

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

**Financial Statements
with Accompanying Information
for the Year Ended June 30, 2013**

and

Independent Auditor's Report

**Submitted by
The Auditor
State of Hawaii**



AKAMINE, OYADOMARI & KOSAKI
CPA'S, INC.



March 25, 2014

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, 2013. 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, 2013, 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, regulations, 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 whether the Department of the Attorney General has established sufficient internal controls to properly manage federal 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 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, 2013. 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,

Akamuni, Oyadornani ; Kosaki CPAs, Inc.



Department of the Attorney General
State of Hawaii
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PART I
FINANCIAL SECTION





Independent Auditor's Report

To the Auditor
Office of the Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of the Attorney General, State of Hawaii, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department of the Attorney General, State of Hawaii's basic financial statements, as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of the Attorney General, State of Hawaii, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements of the Department of the Attorney General, State of Hawaii, are intended to present the financial position, the changes in financial position, and budgetary comparisons of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department of the Attorney General. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2013, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 8 through 12, and 24 to 25, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of the Attorney General, State of Hawaii's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.



The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2014 on our consideration of the Department of the Attorney General, State of Hawaii'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 that report is 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 control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Department of the Attorney General, State of Hawaii's internal control over financial reporting and compliance.

Akamuni, Oyadomari & Kosaki CPAs, Inc.

Honolulu, Hawaii
March 25, 2014



Department of the Attorney General
State of Hawaii

Management's Discussion and Analysis
June 30, 2013

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, 2013. 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, 2013 by \$16,534,401 (net position). Of this amount, \$6,303,316 was invested in capital assets, \$13,306,027 was restricted for specified purposes and there was a deficit of \$3,074,942 in unrestricted net position. Restricted net position of the AG increased by \$2,190,921 or +19.7% versus the prior fiscal year due to decrease in current year expenditures under a Federal justice assistance grant. The deficit in unrestricted net position is due to vacation liability and legal claims payable which have not yet been funded by the Legislature as of June 30, 2013 and certain 2013 salary and wage liabilities which will be funded by the fiscal 2014 budget.

Program revenues increased by \$2,286,631 or +6.6% in fiscal 2013 due primarily to increases in services charges and general revenues. Total expenses increased by \$16,992,262 or +23.2% in fiscal 2013 due mainly to increases in General administrative and legal services and Crime history and State identification expenses offset by decreases in Child support enforcement services, and Crime prevention and justice assistance expenses. General revenue support from the State has increased by \$14,136,960 in 2013. As a result, net position increased by \$2,559,329 in fiscal year 2013.

Fund Financial Statement Highlights

At June 30, 2013, the AG's governmental funds reported combined ending fund balances of \$16,828,422, an increase of \$2,423,817 or +16.8% from the prior fiscal year. The increase was principally in the child support enforcement agency and legal services special funds.

Expenditures (actual on a budgetary basis) for the department's general fund were \$208,724 or 0.4% below budget (appropriated). The legal claims payable at June 30, 2013 of \$15,459,122 were appropriated by the legislature. The appropriations had been enacted in fiscal 2013 and allotted accordingly.

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State of Hawaii**

Management's Discussion and Analysis
June 30, 2013

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 position presents information on all of the AG's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position 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

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Management's Discussion and Analysis
June 30, 2013

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 Assistance, 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.

The net excess of liabilities over assets of \$2,837,195 in the Statement of Fiduciary Net Position result from the Child Support Enforcement Services program and are due to Internal Revenue Service intercept fees on collection of child support payments from delinquent non-custodial parents, uncollected recoupment due from custodial parents resulting from overpayments, and uncollected nonsufficient fund (NSF) payments due from non-custodial parents.

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.

Department of the Attorney General
State of Hawaii
Management's Discussion and Analysis
June 30, 2013

Financial Information

The AG's condensed financial information for the fiscal years 2013 and 2012 include:

Statement of Net Position	<u>2013</u>	<u>2012</u>
Current assets	\$ 38,805,687	\$ 29,206,438
Capital assets, net of accumulated depreciation	<u>6,303,316</u>	<u>5,827,362</u>
Total assets	<u><u>\$ 45,109,003</u></u>	<u><u>\$ 35,033,800</u></u>
Current liabilities	\$ 24,544,265	\$ 17,720,333
Noncurrent liabilities	<u>4,030,337</u>	<u>3,338,395</u>
Total liabilities	<u><u>28,574,602</u></u>	<u><u>21,058,728</u></u>
Net position:		
Invested in capital assets	6,303,316	5,827,362
Restricted	13,306,027	11,115,106
Unrestricted	<u>(3,074,942)</u>	<u>(2,967,396)</u>
Total net position	<u><u>16,534,401</u></u>	<u><u>13,975,072</u></u>
Total liabilities and net position	<u><u>\$ 45,109,003</u></u>	<u><u>\$ 35,033,800</u></u>

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State of Hawaii**

Management's Discussion and Analysis
June 30, 2013

	2013	2012
Changes in Net Position		
Program revenues:		
Charges for services	\$ 15,673,851	\$ 3,735,332
Operating grants and contributions	21,295,754	30,947,642
General revenues	54,678,186	40,541,226
Total revenues	91,647,791	75,224,200
 Expenses:		
General administrative and legal services	62,295,941	42,550,512
Child support enforcement	15,198,916	17,448,782
Crime prevention and justice assistance	6,224,700	6,997,490
Criminal history and State identification	6,530,650	6,261,161
Total expenses	90,250,207	73,257,945
 Other financing sources	1,161,745	673,924
 Changes in net position	2,559,329	2,640,179
 Net position - beginning of year	13,975,072	11,334,893
Net position - end of year	\$ 16,534,401	\$ 13,975,072

Current assets increased by \$9,599,249 principally due to an increase in cash resulting from legislative appropriation to fund legal claims payable. Current liabilities increased by \$6,823,932 due mainly to increased liabilities for legal claims payable.

At June 30, 2013 and 2012, the AG's investment in capital assets, net of accumulated depreciation amounted to \$6,303,316 and \$5,827,362, respectively, representing an increase of \$475,954 or 8.2% principally due to additions and transfers at the Criminal Justice Data Center, Child Support Enforcement Agency, and Family Law Division. 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>.

