

**Department of the Attorney General
State of Hawaii**

**Financial Statements
with Accompanying Information
for the Year Ended June 30, 2010**

and

Independent Auditor's Report

**Submitted by
The Auditor
State of Hawaii**

Akamine, Oyadomari & Kosaki
Certified Public Accountants, Inc

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTS, INC.

March 23, 2011

The Auditor
State of Hawaii

This is our report on the audit of the financial statements of the Department of the Attorney General, State of Hawaii, for the year ended June 30, 2010. Our audit was performed in accordance with the terms of our contract with the Office of the Auditor, State of Hawaii, and with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the OMB Circular A-133 *Compliance Supplement*.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Department of the Attorney General, State of Hawaii's, financial statements for the year ended June 30, 2010, and to comply with the requirements of OMB Circular A-133, which established audit requirements for states, local governments and non-profit organizations that receive Federal awards.

More specifically, the objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the Department of the Attorney General, State of Hawaii's, financial statements.
2. To determine whether expenditures have been made and all revenues and other receipts to which the Department of the Attorney General, State of Hawaii, is entitled have been collected and accounted for in accordance with the laws, rules, and regulations, and policies and procedures of the State of Hawaii and where applicable, the Federal government.
3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the Department of the Attorney General with the proper information to plan, evaluate, control and correct program activities.
4. To determine whether the Department of the Attorney General's internal controls are adequate in assuring that there is effective control over and proper accounting of revenues, expenditures, assets, and liabilities.
5. To ascertain and report on, if applicable, whether the Department of the Attorney General has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable federal laws and regulations.

6. To ascertain and report on whether the Department of the Attorney General has complied with the laws, regulations, contracts, and grants that may have a material effect on the financial statements and on each major federal financial assistance program.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America, as prescribed by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States, as they pertain to financial audits. The scope of our audit included a general audit of the financial transactions and accounting records of the Department of the Attorney General, State of Hawaii, for the year ended June 30, 2010. In addition, as part of our determination as to whether the Department of the Attorney General, State of Hawaii, has effective controls over and proper accounting of revenues, receipts, expenditures, disbursements, assets and liabilities we considered the internal control over financial reporting. We also performed tests to determine the Department of the Attorney General, State of Hawaii's, compliance with the fiscal provisions of its grant agreements and applicable laws, regulations and Federal circulars.

ORGANIZATION OF THE REPORT

This report is presented in four parts as follows:

- Part I - Financial section
- Part II - Compliance and internal control
- Part III - Findings and questioned costs
- Part IV - Response of the Department of the Attorney General, State of Hawaii.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended to us by the staff of the Department of the Attorney General, State of Hawaii.

Sincerely,

Abanene Oyedunni + Koralie CPAs, Inc.

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PART I
FINANCIAL SECTION

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTS, INC.

Independent Auditor's Report

The Auditor
Office of the Auditor
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities and each fund of the Department of the Attorney General of the State of Hawaii (AG), as of and for the year ended June 30, 2010, which collectively comprise the AG's basic financial statements, as listed in the foregoing table of contents. These financial statements are the responsibility of the AG's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 the 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 to the basic financial statements, the financial statements of the AG are intended to present the financial position, changes in financial position, and budgetary comparisons of only that portion of the governmental activities and each fund of the State of Hawaii that is attributable to the transactions of the AG. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2010, and the changes in its financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of the AG as of June 30, 2010, and the respective changes in financial position of those activities and funds and the respective budgetary comparisons for the general fund and the special funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 15 to the financial statements that were applied to restate the June 30, 2009 financial statements. In our opinion, such adjustments were appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2011 on our consideration of the AG's internal control over financial reporting and on our tests of its

compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal controls over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 4 through 7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the AG's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of Federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

Alamene Oyadomai + Koral CPA's, Inc.

Honolulu, Hawaii
March 23, 2011

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
Management's Discussion and Analysis
June 30, 2010

The Department of the Attorney General (the AG), State of Hawaii (the State), was created in 1959 by the Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959). The primary function of the AG is to provide legal and other services to the State, including agencies, officers, and employees of the Executive, Legislative, and Judicial branches of the State's government.

As management of the AG, we offer readers of these basic financial statements this narrative overview and analysis of the financial activities of the AG for the year ended June 30, 2010. This discussion and analysis is designed to assist the reader in the analysis of the AG's financial statements based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

Financial Highlights

Departmental Financial Statement Highlights

The assets of the AG exceeded its liabilities at June 30, 2010 by \$19,142,683 (net assets). Of this amount, \$4,675,044 was invested in capital assets, \$22,013,365 was restricted for specified purposes and there was a deficit of \$7,545,726 in unrestricted net assets. Restricted net assets of the AG increased by \$9,389,318 or 74.4% versus the prior fiscal year due to increases in Federal grants under the American Recovery and Reinvestment Act. The deficit in unrestricted net assets is due to vacation liability which have not yet been funded by the Legislature as of June 30, 2010 and certain 2010 salary and wage liabilities which are funded by the fiscal 2011 budget.

Program revenues increased by \$9,567,968 or 29.6% in fiscal 2010 due primarily to increases in federal funds and contributions for drug control and crime prevention. Total expenses increased by \$306,737 or 0.4% in fiscal 2010 due to increases in general and administrative and legal services offset by decreases in Federal grant criminal history and State identification expenses. As a result, the change in net assets increased by \$7,549,623 versus the prior fiscal year.

Fund Financial Statement Highlights

At June 30, 2010, the AG's governmental funds reported combined ending fund balances of \$20,689,787, an increase of \$7,619,795 or 58.3% from the prior fiscal year. The increase was principally in special funds that are legally restricted for specified purposes.

Expenditures (actual on a budgetary basis) for the department were \$18.3 million or 20% below budget (appropriated) due to delays in spending of various federal funds, including American Recovery and Reinvestment Act of 2009 funds, the inability to fill positions due to a hiring freeze, restrictions placed on spending and reduced revenues in certain general and special funds attributable to poor economic conditions.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the AG's basic financial statements. The AG's basic financial statements consist of three components: (1) departmental financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Departmental Financial Statements

The departmental financial statements are designed to provide readers with a broad overview of the AG's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the AG's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the AG is improving or deteriorating.

The statement of activities presents information showing how the AG's net assets changed during the most recent fiscal year. Functional activities are highlighted in this statement, with functional expenses shown net of related program revenue. This statement shows the extent to which the various functions depend on state appropriations for support.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The AG uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the AG can be divided into two categories: (1) governmental funds; and (2) agency funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the departmental financial statements. However, unlike the departmental financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the AG's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the departmental financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the departmental financial statements. By doing so, readers may better understand the long-term impact of the AG's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities in the departmental financial statements.

The AG maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Child Support Enforcement,

Legal Services, Crime Prevention and Justice Administration, and Criminal Justice Data Center Funds. The AG adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and special revenue funds to demonstrate compliance with this budget. The budgetary comparison statement is located in the basic financial statements and additional budgetary information on differences is presented in the notes to the basic financial statements.

Agency Funds (Fiduciary Funds)

Agency funds are used to account for resources held for the benefit of parties outside the AG. Agency funds presented separately are not reflected in the governmental fund financial statements because the funds are not available to support the AG’s own programs.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the departmental and fund financial statements.

Financial Information

The AG’s condensed financial information for the fiscal years 2010 and 2009 include:

Statement of Net Assets	<u>2010</u>	<u>2009</u>
Current assets	\$ 28,755,267	\$ 18,851,289
Capital assets, net of accumulated depreciation	<u>4,675,044</u>	<u>4,591,623</u>
Total assets	<u>33,430,311</u>	<u>23,442,912</u>
Current liabilities	11,005,480	7,834,775
Noncurrent liabilities	<u>3,282,148</u>	<u>4,015,077</u>
Total liabilities	<u>14,287,628</u>	<u>11,849,852</u>

	<u>2010</u>	<u>2009</u>
Net assets:		
Invested in capital assets	4,675,044	4,591,623
Restricted for various purposes	22,013,365	12,624,047
Unrestricted	<u>(7,545,726)</u>	<u>(5,622,610)</u>
Total net assets	<u>19,142,683</u>	<u>11,593,060</u>
Total liabilities and net assets	<u>\$ 33,430,311</u>	<u>\$ 23,442,912</u>
 Changes in Net Assets		
Program revenues:		
Charges for services	\$ 2,562,979	\$ 2,554,653
Operating grants and contributions	39,306,355	29,746,713
General revenues	<u>37,371,907</u>	<u>37,968,441</u>
Total revenues	<u>79,241,241</u>	<u>70,269,807</u>
Expenses:		
General administrative and legal services	43,864,603	41,331,383
Child support enforcement	18,004,187	18,502,265
Drug control and crime prevention	5,920,481	5,513,664
Criminal history and State identification	<u>4,424,475</u>	<u>6,559,697</u>
Total expenses	<u>72,213,746</u>	<u>71,907,009</u>
Other financing sources	<u>522,128</u>	<u>-</u>
Changes in net assets	7,549,623	(1,637,202)
Net assets - beginning of year	<u>11,593,060</u>	<u>13,230,262</u>
Net assets - end of year	<u>\$ 19,142,683</u>	<u>\$ 11,593,060</u>

Current assets increased by \$9,903,978 principally due to an increase in cash resulting from increased federal grants and amounts due from the State to fund legislative relief claims. Current liabilities increased by \$3,170,705 due to increased liabilities for legislative relief claims.

