off on the next scheduled work day.

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**Recommendation**

We recommend that the department review its policies and procedures for establishing employee work schedules and institute controls over the approval and use of overtime.

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**Erroneous Timesheets are Approved by Supervisors at the Facilities**

The department's procedures require that timesheets be prepared by the employee and reviewed by the immediate supervisor at the respective facility. We found that shift supervisors approved timesheets authorizing overtime when no overtime was earned or worked.

For example, overtime is earned if a person must work three full consecutive weekends, regardless of the hours worked. "Weekend" means any two consecutive days from Friday through Monday. We found employees claiming overtime credit on their timesheets for working three full consecutive weekends when they did not in fact work three full consecutive weekends. The timesheets were approved by supervisors at the facilities and the employees were paid for the overtime claimed.

We found instances when employees claimed overtime for working during their regularly scheduled straight-time shift. Their timesheets were approved by supervisors and they were paid overtime when none was merited.

Employees are required by departmental procedures to sign in and sign out on daily attendance sheets at the facilities. We found instances where hours worked per attendance sheets did not agree with hours worked per timesheets, but the timesheets nonetheless were approved by supervisors.

Approved timesheets are the equivalent of invoices for payment—that is, they are an authorization to pay employees wages or salaries. Timesheets signed by employees are, in effect, a certified invoice of hours worked and sick leave, vacation leave, compensatory time, and overtime or other premium pay due. When erroneous timesheets are approved in the employee’s favor, the State pays for work that is not performed.

Employees are responsible for filling out timesheets properly. Supervisors are responsible for seeing that the timesheets they approve reflect the actual and proper hours worked and accurately represent payment due the employees. They could check the timesheets against the attendance records.

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***Recommendation***

We recommend that the department take whatever steps necessary to ensure that timesheets are accurately filled out when they are approved.

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**Other Areas That  
Need  
Improvement**

Other areas of the department’s internal control structure need to be improved. Most of the problems are at the correctional facilities.

1. Attendance sheets required to be filled out by employees at facilities were missing, incomplete, or incorrect.
2. Employees’ leave records are not always correct.
3. Individual inmate trust account records are not reconciled to control records.
4. Cash receipt duties at the Halawa Correctional Facility are not always performed by separate individuals.
5. Inventory controls at the Halawa Correctional Facility store need to be improved.
6. The department does not yet have a formal policies and procedures manual.

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**Attendance  
Sheets were  
Missing,  
Incomplete, or  
Incorrect**

The department's procedures require employees at facilities to record daily attendance by signing in and out at the beginning and end of shifts worked. We found that attendance sheets could not always be found at the facilities, employees did not always sign attendance sheets, employees did not consistently sign their in and out times on attendance sheets, and employees sometimes incorrectly signed in and out for the same time. When attendance sheets are not properly filled out and reviewed in a timely and diligent fashion, supervisors must rely on memory or the timesheets. As discussed earlier, timesheets are not always reliable. Supervisors should see that employees fill out daily attendance records and that those attendance records are properly filed.

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**Recommendation**

We recommend that the department take steps to ensure that required attendance records are properly prepared and kept.

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**Leave Records are  
not Always  
Correct**

We found instances where employees' timesheets showed that vacation or sick leave had been taken, but the vacation and sick leave records (DPS Form 7) did not reflect that fact.

Sick leave and vacation leave taken are recorded on DPS Form 7 from approved sick leave or vacation leave request forms and not from approved timesheets. It is possible, therefore, that persons may take leave and properly record it on the timesheets, but may not be charged for leave taken because approved leave request forms are not submitted and recorded.

We also found that leave records were not always mathematically correct—that is, hours accumulated at the beginning of the year, plus hours earned, less hours taken, did not agree with the balance of leave available at the end of the year.

The DPS Form 7 is the official leave record for every state employee. It is used to determine the amount of vacation leave to be paid them when employees leave or retire from state service. Also, it is used to increase the amount of retirement pay a retiree is entitled to. Accumulated sick leave credit at the time of retirement is added to actual length of service to calculate pensions. It is essential that DPS Form 7 accurately reflect proper leave balances. Failure to record vacation and sick leave actually taken inflates the amount of vacation and sick leave the State is liable for and also means that employees are paid for vacation or sick leave taken but not charged.