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Statement of Net Position

June 30, 2013

	<u>Governmental Activities</u>	<u>Total</u>
<u>ASSETS:</u>		
Current assets:		
Cash (Note 3)	\$ 21,728,907	\$ 21,728,907
Due from grantor - Federal	542,980	542,980
Due from State of Hawaii (Note 10)	15,459,122	15,459,122
Due from other State agencies	<u>1,074,678</u>	<u>1,074,678</u>
 Total current assets	 <u>38,805,687</u>	 <u>38,805,687</u>
Noncurrent assets:		
Capital assets - net of accumulated depreciation (Note 4)	<u>6,303,316</u>	<u>6,303,316</u>
 Total noncurrent assets	 <u>6,303,316</u>	 <u>6,303,316</u>
 Total assets	 <u><u>\$ 45,109,003</u></u>	 <u><u>\$ 45,109,003</u></u>

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



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

Statement of Net Position (continued)
June 30, 2013

	Governmental Activities	Total
<u>LIABILITIES:</u>		
Current liabilities:		
Vouchers and contracts payable	\$ 2,628,039	\$ 2,628,039
Accrued wages and employee benefits payable	2,576,781	2,576,781
Legal claims payable (Note 10)	15,459,122	15,459,122
Accrued vacation (Note 5)	2,567,000	2,567,000
Due to State of Hawaii	1,265,663	1,265,663
Due to grantor - Federal	47,660	47,660
Total current liabilities	24,544,265	24,544,265
Long-term liabilities:		
Accrued vacation (Note 5)	4,030,337	4,030,337
Total long-term liabilities	4,030,337	4,030,337
Total liabilities	28,574,602	28,574,602
Commitments and contingencies (Notes 8, 9, 10, and 11)		
<u>NET POSITION:</u>		
Invested in capital assets	6,303,316	6,303,316
Restricted	13,306,027	13,306,027
Unrestricted	(3,074,942)	(3,074,942)
Total net position	16,534,401	16,534,401
Total liabilities and net position	\$ 45,109,003	\$ 45,109,003

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



Department of the Attorney General
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Statement of Activities
for the year ended June 30, 2013

<u>FUNCTIONS/PROGRAMS:</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Revenue (Expense) and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Departmental activities:				
General administrative and legal services (Notes 6 and 7)	\$ 62,295,941	\$ 13,331,905	\$ 1,503,920	\$ (47,460,116)
Child support enforcement	15,198,916	-	13,473,035	(1,725,881)
Crime prevention and justice assistance	6,224,700	-	5,205,050	(1,019,650)
Criminal history and State identification	6,530,650	2,341,946	1,113,749	(3,074,955)
Total departmental activities	<u>\$ 90,250,207</u>	<u>\$ 15,673,851</u>	<u>\$ 21,295,754</u>	(53,280,602)
				General revenues - State appropriations, net of lapsed appropriations of \$497,045
				47,756,717
				General revenues for non-imposed employee fringe benefits (Note 6)
				6,921,469
				Total general revenues before other financing sources
				54,678,186
				Other financing sources
				1,161,745
				Total general revenues and other financing sources
				55,839,931
				Change in net position
				2,559,329
				Net position - beginning of year
				13,975,072
				Net position - end of year
				<u>\$ 16,534,401</u>



Department of the Attorney General
State of Hawaii
Balance Sheet
Governmental Funds
June 30, 2013

	<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>
<u>ASSETS:</u>						
Cash (Note 3)	\$ 379,977	\$ 8,869,492	\$ 8,273,702	\$ 2,662,356	\$ 1,543,380	\$ 21,728,907
Due from grantor - Federal	-	-	62,298	357,060	123,622	542,980
Due from State of Hawaii (Note 10)	15,459,122	-	-	-	-	15,459,122
Due from other State agencies	-	-	1,074,678	-	-	1,074,678
16 Total assets	<u>\$ 15,839,099</u>	<u>\$ 8,869,492</u>	<u>\$ 9,410,678</u>	<u>\$ 3,019,416</u>	<u>\$ 1,667,002</u>	<u>\$ 38,805,687</u>

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



Department of the Attorney General
State of Hawaii
Balance Sheet
Governmental Funds (continued)
June 30, 2013

	<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>
<u>LIABILITIES AND FUND BALANCES:</u>						
Liabilities:						
Vouchers and contracts payable	\$ 1,434,247	\$ 474,278	\$ 92,655	\$ 452,947	\$ 173,912	\$ 2,628,039
Accrued wages and employee benefits payable	1,164,656	463,808	805,793	14,318	128,206	2,576,781
Legal claims payable (Note 10)	15,459,122	-	-	-	-	15,459,122
Due to State of Hawaii	25,400	-	1,240,263	-	-	1,265,663
Due to grantor	-	47,660	-	-	-	47,660
	<u>18,083,425</u>	<u>985,746</u>	<u>2,138,711</u>	<u>467,265</u>	<u>302,118</u>	<u>21,977,265</u>
Fund balances (Note 14):						
Restricted	-	7,883,746	2,833,866	2,552,151	36,264	13,306,027
Committed	-	-	4,438,101	-	1,328,620	5,766,721
Assigned	340,310	-	-	-	-	340,310
Unassigned	(2,584,636)	-	-	-	-	(2,584,636)
Total fund balances	<u>(2,244,326)</u>	<u>7,883,746</u>	<u>7,271,967</u>	<u>2,552,151</u>	<u>1,364,884</u>	<u>16,828,422</u>
Total liabilities and fund balances	<u>\$ 15,839,099</u>	<u>\$ 8,869,492</u>	<u>\$ 9,410,678</u>	<u>\$ 3,019,416</u>	<u>\$ 1,667,002</u>	<u>\$ 38,805,687</u>

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



**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, 2013

	<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>
Revenues:						
State allotted appropriations	\$ 48,253,762	\$ -	\$ -	\$ -	\$ -	\$ 48,253,762
State revenue for non-imposed employee fringe benefits (Note 6)	6,921,469	-	-	-	-	6,921,469
Fees and other	-	62,798	2,585,815	76,548	2,346,973	5,072,134
Intergovernmental	-	-	1,153,920	5,128,502	1,108,722	7,391,144
Special fund revenues (Note 7)	-	10,382,259	10,746,090	-	-	21,128,349
Share of TANF collections	-	3,027,978	-	-	-	3,027,978
Litigation settlements	-	-	350,000	-	-	350,000
Total revenues	<u>55,175,231</u>	<u>13,473,035</u>	<u>14,835,825</u>	<u>5,205,050</u>	<u>3,455,695</u>	<u>92,144,836</u>
Expenditures:						
General administrative and legal services (Note 6)	48,856,601	-	12,868,013	-	-	61,724,614
Child support enforcement	4,369,534	10,803,079	-	-	-	15,172,613
Crime prevention and justice assistance	-	-	-	6,050,729	-	6,050,729
Criminal history and State identification	1,967,131	-	-	-	4,541,223	6,508,354
Total expenditures	<u>55,193,266</u>	<u>10,803,079</u>	<u>12,868,013</u>	<u>6,050,729</u>	<u>4,541,223</u>	<u>89,456,310</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(18,035)</u>	<u>2,669,956</u>	<u>1,967,812</u>	<u>(845,679)</u>	<u>(1,085,528)</u>	<u>2,688,526</u>
Other financing sources (uses)						
Lapsed appropriations	(497,045)	-	-	-	-	(497,045)
Other	48,380	-	234,143	(581,396)	531,209	232,336
Total other financing sources (uses)	<u>(448,665)</u>	<u>-</u>	<u>234,143</u>	<u>(581,396)</u>	<u>531,209</u>	<u>(264,709)</u>
Net change in fund balances	<u>(466,700)</u>	<u>2,669,956</u>	<u>2,201,955</u>	<u>(1,427,075)</u>	<u>(554,319)</u>	<u>2,423,817</u>
Fund balances - beginning of year	<u>(1,777,626)</u>	<u>5,213,790</u>	<u>5,070,012</u>	<u>3,979,226</u>	<u>1,919,203</u>	<u>14,404,605</u>
Fund balances - end of year	<u>\$ (2,244,326)</u>	<u>\$ 7,883,746</u>	<u>\$ 7,271,967</u>	<u>\$ 2,552,151</u>	<u>\$ 1,364,884</u>	<u>\$ 16,828,422</u>