At June 30, 2010 and 2009, the AG's investment in capital assets amounted to \$4,675,044 and \$4,591,623, respectively, net of accumulated depreciation, representing an increase of \$83,421 or 1.8%. Capital assets include buildings, improvements, furniture and equipment.

Request for Information

Questions concerning any of the information provided in this report or request for additional financial information should be addressed in writing to the Department of the Attorney General, State of Hawaii, 425 Queen Street, Honolulu, Hawaii 96813 or by email at hawaiiag@hawaii.gov. General information about the AG can be found on the State's website, <http://www.hawaii.gov/ag>.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII

Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>	<u>Total</u>
<u>ASSETS:</u>		
Current assets:		
Cash (Note 3)	\$ 24,510,538	\$ 24,510,538
Due from State of Hawaii	2,148,621	2,148,621
Due from grantor	1,421,251	1,421,251
Due from other State agencies	<u>674,857</u>	<u>674,857</u>
 Total current assets	 <u>28,755,267</u>	 <u>28,755,267</u>
Noncurrent assets:		
Capital assets - net of accumulated depreciation (Note 4)	<u>4,675,044</u>	<u>4,675,044</u>
 Total noncurrent assets	 <u>4,675,044</u>	 <u>4,675,044</u>
 Total assets	 <u><u>\$ 33,430,311</u></u>	 <u><u>\$ 33,430,311</u></u>

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

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Statement of Net Assets (continued)
June 30, 2010

	Governmental Activities	Total
<u>LIABILITIES:</u>		
Current liabilities:		
Vouchers and contracts payable	\$ 1,334,766	\$ 1,334,766
Accrued wages and employee benefits payable	2,386,568	2,386,568
Due to subgrantees	314,335	314,335
Legislative relief payable	4,029,811	4,029,811
Accrued vacation (Note 5)	2,940,000	2,940,000
Total current liabilities	11,005,480	11,005,480
Long-term liabilities:		
Accrued vacation (Note 5)	3,282,148	3,282,148
Total long-term liabilities	3,282,148	3,282,148
Total liabilities	14,287,628	14,287,628
Commitments and Contingencies (Notes 8, 9, 10, 11, and 14)		
<u>NET ASSETS (Note 15):</u>		
Invested in capital assets	4,675,044	4,675,044
Restricted for various purposes	22,013,365	22,013,365
Unrestricted	(7,545,726)	(7,545,726)
Total net assets	19,142,683	19,142,683
Total liabilities and net assets	\$ 33,430,311	\$ 33,430,311

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

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Statement of Activities
for the year ended June 30, 2010

	Expenses	Charges for Services	Operating Grants and Contributions	Net Revenue (Expense) and Changes in Net Assets
<u>FUNCTIONS/PROGRAMS:</u>				
Governmental activities:				
General administrative and legal services	\$ 43,864,603	\$ 573,081	\$ 11,521,859	\$ (31,769,663)
Child support enforcement	18,004,187	-	15,317,058	(2,687,129)
Crime prevention and justice assistance	5,920,481	-	12,176,589	6,256,108
Criminal history and State identification	4,424,475	1,989,898	290,849	(2,143,728)
Total governmental activities	\$ 72,213,746	\$ 2,562,979	\$ 39,306,355	(30,344,412)
General revenues - State appropriations, net of lapsed appropriations of \$1,945,680				37,371,907
Total general revenues before other financing sources				37,371,907
Other financing sources				522,128
Total general revenues and other financing sources				37,894,035
Change in net assets				7,549,623
Net assets - beginning of year, as previously reported				11,635,621
Adjustments (Note 15)				(42,561)
Net assets - beginning of year, as restated				11,593,060
Net assets - end of year				\$ 19,142,683

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

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Balance Sheet
Governmental Funds
June 30, 2010

	<u>General Fund</u>	<u>Child Support Enforcement</u>	<u>Legal Services</u>	<u>Crime Prevention and Justice Assistance</u>	<u>Criminal Justice Data Center</u>	<u>Total</u>
ASSETS:						
Cash (Note 3)	\$ 396,745	\$ 6,182,210	\$ 8,729,105	\$ 7,492,735	\$ 1,709,743	\$ 24,510,538
Due from grantor	-	1,039,200	50,539	208,361	123,151	1,421,251
Due from State of Hawaii	4,029,811	-	-	-	-	4,029,811
Due from other State agencies	-	-	674,857	-	-	674,857
Due from other funds	-	5,813	-	3,053	-	8,866
Total assets	\$ 4,426,556	\$ 7,227,223	\$ 9,454,501	\$ 7,704,149	\$ 1,832,894	\$ 30,645,323

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Balance Sheet

Governmental Funds (continued)

June 30, 2010

	General Fund	Child Support Enforcement	Legal Services	Crime Prevention and Justice Assistance	Criminal Justice Data Center	Total
<u>LIABILITIES AND FUND BALANCES:</u>						
Liabilities:						
Vouchers and contracts payable	\$ 294,352	\$ 671,091	\$ 36,076	\$ 48,840	\$ 284,407	\$ 1,334,766
Accrued wages and employee benefits payable	1,080,423	576,215	651,933	37,063	40,934	2,386,568
Due to State of Hawaii	25,400	-	1,855,790	-	-	1,881,190
Due to subgrantees	314,335	-	-	-	-	314,335
Legislative relief payable	4,029,811	-	-	-	-	4,029,811
Due to other funds	5,813	-	3,053	-	-	8,866
Total liabilities	<u>5,750,134</u>	<u>1,247,306</u>	<u>2,546,852</u>	<u>85,903</u>	<u>325,341</u>	<u>9,955,536</u>
Fund balances (Note 15):						
Reserved for encumbrances	348,882	1,648,345	691,531	140,345	478,026	3,307,129
Unreserved, reported in						
General fund	(1,672,460)	-	-	-	-	(1,672,460)
Special funds	-	4,331,572	6,216,118	7,477,901	1,029,527	19,055,118
Total fund balances	<u>(1,323,578)</u>	<u>5,979,917</u>	<u>6,907,649</u>	<u>7,618,246</u>	<u>1,507,553</u>	<u>20,689,787</u>
Total liabilities and fund balances	<u>\$ 4,426,556</u>	<u>\$ 7,227,223</u>	<u>\$ 9,454,501</u>	<u>\$ 7,704,149</u>	<u>\$ 1,832,894</u>	<u>\$ 30,645,323</u>

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the year ended June 30, 2010

	General Fund	Child Support Enforcement	Legal Services	Crime Prevention and Justice Assistance	Criminal Justice Data Center	Total
Revenues:						
State allotted appropriations	\$ 39,317,587	-	-	-	-	\$ 39,317,587
Fees and other	-	73,745	2,076,548	(31,006)	2,148,558	4,267,845
Intergovernmental	-	-	1,653,109	12,207,595	132,189	13,992,893
Special fund revenues	-	10,738,297	8,015,283	-	-	18,753,580
Share of TANF collections	-	4,505,016	-	-	-	4,505,016
Litigation settlements	-	-	350,000	-	-	350,000
Total revenues	<u>39,317,587</u>	<u>15,317,058</u>	<u>12,094,940</u>	<u>12,176,589</u>	<u>2,280,747</u>	<u>81,186,921</u>
Expenditures:						
General administrative and legal services	32,615,722	-	10,631,988	-	-	43,247,710
Child support enforcement	4,784,569	13,744,069	-	-	-	18,528,638
Crime prevention and justice assistance	-	-	-	5,622,559	-	5,622,559
Criminal history and State identification	1,741,139	-	-	-	3,003,528	4,744,667
Total expenditures	<u>39,141,430</u>	<u>13,744,069</u>	<u>10,631,988</u>	<u>5,622,559</u>	<u>3,003,528</u>	<u>72,143,574</u>
Excess (deficiency) of revenues over (under) expenditures	<u>176,157</u>	<u>1,572,989</u>	<u>1,462,952</u>	<u>6,554,030</u>	<u>(722,781)</u>	<u>9,043,347</u>
Other financing sources (uses)						
Lapsed appropriations	(1,945,680)	-	-	-	-	(1,945,680)
Other	-	-	49,000	(247,981)	721,109	522,128
Total other financing sources (uses)	<u>(1,945,680)</u>	<u>-</u>	<u>49,000</u>	<u>(247,981)</u>	<u>721,109</u>	<u>(1,423,552)</u>
Net change in fund balances	<u>(1,769,523)</u>	<u>1,572,989</u>	<u>1,511,952</u>	<u>6,306,049</u>	<u>(1,672)</u>	<u>7,619,795</u>
Fund balances - beginning of year, as previously reported	<u>324,048</u>	<u>3,917,311</u>	<u>5,278,972</u>	<u>840,151</u>	<u>1,343,335</u>	<u>11,703,817</u>
Adjustments (Note 15)	121,897	489,617	116,725	472,046	165,890	1,366,175
Fund balances - beginning of year, as restated	<u>445,945</u>	<u>4,406,928</u>	<u>5,395,697</u>	<u>1,312,197</u>	<u>1,509,225</u>	<u>13,069,992</u>
Fund balances - end of year	<u>\$ (1,323,578)</u>	<u>\$ 5,979,917</u>	<u>\$ 6,907,649</u>	<u>\$ 7,618,246</u>	<u>\$ 1,507,553</u>	<u>\$ 20,689,787</u>

