# Financial Audit of the Department of Defense

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

Report No. 04-06
March 2004

**THE AUDITOR**
STATE OF HAWAII

## 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 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.

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.

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# OVERVIEW

## *Financial Audit of the Department of Defense*

**Report No. 04-06, March 2004**


## Summary

The Office of the Auditor and the certified public accounting firm of PricewaterhouseCoopers LLP conducted a financial audit of the Department of Defense, State of Hawaii, for the fiscal year July 1, 2002 to June 30, 2003. The audit examined the financial records and transactions of the department; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

In the opinion of the firm, except for the effects of the adjustments, if any, resulting from the FY2001-2002 capital asset issues, the financial statements present fairly the department's financial position and changes in its financial position for the fiscal year ended June 30, 2003, in conformity with generally accepted accounting principles.

With respect to the department's internal control over financial reporting and operations, we found several deficiencies, including a significant reportable condition considered to be a material weakness. In the material weakness, we found that the department has not properly accounted for its capital assets. The department was unable to provide adequate documentation to support $12.2 million of $17.2 million in capital asset costs and related accumulated depreciation of $4.5 million of $4.8 million. This information should have been recorded upon the implementation of GASB Statement No. 34 as of June 30, 2002, and is reflected in the $12 million restatement as of July 1, 2002, in the financial statements, and the recording of depreciation expense thereon of $373,000 in the fiscal year ended June 30, 2003. Additionally, the department restated the prior-period capital assets balance to reflect additional capital assets that should have been capitalized and depreciated in previous years.

We also found that the department's poor management of contracts resulted in noncompliance with certain provisions of the Hawaii Public Procurement Code. Our testing of the department's procurement practices revealed that contract records were not properly maintained; bid opening procedures were not followed; a justification for the selection of a small purchase vendor was not properly documented; screening committee requirements for professional services were not followed; and services were rendered before contracts were executed. As a result, there was no assurance that fair competition was sought by the department and that state funds were spent in an effective and cost-beneficial manner.

Moreover, we found that the department did not make changes to the allocation of payroll wages on a timely basis, which resulted in inaccurate federal reimbursements. In our review of six pay periods for five Disaster Program employees (total of 30 items tested), we found eight instances where the employees' wages were

incorrectly charged 100 percent to federal funds rather than 75 percent to federal funds and 25 percent to state (general) funds. As a result, the department overcharged the federal government by $11,751, since employees' wages were not allocated to the proper appropriation codes. The department does not have any formal written procedures to ensure that changes to the payroll wage allocation are completed in a timely fashion.

Finally, we found that the department did not file certain federal financial status reports on a timely basis. In 15 instances out of a sample of 68 Financial Status Quarterly Reports filed in FY2002-03, the department submitted the financial status reports for five grants eight days after the required submittal date. The department does not have any formal written procedures assigning responsibility to ensure that the financial status reports are filed on a timely basis. Although the department was not assessed any penalty due to this late filing, untimely submittal of reports to the federal government could result in penalties to the department or jeopardize future federal funding.

## Recommendations and Response

We recommend that the department ensure that adequate supporting documentation is maintained for the capital assets to support the propriety of these assets. The department should also ensure the capital assets are properly accounted for by department staff, and their work is reviewed and approved by the appropriate supervisor.

We also recommend that the department comply with the Hawaii Public Procurement Code and procurement rules for the procurement of goods and services, ensure proper contract execution prior to the commencement of the contracted work, and provide periodic employee training. Moreover, the department should ensure proper and timely processing of the changes in the payroll wage allocation among appropriation codes through strengthened procedures. Finally, the department should establish and enforce formal written procedures to delineate the responsibilities and deadlines for completing and submitting required federal financial status reports.

The department generally concurred with most of our findings and recommendations, and provides additional information to explain its current procedures and corrective actions planned to address the internal control deficiencies identified in our report.

**Marion M. Higa**
**State Auditor**
**State of Hawaii**

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# Financial Audit of the Department of Defense

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

Conducted by

The Auditor
State of Hawaii
and
PricewaterhouseCoopers LLP

Submitted by

**THE AUDITOR**
STATE OF HAWAII

Report No. 04-06
March 2004

# Foreword

This is a report of the financial audit of the Department of Defense, State of Hawaii, for the fiscal year July 1, 2002 to June 30, 2003. The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the State Auditor to conduct postaudits of all departments, offices, and agencies of the State and its political subdivisions. The audit was conducted by the Office of the Auditor and the certified public accounting firm of PricewaterhouseCoopers LLP.

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

Marion M. Higa
State Auditor

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# Chapter 1
## Introduction

This is a report of our financial audit of the Department of Defense, State of Hawaii. The audit was conducted by the Office of the Auditor and the independent certified public accounting firm of PricewaterhouseCoopers LLP. The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes (HRS), which requires the State Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State of Hawaii and its political subdivisions.

### Background

The Department of Defense administers the Hawaii National Guard, the Civil Defense Division, the Hawaii National Guard Youth Challenge Program and the Office of Veterans Services. The federal government provides funding to the department through the National Guard Bureau and the Federal Emergency Management Agency. As a condition of funding, the federal government sets requirements relating to the size, strength, and structure of the organization.

The department's purpose is to provide military and civil defense organizations that are adequately staffed, trained, equipped, and prepared to expeditiously respond to both federal and state missions. The department's objective is to minimize death, injury, property damage, and economic loss in the event of physical disasters, mass casualty situations or manmade disasters.

### Organization

The adjutant general is the head of the department and the director of civil defense for the State. He is the commanding general of the Hawaii National Guard and responsible for Hawaii homeland security. The department comprises many functional offices, divisions, advisory units, and a program. Exhibit 1.1 displays the department's organizational structure. The primary responsibilities of these units follow:

**The Office of Veterans Services** is the principal agency responsible for the administration and coordination of all functions and activities prescribed under Chapter 363, HRS, Veterans Rights and Benefits. It manages the Hawaii State Veterans Cemetery and provides information, referral, advocacy, counseling, and other appropriate services to veterans, their dependents, and survivors.

**The Hawaii National Guard Youth Challenge Program**, under the direction of the adjutant general, is responsible for carrying out Hawaii's efforts in a nationwide strategy to assist qualified high-school dropouts, ages 16 through 18. Qualified candidates participate in each of two five-month residential programs leading to the completion of a General Education Development or a Competency Based High School Diploma.

**The Judge Advocate General Office** provides legal support to the adjutant general, personnel and subordinate units of the Hawaii National Guard, and the U.S. Property and Fiscal Office.

**The Human Resources Office** provides personnel, manpower management, and administrative support services for all full-time personnel programs. This office serves as the adjutant general's single point of control for managing and administering Hawaii National Guard full-time personnel programs.

**The U.S. Property and Fiscal Office** is a representative of the federal government. The office plans, coordinates, and executes the federal financial and logistical support of the Hawaii National Guard in accordance with applicable federal laws, regulations, and directives.

**The Engineering Office** provides professional engineering services to all major organizational segments of the department. The engineering services encompass programming/budgeting, planning, designing, advertising, and awarding construction contracts, construction management, and facilities maintenance and repair.

**The Administrative Services Office**, under the general direction of the adjutant general, provides military and executive management services and support to the Office of the Adjutant General.

**The Quality Office** provides guidance to the adjutant general and oversees the department's improvement initiatives.

**The Public Affairs Office** plans, develops, directs, and administers the department's community relations and public and internal information programs.

**The State Personnel Office** provides personnel services, human resources management, and administrative support services for all state personnel programs.

**The Civil Defense Division** coordinates, integrates and focuses mitigation, preparedness, response, and recovery phases of emergency management for the State of Hawaii. Under the supervision of the adjutant general, the vice director of the Civil Defense Division provides direction, control and coordination of the executive, administrative, and operational responsibilities and functions of the Civil Defense Division and acts for the director of civil defense in his absence.

**The Hawaii Army National Guard Division** provides command, control and supervision of administration, training, operations, and logistics in preparing assigned units for their federal and state mobilization missions for the department's Hawaii Army National Guard.

**The Hawaii Air National Guard Division** provides command, control, and supervision of administration, training, operations, and logistics in preparing assigned units for their federal and state mobilization missions for the department's Hawaii Air National Guard.

## Objectives of the Audit

1. Assess the adequacy, effectiveness, and efficiency of the systems and procedures for the financial accounting, internal control, and financial reporting of the Department of Defense; to recommend improvements to such systems, procedures, and reports; and to report on the fairness of the financial statements of the department.

2. Ascertain whether expenditures or deductions and other disbursements have been made and all revenues or additions and other receipts have been collected and accounted for in accordance with federal and state laws, rules and regulations, and policies and procedures.

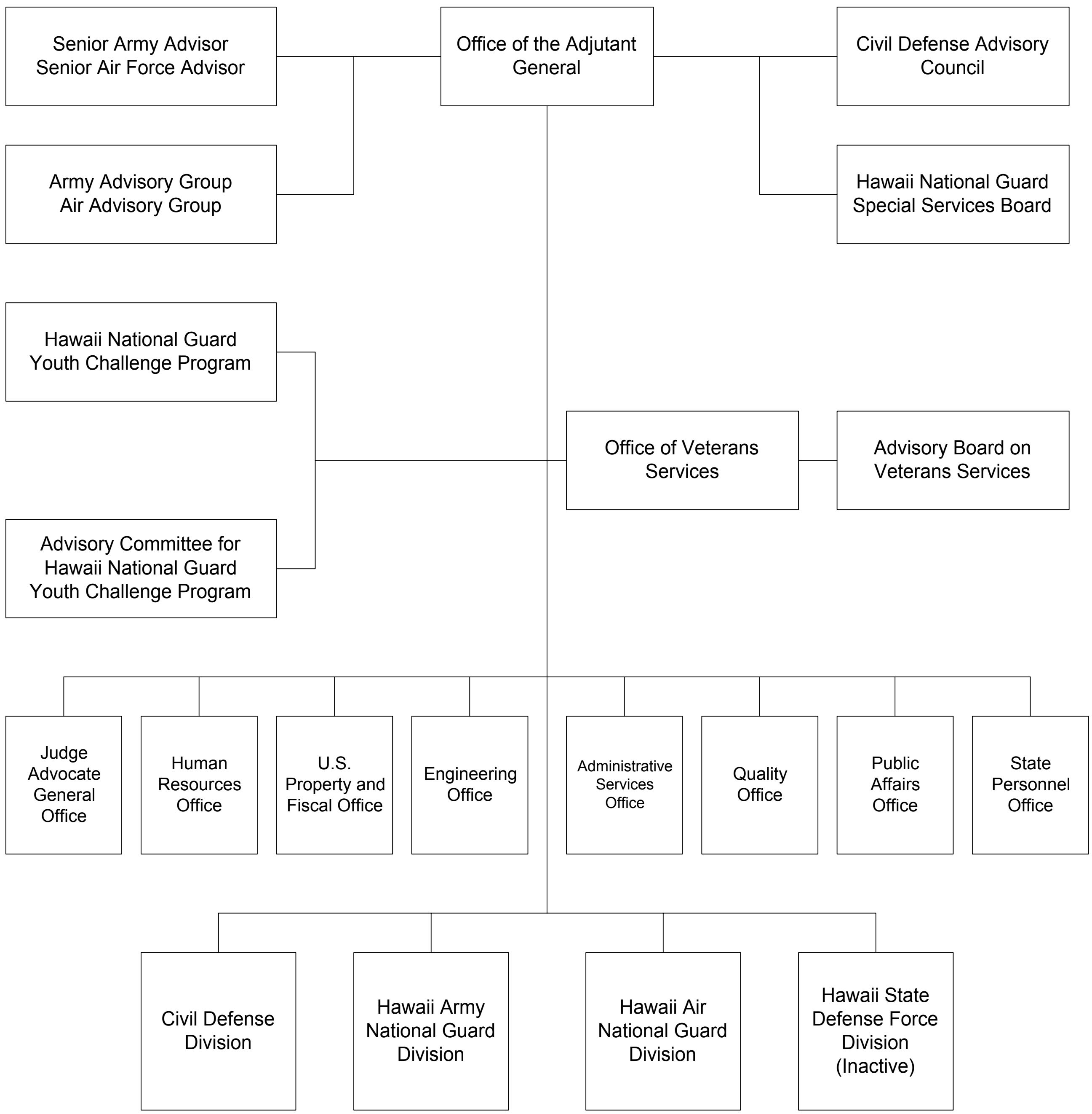
3. Make recommendations as appropriate.