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



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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
for the year ended June 30, 2013

	<u>Total Governmental Funds</u>	<u>Long Term Assets, Liabilities</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Net Position</u>
<u>ASSETS:</u>				
Current assets:				
Cash	\$ 21,728,907	\$ -	\$ -	\$21,728,907
Due from grantor - Federal	542,980	-	-	542,980
Due from State of Hawaii	15,459,122	-	-	15,459,122
Due from other State agencies	<u>1,074,678</u>	<u>-</u>	<u>-</u>	<u>1,074,678</u>
Total current assets	<u>38,805,687</u>	<u>-</u>	<u>-</u>	<u>38,805,687</u>
Noncurrent assets:				
Capital assets net of accumulated depreciation	<u>-</u>	<u>6,303,316</u> (1)	<u>-</u>	<u>6,303,316</u>
Total noncurrent assets	<u>-</u>	<u>6,303,316</u>	<u>-</u>	<u>6,303,316</u>
Total assets	<u>\$38,805,687</u>	<u>\$ 6,303,316</u>	<u>\$ -</u>	<u>\$45,109,003</u>



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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (continued)
June 30, 2013

	Total Governmental Funds	Long Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Position
<u>LIABILITIES:</u>				
Current liabilities:				
Vouchers and contracts payable	\$ 2,628,039	\$ -	\$ -	\$ 2,628,039
Accrued wages and employee benefits payable	2,576,781	-	-	2,576,781
Legal claims payable	15,459,122	-	-	15,459,122
Accrued vacation	-	2,567,000	(2) -	2,567,000
Due to State of Hawaii	1,265,663	-	-	1,265,663
Due to grantor - Federal	47,660	-	-	47,660
	<u>21,977,265</u>	<u>2,567,000</u>	<u>-</u>	<u>24,544,265</u>
Total current liabilities				
Long-term liabilities:				
Accrued vacation	-	4,030,337	(2) -	4,030,337
	<u>-</u>	<u>4,030,337</u>	<u>-</u>	<u>4,030,337</u>
Total long-term liabilities				
	<u>21,977,265</u>	<u>6,597,337</u>	<u>-</u>	<u>28,574,602</u>
Total liabilities				
<u>FUND BALANCES/NET POSITION:</u>				
Invested in capital assets	-	6,303,316	(1) -	6,303,316
Restricted	-	-	13,306,027	(3) 13,306,027
Unrestricted	-	(6,597,337)	(2) 3,522,395	(3) (3,074,942)
Restricted	13,306,027	-	(13,306,027)	(3) -
Committed	5,766,721	-	(5,766,721)	(3) -
Assigned	340,310	-	(340,310)	(3) -
Unassigned	(2,584,636)	-	2,584,636	(3) -
	<u>16,828,422</u>	<u>(294,021)</u>	<u>-</u>	<u>16,534,401</u>
Total fund balances/net position				
Total liabilities and fund balances/net position	<u>\$ 38,805,687</u>	<u>\$ 6,303,316</u>	<u>\$ -</u>	<u>\$ 45,109,003</u>



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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (continued)
June 30, 2013

Total fund balances - governmental funds \$ 16,828,422

Amounts reported for governmental activities in the statement of net position 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	\$	11,195,765
Office, furniture, and equipment		5,331,850
Accumulated depreciation		<u>(10,224,299)</u>

Total capital assets 6,303,316

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

Due within one year	\$	(2,567,000)
Due in more than one year		<u>(4,030,337)</u>

Total accrued vacation (6,597,337)

- (3) Reclassify fund balances to net position

-

Total net position

\$ 16,534,401



**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, 2013

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities
Revenues:				
State allotted appropriations	\$ 48,253,762	\$ -	\$ (497,045) (3)	\$ 47,756,717
State revenue for non-imposed employee fringe benefits	6,921,469	-	-	6,921,469
Fees and other	5,072,134	-	(5,072,134) (4)	-
Intergovernmental	7,391,144	-	(7,391,144) (4)	-
Special fund revenues	21,128,349	-	(21,128,349) (4)	-
Share of TANF collections	3,027,978	-	(3,027,978) (4)	-
Litigation settlements	350,000	-	(350,000) (4)	-
Charges for services	-	-	15,673,851 (4)	15,673,851
Operating grants and contributions	-	-	21,295,754 (4)	21,295,754
TOTAL REVENUES	92,144,836	-	(497,045)	91,647,791
Expenditures:				
General administrative and legal services	61,724,614	194,880 (1) 376,447 (2)	-	62,295,941
Child support enforcement	15,172,613	84,128 (1) (57,825) (2)	-	15,198,916
Crime prevention and justice assistance	6,050,729	158,199 (1) 15,772 (2)	-	6,224,700
Criminal history and State identification	6,508,354	16,248 (1) 6,048 (2)	-	6,530,650
TOTAL EXPENDITURES	89,456,310	793,897	-	90,250,207
Excess (deficiency) of revenues over (under) expenditures	2,688,526	(793,897)	(497,045)	1,397,584
Other financing sources (uses)				
Lapsed appropriations	(497,045)	-	497,045 (3)	-
Other	232,336	929,409 (1)	-	1,161,745
Total other financing sources (uses)	(264,709)	929,409	497,045	1,161,745
Net change in fund balance/net position	\$ 2,423,817	\$ 135,512	\$ -	\$ 2,559,329

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 (continued)
for the year ended June 30, 2013

Change in fund balances - governmental funds \$ 2,423,817

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 2013, these transactions were:

Capital outlays and equipment purchases	\$	486,706	
Depreciation expense		<u>(940,161)</u>	
Excess of depreciation expense over capital outlays and equipment purchases		(453,455)	
Net transfer of capital assets from other State departments		<u>929,409</u>	475,954

(2) The increase in accrued vacation is not reported in governmental funds. (340,442)

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

(4) Reclassification of revenues -

Change in net position \$ 2,559,329



Department of the Attorney General
State of Hawaii
Statement of Revenues and Expenditures - Budget and Actual
General Fund
for the year ended June 30, 2013

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget-Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Appropriations	\$48,253,762	\$48,253,762	\$ 48,253,762	\$ -
Expenditures:				
General administrative and legal services (Note 10)	42,898,831	42,898,831	43,228,614	(329,783)
Child support enforcement	3,898,136	3,898,136	3,435,967	462,169
Criminal history and State identification	<u>1,456,795</u>	<u>1,456,795</u>	<u>1,380,457</u>	<u>76,338</u>
	<u>48,253,762</u>	<u>48,253,762</u>	<u>48,045,038</u>	<u>208,724</u>
Excess of appropriations over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 208,724</u>	<u>\$ 208,724</u>



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

Statement of Revenues and Expenditures - Budget and Actual
Special Funds
for the year ended June 30, 2013