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2010

	<u>Total Governmental Funds</u>	<u>Long Term Assets, Liabilities</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Net Assets</u>
<u>ASSETS:</u>				
Current assets:				
Cash	\$ 24,510,538	\$ -	\$ -	\$ 24,510,538
Due from State of Hawaii	4,029,811	-	(1,881,190) (3)	2,148,621
Due from grantor	1,421,251	-	-	1,421,251
Due from other State agencies	674,857	-	-	674,857
Due from other funds	8,866	-	(8,866) (3)	-
	<u>30,645,323</u>	<u>-</u>	<u>(1,890,056)</u>	<u>28,755,267</u>
Total current assets				
Noncurrent assets:				
Capital assets - net of accumulated depreciation	-	4,675,044 (1)	-	4,675,044
	<u>-</u>	<u>4,675,044</u>	<u>-</u>	<u>4,675,044</u>
Total noncurrent assets				
	<u>\$ 30,645,323</u>	<u>\$ 4,675,044</u>	<u>\$ (1,890,056)</u>	<u>\$ 33,430,311</u>
Total assets				

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

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2010

	<u>Total Governmental Funds</u>	<u>Long Term Assets, Liabilities</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Net Assets</u>
<u>LIABILITIES:</u>				
Current liabilities:				
Accrued vacation	\$ -	\$ 2,940,000	(2) \$ -	\$ 2,940,000
Vouchers and contracts payable	1,334,766	-	-	1,334,766
Accrued wages and employee benefits payable	2,386,568	-	-	2,386,568
Due to State of Hawaii	1,881,190	-	(1,881,190) (3)	-
Due to subgrantees	314,335	-	-	314,335
Legislative relief payable	4,029,811	-	-	4,029,811
Due to other funds	8,866	-	(8,866) (3)	-
Total current liabilities	9,955,536	2,940,000	(1,890,056)	11,005,480
Long-term liabilities				
Accrued vacation	-	3,282,148	(2) -	3,282,148
Total long-term liabilities	-	3,282,148	-	3,282,148
Total liabilities	9,955,536	6,222,148	(1,890,056)	14,287,628
<u>FUND BALANCES/NET ASSETS:</u>				
Fund balances - reserved for encumbrances	3,307,129	-	(3,307,129) (3)	-
Fund balances - unreserved	17,382,658	-	(17,382,658) (3)	-
Invested in capital assets	-	4,675,044	(1) -	4,675,044
Restricted for various purposes	-	-	22,013,365 (3)	22,013,365
Unrestricted	-	(6,222,148)	(2) (1,323,578) (3)	(7,545,726)
Total fund balances/net assets	20,689,787	(1,547,104)	-	19,142,683
Total liabilities and fund balances/net assets	\$ 30,645,323	\$ 4,675,044	\$ (1,890,056)	\$ 33,430,311

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

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2010 (continued)

Total fund balances - governmental funds \$ 20,689,787

Amounts reported for governmental activities in the statement of net assets are different because:

- (1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. These assets consist of:

Buildings and improvements	\$ 10,253,588
Office, furniture, and equipment	2,170,678
Accumulated depreciation	<u>(7,749,222)</u>

Total capital assets 4,675,044

- (2) Accrued vacation is not reported in the governmental funds.

Due within one year	\$ (2,940,000)
Due in more than one year	<u>(3,282,148)</u>

Total accrued vacation (6,222,148)

- (3) Eliminate interfund balances and reclassify fund balances to net assets

Total net assets	<u><u>\$ 19,142,683</u></u>
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The accompanying notes are an integral part of the financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Reconciliation of Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
for the year ended June 30, 2010

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities
Revenues:				
State allotted appropriations	\$ 39,317,587	\$ -	\$ (1,945,680) (3)	\$ 37,371,907
Fees and other	4,267,845	-	(4,267,845) (4)	-
Intergovernmental	13,992,893	-	(13,992,893) (4)	-
Special fund revenues	18,753,580	-	(18,753,580) (4)	-
Share of TANF collections	4,505,016	-	(4,505,016) (4)	-
Litigation settlements	350,000	-	(350,000) (4)	-
Charges for services	-	-	2,562,979 (4)	2,562,979
Operating grants and contributions	-	-	39,306,355 (4)	39,306,355
TOTAL REVENUES	<u>81,186,921</u>	<u>-</u>	<u>(1,945,680)</u>	<u>79,241,241</u>
Expenditures:				
General administrative and legal services	43,247,710	234,996 (1) 381,897 (2)	-	43,864,603
Child support enforcement	18,528,638	(114,919) (1) (409,532) (2)	-	18,004,187
Crime prevention and justice assistance	5,622,559	117,709 (1) 180,213 (2)	-	5,920,481
Criminal history and State Identification	4,744,667	(321,207) (1) 1,015 (2)	-	4,424,475
TOTAL EXPENDITURES	<u>72,143,574</u>	<u>70,172</u>	<u>-</u>	<u>72,213,746</u>
Excess of revenues over (under) expenditures	9,043,347	(70,172)	(1,945,680)	7,027,495
Other financing sources (uses)				
Lapsed appropriations	(1,945,680)	-	1,945,680 (3)	-
Other	522,128	-	-	522,128
Total other financing sources (uses)	<u>(1,423,552)</u>	<u>-</u>	<u>1,945,680</u>	<u>522,128</u>
Net change fund balance/ net assets	<u>\$ 7,619,795</u>	<u>\$ (70,172)</u>	<u>\$ -</u>	<u>\$ 7,549,623</u>

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

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Reconciliation of Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to Statement of Activities
for the year ended June 30, 2010 (continued)

Change in fund balances - governmental funds \$ 7,619,795

Amounts reported for governmental activities in the statement of activities are different because:

- (1) Capital outlays are reported as expenditures in governmental funds, however in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the fiscal year 2010, these transactions were:

Capital outlays and equipment purchases	\$	638,668
Loss on disposal of equipment		(2,050)
Depreciation expense		<u>(553,197)</u>

Excess of capital outlays and equipment purchases over loss on disposal of equipment and depreciation expense	83,421
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- (2) The increase in accrued vacation is not reported in governmental funds. (153,593)

- (3) Lapsed appropriations are netted against appropriations in the statement of activities. -

- (4) Reclassification of revenues -

Change in net assets \$ 7,549,623

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Statement of Revenues and Expenditures – Budget and Actual
General Fund
for the year ended June 30, 2010

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget-Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Appropriations	<u>\$ 32,385,573</u>	<u>\$ 32,385,573</u>	<u>\$ 39,317,587</u>	<u>\$ 6,932,014</u>
Expenditures:				
General administrative and legal services	26,757,458	26,757,458	32,163,309	(5,405,851)
Child support enforcement	4,106,961	4,106,961	4,623,909	(516,948)
Criminal history and State identification	<u>1,521,154</u>	<u>1,521,154</u>	<u>1,676,814</u>	<u>(155,660)</u>
	<u>32,385,573</u>	<u>32,385,573</u>	<u>38,464,032</u>	<u>(6,078,459)</u>
Excess of appropriations over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 853,555</u>	<u>\$ 853,555</u>

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

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Statement of Revenues and Expenditures – Budget and Actual
Special Funds
for the year ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget-Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Child Support Enforcement</u>				
Revenues	\$ 23,991,008	\$ 23,991,008	\$ 15,317,058	\$ (8,673,950)
Expenditures	<u>23,991,008</u>	<u>23,991,008</u>	<u>14,799,211</u>	<u>9,191,797</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 517,847</u>	<u>\$ 517,847</u>
<u>Legal Services</u>				
Revenues	\$ 16,107,016	\$ 16,107,016	\$ 11,929,839	\$ (4,177,177)
Expenditures	<u>16,107,016</u>	<u>16,107,016</u>	<u>10,291,833</u>	<u>5,815,183</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,638,006</u>	<u>\$ 1,638,006</u>
<u>Crime Prevention and Justice Assistance</u>				
Revenue	\$ 12,927,672	\$ 12,927,672	\$ 12,233,016	\$ (694,656)
Expenditures	<u>12,927,672</u>	<u>12,927,672</u>	<u>5,744,687</u>	<u>7,182,985</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,488,329</u>	<u>\$ 6,488,329</u>
<u>Criminal Justice Data Center</u>				
Revenue	\$ 5,232,710	\$ 5,232,710	\$ 2,165,863	\$ (3,066,847)
Expenditures	<u>5,232,710</u>	<u>5,232,710</u>	<u>3,080,653</u>	<u>2,152,057</u>
Excess of revenue over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (914,790)</u>	<u>\$ (914,790)</u>

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

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Statement of Fiduciary Net Assets
June 30, 2010

	<u>Agency Funds</u>
ASSETS:	
Cash (Note 3)	\$ 8,005,655
Total assets	<u>8,005,655</u>
LIABILITIES:	
Due to and held for agency recipients	\$ 8,005,655
Total liabilities	<u>8,005,655</u>
NET ASSETS:	
Total net assets	<u><u>\$ -</u></u>

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

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Notes to financial statements

June 30, 2010

1. Summary of Significant Accounting Policies

The Department of the Attorney General of the State of Hawaii (AG) administers and renders legal services, including furnishing written legal opinions to the Governor, State Legislature, and such state departments and offices as the Governor may direct; represents the State of Hawaii (State) in all civil actions in which the State is a party; approves as to legality and form all documents relating to the acquisition of any land or interest in land by the State; and unless otherwise provided by law, prosecutes cases involving agreements, uniform laws, or other matters which are enforceable in the courts of the State.