## Scope and Methodology

We audited the financial records and transactions, and reviewed the related systems of accounting and internal controls of the department for fiscal year July 1, 2002 to June 30, 2003. We tested financial data to provide a basis to report on the fairness of the presentation of the financial statements. We also reviewed the department's transactions, systems, and procedures for compliance with applicable laws, regulations and contracts.

We examined the department's accounting, reporting, and internal control structure, and identified deficiencies and weaknesses therein. We made recommendations for appropriate improvements, including, but not limited to, the department's management and administration of contracts, forms and records, and accounting and operating procedures.

**Exhibit 1.1**
**Department of Defense**
**State of Hawaii**
**Office of the Adjutant General**
**Organizational Chart**




Source: Department of Defense

In addition, we reviewed the extent to which recommendations made in the department's previous external financial audit report have been implemented. Where recommendations have not been, or have been only partially implemented, the reasons for these were evaluated.

The independent auditors' opinion as to the fairness of the department's financial statements presented in Chapter 3 is that of PricewaterhouseCoopers LLP. The audit was conducted from July 2003 through January 2004 in accordance with auditing standards generally accepted in the United States of America as set forth by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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# Chapter 2

## Internal Control Deficiencies

Internal controls are steps instituted by management to ensure that objectives are met and resources safeguarded. This chapter presents our findings and recommendations on the financial accounting and internal control practices and procedures of the Department of Defense (department).

### Summary of Findings

We found a material weakness and several reportable conditions involving the department's internal control over financial reporting and operations. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic 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. Reportable conditions are significant deficiencies in the design or operation of the internal control over financial reporting 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. Similar issues were communicated to the department in our Report No. 96-18, *Financial Audit of the Department of Defense.*

The following matter is considered a material weakness:

1. The department has not properly accounted for capital assets, which resulted in a qualified opinion issued by PricewaterhouseCoopers LLP on the department's financial statements. The department was unable to provide adequate documentation to support certain capital asset costs and the related accumulated depreciation. Additionally, the department restated the prior-period capital assets balance to reflect additional capital assets that should have been capitalized and depreciated in previous years.

We also found reportable conditions as follows:

2. The department's poor management of contracts resulted in noncompliance with certain provisions of the Hawaii Public Procurement Code. Our testing of the department's procurement practices revealed that contract records were not properly maintained; bid opening procedures were not followed; a small

purchase vendor selection was not properly documented; screening committee requirements for professional services were not followed; and services were rendered before contracts were executed. There is no assurance that fair competition was sought by the department and that state funds were spent in an effective and cost-beneficial manner.

3. The department did not charge payroll wages to the proper appropriation codes on a timely basis, which resulted in inaccurate federal reimbursements. Untimely changes to the allocation of employees' wages could result in future overcharges to the federal government and may jeopardize future federal funding.

4. The department did not file certain federal financial status reports on a timely basis. Untimely submittal of reports to the federal government could result in penalties to the department or could jeopardize future federal funding.

## The Department Has Not Properly Accounted For Capital Assets

The department improperly accounted for capital assets by: 1) failing to provide adequate documentation to support certain capital asset costs and the related accumulated depreciation; 2) restating the prior year capital assets balance; 3) improperly expensing capital assets; and 4) not fulfilling its commitment to fully implement Governmental Accounting Standards Board (GASB) Statement No. 34 in FY2002-03. A qualified opinion was rendered on the department's financial statements, as we were unable to obtain sufficient evidential matter to support $12.2 million of $17.2 million in capital asset costs and related accumulated depreciation of $4.5 million of $4.8 million that should have been recorded by the department on the implementation of GASB Statement No. 34 as of June 30, 2002, and is reflected as part of the $12 million restatement as of July 1, 2002, in the financial statements, and the recording of depreciation expense thereon of $373,000 in the fiscal year ended June 30, 2003.

During FY2002-03, the department identified $17.2 million of additional capital assets that the department believes should have been capitalized and depreciated in prior years. Accordingly, the department restated the prior-period capital assets balance, net of accumulated depreciation, of approximately $12 million in FY2002-03. However, the department was unable to provide adequate documentation, such as contracts, for certain capital assets to support the cost and the year the assets were placed into service.

The department informed us that it had not recorded these assets in previous years, since the assets were acquired or built by the department with federal funds. Therefore, the department had assumed the assets would be recorded by the federal government rather than the state government. However, with the implementation of GASB Statement No. 34 in FY2001-02, the GASB Implementation Guide provided the following guidance related to capital assets: “Although property records may indicate that the capital assets were acquired with federal funds and the federal government retains a reversionary interest in the salvage values of the assets, the state or local government is the party that uses the assets in its activities and makes the decisions regarding when and how the assets will be used and managed. The historical cost of these assets should be reported in the state or local government’s statement of net assets, and depreciation expense, if applicable, for these assets should be included in the expenses for the function that uses the assets.” Based on this guidance and since the department uses these assets in its activities and manages these assets, the department recorded the capital assets in FY2002-03.

Additionally, the department made adjustments to reduce the construction-in-progress balance by approximately $1,052,000, because certain construction-in-progress assets should not have been capitalized in previous years or the project was completed in previous years and the asset should have been reflected as equipment. Moreover, the department increased the construction-in-progress balance by approximately $610,000 to reflect certain building improvements made between FY1998-2002, which the department believes were incorrectly written off in FY2001-02. Since these improvements were built by the State with federal funds, the department had determined in FY2001-02 that these costs should not have been previously capitalized by the department and had written off the assets in FY2001-02. The department subsequently determined in FY2002-03 that those costs should have remained on the department’s books as capitalized assets, based on the guidance provided in the GASB Implementation Guide referred to above.

The department has also restated the prior-period capital assets and the accumulated depreciation balances by $2,475,525 and $2,340,673, respectively, in FY2002-03. During the quarter ended June 30, 2002, the department had incorrectly recorded the transfer of a paging amplifier placed in service in FY1995-96 within the Civil Defense Division on the State’s Detail of Inventory Property (Form 17-A). The department properly reflected the transfer out at $2,527, but incorrectly reflected the transfer in at $2,527,307 on Form 17-A, which is signed by the adjutant general and the fiscal officer. The department identified and corrected the error during the reconciliation process performed during the quarter ended December 31, 2002. The department informed us that the reconciliation had been delayed because the personnel responsible for the task was backlogged with work.

The department recorded another adjustment in FY2002-03 to increase the prior-period capital assets balance by $51,782 for eight assets that were placed into service in FY2000-01 and FY2001-02. The department informed us that the respective divisions had not properly reported these capital assets to the fiscal office on a timely basis for inclusion on Form 17-A and for capitalization purposes. Furthermore, we noted that approximately $278,000 of building cables and wiring were improperly reflected as repairs and maintenance expenditures rather than as capital assets during FY2002-03. The department informed us that this error was due to personnel responsible for identifying expenditures not being fully aware of the criteria for capitalization. However, the department subsequently restated the FY2002-03 financial records to capitalize and depreciate this asset.

Finally, although the department indicated in its June 30, 2002 audited financial statements that the retroactive infrastructure assets requirements of GASB Statement No. 34 would be implemented in the fiscal year ended June 30, 2003, the department has not recorded any infrastructure assets in FY2002-03. GASB encouraged government entities to report all major general governmental infrastructure assets at the date GASB Statement No. 34 was implemented, which was in FY2001-02 for the department. The statement requires that all government entities complete retroactive reporting within four years after the entity's implementation date, or in FY2005-06.

### *Recommendation*

The department should ensure that adequate supporting documentation is maintained for the capital assets to support the propriety of these assets. The department should also ensure that the capital assets are properly accounted for by department staff, and their work is reviewed and approved by the appropriate supervisor. Finally, the department should commit to a deadline in implementing the retroactive infrastructure asset requirements of GASB Statement No. 34.

## The Department's Poor Management of Contracts Resulted in Noncompliance

We found instances of the department's noncompliance with the Hawaii Public Procurement Code. Our testing of procurement practices revealed that contract records were not properly maintained, bid opening procedures were not followed, small purchase vendor selection was not properly documented, screening committee requirements for professional services were not followed, and services were rendered before contracts were executed.

### *Department does not maintain proper contract records*

The Award of Contract, which is a written notice to the lowest responsible bidder in accordance with Section 103D-302(h), HRS, could not be located for two of the four competitive sealed bidding contracts executed by the department in FY2002-03. The Engineering Office, which is responsible for maintaining contract records, indicated that these documents may have been misplaced when the former contract specialist retired in March 2003. Therefore, we could not verify that these security guard contracts were awarded in a timely manner to the appropriate contractor as follows:

| Division | Contract No. | Contract Term or Effective Date | Contract Amount |
|---|---|---|---|
| Hawaii Army National Guard Division | 50378 | November 1, 2002 – September 1, 2003 | $98,060 |
| Hawaii Army National Guard Division | 50461 | November 1, 2002 – September 1, 2003 | $98,060 |

The department also procures professional services in accordance with Section 103D-304, HRS. The section provides that the contracts for professional services be awarded on the basis of demonstrated competence and qualification for the types of services required, and at fair and reasonable prices. It further provides that the review committee, designated by the head of the purchasing agency, will review and evaluate all statements of qualification and other pertinent information submitted by interested bidders, and prepare a list of qualified persons to provide these services before the beginning of each fiscal year. The screening committee, designated by the head of the purchasing agency, will then evaluate the statements of qualification and other pertinent information of those persons on the list of qualified persons and provide the names of a minimum of three persons who the committee concludes are the most qualified to provide the services required, with a summary of each of their qualifications.

The Engineering Office indicated that the contract specialist, who is responsible for preparing the list of qualified persons for procurement of professional services, had overlooked preparing the FY2002-03 list. The FY2002-03 list should have been completed upon receipt of the statements of qualification from the contractors. Therefore, we could not ensure that the appropriate qualified persons were solicited for the two professional services contracts executed by the department in FY2002-03 as follows:

| Division | Contract No. | Contract Term | Contract Amount |
|---|---|---|---|
| Civil Defense Division | 49882 | June 1, 2002 – June 30, 2003 | $46,875 |
| Hawaii Army National Guard Division | 50640 | June 30, 2003 – September 30, 2004 | $1,483,738 |

For contract 49882, we noted that although the contractor had submitted a statement of qualification for FY2001-02 and was awarded the contract, the contractor was not on the FY2001-02 list of qualified persons. The contractor, a structural engineering firm, was retained to perform a modeling sensitivity analysis for an earthquake loss estimation program and to investigate estimated versus reported historic event consequences for the State of Hawaii.

The department informed us that the screening committee identified qualified contractors to perform the above referenced services. The screening committee then obtained verbal confirmation from the former contract specialist that these contractors were on the qualified list, as the screening committee members did not obtain a copy of the list nor did they obtain the statements of qualification. The contracts and engineering officer indicated that the contractor for contract 49882 should have been on the FY2001-02 list as it was qualified to perform engineering services for the department, but could not explain why that contractor was not on the FY2001-02 list.

For contract 50640, the contracts and engineering officer provided the screening committee with the FY2001-02 list of qualified persons to use in identifying the appropriate contractors, as the FY2002-03 list was not prepared. We noted that all four companies selected by the screening committee were on the FY2001-02 list and all but one company had submitted a statement of qualification for FY2002-03. A civil engineering consulting firm was retained to design the 93rd Civil Support Team facility in Kalaeloa, Hawaii.