	<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	\$ 14,584,925	\$ 14,584,925	\$ 13,473,035	\$ (1,111,890)
Expenditures	<u>14,584,925</u>	<u>14,584,925</u>	<u>11,081,506</u>	<u>3,503,419</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,391,529</u>	<u>\$ 2,391,529</u>
<u>Legal Services</u>				
Revenues	\$ 17,319,678	\$ 17,319,678	\$ 14,814,342	\$ (2,505,336)
Expenditures	<u>17,319,678</u>	<u>17,319,678</u>	<u>12,858,480</u>	<u>4,461,198</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,955,862</u>	<u>\$ 1,955,862</u>
<u>Crime Prevention and Justice Assistance</u>				
Revenue	\$ 7,372,103	\$ 7,372,103	\$ 5,167,145	\$ (2,204,958)
Expenditures	<u>7,372,103</u>	<u>7,372,103</u>	<u>6,064,522</u>	<u>1,307,581</u>
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (897,377)</u>	<u>\$ (897,377)</u>
<u>Criminal Justice Data Center</u>				
Revenue	\$ 5,549,711	\$ 5,549,711	\$ 3,455,695	\$ (2,094,016)
Expenditures	<u>5,549,711</u>	<u>5,549,711</u>	<u>4,616,845</u>	<u>932,866</u>
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,161,150)</u>	<u>\$ (1,161,150)</u>



Department of the Attorney General
State of Hawaii
Statement of Fiduciary Net Position
June 30, 2013

	<u>Agency Funds</u>
ASSETS:	
Cash (Note 3)	<u>\$ 10,275,615</u>
Total assets	<u>10,275,615</u>
LIABILITIES:	
Due to agency recipients	<u>13,112,810</u>
Total liabilities	<u>13,112,810</u>
 NET POSITION (Note 15)	 <u><u>\$ (2,837,195)</u></u>

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



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

Notes to Financial Statements
June 30, 2013

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, reception, 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, 2013

1. Summary of Significant Accounting Policies (continued)

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 in fiscal 2012 the issuance of State identification cards.

Effective January 2, 2013 the statewide civil identification program was transferred from the Department of the Attorney General to the State Department of Transportation with State identification cards issued by the County driver licensing offices.

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.



Department of the Attorney General

State of Hawaii

Notes to Financial Statements

June 30, 2013

1. Summary of Significant Accounting Policies (continued)

Legal Services (continued) –

- **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.
- **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 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 offices. 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.



Department of the Attorney General

State of Hawaii

Notes to Financial Statements

June 30, 2013

1. Summary of Significant Accounting Policies (continued)

Legal Services (continued) –

- **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.
- **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:



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

Notes to Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (continued)

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 works on the DOT's complex construction cases.

- **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



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

Notes to Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (continued)

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.

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 AG also has four fiduciary agency funds.

Basis of Accounting

Departmental Financial Statements

The departmental financial statements (i.e., the Statement of Net Position 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 financial statements and the financial statements for governmental funds. The primary effect of internal activity has been eliminated from the departmental financial statements.



Department of the Attorney General
State of Hawaii

Notes to Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (continued)

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 segment is self-financing or draws from the general revenues of the State.

Net position on the departmental financial statements are reported as restricted when constraints placed on net position 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. There was no net position restricted by enabling legislation at June 30, 2013.

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.

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.



Department of the Attorney General

State of Hawaii

Notes to Financial Statements

June 30, 2013

1. Summary of Significant Accounting Policies (continued)

When expenditures are incurred for purposes for which any of the unrestricted fund balances can be used, it is the AG's policy to use committed funds first followed by assigned funds before unassigned funds are used.

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.

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.

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



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Notes to Financial Statements

June 30, 2013

1. Summary of Significant Accounting Policies (continued)

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 estimated useful lives as follows:

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

Departments of the State sharing the same building and improvements report their 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.

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 included in 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.



Department of the Attorney General

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Notes to Financial Statements

June 30, 2013

1. Summary of Significant Accounting Policies (continued)

Other interfund activities, 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.

Fund Balances

Effective July 1, 2010, the Department of the Attorney General implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 provides clearer fund balance classifications and clarifies the existing governmental fund type definitions. This new hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent.

The governmental fund financial statement reports fund balances as follows:

- a. Nonspendable – Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – Represents amounts that are restricted to specific purposes due to constraints placed on the use of resources that are either:
 - a) Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or
 - b) Imposed by law through constitutional provisions or enabling legislation.
- c. Committed – Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature. Unlike restricted amounts, committed amounts may be redeployed for other purposes by the State Legislature.



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Notes to Financial Statements

June 30, 2013

1. Summary of Significant Accounting Policies (continued)

- d. Assigned – Represents amounts that are neither restricted nor committed but are constrained by management as to use by the government's intent to use the monies for specific purposes.
- e. Unassigned – Represents the residual classification of the general fund that has not been assigned to other funds and that has not been restricted, committed, or assigned.

At June 30, 2013, the Department of the Attorney General did not have any fund balances that were classified as nonspendable.

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 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. During 2013, the AG expended approximately \$538,000 in excess of a general fund appropriation. This amount was included in the vouchers payable balance at June 30, 2013.

Summarization of the budgets adopted by the State Legislature for the general and special revenue funds is presented in the Statements of 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.



Department of the Attorney General
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Notes to Financial Statements
June 30, 2013

2. Compliance and Accountability (continued)

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

	<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>
Excess (deficiency) of revenues over (under) expenditures - actual on a budgetary basis	\$ 208,724	\$ 2,391,529	\$ 1,955,862	\$ (897,377)	\$ (1,161,150)	\$ 2,497,588
Reserve for encumbrances at June 30, 2013	340,310	315,168	713,440	-	679,546	2,048,464
Reserve for encumbrances at June 30, 2012	(581,738)	(31,667)	(691,699)	-	(616,120)	(1,921,224)
Fiscal 2013 salaries and wages funded by fiscal 2014 budget	(1,164,656)	(463,808)	(805,793)	(14,318)	(128,206)	(2,576,781)
Fiscal 2012 salaries and wages funded by fiscal 2013 budget	1,179,325	458,734	774,519	28,111	140,402	2,581,091
Increase in carrying value of cash in State Treasury	-	-	21,483	37,905	-	59,388
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	<u>\$ (18,035)</u>	<u>\$ 2,669,956</u>	<u>\$ 1,967,812</u>	<u>\$ (845,679)</u>	<u>\$ (1,085,528)</u>	<u>\$ 2,688,526</u>



Department of the Attorney General

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Notes to Financial Statements

June 30, 2013

3. Cash

AG's cash at June 30, 2013 consisted of the following:

	<u>Governmental Funds</u>	<u>Agency Funds</u>
Cash in State Treasury	\$ 14,120,079	\$ 2,714,898
Cash held outside of State Treasury	<u>7,608,828</u>	<u>7,560,717</u>
	<u>\$ 21,728,907</u>	<u>\$ 10,275,615</u>

The AG's cash held in State Treasury is pooled with cash from other State agencies and departments. Cash that is not required for immediate payments is 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, 2012, the State's cash investments included student loan auction rate securities with cumulative losses of \$59,388, which represented its allocated share of the State's total cumulative losses. During the year ended June 30, 2013, under an agreement between the State of Hawaii and Citigroup Global Markets Inc. (CGMI), the State reached a settlement concerning the State's purchase of auction rate securities from CGMI. As a result of the settlement, the AG does not have any auction rate securities at June 30, 2013 and does not have a realized loss for the year ended June 30, 2013.