The AG's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the AG are discussed below.

Financial Reporting Entity

The AG is part of the Executive Branch of the State of Hawaii. The AG's financial statements reflect only its portion of the activities attributable to the AG. The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State annually which includes the AG's financial activities.

The accompanying financial statements reflect the financial position and changes in financial position of the following divisions of the AG:

Administrative Services Office – This office provides fiscal, personnel, data processing, library, messenger, and reception services, and other support services to the department and its operating divisions.

Office of Child Support Hearings (OCSH) – The Office of Child Support Hearings is an office funded with State and Federal funds that provides a fair and impartial forum for expeditious resolution of child support disputes. Once a part of the Child Support Enforcement Agency, the office has been a separate office of the AG since 1992. The office has concurrent jurisdiction with the court in proceedings in which a support obligation is established, modified, or terminated. Attorney hearings officers issue orders establishing, modifying, terminating, and enforcing child support obligations.

Child Support Enforcement Agency (CSEA) – The Child Support Enforcement Agency provides assistance to children by locating parents, establishing paternity and support obligations (both financial and medical), and enforcing those obligations.

DEPARTMENT OF THE ATTORNEY GENERAL

STATE OF HAWAII

Notes to financial statements

June 30, 2010

Hawaii Criminal Justice Data Center – The Hawaii Criminal Justice Data Center is responsible for the statewide Criminal Justice Information System (CJIS-Hawaii), the statewide Automated Fingerprint Identification System (AFIS), the statewide sex offender registry, and the issuance of State identification cards.

Investigations Division – The Investigations Division conducts investigations in support of the department's civil, criminal, and administrative cases. These investigations involve such areas as homeland security; internet crimes against children; high technology computer crimes; drug nuisance abatement; environmental crimes; tobacco tax enforcement; airport, harbors, and highways; cold homicide cases; and other criminal and civil matters.

Crime Prevention and Justice Assistance Division – The Crime Prevention and Justice Assistance Division serves as a central point for obtaining, disseminating, and maintaining information regarding available financial (Federal and State funds) and non-financial resources to assist in improving the coordination of programs of the criminal justice and juvenile justice systems and agencies. It administers grants, provides training and technical assistance, engages in multi-agency and statewide planning efforts, conducts crime prevention programs, as well as researches and analyzes crime issues. The Juvenile Justice Information System, which tracks youths from arrest to parole, is also a responsibility of the division.

Legal Services –

- **Administration Division:** The Administration Division is principally responsible for commercial and financial-related legal issues. The division provides legal advice and litigation support to various departments and offices, including the Office of the Governor; the Office of the Lieutenant Governor; the Department of Accounting and General Services (including the State Foundation on Culture and the Arts, the Stadium Authority, and the State Procurement Office); the Department of Budget and Finance (including advice regarding bond matters and advice to the Employees' Retirement System, the Employer-Union Health Benefits Trust Fund, and the Office of the Public Defender); the Judiciary (including the Commission of Judicial Conduct, the Office of Disciplinary Counsel, the Judiciary Personnel Appeals Board, the Judicial Selection Commission; general consultation with and advice to the staff attorney's office, and representation of judges in writs and civil lawsuits); the Hawaii State Land Use Commission; the Hawaii State Commission on the Status of Women; the Campaign Spending Commission; and the Office of Elections.
- **Civil Recoveries Division:** This division systematically recovers and collects monies ranging from accounts receivable, dishonored checks, delinquent loans, salary and benefit overpayments, complex delinquent child support cases, civil judgments, delinquent patient accounts, property damage claims, lease rents, construction litigation, contract disputes and miscellaneous fees owed to the State and its agencies. In addition, it represents the State in major contract or construction disputes.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII

Notes to financial statements

June 30, 2010

- **Civil Rights Litigation:** This division provides legal defense to all State departments and agencies that are sued for monetary damages in cases that may involve an element of personal injury, but primarily arise from allegations of constitutional/civil rights violations.
- **Commerce and Economic Development Division:** The Commerce and Economic Development Division provides legal services and litigation support to the Department of the Commerce and Consumer Affairs (including the Professional and Vocational Licensing Boards), the Department of Business, Economic Development, and Tourism (including the Aloha Tower Development Corporation, the Hawaii Strategic Development Corporation, the Hawaii Tourism Authority, the High Technology Development Corporation, and the Natural Energy Laboratory of Hawaii Authority), and the Department of Agriculture (including the Agribusiness Development Corporation). The division also enforces the antitrust laws, administers the laws providing for the commissioning of notaries public, and provides legal services to the Board of Trustees of the State's Deferred Compensation Plan and to other state agencies involved in administering tax deferral programs.
- **Commission To Promote Uniform Legislation** – This commission was placed in the AG to provide advice on matters relating to the promotion of uniform legislation in accordance with HRS Chapter 3 (Uniformity of Legislation) and Section 26-7. The commission consists of five members appointed by the Governor and confirmed by the State Senate, who serve without compensation for a term of four years.
- **Criminal Justice Division:** The Criminal Justice Division performs prosecutorial functions on behalf of the State in areas such as welfare fraud, tax fraud, unemployment fraud, unauthorized practice of law, and public corruption. The division is also responsible for prosecuting Internet crimes against children, high technology crimes, Medicaid fraud and elder abuse, violations of state tobacco laws, drug nuisance, environmental crimes, cold homicide cases, and conflict cases from the four county prosecutor's office. The missing Child Center-Hawaii is administratively attached to this division, and is Hawaii's only clearinghouse assisting in the recovery of missing or abducted children.
- **Education Division:** The Education Division principally provides legal advice and support to the Department of Education and the Board of Education. Other clients include the Charter School Administrative Office and the Charter Schools; the Hawaii Teacher Standards Board; the Research Corporation of the University of Hawaii; and the Hawaii State Public Library System.
- **Employment Law Division:** The Employment Law Division provides legal representation and advice to the Department of Human Resources Development and to all state departments and agencies on employment-related issues. The division represents all state employers in mandatory arbitration hearings, administrative agency hearings, and civil litigation involving disputes over employment matters with the State's employees.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII

Notes to financial statements
June 30, 2010

- **Family Law Division:** The Family Law Division handles all state litigation under the jurisdiction of Family Court, such as child and adult protection, guardianships, truancy, adolescent mental health cases, and involuntary civil mental commitment hearings. Clients include the Department of Health, the Department of Human Services, the Department of Education, and the Office of the Public Guardian. The division also provides support to the Child Support Enforcement Agency.
- **Health and Human Services Division:** The Health and Human Services Division provides the principal legal services and support to the Department of Health and the Department of Human Services. The division enforces the State's environmental laws, provides legal advice to all Department of Health and Department of Human Services programs, takes appeals to circuit court from administrative decisions, defends actions against the State in both State and Federal court, and handles some appeals in both the State and Federal appellate systems.
- **Labor Division:** The Labor Division provides legal services and litigation support to the Department of Labor and Industrial Relations and boards and agencies administratively attached to that department, including the State Fire Council. In connection with its enforcement of the various labor laws, the division also collects penalties, fines, and reimbursements.
- **Land/Transportation Division:** The Land/Transportation Division provides legal services to both the Department of Land and Natural Resources (DLNR) and the Department of Transportation (DOT). These assignments include servicing all divisions of the DLNR (Aquatic Resources, Boating, Conservation and Resources Enforcement, Forestry and Wildlife, Land, State Historic Preservation, State Parks, and Water Resource Management) and the DOT (Airports, Harbors, and Highways). The division also provides services to the following attached commissions, boards, or agencies: Kaho'olawe Island Reserve Commission, Natural Area Reserves System Commission, Bureau of Conveyances, the four island Burial Councils, Hawaii Historic Places Review Board, Hawaii Invasive Species Council, Commission on Transportation, State Highway Safety Council, and Medical Advisory Board. Most tort litigation involving the DLNR or the DOT is handled by another division, but the Land/Transportation Division handles a number of cases involving the State as a landlord and as a source of permits or as regulator. The division is responsible for all quiet title actions involving the State and virtually all state eminent domain actions, the bulk of which are done on behalf of the State highways program. The division prepares land disposition documents for the DLNR and the DOT and prepares office leases for the Department of Accounting and General Services when State agencies rent private property as tenants. The division reviews for legality its clients' contracts and administrative rules. The litigation that the division handles includes enforcement actions for violations of the State Historic Preservation law and the law governing land use in conservation districts and actions for damage to natural resources of the State. The division is working on several of the DOT's complex construction cases.