***Recommendations***

The department take steps to ensure that all leave taken and recorded as per the timesheets is recorded on DPS Form 7. Further, computations of accumulated leave should be checked for mathematical accuracy.

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**Reconciliations of Inmate Trust Accounts Are Not Performed**

In 1976 the department created a revolving trust fund to account for funds held for inmates so that they could pay for their purchases from the facilities stores or for other charges (such as long distance telephone calls, library, and photocopying charges). Moneys are placed into the trust fund and are credited to individual inmates' accounts. The inmates' account balances are recorded on separate ledger cards at the facilities.

A key control to assure that all records are properly maintained is that of reconciling individual account balances to the total balance held in trust. At two facilities we visited, we noted that there were no reconciliations of inmate ledger card balances to inmate trust account bank balances and the related balances as reported in the State's accounting system.

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***Recommendations***

We recommend that reconciliations of the inmate trust account balances be performed on a regular basis. These reconciliations should be performed by a person who is independent of the recordkeeping function and be reviewed and evidenced by management.

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**Cash Receipt Duties Should be Segregated**

At the Halawa facility, we noted there occasionally was a lack of segregation of duties over the cash receipts and the recordkeeping function relating to the inmate trust accounts. This occurs when the cash deposited into the inmates' accounts is received by "whoever is available" at the facility's business office. This same clerk would then post the transactions to the inmates' ledgers.

Proper internal controls require that individuals responsible for receiving cash not have access to individual account records where the cash receipts are recorded.

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**Recommendation**

We recommend that the functions of custody and recordkeeping of cash receipts be properly segregated.

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**Inventory Controls  
at the Halawa  
Store Need  
Improvement**

Proper control over inventory requires that purchases of inventory be added to inventory records, goods sold be subtracted from inventory records, and periodically inventory be counted and matched to inventory records. Differences between the amount counted and the amount recorded on the inventory records are then investigated and resolved. Differences that cannot be resolved often are the result of pilferage.

At the Halawa facility, we noted that the inventory is periodically counted but there are no separate inventory records to match them to. Inventory records accounting for opening inventory and subsequent purchases and sales of inventory should be maintained so that they can be compared to inventory counts and any differences can then be investigated and resolved.

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**Recommendations**

We recommend that the Halawa facility: (1) maintain inventory records; (2) compare them to periodic inventory counts; and (3) investigate and resolve any differences noted.

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**Lack of a Formal  
Policies and  
Procedures  
Manual**

The department does not have a formal policies and procedures manual. Management has indicated that such a manual has not been developed because the department is relatively new. A formal manual is being developed and is expected to be completed by December 1992 with implementation during fiscal year 1993. During the interim, in purchasing goods and services the department is following the policies and procedures manual of the Department of Social Services and Housing. These borrowed guidelines are dated May 20, 1986.

Thus, while it does not have a formal manual, the department does have procedures that it tries to follow. However, we found many instances of noncompliance with those procedures. And in some instances we found that employees were not aware of the policies or procedures they were expected to follow.

These instances underscore the need for a departmental policies and procedures manual. Further, they underscore how important it is that policies and procedures, once adopted, be communicated throughout the department.

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***Recommendations***

We recommend that the department expedite the development of its policies and procedures manual. Once completed, the manual should be distributed to all staff and, if necessary, training on its contents should be conducted.

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# Chapter 3

## Financial Audit

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This chapter presents the results of the financial audit of the Department of Public Safety 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 tests of compliance with laws and regulations.

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### Summary of Findings

In the opinion of Coopers & Lybrand, based on their audit, except for the general fixed assets account group, the financial statements present fairly, in all material respects, the combined financial position of the department as of June 30, 1992, and the combined results of its operations for the year then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand noted reportable conditions involving the department's internal control structure which were described in Chapter 2. However, they noted no matters involving the internal control structure and its operation that they considered to be material weaknesses 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.