The contracts and engineering officer and the personnel in charge of the screening committee informed us that they did not realize the FY2002-03 list had not been prepared and that they were inadvertently utilizing the FY2001-02 list. Therefore, the screening committee members based their selection on an outdated list and subjective criteria, which could have potentially biased decision-making.

Given the department's lack of required documentation to support the selection of these contractors, the department is not in compliance with the Hawaii Public Procurement Code. There is no evidence that fair competition was sought by the department and therefore, no assurance that state funds were spent in an effective and cost-beneficial manner. Additionally, the department's improper procurement practices may be questioned by other contractors, which may jeopardize the department's ability to obtain qualified bidders in the future.

### *Bid opening procedures need improvement*

None of the four competitive sealed bidding contracts initiated by the department in FY2002-03 was properly time-stamped upon receipt of the bids, as required by Section 3-122-30, Hawaii Administrative Rules (HAR). The staff manually wrote the date and time on the envelope of the bids, but did not obtain approval from the chief procurement officer to utilize this method, as required by the rules. We also noted that only the awarding bidder's envelope was retained and therefore, it could not be determined whether all other bidders had submitted their bids in a timely fashion.

The department informed us that, due to the thickness of these bids, the envelopes did not fit in the department's time stamp and therefore, were manually logged. However, we noted that the four competitive sealed bids could fit into the time stamp. Per the department, the bidders often included the technical specifications and general conditions with the proposal and therefore, the envelopes did not fit into the time stamp. The department retains only one copy of the technical specifications and general conditions and was unable to determine which bids included the required documents.

Since the bid envelopes were not time-stamped, the bidders who were not selected may question whether the awarded bids were actually received by the official due dates. The State Procurement Office procurement manual provides that the bid receipt, accuracy of the time and date stamp, security of storage, and personnel access to the bid documents are important components in the public perception of the integrity of the purchasing process.

Additionally, the department was not aware of the necessity to retain the envelopes of all bidders, even after the contract has been awarded. Section 103D-320, HRS, provides that all procurement records shall be retained and disposed of in accordance with Chapter 94, HRS, and records retention guidelines and schedules approved by the State of Hawaii comptroller. Furthermore, all time-stamped envelopes should be retained as evidence that all bidders listed on the abstract of bids had submitted their bids on time.

### *Department did not document justification for the selection of a small purchase vendor*

We tested 30 small purchases and noted one instance where the department did not document its justification for selecting a vendor, as required by the State Procurement Office's procurement circular. In late 2002, the department solicited price quotations from three vendors, but only one vendor responded to the solicitation with a $12,000 bid. The department indicated that it had not solicited additional bids when the two vendors declined to bid, as these three vendors were the only vendors qualified to perform the specialized services. The department was not aware of a requirement to document its justification for not obtaining three bids, which may be the result of inadequate staff training on the procurement code.

The State Procurement Office Circular No. 1997-06 provides guidelines for small purchase procurements less than $25,000. The procurement circular requires at least three quotations be obtained (verbally or by facsimile) for purchases between $1,000 and less than $15,000, and at least three written quotations be obtained for purchases between $15,000 and less than $25,000. The award for the goods or service must consider price, quality, warranty, and delivery, and offered to the most advantageous bid. If it is not practical to solicit three quotations or if the award was made to other than the lowest bid, written justification must be documented on the State of Hawaii Record of Small Purchase form (SPO Form-10), or similar form, and maintained in the procurement file.

Since the department did not maintain adequate documentation, questions may be raised whether fair competition was properly sought by the department and whether state funds were spent in an effective and cost-beneficial manner.

### *Department did not have the required number of employees on the screening committee*

For one professional service contract, the department did not maintain any documentation on which employees served on the screening committee to review and evaluate the qualifications of contractors. The department informed us that the committee was comprised of two employees, instead of a minimum of three employees as required by Section 103D-304(d), HRS. Although the department was aware of the committee member requirement, it obtained only two employees to meet a tight deadline to award the contract or jeopardize losing the federal funds.

Therefore, the department may not have performed a fair evaluation of all contractors. Since the names of the employees on the screening committee and their qualifications and credentials in the area of services required were not properly documented, the department could be challenged regarding conflicts of interest or qualifications of employees on the committee. Section 103D-304(d), HRS, provides that the screening committee be comprised of a minimum of three employees of the purchasing agency with sufficient education, training, and licenses, or credentials in the area of the services required.

### *Services were rendered prior to execution of contracts*

Of the six contracts executed by the department in FY2002-03, three contracts were executed (formally signed by all parties) late, with one as late as 151 days after the services were performed as follows:

| Contract No. | Contract Term | Effective Date | Executed Date | Date of First Invoice | Date Service Commenced Per Invoice | Days Late |
|---|---|---|---|---|---|---|
| 50378 | November 1, 2002 – September 1, 2003 | April 1, 2003 | April 1, 2003 | November 18, 2002 | November 1, 2002 | 151 days |
| 50461 | November 1, 2002 – September 1, 2003 | November 1, 2002 | March 11, 2003 | December 16, 2002 | November 1, 2002 | 130 days |
| 49882 | June 1, 2002 – June 30, 2003 | June 1, 2002 | July 17, 2002 | June 29, 2002 | Not stipulated | 18 days |

The Engineering Office informed us that the three contractors had initiated services before the contracts were finalized because they expected the contracts to be forthcoming.

It is essential that contracts be properly executed before any services are provided to ensure that 1) the type and scope of service to be provided is agreed upon by all parties, 2) the services are those for which the department has appropriated moneys, and 3) the roles and responsibilities of the department and service providers are clearly delineated to avoid confusion or misunderstanding. It is also a poor business practice to perform services without an executed contract in place, as this practice exposes the department and its contractors to unnecessary legal risk.

### *Recommendations*

We recommend that the department:

1. Comply with the Hawaii Public Procurement Code and applicable procurement rules. Specifically, the department should ensure that:

    a. All required documentation are properly filed and retained in the contract files;

b. The list of qualified persons for professional services is completed annually by the review committee designated by the department director;

c. All bid envelopes are time-stamped, or approval is obtained from the chief procurement officer to utilize another method;

d. Proper documentation is retained in the contract files with the department's justification for obtaining fewer than three bids for the selection of a small purchase vendor; and

e. A minimum of three employees are represented on the screening committee for professional service procurement, and their names, qualifications, and credentials are properly documented on the evaluation forms.

2. Ensure contracts are properly executed prior to the commencement of the contracted work.

3. Provide appropriate periodic training to ensure the Engineering Office and other personnel involved in the procurement process are familiar with the procurement requirements.

## The Department Did Not Make Changes to the Allocation of Payroll Wages on a Timely Basis

We tested a sample of six pay periods for five Disaster Program employees (total of 30 items tested) and noted eight instances in which the employees' wages were incorrectly charged 100 percent to federal funds rather than 75 percent to federal funds and 25 percent to state (general) funds. As a result, the department overcharged the federal government by $11,751, since employees' wages were not allocated to the proper appropriation codes. In June 2003, the department identified the misallocations, which dated back to September 1, 2002, and corrected the allocation of the employees' wages at that time. The department also reduced the June 2003 request for federal reimbursement due to the misallocations.

The department does not have any formal written procedures to ensure that changes to the payroll wage allocation are completed in a timely fashion. To request changes to the employees' wage allocations, the Request for Personnel Action form must be completed by the division head or program administrator and approved by the fiscal officer, deputy adjutant general, and the personnel officer. Although the department uses the instructions for the Request for Personnel Action form as guidance, the instructions do not specify due dates to ensure that changes in the allocation of payroll wages have been properly requested by the division head or program administrator, approved by the appropriate personnel, and reflected in the proper appropriation codes (federal, special revenue or general funds).

Untimely changes to the allocation of employees' wages could result in future overcharges to the federal government and may jeopardize future federal funding. The misallocation of wages also results in misclassification of charges to the various appropriation codes.

### *Recommendation*

We recommend that the department include in the instructions for the Request for Personnel Action form procedures to ensure that changes in the allocation of payroll wages among appropriation codes are processed on a timely basis. The department should also establish adequate procedures to ensure the proper monitoring of this process.

## The Department Did Not File Certain Federal Financial Status Reports on a Timely Basis

We tested 15 of 68 Financial Status Quarterly Reports filed in FY2002-03 and noted that the department had submitted the December 31, 2002 Financial Status Quarterly Reports for five grants on February 7, 2003, eight days after the required submittal date. Title 44, Section 13.41 (b) (1) of the Code of Federal Regulations states that Financial Status Quarterly Reports are due 30 days after the reporting period.

The department does not have any formal written procedures assigning responsibility to ensure that the Financial Status Quarterly Reports are filed on a timely basis. The department informed us that the delay in submitting the reports had been caused by untimely submittal of the administrative expenditures amounts charged to the various programs from the Administrative Services Office (fiscal office) to the Civil Defense Division that completes the reports. The two positions in the fiscal office responsible for completing and submitting this source information to the Civil Defense Division were vacated in December 2002. The accountant position was filled in October 2003 and the supervising accountant position is still vacant.

Although the department was not assessed any penalty due to this late filing, untimely submittal of reports to the federal government could result in penalties to the department or jeopardize future federal funding.

### *Recommendation*

We recommend that the department establish and enforce formal written procedures to delineate the responsibilities and deadlines for completing and submitting required reports.

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# Chapter 3
## Financial Audit

This chapter presents the results of the financial audit of the Department of Defense as of and for the fiscal year ended June 30, 2003. This chapter includes the independent auditors' report and the report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*. It also displays the department's financial statements together with explanatory notes.

### Summary of Findings

In the opinion of PricewaterhouseCoopers LLP, except for the effects of such adjustments, if any, as might have been determined to be necessary had they been able to examine evidence regarding certain capital asset costs and the related accumulated depreciation that should have been recognized by the department on the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 as of June 30, 2002, and that is reflected as a restatement, and the related depreciation expense for the year ended June 30, 2003, reported in the statement of net assets, statement of activities and Notes 4, 5, and 9, based on their audit, the financial statements present fairly, in all material respects, the financial position of the department as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. PricewaterhouseCoopers LLP noted that the department has not presented the management's discussion and analysis information that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements in accordance with GASB Statement No. 34 reporting requirements.

PricewaterhouseCoopers LLP also noted certain matters involving the department's internal control over financial reporting and its operations that the firm considered to be a material weakness and reportable conditions. PricewaterhouseCoopers LLP noted that the results of its test disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Defense, State of Hawaii, as of and for the year ended June 30, 2003, which collectively comprise the department's basic financial statements. These financial statements are the responsibility of the department's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the second succeeding paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

As discussed in Note 1, the financial statements of the department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that are attributable to the transactions of the department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We were unable to obtain sufficient evidential matter to support $12.2 million of $17.2 million in capital asset costs and related accumulated depreciation of $4.5 million of $4.8 million that should have been recorded by the department on the implementation of Governmental Accounting Standards Board Statement No. 34 as of June 30, 2002, and is reflected as part of the restatement of $12 million as of July 1, 2002 in the financial statements (Notes 5 and 9), and the recording of depreciation expense thereon of $373,000 in the year ended June 30, 2003. Accordingly, we have not been able to determine the effects of adjustments, if any, that might have been necessary had we been able to examine such evidence.

In our opinion, except for the effects of such adjustments referred to in the preceding paragraph, if any, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the department as of June 30, 2003, and the respective changes in financial position and the respective budgetary comparison for the general and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The department has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards,* we have also issued a report dated January 9, 2004, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

Honolulu, Hawaii
January 9, 2004

## Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Auditor
State of Hawaii:

We have audited the basic financial statements of the Department of Defense, State of Hawaii, as of and for the year ended June 30, 2003, and have issued our report thereon which rendered a qualified opinion dated January 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**
As part of obtaining reasonable assurance about whether the department's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, and which we have reported to the Auditor, State of Hawaii, and described in Chapter 2 of this report.