DEPARTMENT OF THE ATTORNEY GENERAL

STATE OF HAWAII

Notes to financial statements

June 30, 2010

- **Legislative Division:** The Legislative Division provides legal services on matters pertaining to legislation and to proposed administrative rules. The division coordinates the preparation and review of all legislative bills proposed by the executive branch agencies and coordinates the review, monitoring, and evaluation of all legislative bills during and after each session of the Legislature. In addition, the division coordinates, monitors, and reviews the preparation of administrative rules of the Department of the Attorney General. This division also performs the final review of the formal opinions issued by the Attorney General and performs the initial review of complaints involving the Sunshine Law.
- **Medicaid Fraud Division:** This division is responsible for planning, supervising and coordinating the investigations of provider fraud and abuse in the Medicaid Program.
- **Public Safety, Hawaiian Home Lands, and Housing Division:** The Public Safety, Hawaiian Home Lands, and Housing Division provides legal services and support to the Department of Public Safety, the Department of Hawaiian Home Lands, the Hawaii Public Housing Authority, and the Hawaii Community Development Agency. The division is responsible for reviewing pardon applications and extradition documents, and responding to petitions for release from inmates under Rule 40 of the Hawaii Rules of Penal Procedure.
- **Tax Division:** The Tax Division provides legal representation and advice to the Department of Taxation and other state departments and agencies, primarily in the areas of tax litigation, legislation, rules, investigations, and opinions and advice. The division includes an informal bankruptcy unit devoted to handling all bankruptcy cases for the Department of Taxation, and occasionally assists other agencies in bankruptcy matters. The division represents the Attorney General in the oversight and enforcement of laws pertaining to charitable trusts, public charities, public benefit corporations, and private foundations. The division is also responsible for the department's registration and bonding function for professional solicitors and professional fundraising counsels under HRS chapter 467B, and enforcement of the State's charitable solicitation laws. The division is the custodian of certifications by charities that issue charitable gift annuities under HRS § 431:204(b).
- **Tort Litigation Division:** The Tort Litigation Division provides legal defense to personal injury lawsuits and claims made against the State and its departments and agencies. The division does not have primary responsibility for giving advice and counsel to any State department or agency, to provide representation in criminal matters, or to collect monies owed to the State. In general, the services provided by the division include accepting service of legal complaints for the Attorney General, answering legal complaints made against State departments and agencies, investigating claims, conducting discovery on claims, and representing State interests in arbitrations, mediations, and trials.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII

Notes to financial statements

June 30, 2010

Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The AG's general and special revenue funds are grouped into one broad fund category for financial statement presentation purposes; the Governmental Fund (Fund). The Fund includes the AG's general fund and special revenue funds. The AG also has four fiduciary agency funds.

Basis of Accounting

Departmental Financial Statements

The departmental financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the department.

The departmental statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the departmental statements and the statements for governmental funds. The primary effect of internal activity has been eliminated from the departmental financial statements.

The departmental Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the State.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Net assets restricted by enabling legislation amounted to \$6,924,000 at June 30, 2010.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the departmental financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

DEPARTMENT OF THE ATTORNEY GENERAL

STATE OF HAWAII

Notes to financial statements

June 30, 2010

Fund Financial Statements

Fund financial statements report detailed information about the AG. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus.

The following is a description of the governmental funds of the AG:

- General Fund – This is the AG’s primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.
- Special Funds – These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

When both restricted and unrestricted resources are available for use, it is the AG’s policy to use restricted resources first, followed by unrestricted resources as they are needed.

Revenue Recognition

The governmental financial statements are prepared using the modified accrual basis of accounting, revenues and related current assets are recognized in the accounting period when they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. Measurable means that the amount of the transactions can be determined. Available means that the amount is collected in the current fiscal year or soon enough after fiscal year-end (60 days) to liquidate liabilities existing at the end of the fiscal year.

In fiscal year 2010 the Legislature appropriated funds for the payment of settled lawsuits and claims against the State. The appropriation, including unallotted funds have been recognized as General Fund revenue and accrued as appropriate. The related amounts due to plaintiffs and claimants are reflected as expenditures in the financial statement.

The departmental financial statements are prepared using the accrual basis of accounting.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and recorded when the related fund liability is incurred. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

DEPARTMENT OF THE ATTORNEY GENERAL

STATE OF HAWAII

Notes to financial statements

June 30, 2010

Agency Funds

The AG has four agency funds. These funds are purely custodial and thus do not have a measurement focus. Agency funds use the accrual basis of accounting to recognize receivables and payables and report only assets and liabilities.

Use of Estimates

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

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. In accordance with the State's "New Statewide Capitalization Policy" (Policy), furniture and equipment purchased or acquired with a cost greater than \$5,000 and building with a cost greater than \$100,000, are capitalized at historical cost or estimated historical cost, and depreciated using the straight-line method over their estimated useful lives. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

In accordance with the Policy, the AG provides for depreciation using the range of estimated useful lives as follows:

	<u>Estimated Useful Lives</u>
Buildings and improvements	30 years
Office furniture and equipment	7 years

Departments sharing the same building and improvements with other departments of the State report its allocated share of the cost as determined by the State's Department of Accounting and General Services (DAGS).

Appropriations

Appropriations are an authorization granted by the State Legislature permitting a State agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year or as specified in the enacted legislation.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Notes to financial statements

June 30, 2010

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at fiscal year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Accumulated Vacation and Sick Leave

Employees' vested annual vacation and sick leave are recorded as expenditures on the governmental fund financial statements when actually taken. The employees of the AG are entitled to receive cash payment for accumulated vacation leave upon termination. The liability for such accumulated vacation leave pay is maintained separately and recorded only in the departmental financial statements and represents a reconciling item between the governmental funds and departmental financial statement presentations.

Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements. Other interfund activity, such as loans, are reported as interfund receivables and payables as appropriate and are subject to elimination in the departmental financial statements.

Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when available and when entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred and funds are available.

Risk Management

The AG is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss is reasonably estimable.

2. Compliance and Accountability

Budget Requirements, Accounting and Reporting

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Budgeted revenues are those estimates as

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compiled by the AG and budgeted expenditures are derived primarily from acts of the State Legislature and from other authorizations contained in other specific appropriation acts in various Session Laws of the State of Hawaii.

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

Summarization of the budgets adopted by the State Legislature for the general and special revenue funds is presented in the Statements of Fund Revenues and Expenditures – Budget and Actual. For purposes of budgeting, the AG’s budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with generally accepted accounting principles (GAAP). The AG’s annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to (1) the encumbrance of purchase order and contract obligations, and (2) the budgeting of salaries and wages.

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with GAAP are as follows:

	General Fund	Child Support Enforcement	Legal Services
Excess of revenue over expenditures- actual on a budgetary basis	\$ 853,555	\$ 517,847	\$ 1,638,006
Reserve for encumbrances at June 30, 2010	348,882	1,648,345	691,531
Reserve for encumbrances at June 30, 2009	(815,622)	(369,470)	(829,178)
Fiscal 2010 salaries and wages funded by fiscal 2011 budget	(1,080,423)	(576,215)	(651,933)
Fiscal 2009 salaries and wages funded by fiscal 2010 budget	869,765	352,482	449,425
Change in carrying value of cash in State Treasury	-	-	165,101
Excess of revenue over (under) expenditures - GAAP basis	\$ 176,157	\$ 1,572,989	\$ 1,462,952

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	Crime Prevention and Justice Assistance	Criminal Justice Data Center	Total
Excess of revenue over expenditures- actual on a budgetary basis	\$ 6,488,329	\$ (914,790)	\$ 8,582,947
Reserve for encumbrances at June 30, 2010	140,345	478,026	3,307,129
Reserve for encumbrances at June 30, 2009	-	(457,303)	(2,471,573)
Fiscal 2010 salaries and wages funded by fiscal 2011 budget	(37,063)	(40,934)	(2,386,568)
Fiscal 2009 salaries and wages funded by fiscal 2010 budget	18,846	97,336	1,787,854
Change in carrying value of cash in State Treasury	(56,427)	114,884	223,558
Excess of revenue over (under) expenditures - GAAP basis	\$ 6,554,030	\$ (722,781)	\$ 9,043,347

Interfund Transactions

As of June 30, 2010, the General Fund and other governmental funds of the AG reflected interfund receivables and payables for expenditure reimbursements owed between funds. The Child Support Enforcement Agency's Special Fund reflected a receivable of \$5,813 which is due from the AG's General Fund. The Legal Services Special Fund reflected a payable of \$3,053 owed to the Crime Prevention and Justice Assistance Special Fund.

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3. Cash

AG's cash at June 30, 2010 consisted of the following:

	Governmental Funds	Agency Funds
Cash in State Treasury	\$ 19,330,382	\$ 728,969
Cash held outside of State Treasury	5,180,156	7,276,686
	\$ 24,510,538	\$ 8,005,655

The AG's cash held in State Treasury are pooled with cash from other State agencies and departments. Cash that is not required for immediate payments are invested by the Department of Budget and Finance, State of Hawaii. Cash accounts that participate in the investment pool accrue interest based on average weighted cash balances.