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

The AG also maintains certain funds in two non-interest bearing accounts in a Hawaii bank which are held separately from the State Treasury. One bank account is used primarily for CSEA agency transactions. As of June 30, 2013, the carrying amount of this account was \$7,560,717 and was reflected in "Cash" of the Agency Fund's Statement of Fiduciary Net Position.

The second bank account, 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 Opportunity Reconciliation Act of 1996 (PRWORA) and the Temporary Assistance for Needy Families (TANF) program. As the use of these funds is 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, 2013, the carrying amount of this bank account was \$7,608,828.

With respect to the cash held outside the State Treasury, the Federal Deposit Insurance Corporation provided insurance coverage limited to \$250,000 per depositor.



Department of the Attorney General
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Notes to Financial Statements
June 30, 2013

4. Capital Assets and Depreciation

Capital assets activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Transfers and Other	Ending Balance
Building and improvements				
Cost	\$ 10,253,588	\$ 10,151	\$ 932,026	\$ 11,195,765
Accumulated depreciation	(7,342,496)	(304,323)	-	(7,646,819)
Building and improvements - net	<u>2,911,092</u>	<u>(294,172)</u>	<u>932,026</u>	<u>3,548,946</u>
Office furniture and equipment				
Cost	4,912,026	476,555	(56,731)	5,331,850
Accumulated depreciation	(1,995,756)	(635,838)	54,114	(2,577,480)
Office furniture and equipment - net	<u>2,916,270</u>	<u>(159,283)</u>	<u>(2,617)</u>	<u>2,754,370</u>
Capital assets - net	<u>\$ 5,827,362</u>	<u>\$ (453,455)</u>	<u>\$ 929,409</u>	<u>\$ 6,303,316</u>

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

Governmental activities:

General administrative and legal services	\$ 275,847
Crime prevention and justice assistance	173,053
Criminal history and State identification	290,916
Child support enforcement	<u>200,345</u>
Total governmental activities depreciation expense	<u>\$ 940,161</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.

For the year ended June 30, 2013, changes in accrued vacation liabilities were as follows:

Balance at July 1, 2012	\$ 6,256,895
Net increase	<u>340,442</u>
Balance at June 30, 2013	6,597,337
Less current portion	<u>2,567,000</u>
Non-current portion	<u>\$ 4,030,337</u>



Department of the Attorney General
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Notes to Financial Statements
June 30, 2013

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 \$6,921,469 for the year ended June 30, 2013, have been reported as revenues and expenditures in the AG's General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and in the departmental statement of activities.

7. Related Party Transactions

Certain AG employees perform services for other State departments and agencies. The AG bills those departments and agencies for such services and records revenues in the special fund to which the payroll costs were actually charged. Revenues totaled approximately \$7,683,369 for the fiscal year ended June 30, 2013.

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 January 2022:

<u>Year ending June 30,</u>	
2014	\$ 637,000
2015	565,000
2016	457,000
2017	295,000
2018	200,000
Thereafter	594,000
	<u>\$ 2,748,000</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, 2013 was approximately \$702,000.



Department of the Attorney General

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Notes to Financial Statements

June 30, 2013

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. Approximately 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan, were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006 were 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.



Department of the Attorney General

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Notes to Financial Statements

June 30, 2013

9. Employee Benefits (continued)

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 eligibility requirements for retiree health benefits are 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 post-employment 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>.



Department of the Attorney General

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Notes to Financial Statements

June 30, 2013

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 is 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, 2012 through December 1, 2013, 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 \$225,000,000 per occurrence except for flood and earthquake which each has a \$225,000,000 aggregate loss. 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 \$25,000 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 injury, automobile and watercraft liability, public errors and omissions liability, employment practices, dam and terrorism liability. Coverage limits are \$15,000,000 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 its automobile no fault, worker compensation and unemployment benefits for its employees. These benefits are administered by other State departments.

DAGS' Risk Management Office handles tort, 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.

At June 30, 2013, losses for legal claims against the State in the amount of \$15,459,122 have been accrued on the Department's statement of net position and the governmental funds balance sheet. A corresponding amount of appropriation revenue was accrued as of June 30, 2013 for the legal claim settlements. The appropriations had been enacted in fiscal 2013 and allotted in fiscal 2014.



Department of the Attorney General

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Notes to Financial Statements

June 30, 2013

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, 2013 was approximately \$19,349,000.

Supplemental Time Off Without Pay – During fiscal 2012 the State implemented the Supplemental Time Off Without Pay (STOWOP) program which expired at the end of fiscal 2013. Under this program employees received a 5% pay reduction and were allowed to take an equivalent 13 days off during the year. Unused time off days at June 30, 2013 were forfeited. Days off taken in fiscal 2013 were charged to the fiscal 2013 appropriation.

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 the 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.



Department of the Attorney General
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Notes to Financial Statements
June 30, 2013

14. Fund Balances

At June 30, 2013, the Department of the Attorney General's governmental fund financial statements reported fund balances as follows:

	General Fund	Child Support Enforcement	Legal Services	Crime Prevention and Justice Assistance	Criminal Justice Data Center	Total
Restricted for:						
Federal grants	\$ -	\$7,883,746	\$2,833,866	\$2,552,151	\$ 36,264	\$13,306,027
Committed to:						
Medicaid investigation recovery fund	-	-	1,946,302	-	-	1,946,302
DNA Registry	-	-	743,235	-	-	743,235
Enforcement for charitable solicitations	-	-	947,190	-	-	947,190
Criminal forfeiture fund	-	-	323,259	-	-	323,259
State identification revolving fund	-	-	-	-	669,621	669,621
Criminal history record revolving fund	-	-	-	-	658,999	658,999
Litigation Deposits Trust Fund	-	-	311,503	-	-	311,503
Other	-	-	166,612	-	-	166,612
	-	-	4,438,101	-	1,328,620	5,766,721
Assigned to:						
Encumbrances	340,310	-	-	-	-	340,310
Unassigned	(2,584,636)	-	-	-	-	(2,584,636)
Total Fund Balance	\$ (2,244,326)	\$7,883,746	\$7,271,967	\$2,552,151	\$1,364,884	\$16,828,422

Encumbrances and other commitments at June 30, 2013 amounted to:

General Fund	\$ 340,310
Child Support Enforcement	315,168
Legal Services	713,440
Criminal Justice Data Center	679,546
	<u>\$ 2,048,464</u>



**Department of the Attorney General
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Notes to Financial Statements
June 30, 2013

15. Fiduciary Net Position

The net excess of liabilities over assets of \$2,837,195 in the Statement of Fiduciary Net Position result from the Child Support Enforcement program and are due to Internal Revenue Service intercept fees on collections of child support payments from delinquent non-custodial parents, uncollected recoupments due from custodial parents resulting from overpayments, and uncollected non-sufficient fund (NSF) payments due from non-custodial parents.