**Internal Control over Financial Reporting**
In planning and performing our audit, we considered the department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting 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 basic financial statements. Reportable conditions have been reported to the Auditor, State of Hawaii, and described in Chapter 2 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic 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 over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted a material weakness related to the department not properly accounting for capital assets and have reported this matter to the Auditor, State of Hawaii, and described the material weakness in Chapter 2 of this report.

This report is intended solely for the information and use of the Auditor, State of Hawaii, and management of the department, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

Honolulu, Hawaii
January 9, 2004

## Description of Basic Financial Statements

The following is a brief description of the basic financial statements audited by PricewaterhouseCoopers LLP, which are presented at the end of this chapter.

### *Basic financial statements*

**Government-Wide Financial Statements**

**Statement of Net Assets (Exhibit 3.1).** This statement presents assets, liabilities, and net assets of the department at June 30, 2003 using the accrual basis of accounting. This approach includes reporting not just current assets and liabilities, but also capital assets and long-term liabilities. The department's net assets are classified as either invested in capital assets or unrestricted.

**Statement of Activities (Exhibit 3.2).** This statement presents revenues, expenses, and changes in net assets of the department for the year ended June 30, 2003, using the accrual basis of accounting and presents a comparison between direct expenses and program revenues. Under this approach, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

**Fund Financial Statements**

**Balance Sheet – Governmental Funds (Exhibit 3.3).** This statement presents assets, liabilities, and fund balances by major governmental fund and the aggregate remaining fund information using the current financial resources measurement focus and modified accrual basis of accounting. Because the emphasis of this statement is on current financial resources, capital assets, and long-term liabilities are not reported.

**Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit 3.4).** This statement presents revenues, expenditures, and changes in fund balances by major governmental fund and the aggregate remaining fund information using the current financial resources measurement focus and modified accrual basis of accounting. Under this approach, revenues are recognized when measurable and available, while expenditures are recorded when the related fund liability is incurred.

### *Budgetary comparison statements (Exhibits 3.5 and 3.6)*

These statements compare actual revenues and expenditures of the department's general and major special revenue funds on a budgetary basis to the budget adopted by the State Legislature for the year ended June 30, 2003.

## Notes to Basic Financial Statements

Explanatory notes that are pertinent to an understanding of the basic financial statements and financial condition of the department are discussed in this section.

### *Note 1 – Financial Statement Presentation*

**Reporting Entity**

The Department of Defense is a department of the State of Hawaii and provides for the safety, welfare, and defense of the people of Hawaii by maintaining readiness to respond in the event of war or disaster. Its divisions include the Hawaii Army and Air National Guards, Civil Defense, and Office of Veterans Services.

The financial statements of the department present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that are attributable to the transactions of the department. The State Comptroller maintains the central accounts for all state funds and publishes comprehensive financial statements for the State annually, which include the department's financial activities.

### *Note 2 – Summary of Significant Accounting Policies*

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The accounting policies of the department conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) through its statements and interpretations. The government-wide statement of net assets and statement of activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these activities are included on the statement of net assets.

The accounts of the department are organized and operated on a fund basis. Each fund is a separate fiscal and accounting entity, consisting of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures, as appropriate. The funds are segregated for the purpose of carrying on specific activities or attaining certain objectives. The department uses governmental-fund types. Governmental-fund types are those through which the acquisition, use and balances of the department's expendable available financial resources and the related liabilities are accounted for. The measurement focus is upon the availability and use of resources and of changes in financial position rather than upon net income determination. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The revenues and expenditures represent increases and decreases in net current assets. The following are the department's governmental-fund types:

General Fund – accounts for all financial activities of the department, except those required to be accounted for in another fund. The general fund presented is a part of the State's general fund and is limited only to those appropriations and obligations of the department.

Special Revenue Funds – account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to be expended for specified purposes. The department's major special revenue funds are as follows:

*Air and Army National Guard* – accounts for revenues and expenditures of providing operations and maintenance projects.

*Disaster assistance* – accounts for revenues from and expenditures for providing disaster assistance in the State of Hawaii.

*Emergency management performance grant* – accounts for revenues from and expenditures for providing emergency preparedness in the State of Hawaii.

*National Guard Civilian Youth Opportunity* – accounts for revenues from and expenditures for providing youth programs.

Capital Project Funds – account for financial resources to be used for the acquisition or construction of major capital facilities. The department's major capital project funds are as follows:

*Veteran Center Cemetery* – accounts for financial resources to be used for the acquisition or construction of major capital facilities of the cemetery.

*Regional Training Center* – accounts for financial resources restricted for the construction or acquisition of the structures at the training site.

All governmental-fund types are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, that is, both measurable and available, usually when the appropriations are allotted. Expenditures are generally recognized when the related liability is incurred, except for accumulated unpaid vacation and workers compensation benefits, which are recognized as expenditures when payable with expendable available financial resources.

In applying the susceptible to accrual concept to federal grant revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Under most of the department's federal programs, moneys must be expended for a specific purpose or project; therefore, revenue is recognized to the extent that expenditures are recognized.

**Encumbrances**

Encumbrance accounting is employed in the governmental-fund types, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balances since the commitments will be honored when the goods or services are received.

**Cash**

The department's cash is held by the State Treasury and pooled with funds from other state agencies and departments. At June 30, 2003, information related to the insurance and collateral of funds deposited into the State Treasury was not available, since such information is determined on a statewide basis and not for individual departments. Cash deposits into the State Treasury are either federally insured or collateralized with obligations of the state or United States government. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

**Capital Assets**

Capital assets are not capitalized in the governmental funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the statement of net assets. Capital assets are recorded at cost on the date of acquisition, or if donated, at appraised value on the date of donation. Maintenance, repairs, minor replacements, renewals and betterments are charged to operations as incurred. Capital assets are defined as assets with an initial individual cost of $5,000 or more for equipment and $100,000 for buildings and land improvements. Depreciation is recorded on capital assets on the government-wide statement of activities. Depreciation is computed using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Buildings | 30 years |
| Land improvements | 15 years |
| Equipment | 7 years |
| Vehicles | 5 years |

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local*

*Governments*, required government entities to report and depreciate infrastructure assets, effective July 1, 2001. However, as permitted by GASB No. 34, the department has elected to defer implementing the retroactive infrastructure assets reporting requirements until fiscal year ending June 30, 2006.

**Interfund Receivables/Payables**

Reimbursements for expenditures paid by the general fund on behalf of the special revenue funds are classified as "due from other funds" and "due to other funds" on the governmental fund balance sheet.

**Due to State of Hawaii**

This account consists of reimbursements for expenditures paid by the State of Hawaii general fund on behalf of the special revenue funds.

**Accrued Vacation**

Vacation pay is accrued as earned by employees. Employees hired on or before July 1, 2001, earn vacation at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001, earn vacation at rates ranging between one and two working days for each month of service, depending upon the employees' years of service and job classification. Vacation days may be accumulated to a maximum of 90 days at the end of the calendar year and is convertible to pay upon termination of employment. The employees' accrued vacation is expected to be liquidated with future expendable resources and is therefore accrued in the statement of net assets.

**Grants and Deferred Revenue**

Grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred. Grant funds received in advance prior to the incurrence of expenditures are recorded as deferred revenue.

**Intrafund and Interfund Transactions**

Significant transfers of financial resources between activities included within the same fund are offset within that fund.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/ expenditures during the reporting period. Actual results could differ from those estimates.

### *Note 3 – Budgeting and Budgetary Control*

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the budgetary comparison statements are those estimates as compiled by the state director of finance. Budgeted expenditures for the department's general and special revenue funds are provided to the state Department of Budget and Finance for accumulation with budgeted amounts of the other state agencies and included in the governor's executive budget, which is subject to legislative approval.

A comparison of budgeted and actual (budgetary basis) revenues and expenditures of the general and major special revenue funds are presented in the budgetary comparison statement – general fund and special revenue funds. The final legally-adopted budget in the budgetary comparison statements represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line-item level by department, program, and source of funds as established in the appropriations acts. The governor is authorized to transfer appropriations between programs with the same department and source of funds; however, transfers of appropriations between departments 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 dates and any other contingencies that may terminate the authorizations for other appropriations.

Differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with generally accepted accounting principles (GAAP) are mainly due to the different method used to recognize resource uses. For budgeting purposes, revenues are recognized when cash is received and expenditures are recognized when cash disbursements are made or funds are encumbered. In the accompanying financial statements presented in accordance with generally accepted accounting principles, revenues are recognized when they become available and measurable, and expenditures are recognized as incurred.

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP:

| | General Fund | Special Revenue Funds: Air and Army National Guard | Special Revenue Funds: Disaster Assistance | Special Revenue Funds: Emergency Management Performance Grant | Special Revenue Funds: National Guard Civilian Youth Opportunity Program |
|---|---|---|---|---|---|
| Sources / Inflows of Resources: | | | | | |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement | $ 8,793,254 | $ 5,790,198 | $ 2,916,694 | $ 2,205,750 | $ 1,699,257 |
| Differences – budget to GAAP: | | | | | |
| Revenue accruals for the year not recognized for budgetary purposes, net of prior year accruals | - | 874,914 | 20,373 | 67,391 | (68,130) |
| Lapsed appropriations | (23,476) | - | - | - | - |
| Total revenues as reported on the statement of revenues, expenditures and changes in fund balance – governmental funds | $ 8,769,778 | $ 6,665,112 | $ 2,937,067 | $ 2,273,141 | $ 1,631,127 |
| Uses / Outflows of Resources: | | | | | |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement | $ 8,793,254 | $ 8,096,853 | $ 2,905,309 | $ 2,464,310 | $ 1,752,813 |
| Differences – budget to GAAP: | | | | | |
| Expenditures for prior fiscal years' encumbrances | 621,688 | 1,086,172 | - | 134,574 | 130,677 |
| Reserved for encumbrances at fiscal year-end | (712,624) | (2,400,702) | (18,446) | (395,324) | (162,262) |
| Expenditure accruals for the year not recognized for budgetary purposes, net of prior year accruals | 118,532 | (117,211) | 50,204 | 69,581 | (90,101) |
| Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances – governmental funds | $ 8,820,850 | $ 6,665,112 | $ 2,937,067 | $ 2,273,141 | $ 1,631,127 |

### Note 4 – Reconciliation of Government-wide and Fund Financial Statements

The governmental funds balance sheet includes a reconciliation between fund balance of total governmental funds and net assets of governmental activities, as reported in the statement of net assets. The reconciling items include differences in reporting of capital assets and long-term liabilities, which represent accrued vacation.