At June 30, 2010, the State's cash investments included student loan auction rate securities. Liquidity for student loan auction rate securities was typically provided by an auction process which allows holders to sell their notes and reset the applicable interest rate at predetermined intervals of 7 to 28 days. In 2008, auctions had failed. Investors without the ability to hold such securities until maturity have realized significant losses. In the event of a failed auction, the indenture governing the security generally requires the issuer to pay interest at a default rate that is generally above market rates for similar instruments. The securities for which auctions have failed will continue to accrue interest at the predetermined rate and be auctioned periodically until the auction succeeds, the issuer calls the securities, they mature or the State of Hawaii is able to sell the securities to third parties. The student loan auction rate securities are reported by the State of Hawaii at estimated fair value, which is generally calculated using the present value of projected cash flows methodology.

In fiscal years prior to 2010 the State recorded significant losses on its auction rate securities investment due to declines in fair value. The securities appreciated in value during the year ended June 30, 2010 and AG recorded an net increase in the carrying value of its cash held in State Treasury representing its allocated share of total estimated unrealized appreciation resulting from the State of Hawaii's investment in student loan auction rate securities. The net increase in the carrying value of AG's cash held in State Treasury has been reflected as an increase (decrease) in revenue in the various funds of AG, as follows:

Legal Services	\$ 165,101
Crime Prevention and Justice Assistance	(56,427)
Criminal Justice Data Center	114,884
	\$ 223,558

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On November 23, 2010, the State of Hawaii and Citigroup Global Markets Inc. (CGMI) entered into an agreement to reach a resolution concerning the State's previous purchase of auction rate securities from CMGI. The settlement agreement principally provides for the following:

- 1) In June 2015, the State will have the option to require CGMI to purchase some or all of the State's remaining auction rate securities portfolio at par as well as to have CGMI make up the difference between liquidation price and par on any of the State's auction rate securities which have been previously involuntarily liquidated below par.
- 2) Starting in July 2012, the State will have the ability to obtain interim liquidity on its auction rate securities portfolio of up to \$150 million worth of the securities, at market value, with the difference between that market value and par payable by CGMI in July 2015.
- 3) The State has released potential claims against CGMI and any affiliated entities or individuals in connection with its investments in auction rate securities, and CGMI has admitted no wrongdoing.

Citigroup Inc., parent of CGMI, has provided a guarantee agreement for CGMI's obligations under the settlement agreement.

Detailed information relating to cash and investments held in the State Treasury and related insurance, collateral and risks are further described in the State of Hawaii Comprehensive Annual Financial Report (CAFR).

The AG also maintains certain funds in two accounts in a Hawaii bank which are held separately from the State Treasury. One bank account (non-interest bearing) is used primarily for CSEA agency transactions. As of June 30, 2010, the carrying amount of this account was \$7,276,686 and was reflected in "Cash" of the Agency Fund's Statement of Fiduciary Net Assets.

The second bank account (interest bearing), opened in fiscal year 2003, is used solely to account for the federal share of child support payment collections retained by CSEA under Personal Responsibility and Work Reconciliation Act of 1996 (PRWORA) and the Temporary Assistance for Needy Families (TANF) program. As the use of these funds are for CSEA's benefit, this account is reflected in "Cash" of the Governmental Fund Balance Sheet under the special fund for Child Support Enforcement. As of June 30, 2010, the carrying amount of this bank account was \$5,180,156.

With respect to the cash held outside the State Treasury, the Federal Deposit Insurance Corporation (FDIC) provides temporary full insurance coverage on non-interest transaction accounts from December 31, 2010 through December 31, 2012. Interest bearing accounts are insured up to \$250,000. The bank has not pledged collateral for the two bank accounts.

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4. Capital Assets And Depreciation

Capital assets activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Deductions and Other	Ending Balance
Building and improvements				
Cost	\$ 10,238,076	\$ 15,512	\$ -	\$ 10,253,588
Accumulated depreciation	(6,417,979)	(333,658)	-	(6,751,637)
Building and improvements - net	<u>\$ 3,820,097</u>	<u>\$ (318,146)</u>	<u>\$ -</u>	<u>\$ 3,501,951</u>
Office furniture and equipment				
Cost	\$ 1,569,617	\$ 623,156	\$ (22,095)	\$ 2,170,678
Accumulated depreciation	(798,091)	(219,539)	20,045	(997,585)
Office furniture and equipment - net	<u>\$ 771,526</u>	<u>\$ 403,617</u>	<u>\$ (2,050)</u>	<u>\$ 1,173,093</u>
Capital assets - net	<u>\$ 4,591,623</u>	<u>\$ 85,471</u>	<u>\$ (2,050)</u>	<u>\$ 4,675,044</u>

Depreciation expense was charged to functions of the AG in the departmental statement of activities as follows:

Governmental activities:

General administrative and legal services	\$ 250,508
Crime prevention and justice assistance	117,709
Criminal history and State identification	102,962
Child support enforcement	82,018
Total governmental activities depreciation expense	<u>\$ 553,197</u>

5. Accrued Vacation

Effective July 1, 2004, eligible employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end. The departmental financial statements present the cost of accumulated vacation leave as a liability. Liabilities for vacation pay are inventoried at the end of each accounting period and adjusted to current salary levels.

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For the year ended June 30, 2010, changes in accrued vacation liabilities, were as follows:

Balance at July 1, 2009	\$ 6,068,555
Net increase	153,593
Balance at June 30, 2010	<u>6,222,148</u>
Less current portion	<u>(2,940,000)</u>
Non-current portion	<u><u>\$ 3,282,148</u></u>

6. Non-Imposed Employee Fringe Benefits

Payroll fringe benefit costs of the AG's employees funded by State appropriations (general fund) are assumed by the State and are not paid by the AG's operating funds. These costs, totaling approximately \$6,932,000 for the year ended June 30, 2010, have been reported as revenues and expenditures of the AG's General Fund and in the departmental statement of activities.

7. Related Party Transactions

Certain AG employees perform services for other State departments and agencies. The AG receives payroll reimbursements from those departments and agencies. Reimbursements have been recorded as revenues in the special fund to which the payroll costs were actually charged. Reimbursements totaled approximately \$5,598,000 for the fiscal year ended June 30, 2010.

8. Lease Commitments

The AG leases office facilities and office equipment on a long-term basis, the expenditures of which are reported in the general and special funds. The following is a schedule of minimum future rentals on noncancellable operating leases expiring through September 2019:

Year ending June 30,	
2011	\$ 495,000
2012	261,000
2013	150,000
2014	53,000
2015	41,000
Thereafter	<u>166,000</u>
	<u><u>\$ 1,166,000</u></u>

In addition to the minimum rent certain leases also provide for the payment of operating costs and general excise taxes.

Total rent expense including rents under short-term leases for the fiscal year ended June 30, 2010 was approximately \$829,000

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9. Employee Benefits

Employees' Retirement System

Plan Description – All eligible employees of the State and counties are required by HRS Chapter 88 to become 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. The ERS is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report (CAFR) that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan 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 plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans 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 is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan, are eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006 are required to join the hybrid plan.

Funding Policy – Most covered employees of the contributory plan are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

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Post-Retirement Benefits

Plan description – The State contributes to the Hawaii Employer-Union Health Benefit Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003, pursuant to Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for State and county workers, retirees, and their dependents. The State also contributes to the Hawaii State Teachers Association (HSTA) Voluntary Employees Beneficiary Association (VEBA) Trust that was established effective March 1, 2006. HSTA VEBA provides health benefits only to HSTA members, retirees and their dependents. The eligibility requirements for retiree health benefits are the same for both plan as follows.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

State policy – The actuarial valuation of the EUTF does not provide other postemployment benefits (OPEB) information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of the State's Annual Required Contribution (ARC), interest, and any adjustments to the ARC, to component units and proprietary funds that are reported separately in the State's Comprehensive Annual Financial Report (CAFR) or in stand alone department financial statements. The basis for the allocation is the proportionate share of contributions made by each component unit and proprietary fund for retiree health benefits.

The State's CAFR includes the required footnote disclosures and required supplementary information on the State's OPEB plans. The State's CAFR can be found at the Department of Accounting and General Services' website: <http://hawaii.gov/dags/rpts>.

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10. Risk Management

The State is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State has property, crime and other liability insurance policies in force through various outside insurance carriers to mitigate this risk. The State generally retains the risk of losses up to deductible amounts per occurrence, and for amounts over the coverage limits. Insurance coverage are subject to various exclusions as specified in the insurance policies. Losses not covered by the insurance policies are paid by DAGS' Risk Management Fund or through Legislative Appropriation.

Insurance coverage for the policy year December 1, 2009 through December 1, 2010, are summarized below.

The State has real and personal property insurance covering risk of direct physical loss including fire, named windstorms, flood, tsunami, and earthquakes with a limit of loss of \$100,000,000 per occurrence. Deductibles are 3% of loss subject to a \$1,000,000 minimum per occurrence for windstorm, flood, tsunami, and earthquake. For other losses, the deductible is \$1,000,000 per occurrence.