The Department has requested funding from the Legislature to cover the deficit in the CSEA Agency Fund.



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

Schedule of Expenditures of Federal Awards
for the year ended June 30, 2013

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Federal Expenditure s
<u>U.S. Department of Justice</u>			
Sexual Assault Services Formula Program	16.017	2010-KF-AX-0051	\$ 41,222
		2011-KF-AX-0050	98,878
			<u>140,100</u>
Services for Trafficking Victims - Hawaii Anti-Trafficking Task Force	16.320	2010-VT-BX-0013	<u>44,935</u>
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	2005-JL-FX-K038	<u>103,937</u>
Internet Crimes Against Children	16.543	2011-MC-CX-K008	<u>234,006</u>
Anti-Gang Initiative	16.744	2007-PG-BX-0099	<u>21,992</u>
Probation and Parole Mapping	16.550	2012-BJ-CX-K016	<u>18,887</u>
Passed through the State Department of Transportation: National Criminal History Improvement Program (NCHIP)	16.554	2008-RU-BX-K017	30,689
		2009-RU-BX-K023	64,073
		2011-MU-BX-K070	49,760
		2012-RU-BX-K010	43,925
			<u>188,447</u>
Crime Victim Assistance (VOCA)	16.575	2009-VA-GX-0062	979,602
		2010-VA-GX-0108	805,479
			<u>1,785,081</u>
SORNA Reallocation Project	16.580	2012-DS-BX-0021	<u>35,576</u>
ARRA - Stop Violence Against Women Formula Grant Stop Violence Against Women Formula Grant	16.588	2007-WF-AX-0049	956
		2008-WF-AX-0038	23,613
		2009-WF-AX-0049	285,919
		2010-WF-AX-0065	532,521
		2011-WF-AX-0008	153,637
			<u>996,646</u>
Residential Substance Abuse Treatment for State Prisoners	16.593	2008-RT-BX-0003	27,738
		2009-RT-BX-0014	41,700
		2010-RT-BX-0058	2,183
			<u>71,621</u>
Subtotal carried forward			<u>\$3,641,228</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.



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

Schedule of Expenditures of Federal Awards (continued)
for the year ended June 30, 2013

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
<u>U.S. Department of Justice (continued)</u>			
Subtotal brought forward			\$ 3,641,228
Project Safe Neighborhoods	16.609	2008-GP-CX-0040	58,795
		2009-GP-BX-0064	16,887
		2010-GP-BX-0062	38,100
		2011-GP-BX-0010	15,000
			<u>128,782</u>
ARRA - Public Safety Partnership and Community Policing Services Grant	16.710	2009-CK-WX-0179	400,704
		2010-CK-WX-0492	420,490
			<u>821,194</u>
Edward Byrne Memorial Justice Assistance Grant (JAG)	16.738	2007-DJ-BX-0061	48,223
		2009-DJ-BX-0672	230,596
		2010-DJ-BX-0404	886,610
		2011-DJ-BX-2205	46,682
			<u>1,212,111</u>
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	2009-CD-BX-0004	125,297
		2010-CD-BX-0024	76,375
		2011-CD-BX-0014	47,641
		2012-CD-BX-0047	1,000
			<u>250,313</u>
National Governors Association Grant	16.751		<u>7,098</u>
Support for Adam Walsh Act Implementation Grant Program	16.750	2008-DD-BX-0082	5,183
		2010-AW-BX-0019	79,550
		2011-AW-BX-0024	48,995
		2012-AW-BX-0046	57,984
			<u>191,712</u>
ARRA - Internet Crimes Against Children Task Force Program	16.800	2009-SN-B9-K004	<u>157,922</u>
ARRA - State Victim Assistance Formula Grant Program	16.801	2009-SG-B9-0138	<u>331,883</u>
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG)	16.803	2009-SU-B9-0044	<u>1,377,358</u>
John R. Justice Grant Program	16.816	2010-RJ-BX-0021	19,286
		2011-RJ-BX-0045	90,925
			<u>110,211</u>
National Justice Information Systems Grant		2010-DB-BX-K053	<u>89,485</u>
Total U.S. Department of Justice			<u>\$ 8,319,297</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.



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

Schedule of Expenditures of Federal Awards (continued)
for the year ended June 30, 2013

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
Total U.S. Department of Justice			\$ 8,319,297
<u>U.S. Department of Health and Human Services</u>			
Child Support Enforcement Title IV-D	93.563	G-12-04-HI-4004	10,543,367
		G-13-04-HI-4004	<u>46,019</u>
			<u>10,589,386</u>
State Medicaid Fraud Control Units	93.775	01-1301-HI-5050	<u>1,006,297</u>
Total U.S. Department of Health and Human Services			<u>11,595,683</u>
<u>U.S. Department of Homeland Security</u>			
Homeland Security Grant Program	97.067	2007-GE-T7-0013	30,223
		2009-SS-T9-0006	347,763
		EMW-2011-SS-00129	82,890
		EMW-2012-SS-00009	<u>50,000</u>
			<u>510,876</u>
Total U.S. Department of Homeland Security			<u>510,876</u>
Total Expenditures of Federal Awards			<u>\$ 20,425,856</u>



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

Notes to the Schedule of Expenditures of Federal Awards
June 30, 2013

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. Sub-recipients

Of the Federal expenditures presented in the schedule, expenditures by sub-recipients were as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
Sexual Assault Services Formula Program	16.017	\$ 139,893
Services for Trafficking Victims	16.320	27,741
Crime Victim Assistance (VOCA)	16.575	1,711,400
SORNA Reallocation Project	16.580	54,600
ARRA - Stop Violence Against Women Formula Grants	16.588	914,280
Residential Substance Abuse Treatment for State Prisoners	16.593	41,700
Project Safe Neighborhoods	16.609	88,757
Edward Byrne Memorial Justice Assistance Grant (JAG)	16.738	1,059,859
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	223,798
Anti-Gang Initiative	16.744	21,696
ARRA - State Victim Assistance Formula Grant Program	16.801	331,883
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG)	16.803	1,183,339
		<u>\$5,798,946</u>



PART II
COMPLIANCE AND INTERNAL CONTROL





**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**

Independent Auditor's Report

To the Administrative Director of the Courts
The Department of the Attorney General
State of Hawaii

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of the Attorney General, State of Hawaii as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department of the Attorney General, State of Hawaii's basic financial statements, and have issued our report thereon dated March 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department of the Attorney General, State of Hawaii's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Department of the Attorney General, State of Hawaii's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of the Attorney General, State of Hawaii's internal control.

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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, as item 2013-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department of the Attorney General, State of Hawaii's financial statements are free from 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 103D 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2013-1 and 2013-2.

The Department of the Attorney General, State of Hawaii's Response to Findings

The Department of the Attorney General, State of Hawaii's response to the finding identified in our audit is described in the accompanying response to schedule of findings and questioned costs. The Department of the Attorney General, State of Hawaii's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Department of the Attorney General, State of Hawaii's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Department of the Attorney General, State of Hawaii's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Akamine, Oyadomari & Kusaki CPAs, Inc.