The governmental funds statement of revenues, expenditures, and changes in fund balances include a reconciliation between net change in fund balances of total governmental funds and changes in net assets reported in the statement of activities. One element of that reconciliation includes reporting of capital assets and depreciation expense, as follows:

| | |
|---|---|
| Capital outlays | $ 571,964 |
| Depreciation expense | (3,044,922) |
| | $ (2,472,958) |

### Note 5 – Capital Assets

The changes to capital assets as of June 30, 2003, are as follows:

| | Balance at July 1, 2002 | Adjustments (Note 9) | Restated Balance, July 1, 2002 | Additions | Disposals/ Transfers | Balance at June 30, 2003 |
|---|---|---|---|---|---|---|
| Depreciable Assets: | | | | | | |
| Land improvements | $ 22,722,942 | $ - | $ 22,722,942 | $ - | $ - | $ 22,722,942 |
| Buildings | 19,472,610 | 17,158,567 | 36,631,177 | 476,221 | - | 37,107,398 |
| Vehicles | 767,597 | 10,800 | 778,397 | 78,782 | (20,093) | 837,086 |
| Equipment | 9,299,571 | (2,136,485) | 7,163,086 | 352,109 | (67,538) | 7,447,657 |
| Total | 52,262,720 | 15,032,882 | 67,295,602 | 907,112 | (87,631) | 68,115,083 |
| Less Accumulated Depreciation: | | | | | | |
| Land improvements | 8,764,646 | - | 8,764,646 | 1,514,863 | - | 10,279,509 |
| Buildings | 11,343,233 | 4,799,383 | 16,142,616 | 1,077,957 | - | 17,220,573 |
| Vehicles | 724,809 | 1,240 | 726,049 | 22,444 | (20,093) | 728,400 |
| Equipment | 8,261,220 | (2,216,970) | 6,044,250 | 429,658 | (67,538) | 6,406,370 |
| Total | 29,093,908 | 2,583,653 | 31,677,561 | 3,044,922 | (87,631) | 34,634,852 |
| Subtotal | 23,168,812 | 12,449,229 | 35,618,041 | (2,137,810) | - | 33,480,231 |
| Land | 123,685 | - | 123,685 | - | - | 123,685 |
| Construction-in-progress | 1,721,158 | (442,305) | 1,278,853 | - | (335,148) | 943,705 |
| | $ 25,013,655 | $ 12,006,924 | $ 37,020,579 | $ (2,137,810) | $ (335,148) | $ 34,547,621 |

Depreciation expense for the year ended June 30, 2003, was charged to the department’s functions, as follows:

| | |
|---|---|
| Air and Army National Guard | $ 1,187,168 |
| Civil Defense | 306,886 |
| National Guard Civilian Youth Opportunity | 16,509 |
| Veteran Center Cemetery | 1,534,359 |
| | $ 3,044,922 |

### Note 6 – Accrued Vacation

The changes to accrued vacation for the year ended June 30, 2003, were as follows:

| | |
|---|---|
| Balance at July 1, 2002 | $ 1,381,947 |
| Increase | 919,049 |
| Decrease | (799,181) |
| Balance at June 30, 2003 | $ 1,501,815 |

## *Note 7 – 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. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

The ERS is composed of a contributory retirement option and a noncontributory retirement option. Prior to July 1, 1984, the ERS 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. Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date and prior to January 1, 2003, is based on the three highest paid years of service, excluding the vacation payment. Effective January 1, 2003, the AFC is the highest three calendar years or highest five calendar years plus lump sum vacation payment, or highest three school contract years, or last 36 credited months or last 60 credited months plus lump sum vacation payment. Contributions for employees of the department are paid from the State general fund.

Most covered employees of the contributory option are required to contribute 7.8 percent of their salary. The funding method used to calculate the total employer contribution requirement is the entry age normal actuarial cost method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to amortize the unfunded actuarial accrued liability over the remaining period of 29 years from July 1, 2000.

Actuarial valuations are prepared for the entire ERS and are not separately computed for each department or agency. Information on vested and nonvested benefits, and other aspects of the ERS is also not available on a departmental or agency basis.

ERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information, which may be obtained from the following address:

Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813

**Post-retirement Health Care and Life Insurance Benefits**
In addition to providing pension benefits, the State, pursuant to Chapter 87, HRS, provides certain health care and life insurance benefits to all qualified employees. For employees hired before July 1, 1996, the State pays the entire monthly health care premium for those retiring with ten or more years of credited service, and 50 percent of the monthly premium for those retiring with fewer than ten years of credited service. For employees hired after June 30, 1996, and retiring with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50 percent of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and retiring with at least 15 years but fewer than 25 years of service, the State pays 75 percent of the retired employees' monthly Medicare or non-Medicare premium; and for those retiring with over 25 years of service, the State pays the entire health care premium. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement for the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis.

## *Note 8 – Commitments and Contingencies*

**Insurance Coverage**
Insurance coverage is maintained at the State level. The State is self-insured for substantially all perils including workers' compensation. Expenditures for workers' compensation and other insurance claims are appropriated annually from the State's general fund.

The department is covered by the State's self-insured workers' compensation program for medical expenses of injured department employees. However, the department is required to pay temporary total and temporary partial disability benefits as long as the employee is on the department's payroll. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities may be re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Workers' compensation benefit claims reported as well as incurred but not reported were reviewed at year end. The estimated losses from these claims are not material.

**Accumulated Sick Leave**

Employees hired on or before July 1, 2001, earn sick leave credits at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001, earn sick leave credits at the rate of one and one-quarter or one and three-quarters working days for each month of service, depending upon the employees' years of service and job classification. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave at June 30, 2003, was approximately $3,347,000.

**Deferred Compensation Plan**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but has the duty of due care that would be required of an ordinary prudent investor.

**Construction Contracts**

At June 30, 2003, construction contract commitments approximated $4,519,000.

**Unresolved Claims for Reimbursement for Federal Disaster Funds**

The Federal Emergency Management Agency (FEMA) of the United States government requested reimbursement of $12,167,000 plus interest from the department's Civil Defense Division, for insurance proceeds received by the State from its insurer for disaster damages. In the Hurricane Iniki emergency, certain repairs were performed by the United States Army Corps of Engineers (USACE) under a direct agreement with FEMA, and funds paid directly to the USACE are considered federal financial assistance to the beneficiary State. FEMA has taken the position that the repair work was included in the State's settlement. FEMA cites section 312 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended, and has concluded that there would be a "duplicate of benefits," if the State is allowed to retain the insurance proceeds.

The insurance proceeds received by the State has been deposited and held in the accounts of the Risk Management Division of the State's Department and Accounting and General Services (DAGS). As of June 30, 2003, the State reimbursed FEMA for $7.4 million, but continues to dispute the balance. The final resolution related to the remaining balance of $4.8 million cannot be presently determined. In the event the State must make additional reimbursements to FEMA, funding for the reimbursement must come from the accounts of DAGS or such other department as may legally be appropriate, whether directly to FEMA or indirectly through the department.

### *Note 9 – Restatement*

The department was required to record capital assets and the related accumulated depreciation as part of the implementation of GASB Statement No. 34 as of June 30, 2002. The cumulative effect of applying this Statement was reported as a restatement of beginning net assets as of July 1, 2001. During FY2002-03, the department identified additional capital assets that should have been capitalized and depreciated on the implementation of GASB Statement No. 34. The June 30, 2002 financial statements, reported on by other auditors, should have reflected the adjustments identified in Note 5, as part of this implementation. However, as such adjustments were not made as of June 30, 2002, the department has restated the beginning net assets in FY2002-03 by $12,006,924.

Exhibit 3.1

Department of Defense
State of Hawaii
Statement of Net Assets
June 30, 2003

| | | |
|---|---|---|
| Assets: | | |
| Cash in State Treasury | $ | 6,816,782 |
| Due from federal government | | 757,260 |
| Capital assets, net | | 34,547,621 |
| Total assets | | 42,121,663 |
| Liabilities: | | |
| Vouchers payable | | 854,783 |
| Accrued payroll | | 354,604 |
| Due to State of Hawaii | | 47,432 |
| Due to subrecipients | | 111,313 |
| Deferred revenues | | 865,159 |
| Accrued vacation: | | |
| Due within one year | | 367,025 |
| Due in more than one year | | 1,134,790 |
| Total liabilities | | 3,735,106 |
| Net Assets: | | |
| Invested in capital assets | | 34,547,621 |
| Unrestricted | | 3,838,936 |
| Total net assets | $ | 38,386,557 |

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

Exhibit 3.2

Department of Defense
State of Hawaii
Statement of Activities
For the Year Ended June 30, 2003

| Functions/Programs | Expenses | Program Revenues – Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets |
|---|---|---|---|
| Departmental Activities: | | | |
| Administration and support services | $ 3,579,607 | $ 92,315 | $ (3,487,292) |
| Air and Army National Guard services | 9,778,218 | 6,665,112 | (3,113,106) |
| Civil defense | 6,606,048 | 5,210,208 | (1,395,840) |
| Youth challenge program | 2,494,499 | 1,631,127 | (863,372) |
| Veterans services | 2,690,318 | 3,226 | (2,687,092) |
| Total departmental activities | $ 25,148,690 | $ 13,601,988 | (11,546,702) |
| General Revenues: | | | |
| State allotted appropriations | | | 8,769,778 |
| Other | | | 5,981 |
| Total general revenues | | | 8,775,759 |
| Change in net assets | | | (2,770,943) |
| Net Assets, Beginning of Year: | | | |
| As previously reported | | | 29,150,576 |
| Restatement (Note 9) | | | 12,006,924 |
| As restated | | | 41,157,500 |
| Net Assets, End of Year | | | $ 38,386,557 |

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

Exhibit 3.3

# Department of Defense
# State of Hawaii
# Balance Sheet – Governmental Funds
# June 30, 2003

| | General Fund | Air and Army National Guard | Disaster Assistance | Emergency Management Performance Grant | National Guard Civilian Youth Opportunity | Veteran Center Cemetery | Regional Training Center | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|---|---|---|
| ASSETS: | | | | | | | | | |
| Cash in State Treasury | $ 731,729 | $ 719,935 | $ 213,664 | $ 7,959 | $ 123,242 | $ 3,120,936 | $ 1,222,450 | $ 676,867 | $ 6,816,782 |
| Receivables – | | | | | | | | | |
| Due from federal government | - | 448,573 | 51,432 | 252,127 | 5,128 | - | - | - | 757,260 |
| Due from other funds | 119,786 | - | - | - | 43,504 | - | - | - | 163,290 |
| Total assets | $ 851,515 | $ 1,168,508 | $ 265,096 | $ 260,086 | $ 171,874 | $ 3,120,936 | $ 1,222,450 | $ 676,867 | $ 7,737,332 |
| LIABILITIES AND FUND BALANCES: | | | | | | | | | |
| Liabilities – | | | | | | | | | |
| Vouchers payable | $ 286,501 | $ 323,921 | $ - | $ 177,395 | $ 61,826 | $ - | $ - | $ 5,140 | $ 854,783 |
| Accrued payroll | 229,373 | 57,631 | 4,622 | 22,809 | 40,169 | - | - | - | 354,604 |
| Due to State of Hawaii | 10,000 | 34,917 | - | - | 2,515 | - | - | - | 47,432 |
| Due to other funds | - | 163,290 | - | - | - | - | - | - | 163,290 |
| Due to subrecipients | - | - | 51,431 | 59,882 | - | - | - | - | 111,313 |
| Deferred revenues | - | 588,749 | 209,043 | - | 67,364 | 3 | - | - | 865,159 |
| Total liabilities | 525,874 | 1,168,508 | 265,096 | 260,086 | 171,874 | 3 | - | 5,140 | 2,396,581 |
| Fund balances – | | | | | | | | | |
| Reserved for encumbrances | 435,228 | 2,534,702 | - | 236,391 | 101,343 | 2,398,091 | 22,450 | 41,034 | 5,769,239 |
| Unreserved | (109,587) | (2,534,702) | - | (236,391) | (101,343) | 722,842 | 1,200,000 | 630,693 | (428,488) |
| Total fund balances | 325,641 | - | - | - | - | 3,120,933 | 1,222,450 | 671,727 | 5,340,751 |
| Total liabilities and fund balances | $ 851,515 | $ 1,168,508 | $ 265,096 | $ 260,086 | $ 171,874 | $ 3,120,936 | $ 1,222,450 | $ 676,867 | |
| Amounts reported in the statement of net assets are different because (see Note 4): | | | | | | | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | | | | | | | | 34,547,621 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | | | | | | | | | (1,501,815) |
| Net assets of governmental activities | | | | | | | | | $ 38,386,557 |