The State has terrorism insurance with a limit of loss of \$50,000,000 with a \$50,000 per occurrence deductible and subject to the limitations of the Federal Terrorism Risk Insurance Act.

The State has liability insurance covering bodily injury and property damage, personal and advertising injury, automobile and watercraft liability, public errors and omissions liability, employment practices, dam and terrorism liability. Coverage limits are \$10,000,000 in aggregate with a \$4,000,000 per occurrence deductible.

The State has crime insurance for various types of coverage with a loss limit of \$10,000,000 per occurrence, with a \$500,000 deductible per occurrence.

The State is self-insured for worker compensation and unemployment benefits for its employees. These benefits are administered by other State departments.

DAGS' Risk Management Office handles tort claims and property and automobile claims of \$10,000 or less for most departments of the State. Claims over \$10,000 are handled by the State's Department of the Attorney General. Losses of \$10,000 or less are paid from DAGS' Risk Management Fund. Losses in excess of \$10,000 are paid through Legislative Appropriation to the Department of the Attorney General.

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11. Commitments and Contingencies

Accumulated Sick Leave – Employees earn sick leave credits at the rate of one and three-quarters working days for each month of service without limit. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an 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 as of June 30, 2010 was approximately \$18,476,000.

Deferred Compensation Plan – The State has a deferred compensation plan which enables state employees to defer a portion of their compensation. The State Department of Human Resources Development has the fiduciary responsibility of administering the plan. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and income earned thereon are held in trust outside the State Treasury for exclusive benefit of participants and their beneficiaries.

12. Criminal Forfeiture Revolving Fund

The AG is the coordinating agency for the Hawaii Omnibus Criminal Forfeiture Act (Act). Pursuant to this Act, the AG is mandated to process petitions for administrative forfeiture of personal property and to distribute administratively or judicially forfeited property, or its proceeds, to law enforcement agencies according to a specified formula.

Forfeited property is recorded as revenue in a special revenue fund at the time of forfeiture, and the funds may be used for specified purposes only. Currency seized by a law enforcement agency and held by the AG pending a forfeiture decision is recorded in an agency fund. Any bonds posted in connection with judicial forfeitures are similarly recorded.

13. Welfare Reform Act

The enactment of Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), implemented changes in the availability of federal funding and in the information required to compute State grant awards. PRWORA made effective the “Temporary Assistance for Needy Families” (TANF) Program under Title IV-A of the Social Security Act and repealed the “Aid to Families With Dependent Children” (AFDC) Program under Title IV-A of the Act.

14. Litigation

The AG was a defendant in a class action lawsuit alleging that the Child Support Enforcement Agency (CSEA) had improperly delayed the disbursement of child support payments. In October 2002, the Circuit Court of the First Circuit of the State of Hawaii (Court) determined that CSEA had been disbursing the “overwhelming majority of child support payments” within required time frames. However, the Court required CSEA to provide an accounting of its outstanding child

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support payment checks as of December 31, 2002, and of checks returned due to bad addresses, and to disburse these amounts. Any remaining unpaid funds would be set aside to establish a common fund to be used for the benefit of those plaintiffs who brought the class action suit. In July 2003, the Court issued its Final Judgment regarding the lawsuit. Included in the Final Judgment was a requirement for CSEA to solicit claims from those individuals whose names are included on the lists and to disburse all uncashed and bad addresses checks to those individuals who subsequently filed claims. CSEA had until March 31, 2004 to disburse the funds. In accordance with the establishment of a common fund, any remaining funds were to be used to pay for the plaintiff's attorney's fees and costs, which amounted to approximately \$503,000. The AG is opposed to the establishment of such a fund since any remaining unpaid funds represent monies belonging to custodial parents. The Court did not grant any other monetary relief to the plaintiffs. There have not been any further developments relating to this matter.

15. Restatements

Subsequent to the issuance of the AG's fiscal 2009 financial statements, management determined that the financial statements were misstated. As a result, certain amounts in the departmental financial statements, and governmental fund financial statements have been restated from the amounts previously reported. The restatements are summarized below and are recorded as adjustments to the beginning net assets of the departmental financial statements, and beginning fund balance in the governmental funds financial statements.

	Fund balance/ net assets- June 30, 2009, as originally reported	Overstatement of vouchers and contracts payable	Understatement of amounts due from grantors for reimbursable costs	Overstatement of amount due from grantors for accrued vacation benefits	Fund balance/ net assets- June 30, 2009, as restated
General Fund	\$ 324,048	121,897	-	-	\$ 445,945
Child Support Enforcement	3,917,311	-	489,617	-	4,406,928
Legal Services	5,278,972	90,355	26,370	-	5,395,697
Crime Prevention and Justice Assistance	840,151	472,046	-	-	1,312,197
Criminal Justice Data Center	<u>1,343,335</u>	<u>165,890</u>	<u>-</u>	<u>-</u>	<u>1,509,225</u>
Total Governmental Funds	<u>\$ 11,703,817</u>	<u>\$ 850,188</u>	<u>\$ 515,987</u>	<u>\$ -</u>	<u>\$ 13,069,992</u>
Total Departmental Net Assets	<u>\$ 11,635,621</u>	<u>\$ 850,188</u>	<u>\$ 515,987</u>	<u>\$ (1,408,736)</u>	<u>\$ 11,593,060</u>

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Management also determined that there was a misstatement in restricted and unrestricted net assets as previously reported in the Statement of Net Assets at June 30, 2009. The restated components of net assets at June 30, 2009 are as follows:

Departmental Net Assets	<u>Invested in in capital assets</u>	<u>Restricted for various purposes</u>	<u>Unrestricted</u>	<u>Total net assets</u>
Net assets, as originally reported, June 30, 2009	\$ 4,591,623	\$ 1,904,719	\$ 5,139,279	\$ 11,635,621
Adjustment to classify assets restricted by external parties or through constitutional or enabling legislation	-	9,475,050	(9,475,050)	-
Departmental adjustments previously described	-	1,244,278	(1,286,839)	(42,561)
Net assets, as restated June 30, 2009	<u>\$ 4,591,623</u>	<u>\$ 12,624,047</u>	<u>\$ (5,622,610)</u>	<u>\$ 11,593,060</u>

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The effects of the aforementioned restatement adjustments on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds and on the Statement of Activities for the year end June 30, 2009 are summarized below.

Governmental Funds – Increase (decrease)	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess of revenues over (under) expenditures/ change in net assets</u>
General Fund	\$ -	\$ (121,897)	\$ 121,897
Child Support Enforcement	(111,500)	-	(111,500)
Legal Services	(4,076)	(90,355)	86,279
Crime Prevention and Justice Assistance	-	(472,046)	472,046
Criminal Justice Data Center	-	(165,890)	165,890
Total Governmental Funds	<u>\$ (115,576)</u>	<u>\$ (850,188)</u>	<u>\$ 734,612</u>
	<u>Grants and Contribution Revenues</u>	<u>Expenses</u>	<u>Net Revenue and Change in net assets</u>
Departmental Activities Increase (decrease)	<u>\$ (115,576)</u>	<u>\$ (743,441)</u>	<u>\$ 627,865</u>

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Schedule of Expenditures of Federal Awards
For the year ended June 30, 2010

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
<u>U.S Department of Justice</u>			
Services for Trafficking Victims	16.320	2005-VT-BX-0008	1,062
		2008-VT-BX-0004	81,473
			<u>82,535</u>
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	2005-JL-FX-K038	<u>542,011</u>
Missing Children's Assistance	16.543	2008-MC-CX-K027	<u>265,189</u>
Youth Gang Prevention	16.544	2007-PG-BX-0099	<u>3,067</u>
State Justice Statistics Program for Statistical Analysis Center	16.550	2008-BJ-CX-K037	<u>24,169</u>
Passed through the State Department of Transportation: National Criminal History Improvement Program (NCHIP)	16.554	2008-RU-BX-K017	37,856
		2007-MU-BX-K007	89,272
		2006-MU-BX-K003	103,009
		2004-RU-BX-K018	114,584
		2008-ID-MX-0016	150,515
			<u>495,236</u>
National Institute of Justice Research, Evaluation, & Development Project Grants	16.560	2005-DN-BX-K026	<u>142,019</u>
Crime Victim Assistance (VOCA)	16.575	2007-VA-GX-0045	1,069,992
		2006-VA-GX-0038	755,059
			<u>1,825,051</u>
Edward Byrne Memorial Formula Grant Program	16.579	2004-DB-BX-0038	<u>136,376</u>
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grant Programs	16.580	2008-DD-BX-0082	<u>50,670</u>
ARRA - Violence Against Women Formula Grants	16.588	2009-EF-S6-0021	31,259
		2008-WF-AX-0038	356,340
		2007-WF-AX-0049	362,667
		2006-WF-AX-0010	247,874
		2005-WF-AX-0029	20,157
			<u>1,018,297</u>
Rural Domestic Violence, Dating Violence, Sexual Assault & Stalking Assistance Program	16.589	2004-WR-AX-0044	<u>68,239</u>
Residential Substance Abuse Treatment for State Prisoners	16.593	2006-RT-BX-0023	24,000
		2005-RT-BX-0050	54,966
			<u>78,966</u>
Project Safe Neighborhoods	16.609	2007-GP-CX-0094	<u>1,617</u>
ARRA - Public Safety Partnership and Community Policing	16.710	2009-CK-WX-0179	141,087
		2008-CS-WX-0007	90,756
			<u>231,843</u>