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### Independent Auditor's Report

Coopers & Lybrand'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 Public Safety:

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

Combined statement of revenues, expenditures and changes in fund equity—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 funds—for the year ended June 30, 1992 (Exhibit C);

Combined statement of revenues, expenses and changes in retained earnings—proprietary fund types—for the year ended June 30, 1992 (Exhibit D);

Combined statement of cash flows—proprietary fund types—for the year ended June 30, 1992 (Exhibit E);

These financial statements are the responsibility of the management of the State of Hawaii Department of Public Safety. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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. 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, the scope of our audit did not include the audit of the general fixed assets account group and, accordingly, we express no opinion on it.

As discussed in the notes to the financial statements, the general fund accounts of the Department of Public Safety are a part of the State of Hawaii's general fund and our opinion expressed herein, insofar as it relates to the amounts included for the general fund is limited to only the transactions of the Department of Public Safety.

In our opinion, based upon our audit, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the general fixed assets account group, the financial statements referred to above present fairly, in all material respects, the combined financial position of the State of Hawaii Department of Public Safety as of June 30, 1992, and the combined results of its operations and the cash flows of

its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand

Honolulu, Hawaii  
September 30, 1992

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## **Descriptions and Definitions**

This section provides descriptions of 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 Coopers & Lybrand. The 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 equity—all governmental fund types and expendable trust funds (Exhibit B).** This statement presents revenues, expenditures, other financing sources (uses) and changes in fund equity for all governmental fund types, and expendable trust funds used by the department on an aggregate basis. Revenues include state appropriations mandated by the Supplemental Appropriations Act of 1992 (Act 296, Session Laws of Hawaii 1992) and other specific appropriations acts.

**Combined statement of revenues and expenditures—budget and actual (budgetary basis), general and special revenue funds (Exhibit C).** This statement presents a comparison of budgeted and actual revenues, expenditures, and other financing sources for the general fund accounts and special revenue funds used by the department.

**Combined statement of revenues, expenses and changes in retained earnings—proprietary fund types (Exhibit D).** This statement presents revenues, expenses, and changes in the retained earnings of all proprietary fund types used by the department on an aggregate basis.

**Combined statement of cash flows—proprietary fund types (Exhibit E).** This statement presents sources and uses of working capital of all proprietary fund types used by the department on an aggregate basis.

### ***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.

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

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### **Notes to 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 Department of Public Safety (PSD) present the financial position of the various fund types and account groups, the results of operations of the various fund types and the cash flow of the proprietary fund type as of and for the year ended June 30, 1992.

**Reporting entity.** The Department of Public Safety is a department of the State of Hawaii.

**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 or expenses. Account groups are used to establish accounting control and accountability for the department's general fixed assets and general long-term obligations. 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 is on determination of financial position and changes in financial position rather than upon net income determination. The budget as adopted by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted. The general fund of the department is a part of the State's general fund and the accompanying general fund financial 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.

**Proprietary Fund Types.** The proprietary fund type is used to account for certain of the department's ongoing operations. The measurement focus is upon determination of net income. The enterprise fund includes primarily the consumer goods held for sale in the inmate stores. The internal service fund includes the uniform inventory, printing and construction supplies used in the Correctional Industries program.

**Fiduciary Fund Types.** Expendable trust funds are transactions related to assets held by the department in a trustee capacity to be expended for designated purposes. Agency funds are accounts for funds held by the department as agent. Agency funds include funds delegated to the department by other state agencies for purposes of administering various projects.

**Account Groups.** The general fixed assets account group is used to account for all fixed assets of the department, other than those

accounted for in the proprietary fund types. The general long-term obligations account group is used to account for accrued vacation and compensation payable for governmental fund types.

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

**Summary of  
significant  
accounting policies**

**Governmental fund types and expendable trust funds**

**Basis of accounting.** All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The department uses the modified accrual basis of accounting for the general, special revenue and expendable trust funds. 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 recorded on the accrual basis of accounting when the related fund liability is incurred. 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 equity since they do not constitute expenditures or liabilities.