Honolulu, Hawaii
March 25, 2014





**Report on Compliance for Each Major Federal Program; and Report on
Internal Control Over Compliance Required by OMB Circular A-133**

Independent Auditor's Report

To the Administrative Director of the Courts
The Department of the Attorney General
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the Department of the Attorney General, State of Hawaii's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department of the Attorney General, State of Hawaii's major federal programs for the year ended June 30, 2013. The Department of the Attorney General, State of Hawaii's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department of the Attorney General, State of Hawaii's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Department of the Attorney General, State of Hawaii'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Department of the Attorney General, State of Hawaii's compliance.

Opinion on Each Major Federal Program

In our opinion, the Department of the Attorney General, State of Hawaii complied, in all material respects, with the types of 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, 2013.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with OMB Circular A-133, and which is described in the accompanying Schedule of Findings and Questioned Costs as item SA-2013-1.

Report on Internal Control Over Compliance

Management of the Department of the Attorney General, State of Hawaii, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department of the Attorney General, State of Hawaii's, internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Department of the Attorney General, State of Hawaii'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Akamine, Oyadomari & Kosaki CPAs, Inc.

Honolulu, Hawaii
March 25, 2014



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, 2013

Section I – Summary of Auditor’s Results

Financial Statements

Type of Auditor’s report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? X Yes _____ None reported
- Noncompliance material to financial statements noted? X Yes _____ No

Federal Awards

Internal controls over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X 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 - Stop Violence Against Women Formula Grants
16.710	ARRA - Public Safety Partnership and Community Policing
16.738	Edward Byrne Memorial Justice Assistance Grant
16.803	ARRA - Edward Byrne Memorial Justice Assistance Grant
93.563	Child Support Enforcement Title IV-D
93.775	State Medicaid Fraud Control Units

Dollar threshold used to distinguish between type A and type B programs: \$612,000
Auditee qualifies as low-risk auditee? X Yes _____ No



Department of the Attorney General
State of Hawaii

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section II – Financial Statement Findings

2013-1 Deficit in CSEA Agency Fund should be addressed and resolved.

Criteria:

The Department of the Attorney General (AG) maintains four agency funds including an Agency Fund for the Child Support Enforcement Agency (CSEA), a division of the Department of the Attorney General, which provides for a system of collections, disbursements, and enforcement of court ordered child support payments. Amounts collected for child support are custodial in nature and are under the control of the CSEA as a fiduciary and are not available for use in government operations.

Condition:

Cash receipts collected from non-custodial parents are deposited into the CSEA bank account for disbursement to custodial parents. Transactions are recorded in the CSEA Agency Fund.

At June 30, 2013 the balance sheet of the CSEA Agency Fund comprised:

Cash, net of outstanding checks of \$2,948,000 of which \$2,325,071 were over one year old	\$ 7,561,000
Liability to agency recipients	<u>10,398,000</u>
Deficit	<u><u>\$ 2,837,000</u></u>

The deficit of \$2,837,000 is comprised of the following:

Unrecovered nonsufficient funds support payments from non-custodial parents	\$ 1,053,000
Uncollected amounts due from custodial parents resulting from overpayment of child support payments	1,004,000
State's portion of IRS tax intercept fees to enforce collecting child support payments	543,000
Other	<u>237,000</u>
	<u><u>\$ 2,837,000</u></u>



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

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Federal regulations provide for child support payments from the non-custodial parent to be remitted to the custodial parent within two business days upon receipt by the CSEA. Certain support payments, however, are held and not immediately disbursed due to payments received with insufficient information to identify the intended custodial parent, child support payment checks returned as undeliverable to the custodial parent, amounts intercepted and withheld from the delinquent non-custodial parent's income tax return refund which are subject to challenge, prepaid child support payments made by the non-custodial parent not yet due to the custodial parent, and amounts held for overpayments for public assistance to the custodial parent.

The total support payments due to agency recipients was approximately \$10,398,000 at June 30, 2013. CSEA has over the years accumulated a deficit of \$2,837,000 in the Agency Fund at June 30, 2013. Since the child support monies are custodial in nature, the Agency Fund should not be operating with a deficit.

Cause:

Since Federal regulations require disbursement of child support payments to custodial parents within two business days of receipt, CSEA disbursed amounts received without knowing whether the non-custodial parent had sufficient funds at the bank. Nonsufficient funds (NSF) checks rejected by the bank result in amounts due from non-custodial parents. Recovery of such funds were dependent on collecting from the non-custodial parent and not by reducing future child support payments to the custodial parent.

Errors in the payment process gave rise to uncollected recoupments due from the custodial parent resulting from overpayment of child support payments. CSEA's ability to collect such overpayment from the custodial parent by reducing future child support payments was limited.

CSEA enforcement actions against delinquent non-custodial parents included intercepting tax return refunds. The IRS assessed a fee for the intercept. While two-thirds of the intercept fees were paid by CSEA federal grant funds, the remaining one-third is the responsibility of the CSEA. This portion represents the State's matching portion under the federal grant and is not recoverable from the custodial parent.

Over the years the Agency trust fund monies have been used by CSEA to pay for all of the above items and as of June 30, 2013 obligations exceeded cash, resulting in a \$2,837,000 deficit in the CSEA Agency Fund. The present deficit is being funded by the "float" created by outstanding uncashed checks (\$2,248,000 over one year old) and from obligations due to parents not being immediately payable. Any recovery from parents for either NSF payments or overpayments of support is problematic.

Effect: As a result of the deficit, there is presently not enough cash in the Agency Fund to pay all of the Agency Fund obligations.

Recommendation: We continue to recommend that the AG resolve the deficit position in its Agency Fund.



Department of the Attorney General
State of Hawaii
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

2013-2 Appropriation Should Not Be Overexpended

Criteria:

HRS §37-42, relating to expenditure controls, provides that no department or establishment shall expend or be allowed to expend any sum, or incur or be allowed to incur any obligation in excess of an allotment.

Condition:

During our audit, we noted that the AG had expended at least \$538,232 in excess of its appropriation for the fiscal year ended June 30, 2013. This excess resulted from expenditures that related to services rendered under contract 12-HAS-01 for the period January 1, 2013 to March 31, 2013 for the fiscal year ended June 30, 2014.

Cause:

The AG does not have adequate procedures in place to ensure that the necessary funds are encumbered upon the execution of a contract. As a result, there were inadequate FY13 funds available to fulfill the contract.

Effect:

As a result of the over expenditure, the department will be using a portion of the fiscal 2014 budget to pay for fiscal 2013 expenditures.

Recommendation:

We recommend that the AG establish the necessary policies and procedures to help ensure that appropriations are not overexpended. In addition, all expenditures should be charged to the appropriate fiscal year's appropriation. In this connection, expenditures that are readily projectable should be encumbered on a timely basis in the appropriate fiscal year.



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

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section III – Federal Award Findings and Questioned Costs

SA-2013-1 Controls over compliance with sub-recipient monitoring program should be implemented.