DEPARTMENT OF THE ATTORNEY GENERAL

State of Hawaii

Schedule of Expenditures of Federal Awards
For the year ended June 30, 2010 (continued)

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
Edward J. Byrne Memorial Justice Assistance Grant (JAG)	16.738	2008-DJ-BX-0009	190,209
		2007-DJ-BX-0061	395,447
		2006-DJ-BX-0024	143,710
		2005-DJ-BX-1471	183,921
			<u>913,287</u>
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	2008-CD-BX-0012	43,272
		2007-CD-BX-0029	74,164
			<u>117,436</u>
Edward Byrne Memorial Competitive Grant Program	16.751	110-650-6171	<u>7,216</u>
ARRA - Internet Crimes Against Children Task Force Program	16.800	2009-SN-B9-K004	<u>73,971</u>
ARRA - State Victim Assistance Formula Grant Program	16.801	2009-SG-B9-0138	<u>35,381</u>
ARRA -Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.803	2009-SU-B9-0044	<u>634,833</u>
Total U.S. Department of Justice			<u><u>6,747,409</u></u>
<u>U.S. Department of Health and Human Services - Administration for Children and Families</u>			
ARRA - Child Support Enforcement Title IV-D	93.563	G-10-04-HI-4002	1,708,540
		G-08-04-HI-4004	310,905
		G-09-04-HI-4004	3,290
		G-10-04-HI-4004	11,399,427
			<u>13,422,162</u>
State Medicaid Fraud Control Units	93.775	01-1001-HI-5050	687,269
		01-0901-HI-5050	369,151
			<u>1,056,420</u>
Total U.S. Department of Health and Human Services			<u>14,478,582</u>
Total Expenditures of Federal Awards			<u><u>\$ 21,225,991</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Notes to the Schedule of Expenditures of Federal Awards
for the year ended June 30, 2010

1. Basis of Presentation

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the Department of the Attorney General of the State of Hawaii (AG) and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2. Subrecipients

Of the Federal expenditures presented in the schedule, the AG provided Federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
Services for Trafficking Victims	16.320	\$ 66,119
Crime Victim Assistance (VOCA)	16.575	1,738,992
Edward Byrne Memorial Formula Grant Program	16.579	15,949
ARRA - Violence Against Women Formula Grants	16.588	897,541
Rural Domestic Violence, Dating Violence, Sexual Assault & Stalking Assistance Program	16.589	68,239
Residential Substance Abuse Treatment for State Prisoners	16.593	78,966
Edward J. Byrne Memorial Justice Assistance Grant (JAG)	16.738	778,510
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	110,935
ARRA - State Victim Assistance Formula Grant Program	16.801	30,000
ARRA - Edward Bryne Memorial Justice Assistance Grant (JAG) Program	16.803	988,351
		<u>\$ 4,773,602</u>

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTS, INC.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

The Auditor
Office of the Auditor
State of Hawaii

We have audited the financial statements of the governmental activities and each fund of the Department of the Attorney General of the State of Hawaii (AG), as of and for the year ended June 30, 2010, which collectively comprise the AG's basic financial statements and have issued our report thereon dated March 23, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the AG's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the AG's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the AG's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the

deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. (See Item 2010-1)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AG's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103 D of the 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 no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

The AG's response to the finding in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the AG's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Attorney General, Office of the Auditor, management, Federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Alumina Oyadomai & Kawai CPAs, Inc.

Honolulu, Hawaii
March 23, 2011

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTS, INC.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Auditor
Office of the Auditor
State of Hawaii

Compliance

We have audited the compliance of the Department of the Attorney General of the State of Hawaii (AG), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the AG's major federal programs for the year ended June 30, 2010. The AG's major federal programs are identified in the summary of Auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the AG's management. Our responsibility is to express an opinion on the AG's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the AG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the AG's compliance with those requirements.

In our opinion, the AG compiled, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the AG is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the AG's internal control

over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the AG's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Attorney General, Office of the Auditor, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abhinav Dyalanai & Hawaii CPAs, Inc.

Honolulu, Hawaii
March 23, 2011

PART III

FINDINGS AND QUESTIONED COSTS

**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section I – Summary of Auditor’s Results

Financial Statements

Type of Auditor’s report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?
 yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal controls over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?
 yes none reported

Type of Auditor’s report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

<u>CFDA No.</u>	<u>Name of Federal Program or Cluster</u>
16.575	Crime Victim Assistance
16.588	ARRA - Violence Against Women Formula Grants
16.738	Edward J. Byrne Memorial Justice Assistance Grant
16.803	ARRA - Edward Byrne Memorial Justice Assistance Grant
93.563	ARRA - Child Support Enforcement
93.775	State Medicaid Fraud Control Units

Dollar threshold used to distinguish between type A and type B programs: \$630,000
Auditee qualifies as low-risk auditee? yes no

Department of the Attorney General

State of Hawaii

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

Section II – Financial Statement Findings

2010-1 Improvements needed in the preparation of year end financial statements

Criteria:

The Department of the Attorney General, State of Hawaii (Department) maintains its day to day accounting and budgetary records on a cash basis.

Annually the Department's governmental financial statements are prepared on a modified accrual basis of accounting. To accomplish this various accruals of receivables and vouchers and wages payable are recorded to prepare the governmental financial statements.

The departmental financial statements are prepared on the accrual basis of accounting. Capital assets as well as long term liabilities such as accrued vacation due to employees are recorded through journal entries. Net assets are categorized and presented as investments in capital assets, restricted, or unrestricted.

The preparation of the financial statements are the responsibility of management of the Department.

Condition and Effect:

We noted the following misstatements in the Department's 2009 fiscal year financial statements. This resulted in the restatement of the previously reported 2009 financial statements.

Voucher payables at June 30, 2009 were overstated by \$850,188.

Amounts due from Federal government grants for reimbursable payroll and other costs accrued at June 30, 2009 were understated by \$515,987. While the Department accrued payroll and other costs at June 30, 2009, to the extent some of these costs were reimbursable under Federal grants, a related receivable and revenue should have also been accrued at June 30, 2009. This would have resulted in the proper matching of revenues and costs.

Amounts due from the Federal government grants for reimbursement of vacation pay was overstated by \$ 1,408,730 at June 30, 2009. For employees that had been funded with Federal grants in 2009, the Department recorded a \$1,408,730 receivable from the Federal government for the employees' entire accumulated vacation. Since vacation liabilities are liquidated when employees actually use their vacation, terminate, or retire, the Federal program which funded the 2009 wages may not exist in the future at the time the employees are paid for their vacation. Accordingly, at June 30, 2009 a receivable from the Federal government should not have been recorded for unused vacation for these employees.

Department of the Attorney General
State of Hawaii

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

On the departmental statement of net assets, restricted net assets were understated and unrestricted net assets were overstated in the amount of \$9,475,050 as of June 30, 2009. The amount originally reported as restricted net assets represented amounts reserved for encumbrances. Government Accounting and Financial Reporting Standards provide that net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or enabling legislation. Reservation of fund balances for encumbrances are budgetary in nature, and created by the Department and do not represent restricted net assets as defined above.

Cause:

Controls were not in place to carefully prepare and review the Department's year end financial statements.

The errors in the journal entries used to record vouchers payable at June 30, 2009 were due to a clerical oversight.

The understatement of the receivable from Federal government for reimbursable payroll and other costs accrued at December 31, 2009, the overstatement of the receivable from the Federal government for accrued vacation, and misstatement of restricted and unrestricted net assets were due to the misapplication of generally accepted accounting principles.

Recommendation:

We recommend controls be implemented to provide for the proper preparation of the Department's year end financial statements. The year end financial statements should also be carefully reviewed to avoid clerical errors and the misapplication of generally accepted accounting principles.

**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section III – Federal Award Findings and Questioned Costs

There were no current year findings related to the federal awards.

**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section IV – Prior Year Audit Findings

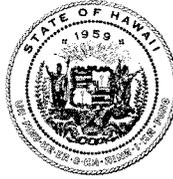
There were no prior year audit findings.

PART IV

RESPONSE OF THE DEPARTMENT OF THE ATTORNEY GENERAL

STATE OF HAWAII

NEIL ABERCROMBIE
GOVERNOR



DAVID M. LOUIE
ATTORNEY GENERAL

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

RUSSELL A. SUZUKI
FIRST DEPUTY ATTORNEY GENERAL

March 23, 2011

Management's response to the audit finding on internal control over financial reporting

The department is taking the following steps to implement controls for the proper preparation of year end financial statements.

- Appointing a more experienced accountant to oversee preparation of the department's financial statements.
- Establishing procedures to review vouchers by at least one experienced accountant, with special focus on year end entries.
- Assume internally the responsibility for preparation and review of the department's financial statements.
- Provide refresher training to the existing accountants and basic training for new accountants in government generally accepted accounting principles.