The accounts of the proprietary fund type are reported using the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recognized when they are incurred.

**Cash and cash equivalents.** Cash reported in the combined balance sheet includes cash in the State Treasury, cash in various Hawaii

banks and certificates of deposit where maturities are three months or less.

The State of Hawaii maintains a cash pool that is available for all funds. Each fund type's portion of this pool is displayed on the combined balance sheet within cash and cash equivalents. Those funds are pooled with funds from other State of Hawaii agencies and departments and deposited in approved financial institutions by the Director of the State of Hawaii Department of Budget and Finance. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State of Hawaii by third party custodians.

Statutes authorize the department to invest in certificates of deposit and money market accounts.

The department's trust fund maintains cash in banks that is held separately from cash in the State Treasury. The cash is held on behalf of the inmates of the State's correctional facilities. Cash in banks of approximately \$1,281,000 is displayed on the combined balance sheet within "cash and cash equivalents." Those deposits not covered by federal deposit insurance are also fully collateralized by government securities held in the name of the State of Hawaii by third party custodians.

**Receivables.** Receivables in the internal service fund consist primarily of amounts due from other State of Hawaii agencies for services provided to those agencies on a cost-reimbursement basis.

**Inventories.** Inventories are stated at the lower of cost or estimated net realizable value and are determined by the first-in first-out method.

**Net property, plant and equipment.** Property, plant and equipment reported in the internal service fund is recorded at cost, net of accumulated depreciation. Depreciation has been provided using the straight-line method over the estimated useful life.

**Accumulated vacation and sick leave.** State employees' accumulated vacation is expected to be liquidated with future expendable resources and therefore is accrued in the general long-term obligations account group. Sick leave is not convertible to pay upon termination of employment and is recorded as an expenditure when taken.

**Fund balances.** Portions of the general and special revenue fund balances are reserved for encumbrances which are goods or services that have been ordered or contracted for but not received as of year

end. Those amounts are reserved for subsequent year expenditure. The trust and agency fund balances are reserved for other specific purposes.

### **Account Groups**

General fixed assets are recorded at cost. Certain assets for which cost is not determinable have been valued at estimated historical cost. Contributed fixed assets are recorded at fair market value at the date of donation. Depreciation is not provided on general fixed assets.

### ***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 programs, 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 State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in Exhibit C are those estimates as compiled by the department. Budgeted expenditures are derived primarily from the Supplemental Appropriations Act of 1992 (Act 296, SLH 1992) and other specific appropriations acts.

All expenditures of these appropriated funds are made pursuant to the appropriations in the 1992-1993 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.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other contingencies which may terminate the authorization for other appropriations.

Budgets adopted by the State Legislature for the general and special revenue funds are presented in Exhibit C. The department's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to the encumbrances of purchase order and contract obligations as expenditures for budgetary purposes. These differences represent departures from generally accepted accounting principles (GAAP). A reconciliation between non-GAAP budgetary actual and GAAP actual is as follows:

	General Fund	Special Revenue Funds
Excess of revenues and other financing sources over (under) expenditures and other financing uses—non-GAAP budgetary actual	\$ 1,353,036	\$(28,030)
Reserve for encumbrances at year-end	7,780,604	270,696
Expenditures for liquidation of prior fiscal year encumbrances	<u>(6,045,626)</u>	<u>(57,399)</u>
Excess of revenues and other financing sources over expenditures and other financing uses before other changes in fund equity—GAAP actual	<u>\$ 3,088,014</u>	<u>\$185,267</u>

***Net property, plant and equipment***

**General fixed assets account group.** Changes in general fixed assets (unaudited) during the year ended June 30, 1992, were as follows:

	Land	Buildings and Improvements	Equipment	Total
Balance June 30, 1991	\$82,510	\$85,080,800	\$12,258,490	\$97,421,800
Additions	—	2,559,067	2,220,730	4,779,797
Deductions	—	—	<u>(105,093)</u>	<u>(105,093)</u>
Balance June 30, 1992	<u>\$82,510</u>	<u>\$87,639,867</u>	<u>\$14,374,127</u>	<u>\$102,096,504</u>