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

Exhibit 3.4

# Department of Defense
## State of Hawaii
## Statement of Revenues, Expenditures and Changes in Fund Balances
## Governmental Funds
## For the Year Ended June 30, 2003

| | General Fund | Air and Army National Guard | Disaster Assistance | Emergency Management Performance Grant | National Guard Civilian Youth Opportunity | Veteran Center Cemetery | Regional Training Center | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|---|---|---|
| REVENUES: | | | | | | | | | |
| State allotted appropriations, net of lapses | $ 8,769,778 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 8,769,778 |
| Intergovernmental revenues | - | 6,665,112 | 2,937,067 | 2,273,141 | 1,631,127 | 3,226 | - | 92,315 | 13,601,988 |
| Total revenues | 8,769,778 | 6,665,112 | 2,937,067 | 2,273,141 | 1,631,127 | 3,226 | - | 92,315 | 22,371,766 |
| EXPENDITURES: | | | | | | | | | |
| Administration and support services | 2,997,374 | - | - | - | - | - | - | 13,376 | 3,010,750 |
| Air and Army National Guard services | 2,682,124 | 6,357,915 | - | - | - | - | - | - | 9,040,039 |
| Civil defense | 1,108,875 | - | 2,937,067 | 2,253,220 | - | - | - | - | 6,299,162 |
| Youth challenge program | 853,751 | - | - | - | 1,624,239 | - | - | - | 2,477,990 |
| Veterans services | 1,152,733 | - | - | - | - | 3,226 | - | - | 1,155,959 |
| Capital outlays | 25,993 | 307,197 | - | 19,921 | 6,888 | 26,124 | 49,390 | 130,470 | 565,983 |
| Total expenditures | 8,820,850 | 6,665,112 | 2,937,067 | 2,273,141 | 1,631,127 | 29,350 | 49,390 | 143,846 | 22,549,883 |
| Net change in fund balances | (51,072) | - | - | - | - | (26,124) | (49,390) | (51,531) | (178,117) |
| Fund Balances, Beginning of Year | 376,713 | - | - | - | - | 3,147,057 | 1,271,840 | 723,258 | |
| Fund Balances, End of Year | $ 325,641 | $ - | $ - | $ - | $ - | $ 3,120,933 | $ 1,222,450 | $ 671,727 | |
| Amounts reported in the statement of activities are different because (see Note 4): | | | | | | | | | |
| Governmental funds report capital outlays as expenditures: however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period. | | | | | | | | | (2,472,958) |
| The change in accrued vacation is reported in the statement of activities and do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | | | | | | | | (119,868) |
| Change in net assets of governmental activities | | | | | | | | | $ (2,770,943) |

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

# Department of Defense
# State of Hawaii
# Budgetary Comparison Statement – General Fund
# For the Year Ended June 30, 2003

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | | |
| Revenues: | | | | |
| State allotted appropriations | $ 9,056,709 | $ 9,470,783 | $ 8,793,254 | $ (677,529) |
| Expenditures: | | | | |
| Administration and support services | 2,873,754 | 3,274,599 | 3,058,567 | 216,032 |
| Air and Army National Guard services | 2,486,522 | 2,486,522 | 2,617,168 | (130,646) |
| Civil defense | 1,514,053 | 1,514,053 | 1,137,472 | 376,581 |
| Youth challenge program | 1,043,835 | 1,043,835 | 832,239 | 211,596 |
| Veterans services | 1,138,545 | 1,151,774 | 1,147,808 | 3,966 |
| Total expenditures | 9,056,709 | 9,470,783 | 8,793,254 | 677,529 |
| Excess of revenues over expenditures | $ - | $ - | $ - | $ - |

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

Exhibit 3.6

# Department of Defense
# State of Hawaii
# Budgetary Comparison Statement – Special Revenue Funds
# For the Year Ended June 30, 2003

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts Budgetary Basis | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Air and Army National Guard: | | | | |
| Revenues – | | | | |
| Intergovernmental revenues | $ 6,396,509 | $ 9,469,938 | $ 5,790,198 | $ (3,679,740) |
| Expenditure – | | | | |
| Air and Army National Guard services | 6,396,509 | 9,469,938 | 8,096,853 | 1,373,085 |
| Excess (deficiency) of revenues over expenditures | $ - | $ - | $ (2,306,655) | $ (2,306,655) |
| Disaster Assistance: | | | | |
| Revenues – | | | | |
| Intergovernmental revenues | $ 2,643,078 | $ 2,783,578 | $ 2,916,694 | $ 133,116 |
| Expenditure – | | | | |
| Civil defense | 2,643,078 | 2,783,578 | 2,905,309 | (121,731) |
| Excess (deficiency) of revenues over expenditures | $ - | $ - | $ 11,385 | $ 11,385 |
| Emergency Management Performance Grant: | | | | |
| Revenues – | | | | |
| Intergovernmental revenues | $ 1,775,438 | $ 2,946,110 | $ 2,205,750 | $ (740,360) |
| Expenditure – | | | | |
| Civil defense | 1,775,438 | 2,946,110 | 2,464,310 | 481,800 |
| Excess (deficiency) of revenues over expenditures | $ - | $ - | $ (258,560) | $ (258,560) |
| National Guard Civilian Youth Opportunity: | | | | |
| Revenues – | | | | |
| Intergovernmental revenues | $ 1,680,000 | $ 1,810,000 | $ 1,699,257 | $ (110,743) |
| Expenditure – | | | | |
| Youth challenge program | 1,680,000 | 1,810,000 | 1,752,813 | 57,187 |
| Excess (deficiency) of revenues over expenditures | $ - | $ - | $ (53,556) | $ (53,556) |

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

# Response of the Affected Agency

## Comments on Agency Response

We transmitted a draft of this report to the Department of Defense on March 9, 2004. A copy of the transmittal letter to the department is included as Attachment 1. The response of the department is included as Attachment 2.

The department generally concurs with most of our findings and recommendations, and provides additional comments to explain its current procedures and corrective actions planned to address the internal control deficiencies identified in our report. The department also offers additional information on the findings with which it disagrees.

Regarding our finding on the department's failure to provide adequate documentation to support certain capital asset costs and the related accumulated depreciation, the department states that because the facilities were built by the federal government, it was not certain whether they should be recorded as department assets. However, we note that the facilities in question also include others acquired or built by the department with federal funds. The Department of Accounting and General Services (DAGS) confirmed that, although it does not have a written policy, DAGS has verbally instructed inquiring departments, upon the implementation of GASB Statement No. 34 in FY2001-02, to record capital assets built or acquired with federal funds, and used and managed by the State, which conforms to the GASB Implementation Guide. The department further states that it fails to see the value of adopting our recommendation to document the initial cost of the facilities, partly because some may be fully depreciated. We, however, note that many of the facilities in question were built within the past decade or so, making them recent assets.

The department disagrees with our finding on its noncompliance with a small purchase documentation requirement. The department maintains that it selected a small purchase vendor upon proper receipt of documents and feels that all efforts to execute the Procurement Code were accomplished. The department solicited price quotations from three vendors and only one vendor responded to the solicitation with a bid. While we acknowledge that the department used the State of Hawaii Record of Small Purchase form (SPO Form-10) properly to document the results of the solicitation, it still failed to document its justification for not obtaining three bids, as required by the State Procurement Office's procurement circular.

**ATTACHMENT 1**

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

March 9, 2004

***COPY***

The Honorable Major General Robert G.F. Lee
Adjutant General and Director of Civil Defense
Department of Defense
3949 Diamond Head Road
Honolulu, Hawaii 96816

Dear Major General Lee:

Enclosed for your information are three copies, numbered 6 to 8 of our confidential draft report, *Financial Audit of the Department of Defense*. We ask that you telephone us by Thursday, March 11, 2004, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Monday, March 15, 2004.

The Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this confidential 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

Marion M. Higa
State Auditor

Enclosures

LINDA LINGLE
GOVERNOR

ROBERT G. F. LEE
MAJOR GENERAL (HI)
ADJUTANT GENERAL

GARY M. ISHIKAWA
COLONEL (RET.)
DEPUTY ADJUTANT GENERAL

STATE OF HAWAII
**DEPARTMENT OF DEFENSE**
**OFFICE OF THE ADJUTANT GENERAL**
3949 DIAMOND HEAD ROAD
HONOLULU, HAWAII 96816-4495

March 15, 2004

RECEIVED
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OFC. OF THE AUDITOR
STATE OF HAWAII

Ms. Marion Higa
State Auditor
Office of the Auditor
465 South King Street, Room 500
Honolulu, HI 96813-2917

Dear Ms. Higa:

In response to your letter dated March 9, 2004, enclosed is the department's response to the findings and recommendations made in the Financial Audit of the Department of Defense conducted by the Office of the Auditor for the fiscal year ended June 30, 2003.

If you have any questions or concerns, please call me at 733-4246 or have your staff contact Mr. Thomas T. Moriyasu, Fiscal Officer, at 733-4259.

Sincerely,

ROBERT G. F. LEE
Major General, Hawaii
Army National Guard
Adjutant General

Enc.

Financial Statement Response to Findings
Of The Auditor, State of Hawaii's
Financial Audit of Department of Defense
Fiscal Year Ended June 30, 2004

**FINDING NO.1:**
**The Department Has Not Properly Accounted For Capital Assets.**

**AUDITOR'S RECOMMENDATION:**
**"The department should ensure that adequate supporting documentation is maintained for the capital assets to support the propriety of these assets. The department should also ensure that the capital assets are properly accounted for by department staff, and their work is reviewed and approved by the appropriate supervisor. Finally, the department should commit to a deadline in implementing the retroactive infrastructure asset requirements of GASB Statement No. 34."**

CONCURRANCE:
The department concurs with the recommendation once the requirements are clarified.

COMMENTS:
The department had requested for FY 02 funding one position and the supporting software to convert the department's financial records and maintain the inventory of capital assets in accordance to GASB 34. The request was not approved and the department has done its best to meet the challenge. To execute the recommendation, the department plans to issue two contracts out of current operating funds to (1) provide the documentation to support the capital asset costs and (2) to ensure infrastructure costs are identified, documented and properly recorded.

While the department concurs with the Auditor's recommendation, it should be noted that the question of ownership of the assets prevented us from recording the questioned facilities as departmental assets. The United States Property and Fiscal Officer stated that the facilities are the property of the United States government. If the State is to implement the Auditor's recommendation to record the assets, they will be double counted. The facilities in question were built by the Federal government, some dated back as far as 1958, and the State has no contract documents on them. Therefore, the department would have to hire a consultant (estimator/architect or appraiser) in order to document the initial cost of the facility, some of which may be fully depreciated. We fail to see the value of adhering to the Auditor's recommendation. The Federal government already accounts for these assets and spending funds to certify the value of fully depreciated assets has questionable economical and financial value.

Additionally, in order to implement the retroactive infrastructure asset requirements, the department will incur additional expenses. Prior to GASB 34, it was the practice to list all properties under one cost for the entire facility as long as the costs were covered by one contract. Again the department will be planning to hire a consultant to document the cost of the infrastructure costs, i.e., sidewalks, parking lots, and driveways, etc., that has value only to the department in its present mission.

The department, however, on all new properties will account for the infrastructure separately and has also has taken the following actions:

a. Trained two more employees (in addition to their present assignments) to process inventory sheets and to review the entries. In the past, only one employee was responsible to review the transmitted info against the final recorded information.
b. Established a "no extension" deadline policy with all property custodians, to submit their confirmation of inventory assigned to them. This will eliminate the rush by the Administrative Services Office staff to prepare transmittals to meet the department's deadline with Department of Accounting and General Services.
c. All construction work in progress will be closely monitored by the inventory custodian for the department's facilities to insure that improvements and additions are recorded properly.

**FINDING NO. 2:**
**The Department's Poor Management of Contracts Resulted in Noncompliance.**

**AUDITOR'S RECOMMENDATION:**
**"We recommend that the department:**

1. **Comply with the Hawaii Public Procurement Code and applicable procurement rules. Specifically, the department should ensure that:**
    a. **All required documentation are properly filed and retained in the contract files;**
    b. **The list of qualified persons for professional services is completed annually by the review committee designated by the department director;**
    c. **All bid envelopes are time-stamped, or approval is obtained from the chief procurement officer to utilize another method;**
    d. **Proper documentation is retained in the contract files with the department's justification for obtaining fewer than three bids for the selection of the small purchase vendor; and**
    e. **A minimum of three employees are represented on the screening committee for professional service procurement, and their names, qualifications and credentials arte properly documented on the evaluation forms;**
2. **Ensure contracts are properly executed prior to the commencement of the contracted work.**

3. **Provide appropriate periodic training to ensure the Engineering Office and other personnel involved in the procurement process are familiar with the procurement requirements."**

CONCURRANCE:
The department concurs with the recommendations but do not concur with some of the observations made by the Auditors.