**Internal service fund.** The net property, plant and equipment at June 30, 1992 are as follows:

Buildings improvements, equipment, furniture and fixtures	\$ 699,735
Accumulated depreciation	<u>(341,184)</u>
	<u>\$ 358,551</u>

**Fund deficit**

The general fund has an unreserved fund deficit at June 30, 1992 of approximately \$373,000. This deficit results primarily from the fact that under generally accepted accounting principles expenditures are recorded on the accrual basis when incurred while revenues are recognized only when the funds are measurable and available.

**Retirement benefits**

**Employees' retirement system.** Substantially all eligible employees of the department are members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively.

Required employer contributions to the ERS are based on actuarially determined rates that should provide sufficient resources to pay member pension benefits when due. The funding method used to calculate the total employer contribution required is the frozen initial liability method, and includes amortization of the accrued unfunded liability of pension benefits and post retirement benefits fixed at \$470 million over a period of twenty-eight years beginning July 1, 1987. The State's policy is to fund its required contribution annually. The department's general fund share of the retirement system expense for the year ended June 30, 1992, was included in the Supplemental

Appropriations Act as an item to be expended by the Department of Budget and Finance and is not reflected in the department's general fund financial statements. No contributions were required by the department's special revenue funds.

Measurement of assets and actuarial valuations are made for the entire ERS and are not separately computed for individual participating employers such as the department. The disclosures required by Governmental Accounting Standards Board Statement No. 5 are presented in the ERS Comprehensive Annual Financial Report (CAFR). The following data is provided as of June 30, 1991 for the entire ERS from the disclosures contained in the CAFR for the year then ended, the most recent available:

Pension benefit obligation	\$5,547,154,500
Net assets available for benefits (at cost)	<u>4,080,839,938</u>
Unfunded pension benefit obligation	<u><u>\$1,466,314,562</u></u>

The pension benefit obligation is a standardized measure of the present value of credited projected pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The entire ERS actuarially determined employer contribution requirements were met as of June 30, 1992.

**Post-retirement health care and life insurance benefits.** In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired state employees. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. The department's general fund share of the expense for post-retirement benefits for the year ended June 30, 1992 has not been separately computed and is not reflected in the department's general fund financial statements.

### ***Operating leases***

The department leases office facilities and equipment on a long-term basis. Rental expense for those leases is reported in the general fund. Total rentals amounted to approximately \$844,000 for the year ended June 30, 1992. Minimum future rentals on noncancelable operating leases with terms of one year or more at June 30, 1992 are as follows:

	Office Facilities	Equipment	Total
<b>Year ending June 30:</b>			
1993	\$ 822,000	\$ 138,00	\$ 960,000
1994	805,000	138,000	943,000
1995	460,000	22,000	482,000
1996	138,000	21,000	159,000
1997	<u>---</u>	<u>5,000</u>	<u>5,000</u>
	<u>\$ 2,225,000</u>	<u>\$ 324,000</u>	<u>\$2,549,000</u>

The equipment leases expire on various dates from 1992 through 1997. The office facilities leases expire on various dates throughout 1996. Those office leases contain two-year renewal options at rates to be determined upon expiration of the original terms.

The department subleases certain office space from the State of Hawaii Department of Accounting and General Services at no cost.

**Commitments and contingencies**

**Accumulated sick pay.** Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System. Accumulated sick leave at June 30, 1992, aggregated approximately \$10,700,000.

**Deferred compensation plan.** In 1983, the State established a deferred compensation plan which enables state employees to defer a portion of their compensation. The State of Hawaii Department of Personnel Services, has the fiduciary responsibility of administering the plan. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject to the claims of the State's general creditors. Participants' rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.

**Insurance coverage.** The State maintains certain insurance coverages to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. Expenditures for workers' compensation are appropriated annually.

**Litigation.** The department is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the department's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State's general fund.