COMMENTS:
The department has recognized there are areas in the contracting office that require improvements to prevent any perceptions of non-compliance to the Hawaii Public Procurement Code. Since March 2003 (when the contract specialist's position was vacated) the section has been developing a Standard Operating Procedures (SOP) manual for the contracting process, something that never was completely assembled and finalized. This manual will be expanded to include all the activities of the contracting office to ensure that reoccurrences of the same nature will not happen again.

Specifically, the department has completed the following:

a. Included in the SOP - what items needs to be in the contract files, and the retention requirements of all contract related documentation in accordance with the retention policies for the State.
b. A log of professional consultant applications received will be generated annually and will also be included in the SOP spelling out the controls of the lists. This log will be reviewed and monitored in the beginning of each Fiscal Year by the contract and engineering office.
c. To ensure that bids are secured and time stamped in a manner approved by HRS and State Chief Procurement Officer, the department has constructed a locked Bid Drop box to receive competitive bid submittals in which bids are time stamped and secured until bid opening. We have also obtained approval from the State Procurement Officer to use an alternate time-stamp method for oversized bid proposals (see attachment 1).

   The time spent on investigating the time-stamping method and the method of securing of bids employed by this department is excessive as the department was informed that we were the **only** department in the State that had submitted and received approval for an alternate time-stamp method as of January 13, 2004. The department never accepted proposals past the opening time specified on the project advertisement. All proposals received were locked in a specified draw until the specified bid opening at which time they were opened and read in a public forum which is the reason why the department kept only the proposal envelop for the winning bid. As recommend the department now keeps all envelopes of accepted proposals.
d. Instructed Purchasing Technicians to complete the SPO Form 10, Record of Small Purchase, in its entirety or make reference to attachments and secure the attachments by stapling, to prevent the displacement or separation of related

documents from the document stating the reason/justification why the award was made.

In testing the small purchases, the Auditor stated, "The department was not aware of a requirement to document its justification for not obtaining three bids, which may be the result of inadequate staff training on the procurement code." In making the statement, nothing is said about the other small purchases that were tested. The department routinely face situations where three bids are not received and have justified the awards. In the case of the questioned purchase, Native Plant Restoration Project and Hawaiian Student Outreach: Kekaha Firing Range, the other vendors had to have Native Hawaiian plants and seeds and the ability to reach local Hawaiian Students. The award was made upon proper receipt of documents and feel that all efforts to execute the Procurement Code were accomplished. Attached for your information are the Form SPO 10 with the quotations received and the comments from the vendors, which were used to determine if maximum effort was made to justify the award (Attachment 2).

e. To ensure a minimum of three employees are represented on the screening committee for professional services procurement, a list of names with their qualifications and credentials and their alternatives will be submitted to TAG for approval. Once the recommendation is approved, it will be part of the designated employees or individuals responsibility and scope of work to sit on the committee.

To ensure that the contracts are properly executed prior to the commencement of the contracted work the department has taken the following steps:

a. Created a Contract Request form that clearly defines approvals and acts to initiate the contract process. The receipt of approvals reduces the review time for the processing of the contract through the encumbering procedures.
b. Conducts on-site training of users of the contract and procurement process. Complete the development of a departmental training program that would improve awareness in the Engineering Office as well as the department.
c. Recording and documenting of dates that vendor received contracts for their review and signature.
d. In order to ensure that vital services such as security are continued, if necessary, get the approval of the Chief Procurement Officer to use alternative methods to award contracts for services.
e. Continue to work with the State Procurement Office to establish ways to improve our contract execution under the State procurement and contracting process.

The Department will continue to provide appropriate training throughout the divisions and offices to ensure that the fiduciary responsibilities in the procurement of goods and services are fairly and professionally performed.

**FINDING NO. 3:**
**The Department Did Not Make Changes to the Allocation of Payroll Wages on a Timely Basis.**

**RECOMMENDATION:**
**"We recommend that the department include in the instructions for the Request for Personnel Action form procedures to ensure that changes in the allocation of payroll wages among appropriation codes are processed on a timely basis. The department should also establish adequate procedures to ensure the proper monitoring of this process."**

CONCURRANCE:
The department concurs with this recommendation and is currently in compliance.

COMMENTS:
The department will review the instructions that are already in place and if necessary will make the changes that will ensure timely allocation of charges.

Initially the department charges the rate of reimbursement at the last know ratio until the Federal government confirms the actual rate officially which is after the fact. It should be stated that at no time was the receipt of future Federal funding in jeopardy. In time of a disaster, it is necessary staff gets assigned to do the work as soon as possible. The authorizing document from FEMA determining the ratio of participation with the Federal government is received after the individual has been working on the project. In the case examined by the Auditor, the effective date of the payroll was September 1, 2002 and FEMA's project worksheet was received on November 6, 2002. All project worksheets are audited prior to closeout on a regular basis and any adjustments necessary are made at that time. The department made the adjustments to the charges even prior to closeout date of the project worksheet.

The department will strive to make timely allocation of charges, however, not at the expense of not compensating individual employees who have been tasked to ameliorate a disaster situation.

**FINDING NO. 4:**
**The Department Did Not File Certain Federal Financial Status Reports on a Timely Basis.**

**RECOMMENDATION:**
**"We recommend that the department establish and enforce formal written procedures to delineate the responsibilities and deadlines for completing and submitting required reports."**

CONCURRANCE:
The department concurs with the recommendations.

COMMENTS:

The situation that contributed to the late filings has been resolved. Not only were the supervising accountant and the accountant responsible to provide the information to Civil Defense vacant but the Administrative Officer for Civil Defense had just been filled after being vacant for almost six months. Additionally, State Civil Defense was unable to access FEMA's financial information systems of ADAMS and NEMIS, which contains the information needed to prepare the reports. The new employee whose responsibility was to prepare the reports did not have access to ADAMS and NEMIS because FEMA had cancelled access to the system when the previous employee had retired (see attachment 3 dated October 15, 2003). FEMA was informed of this situation and was notified that the quarterly reports for all open disasters would be filed late. **Finally, contrary to the Auditor's statement that these late filings would jeopardize future federal funding, the department in the last twelve years has never received a written or oral warning or even a reprimand that would jeopardize current and future federal support and are always cognizant of situations that may put Federal funding in jeopardy.**

Since the transitional period of new hiring and orientation to individuals' responsibility, all reports have been filed on a timely basis. A schedule of the reports is enclosed (attachment 4) and written procedures (attachment 5) have been developed to prevent the confusion caused by employee turnover in the future.

The department fully understands the importance of Federal supporting funds, especially in these challenging times of the State's economic recovery and would not do anything that would exacerbate the situation.

**ATTACHMENT 1**

LINDA LINGLE
GOVERNOR

ROBERT G. F. LEE
MAJOR GENERAL (HI)
ADJUTANT GENERAL

GARY M. ISHIKAWA
COLONEL (RET.)
DEPUTY ADJUTANT GENERAL

STATE OF HAWAII
**DEPARTMENT OF DEFENSE**
**OFFICE OF THE ADJUTANT GENERAL**
3949 DIAMOND HEAD ROAD
HONOLULU, HAWAII 96816-4495

December 1, 2003

ADMINISTRATION
STATE PROCUREMENT OFFICE
STATE OF HAWAII
4 JAN 13 A8:32

TO: Aaron Fujioka
Administrator, State Procurement Office

FROM: Major Neal S. Mitsuyoshi
Contracting and Engineering Officer

SUBJECT: Approval of Alternative Time Stamp Method

In accordance with HAR 3-122-30 Receipt, Opening, and Recording of Bids, we are requesting to be allowed to write the date and time on bid packets that will not fit into our time stamp machine.

APPROVED/DISAPPROVED

Aaron Fujioka
Administrator
State Procurement Office

1/13/04
Date

**ATTACHMENT 2**

STATE OF HAWAII

# RECORD OF SMALL PURCHASE

Agency: Hawaii Army National Guard: Environmental P.O. No. ______

Date: 5 Mar 02 Project/Requisition/Work Order No. ______

**QUOTATIONS RECEIVED:**

Part A. Description of good/service/construction:

Kekaha Firing Range: Native Plant Restoration Project & Hawaiian Student Outreach

Part B. Quotations Solicited:

| Vendor Name | Representative | Phone No. | Date of Quote | Amount Quoted |
|---|---|---|---|---|
| 1. Pisces Pacifica | Jeff Preble | (808) 239-8044 | 4 Mar 02 | no bid |
| 2. Hui Ku Maoli Ola | Matt Schirman | (808) 259-6580 | 27 Feb 02 | no bid |
| 3. Waipa Foundation | Stacy Sproat | (808) 635-8290 | March 11, ~~Jan~~ 02 | $12,000 |
| 4. | | | | |
| 5. | | | | |

Part C. Justification for inability to obtain minimum three quotations, if applicable:

Part D. Justification for award made to other than lowest quotation (not applicable for construction above $5,000 as award shall be to lowest quotation):

[signature] 6 Mar 02

Signature: Employee soliciting quotations

[signature]

Signature: Procurement Officer/Designee approval

Date: ______

Date: APR 12 2002

**FILE A COPY AS SUPPORTING DOCUMENTATION IN THE PROCUREMENT FILE.**

SPO Form-10 (Rev. 11/97)

**REQUEST FOR QUOTATION: Native Hawaiian plants and seeds.**

Fax one (1) copy to the following address ***via fax or mail:***

Environmental Office, Bldg. 306, Room 118
3949 Diamond Head Road, Honolulu, HI 96816-4495
ATTN: Ms. Melissa Dumaran,
Phone #: (808) 733-4267, Fax #: (808) 737-3575

**Description of Non-Personal Service:** Contractor shall furnish all labor, supplies, equipment, and materials necessary to provide the service listed below. A detailed scope of work enclosed.

| Item No. | Description of Services applicable to the following: | Price |
|---|---|---|
| 0001 | **NATIVE PLANT RESTORATION PROJECT AND HAWAIIAN STUDENT OUTREACH: KEKAHA FIRING RANGE**<br>*Scope of Work (see attached)* | |
| | **Total** | $12,000.00 |
| | Deliverables:<br>*Scope of Work (see attached)* | |

***Contractor's quotation shall include all applicable direct, indirect costs and taxes.**

**COMPANY NAME & ADDRESS: Waipa Foundation**
**PHONE NO. (808) 826-9969**
**FAX NO. (808) 826-1478**
**NAME OF PERSON SUBMITTING QUOTE:** Stacy M. Sproat, Executive Director
**NAME (PRINT):** Stacy M. Sproat
**SIGNATURE:** [signature]

**REQUEST FOR QUOTATION: Native Hawaiian plants and seeds.**

Fax one (1) copy to the following address *via fax or mail:*

Environmental Office, Bldg. 306, Room 118
3949 Diamond Head Road, Honolulu, HI 96816-4495
ATTN: Ms. Melissa Dumaran,
Phone #: (808) 733-4267, Fax #: (808) 737-3575

**Description of Non-Personal Service:** Contractor shall furnish all labor, supplies, equipment, and materials necessary to provide the service listed below. A detailed scope of work enclosed.

| Item No. | Description of Services applicable to the following: | Price |
|---|---|---|
| 0001 | **NATIVE PLANT RESTORATION PROJECT AND HAWAIIAN STUDENT OUTREACH: KEKAHA FIRING RANGE**<br>***Scope of Work (see attached)***<br><br>PISCES PACIFICA<br>P.O. Box 1593<br>Kaneohe, HI 96744<br>Ph. (808) 239-8044<br><br>Melissa —<br>I think we are on the wrong island for this, and won't be able to bid on it. | |
| | **Total** | $ |
| | Deliverables:<br>*Scope of Work (see attached)* | |