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## **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 Public Safety as of and for the year ended June 30, 1992, and have issued our report thereon dated September 30, 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 misstatements.

In planning and performing our audit of the financial statements of the State of Hawaii Department of Public Safety 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 Public Safety is responsible for establishing and maintaining an 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:

- Revenue/Receipts cycle
- Purchases/Disbursements cycle
- Payroll cycle
- Compliance with laws and regulations that would have a material impact on the financial statements

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 operations 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 none of the reportable conditions described in Chapter 2 is 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 Public Safety. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

/s/ Coopers & Lybrand

Honolulu, Hawaii  
September 30, 1992

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## **Report On Tests of Compliance with Laws and Regulations**

To the Auditor  
State of Hawaii

We have audited the financial statements of the State of Hawaii Department of Public Safety as of and for the year ended June 30, 1992, and have issued our report thereon dated September 30, 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 Public Safety is the responsibility of the State of Hawaii Department of Public Safety's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the State of Hawaii Department of Public Safety'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 Public Safety 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 State of Hawaii Department of Public Safety had not complied, in all material respects, with those provisions.

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

/s/ Coopers & Lybrand

Honolulu, Hawaii  
September 30, 1992

STATE OF HAWAII  
DEPARTMENT OF PUBLIC SAFETY

Combined balance sheet - All fund types and account groups  
June 30, 1992

Assets	Governmental Fund Types		Proprietary Fund Types		Fiduciary Fund Types		Account Groups		Total (Memorandum Only)
	General	Special Revenue	Enterprise	Internal Service	Trust and Agency	General Fixed Assets (Unaudited)	General Long-Term Obligations		
Cash and cash equivalents	\$10,302,521	\$632,777	\$468,062	\$ 881,684	\$1,381,330	\$	\$	\$ 13,666,374	
Receivables	--	--	--	277,662	--	--	--	277,662	
Due from other funds	--	--	25,372	--	26,633	--	--	52,005	
Due from State of Hawaii	--	--	--	--	34,288	--	--	34,288	
Inventories	--	--	86,226	175,165	--	--	--	261,391	
Net property, plant and equipment	--	--	--	358,551	--	102,096,504	--	102,455,055	
Amount to be provided for retirement of general long-term obligations	--	--	--	--	--	--	6,453,571	6,453,571	
<b>Total assets</b>	<b>\$10,302,521</b>	<b>\$632,777</b>	<b>\$579,660</b>	<b>\$1,693,062</b>	<b>\$1,442,251</b>	<b>\$102,096,504</b>	<b>\$6,453,571</b>	<b>\$123,200,346</b>	
<b>Liabilities And Fund Equity</b>									
<b>Liabilities:</b>									
Vouchers and contracts payable	1,645,754	70,086	140,740	159,137	1,740	--	--	2,017,457	
Accrued wages and employee benefits payable	1,163,114	31,708	--	1,558	--	--	6,453,571	7,649,951	
Due to other funds	26,633	--	--	--	25,372	--	--	52,005	
Due to other governments	59,803	76,822	--	--	--	--	--	136,625	
Due to individuals	--	--	--	--	1,316,533	--	--	1,316,533	
<b>Total liabilities</b>	<b>2,895,304</b>	<b>178,616</b>	<b>140,740</b>	<b>160,695</b>	<b>1,343,645</b>	<b>--</b>	<b>6,453,571</b>	<b>11,172,571</b>	
<b>Commitments and contingencies</b>									
<b>Fund Equity:</b>									
Investment in general fixed assets	--	--	438,920	1,532,367	--	102,096,504	--	102,096,504	
Retained earnings	--	--	--	--	--	--	--	1,971,287	
Fund balances (deficit):									
Reserved for encumbrances	7,780,604	270,696	--	--	--	--	--	8,051,300	
Reserved for other purposes	--	183,465	--	--	98,606	--	--	98,606	
Unreserved	(373,387)	--	--	--	--	--	--	(189,922)	
<b>Total fund balances</b>	<b>7,407,217</b>	<b>454,161</b>	<b>--</b>	<b>--</b>	<b>98,606</b>	<b>--</b>	<b>--</b>	<b>7,959,984</b>	
<b>Total fund equity</b>	<b>7,407,217</b>	<b>454,161</b>	<b>438,920</b>	<b>1,532,367</b>	<b>98,606</b>	<b>102,096,504</b>	<b>--</b>	<b>112,027,775</b>	
<b>Total liabilities and fund equity</b>	<b>\$10,302,521</b>	<b>\$632,777</b>	<b>\$579,660</b>	<b>\$1,693,062</b>	<b>\$1,442,251</b>	<b>\$102,096,504</b>	<b>\$6,453,571</b>	<b>\$123,200,346</b>	

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

**STATE OF HAWAII  
DEPARTMENT OF PUBLIC SAFETY**

**Combined statement of revenues, expenditures and changes in fund equity -  
all governmental fund types and expendable trust funds  
for the year ended June 30, 1992**

	Governmental Fund Types		Fiduciary Fund Type	Total  (Memorandum Only)
	General	Special Revenue	Expendable Trust	
<b>Revenues:</b>				
State allotted appropriations	\$ 86,546,070	\$ --	\$ --	\$ 86,546,070
Intergovernmental revenues	--	2,640,001	--	2,640,001
Other	<u>--</u>	<u>--</u>	<u>44,133</u>	<u>44,133</u>
	86,546,070	2,640,001	44,133	89,230,204
<b>Expenditures</b>	<u>83,636,379</u>	<u>2,454,734</u>	<u>48,478</u>	<u>86,139,591</u>
Excess (deficiency) of revenues over expenditures	<u>2,909,691</u>	<u>185,267</u>	<u>(4,345)</u>	<u>3,090,613</u>
<b>Other Financing Sources (Uses):</b>				
Operating transfers in	20,542,713	--	--	20,542,713
Operating transfers out	<u>(20,364,390)</u>	<u>--</u>	<u>(529)</u>	<u>(20,364,919)</u>
	<u>178,323</u>	<u>--</u>	<u>(529)</u>	<u>177,794</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses before other changes in fund equity	3,088,014	185,267	(4,874)	3,268,407
<b>Other Changes In Fund Equity:</b>				
Lapsed appropriations	<u>(1,882,006)</u>	<u>--</u>	<u>--</u>	<u>(1,882,006)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures, other financing uses and other changes in fund equity	1,206,008	185,267	(4,874)	1,386,401
<b>Fund Equity, Beginning Of Year</b>	<u>6,201,209</u>	<u>268,894</u>	<u>103,480</u>	<u>6,573,583</u>
<b>Fund Equity, End Of Year</b>	<u>\$ 7,407,217</u>	<u>\$ 454,161</u>	<u>\$ 98,606</u>	<u>\$ 7,959,984</u>

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

STATE OF HAWAII  
DEPARTMENT OF PUBLIC SAFETY

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

	General Fund Accounts			Special Revenue Funds		
	Budget	Actual on Budgetary Basis	Variance- Favorable (Unfavorable)	Budget	Actual on Budgetary Basis	Variance- Favorable (Unfavorable)
<b>Revenues:</b>						
State allotted appropriations	\$86,546,070	\$ 86,546,070	\$ --	\$ --	\$ --	\$ --
Intergovernmental revenues	--	--	--	2,256,470	951,488	(1,304,982)
Other	--	--	--	1,688,513	1,688,513	--
<b>Total revenues</b>	<u>86,546,070</u>	<u>86,546,070</u>	<u>--</u>	<u>3,944,983</u>	<u>2,640,001</u>	<u>(1,304,982)</u>
<b>Expenditures</b>	<u>87,470,882</u>	<u>85,371,357</u>	<u>2,099,525</u>	<u>3,944,983</u>	<u>2,668,031</u>	<u>1,276,952</u>
Excess of revenues over (under) expenditures before other financing sources (uses)	<u>(924,812)</u>	<u>1,174,713</u>	<u>2,099,525</u>	<u>--</u>	<u>(28,030)</u>	<u>(28,030)</u>
<b>Other financing sources (uses):</b>						
Operating transfers in	--	20,542,713	20,542,713	--	--	--
Operating transfers out	--	(20,364,390)	(20,364,390)	--	--	--
	--	<u>178,323</u>	<u>178,323</u>	--	--	--
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ (924,812)</u>	<u>\$ 1,353,036</u>	<u>\$ 2,277,848</u>	<u>\$ --</u>	<u>\$ (28,030)</u>	<u>\$ (28,030)</u>