***Contractor's quotation shall include all applicable direct, indirect costs and taxes.**

**COMPANY NAME & ADDRESS:** **Pisces Pacifica Native Plant Nursery**
**PHONE NO. (808) 239-8044**
**FAX NO. (808) 239-5014**
**NAME OF PERSON SUBMITTING QUOTE:**
**NAME (PRINT):** Jeff Preble
**SIGNATURE:** [signature]

348-3029
3032

**REQUEST FOR QUOTATION:** **Native Hawaiian plants and seeds.**

Fax one (1) copy to the following address ***via fax or mail:***

Environmental Office, Bldg. 306, Room 118
3949 Diamond Head Road, Honolulu, HI 96816-4495
ATTN: Ms. Melissa Dumaran,
Phone #: (808) 733-4267, Fax #: (808) 737-3575

**Description of Non-Personal Service:** Contractor shall furnish all labor, supplies, equipment, and materials necessary to provide the service listed below. A detailed scope of work enclosed.

| Item No. | Description of Services applicable to the following: | Price |
|---|---|---|
| 0001 | **NATIVE PLANT RESTORATION PROJECT AND HAWAIIAN STUDENT OUTREACH: KEKAHA FIRING RANGE**<br>***Scope of Work (see attached)***<br><br>* We are unable to fulfill the scope of work<br>-Mahalo | |
| | | **Total** $ |
| | Deliverables:<br>*Scope of Work (see attached)* | |

***Contractor's quotation shall include all applicable direct, indirect costs and taxes.**

**COMPANY NAME & ADDRESS: Hui Ku Maoli Ola Native Plant Nursery & Restoration**
**PHONE NO. (808) 259-6580**
**FAX NO. (808) 259-9110**
**NAME OF PERSON SUBMITTING QUOTE:** ~~Matt Schirm~~
**NAME (PRINT):** Matt Schirman
**SIGNATURE:** Matt

LINDA LINGLE
GOVERNOR

MAJOR GENERAL ROBERT G. F. LEE
DIRECTOR OF CIVIL DEFENSE

EDWARD T. TEIXEIRA
VICE DIRECTOR OF CIVIL DEFENSE

**ATTACHMENT 3**

PHONE (808) 733-4300
FAX (808) 733-4287

STATE OF HAWAII
DEPARTMENT OF DEFENSE
OFFICE OF THE DIRECTOR OF CIVIL DEFENSE
3949 DIAMOND HEAD ROAD
HONOLULU, HAWAII 96816-4495

October 15, 2003

TO: Mr. Dean Ueda
Pricewaterhouse Coopers

THRU: Mr. Tom Moriyasu
Fiscal Officer

FROM: Edward T. Teixeira
Vice Director of Civil Defense

SUBJECT: SUBMISSION OF STANDARD FORMS 269A QUARTERLY REPORT (October – December 2002)

The quarterly reports (FEMA Standard Form 269A) for the period October to December 2002 was due on January 31, 2003. However, the reports were submitted to FEMA on February 7, 2003. The following factors contributed to the late submission of the quarterly reports to FEMA and these primarily stem from personnel turbulence within SCD:

1.) Since there were no allocated funds from FEMA to support the disaster closeouts responsibilities for DR-864 (Kilauea Lava Flow); DR-961 (Hurricane Iniki); and DR-1147 (1996 Oahu Flood), these responsibilities were assigned to a planner, Mr. Edwin Chung-Hoon, from October 7, 1999 to April 15, 2002. From April 16, 2002 to December 30, 2002, Mr. Chung-Hoon performed the task of disaster closeout activities as an additional duty. He was reassigned to a new position (Anti-Terrorism Planner) on April 16, 2002.
2.) Ms. Tammy Makizuru-Higa was hired as the Disaster Assistance Planner on December 31, 2002 and was subsequently assigned the responsibility to administer closeout operations and reporting for all open disasters: DR-864, 961, 1147 and 1348 (Hawaii Floods November 2000).

3.) Mr. Chung-Hoon assisted Tammy with the completion of the reports during the during this critical transition period. However, in preparing the quarterly reports for the period October-December 2002, Mr. Chung-Hoon was not able to access the FEMA financial information systems of ADAMS and NEMIS. We were unaware that FEMA had cancelled Mr. Chung-Hoon's access to ADAMS and to NEMIS. This delayed our reconciliation efforts.
4.) The re-instatement of Mr. Chung-Hoon to access ADAMS and NEMIS occurred after January 17, 2003. This delay was the primary cause that contributed to late reconciliation and filing of the quarterly reports.
5.) FEMA was notified that the submission of our quarterly reports for all open disasters would be late. Copies of the email correspondence with FEMA are enclosed.

Please contact Debbie Harada at 733-4300 x510 if you have any questions or need additional information.

Encs.

State of Hawaii Department of Defense
Civil Defense
Quarterly Financial Status Reports

**ATTACHMENT 4**

| Grant Number | Quarter Ended December 31, 2002 | | Quarter Ended March 31,2003 | | Quarter Ended June 30, 2003 | | Quarter Ended September 30, 2003 | | Quarter Ended December 31, 2003 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Due Date | Transmittal Date | Due Date | Transmittal Date | Due Date | Transmittal Date | Due Date | Transmittal Date | Due Date | Transmittal Date |
| FEMA Grants | | | | | | | | | | |
| EMF-2002-GR-0205 | January 30, 2003 | January 29, 2003 | April 30, 2003 | April 28, 2003 | July 31, 2003 | July 22, 2003 (final) | --- | --- | --- | --- |
| EMF-2002-GR-0216 | January 30, 2003 | January 29, 2003 | April 30, 2003 | April 28, 2003 | July 31, 2003 | July 22, 2003 (final) | --- | --- | --- | --- |
| EMF-2002-GR-0220 | January 30, 2003 | January 29, 2003 | April 30, 2003 | April 28, 2003 | July 31, 2003 | July 22, 2003 | October 30, 2003 | October 22, 2003 | January 30, 2004 | January 26, 2004 |
| EMF-2001-GR-0104 | January 30, 2003 | January 29, 2003 (final) | --- | --- | --- | --- | --- | --- | --- | --- |
| EMF-2003-GR-0304 | N/A | N/A | April 30, 2003 | April 28, 2003 | July 31, 2003 | July 22, 2003 | October 30, 2003 | October 22, 2003 | January 30, 2004 | January 26, 2004 |
| EMF-2003-GR-0351 | N/A | N/A | N/A | N/A | July 31, 2003 | July 22, 2003 | October 30, 2003 | October 22, 2003 | January 30, 2004 | January 26, 2004 |
| EMF-2003-GR-0332 | N/A | N/A | N/A | N/A | N/A | N/A | October 30, 2003 | October 22, 2003 | January 30, 2004 | January 26, 2004 |
| EMF-2003-GR-0388 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | January 30, 2004 | January 26, 2004 |
| EMF-2003-GR-0319 | N/A | N/A | April 30, 2003 | April 25, 2003 | July 31, 2003 | July 24, 2003 | October 30, 2003 | October 23, 2003 | January 30, 2004 | January 27, 2004 |
| EMF-2003-GR-0320 | N/A | N/A | April 30, 2003 | April 25, 2003 | July 31, 2003 | July 24, 2003 | October 30, 2003 | October 23, 2003 | January 30, 2004 | January 27, 2004 |
| EMF-2003-GR-0321 | N/A | N/A | April 30, 2003 | April 25, 2003 | July 31, 2003 | July 24, 2003 | October 30, 2003 | October 23, 2003 | January 30, 2004 | January 27, 2004 |
| EMF-2003-GR-0383 | N/A | N/A | N/A | N/A | July 31, 2003 | July 24, 2003 | October 30, 2003 | October 23, 2003 | January 30, 2004 | January 27, 2004 |
| EMF-2003-GR-0344 | N/A | N/A | N/A | N/A | N/A | N/A | October 30, 2003 | October 23, 2003 | January 30, 2004 | January 27, 2004 |
| EMF-2003-GR-0363 | N/A | N/A | N/A | N/A | N/A | N/A | October 30, 2003 | October 23, 2003 | January 30, 2004 | January 27, 2004 |
| FEMA-864-DR-HI | January 30, 2003 | February 7, 2004 | April 30,2003 | April 30, 2003 | July 31, 2003 | July 25, 2003 | October 30, 2003 | October 23, 2003 | January 30, 2004 | January 22, 2004 |
| FEMA-0961-DR-HI | January 30, 2003 | February 7, 2004 | April 30,2003 | April 30, 2003 | July 31, 2003 | July 25, 2003 | October 30, 2003 | October 23, 2003 | January 30, 2004 | January 22, 2004 |
| FEMA-1147-DR-HI | January 30, 2003 | February 7, 2004 | April 30,2003 | April 30, 2003 | July 31, 2003 | July 25, 2003 | October 30, 2003 | October 23, 2003 | January 30, 2004 | January 22, 2004 |
| FEMA-1348-DR-HI | January 30, 2003 | February 7, 2004 | April 30,2003 | April 30, 2003 | July 31, 2003 | July 25, 2003 | October 30, 2003 | October 23, 2003 | January 30, 2004 | January 22, 2004 |
| FEMA-2293-FSA | January 30, 2003 | February 7, 2004 | April 30,2003 | April 30, 2003 | July 31, 2003 | July 25, 2003 | October 30, 2003 | October 23, 2003 | January 30, 2004 | January 22, 2004 |
| OJP / ODP Grants | | | | | | | | | | |
| 2000-TE-CX-0169 | February 14, 2003 | January 7, 2003 | May 15, 2003 | April 25, 2003 | August 14, 2003 | July 21, 2003 | November 14, 2003 | October 23, 2003 | February 14, 2004 | January 27, 2004 |
| 2002-TE-CX-0037 | February 14, 2003 | January 7, 2003 | May 15, 2003 | April 25, 2003 | August 14, 2003 | July 21, 2003 | November 14, 2003 | October 23, 2003 | February 14, 2004 | January 27, 2004 |
| 2002-TE-CX-0140 | February 14, 2003 | January 7, 2003 | May 15, 2003 | April 25, 2003 | August 14, 2003 | July 21, 2003 | November 14, 2003 | October 23, 2003 | February 14, 2004 | January 27, 2004 |
| 2003-TE-TX-0192 | N/A | N/A | N/A | N/A | August 14, 2003 | July 21, 2003 | November 14, 2003 | October 23, 2003 | February 14, 2004 | January 27, 2004 |
| 2003-MU-T3-0043 | N/A | N/A | N/A | N/A | August 14, 2003 | July 21, 2003 | November 14, 2003 | October 23, 2003 | February 14, 2004 | January 27, 2004 |
| 2003-EU-T3-0020 | N/A | N/A | N/A | N/A | N/A | N/A | November 14, 2003 | October 23, 2003 | February 14, 2004 | January 27, 2004 |

State of Hawaii Department of Defense
Civil Defense

Procedures for preparing Quarterly Financial Status Reports

1. Two types of Financial Status Reports must be filed quarterly:

   - Standard Form 269A is filed for the following:
     - Disaster grants
     - Office of Justice Program (OJP) grants
     - Office of Domestic Preparedness (ODP) grants

   - Standard Form 20-10 is filed for the following:
     - Federal Emergency Management Agency (FEMA) grants

2. Financial Status Reports are due 30 days after the end of each quarter. The final report is due within 90 days after the close of the quarter. Reports for OJP and ODP grants are due 45 days after the end of the quarter.

3. Financial Status Reports are prepared for each of the grants using information from the grant award documents, FoxPro reports and payroll spreadsheets.

4. Financial Status Reports and the supporting documentation are submitted to the Administrative Officer by the 15th day of the month following the end of the quarter for review.

5. The Administrative Officer reviews the reports, any needed changes or corrections are made to the reports, and the reports are then submitted to the Vice Director for signature.

6. A cover letter is prepared and attached to the Financial Status Reports, which are then mailed to the appropriate Federal agency by the due dates indicated above.