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

**STATE OF HAWAII  
DEPARTMENT OF PUBLIC SAFETY**

**Combined statement of revenues, expenses and changes in  
retained earnings - proprietary fund types  
for the year ended June 30, 1992**

	Enterprise	Internal Service	Total (Memorandum Only)
<b>Revenues:</b>			
Charges for sales and services	\$1,048,793	\$1,762,625	\$2,811,418
<b>Expenses:</b>			
Cost of sales and services	980,578	1,177,721	2,158,299
Depreciation	<u>—</u>	<u>44,056</u>	<u>44,056</u>
	<u>980,578</u>	<u>1,221,777</u>	<u>2,202,355</u>
Net income	68,215	540,848	609,063
<b>Retained Earnings, Beginning Of Year</b>	<u>370,705</u>	<u>991,519</u>	<u>1,362,224</u>
<b>Retained Earnings, End Of Year</b>	<u>\$ 438,920</u>	<u>\$1,532,367</u>	<u>\$1,971,287</u>

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

**STATE OF HAWAII  
DEPARTMENT OF PUBLIC SAFETY**

**Combined statement of cash flows - proprietary fund types  
for the year ended June 30, 1992**

	Enterprise	Internal Service	Total (Memorandum Only)
Cash flows from operating activities:			
Cash received from customers	\$1,124,738	\$1,617,075	\$2,741,813
Cash paid to suppliers and employees	<u>(945,245)</u>	<u>(1,133,579)</u>	<u>(2,078,824)</u>
Cash provided by operating activities	179,493	483,496	662,989
Cash flows from investing activities:			
Purchase of property and equipment	<u>—</u>	<u>(63,660)</u>	<u>(63,660)</u>
Cash used in investing activities	<u>—</u>	<u>(63,660)</u>	<u>(63,660)</u>
Net increase in cash and cash equivalents	179,493	419,836	599,329
Cash and cash equivalents at beginning of year	<u>288,569</u>	<u>461,848</u>	<u>750,417</u>
Cash and cash equivalents at end of year	<u>\$ 468,062</u>	<u>\$ 881,684</u>	<u>\$ 1,349,746</u>

Reconciliation of net income to net cash  
provided by operating activities

Net income	\$ 68,215	\$ 540,848	\$ 609,063
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	—	44,056	44,056
Decrease (increase) in -			
Receivables	5,370	(145,794)	(140,424)
Due from other funds	66,186	—	66,186
Inventories	4,389	244	4,633
Increase (decrease) in -			
Vouchers payable	38,648	56,347	94,995
Accrued wages	—	(3,805)	(3,805)
Due to other governments	<u>(3,315)</u>	<u>(8,400)</u>	<u>(11,715)</u>
	<u>111,278</u>	<u>(57,352)</u>	<u>53,926</u>
Net cash provided by operating activities	<u>\$ 179,493</u>	<u>\$ 483,496</u>	<u>\$ 662,989</u>

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

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## **Response of the Affected Agency**

### **Comments on Agency Response**

We transmitted a draft of this report to the Department of Public Safety on November 13, 1992. A copy of the transmittal letter to the department is included as Attachment 1. The department did not respond to our draft report.

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

November 13, 1992

The Honorable George W. Sumner  
Director of Public Safety  
677 Ala Moana, Suite 1000  
Honolulu, HI 96813

Dear Mr. Sumner:

Enclosed are three copies, numbered 6 through 8, of our draft report, *Financial Audit of the Department of Public Safety*. We ask that you telephone us by Wednesday, November 18, 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 November 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