Criteria:

Federal regulations provide that grantees are responsible for monitoring sub-recipients' compliance with applicable Federal requirements. The Crime Prevention Justice Assistance (CPJA) monitoring program includes review of progress reports from sub-recipients and on-site visits of the sub-recipients.

Condition:

During our review of the CPJA monitoring program, we noted that there was no documentation supporting the decision not to perform on-site monitoring visits for the requirements with the County of Hawaii (09-VA-04) and the City & County of Honolulu (09-VA-02), sub-recipients for the CFDA #16.575 Crime Victim Assistance (VOCA).

Cause:

The CPJA did not have controls in place to ensure compliance with its monitoring program of sub-recipients.

Effect:

Failure to adequately monitor sub-recipients could lead to sub-recipients' noncompliance with the applicable federal grant requirements.

Recommendation:

We recommend that the CPJA implement controls to ensure proper monitoring of its sub-recipients.



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

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section IV – Prior Year Audit Findings

Internal Control over Financial Reporting

Finding 2012-1 Deficit in CSEA Agency Fund should be addressed and resolved

Condition:

The deficit in the CSEA Agency Fund amounted to \$2,817,000 at June 30, 2012.

Recommendation:

We recommended that the Department address and resolve the deficit position of the CSEA Agency fund.

Current status:

The deficit in the CSEA Agency Fund amounted to \$2,837,000 at June 30, 2013. See finding 2013-1 for further current details relating to this matter.

Federal Award Findings and Questioned Costs

SA-2012-1 Controls over compliance with subrecipients program should be implemented.

Condition:

During our 2012 audit we noted that there was no on-site monitoring or written documentation to evidence proper monitoring of certain sub-recipients by the CPJA.

Recommendation:

We recommended that the CPJA implement the necessary controls to ensure compliance with its subrecipient's monitoring program.

Current status:

Exceptions continue to be noted during our 2013 audit. See current audit finding SA-2013-1.



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

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section IV – Prior Year Audit Findings (continued)

SA-2012-2 Documentation of expenditures should be properly maintained.

Condition:

During our 2012 audit we noted two expenditures did not have proper supporting documentation.

Recommendation:

We recommended that the HCJDC implement the necessary procedures and controls to provide for the proper retention of expenditure documentation.

Current status:

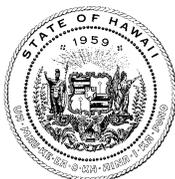
No exceptions noted in the current year. Finding no longer necessary.



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

DEPARTMENT OF THE ATTORNEY GENERAL
FISCAL YEAR ENDED JUNE 30, 2013
RESPONSE TO SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2013-1 Deficit in CSEA Agency Fund should be addressed and resolved

Condition and Effect:

Cash receipts collected from non-custodial parents are deposited into the CSEA bank account for disbursement to custodial parents. Transactions are recorded in the CSEA Agency Fund. CSEA has over the years accumulated a deficit of \$2,837,000 in the Agency Fund at June 30, 2013. As a result of the deficit there is presently not enough cash in the Agency Fund to pay all of the Agency Fund obligations.

The deficit of \$2,837,000 is comprised of the following:

Unrecovered nonsufficient funds support payments from non-custodial parents	\$1,053,000
Uncollected amounts due from custodial parents resulting from overpayment of child support payments	\$1,004,000
State's portion of IRS tax intercept fees to enforce collecting child support payments	\$ 543,000
Other	<u>\$ 237,000</u>
Total	<u>\$2,837,000</u>

Cause:

The deficit was caused by the following.

Since Federal regulations require disbursement of child support payments to custodial parents within two business days of receipt, CSEA disbursed amounts received without knowing whether the non-custodial parent has sufficient funds at the bank. Nonsufficient funds (NSF) checks rejected by the bank result in amounts due from non-custodial parents. Recovery of such funds was dependent on collecting from

non-custodial parent and not by reducing future benefit payments to the custodial parent.

Errors in the payment process gave rise to uncollected recoupments due from the custodial parent resulting from overpayment of child support payments. CSEA's ability to collect such overpayment from the custodial parent by reducing future benefit payments was limited.

CSEA enforcement actions against delinquent non-custodial parents included intercepting tax returns refunds. The IRS assessed a fee for the intercept. While two thirds of the intercept fees were paid by CSEA federal grants funds, the remaining one third is the responsibility of the CSEA. This portion represents the State's matching portion under the federal grant and is not recoverable from the custodial parent.

Over the years the Agency trust fund moneys have been used by CSEA to pay for all of the above items and as of June 30, 2013 obligations exceeded cash, resulting in a \$2,837,000 deficit in the CSEA Agency Fund. The present deficit is being funded by the "float" created by outstanding uncashed checks (\$2,248,000 over one year old) and from obligations due to parents not being immediately payable. Any recovery from parents for either NSF payments or overpayments of support is problematic.

Recommendation:

We continue to recommend the AG resolve the deficit position in its Agency Fund.

Response:

The AG concurs with the recommendation. The cash deficit in the child support collection and disbursement bank account is attributable to multiple factors such as non-sufficient fund (NSF) checks made by non-custodial parents, fraudulent checks, involuntary pullback from income tax refund offset by taxing authorities, to name a few, and the current amount has been accumulated since the agency's inception. In recent years the agency has been making varied attempts to prevent such deficit from growing by automating the recoupment process for overpayments, implementing a hold period for state tax refund offset, and actively seeking recovery from NSF payers. Additionally, the agency has worked with the State's Risk Management unit on a case-by-case scenario to deal with recoupment. Most of these actions are the agency's preventive measures; they do not eradicate the issue. Because the deficit can only be made whole with general fund, the agency has requested additional general fund appropriation to eliminate or reduce the deficit to much lesser amount since the 2005 legislative session. Such request has never been successful except for the fiscal year 2013 the agency was granted \$50,000 of general fund. The agency will continue looking for ways to effectively manage the cash shortfall; however, to drastically trim down the deficit it requires supplemental funding.

Additionally, CSEA has implemented the following specific examples of procedures to reduce the deficit in the collections account:

- *The agency has implemented a rule that a disbursement will not be made within the normal two business days for any check amount in excess of \$3,000 until the check clears the bank. Although this requires more manpower to monitor the check status, it helps the agency to avoid potential non-sufficient fund situations.*
- *Since 2007 the agency has designated an accountant to make collection calls to non-custodial parents and employers who issued checks with insufficient funds. The success rate of collection has been steadily increased and the percentage as of January 2014 is 85%.*
- *Once a person or an employer bounces a check, the child support enforcement system generates an alert on the case. Before the non-sufficient fund is repaid, CSEA will only accept a money order or cashier check unless the sender makes an electronic fund transfer.*
- *State tax refund intercepts are usually disbursed within two business days. Until recently when a non-debtor spouse contacted the agency and demanded a refund, the agency used to oblige the request and pursued the recoupment from the custodial parent afterwards. This practice inevitably attributes to the deficit. However, the agency's current position is to advise the non-debtor spouse that the claim will be processed after the custodial parent returns the fund. Discussions with the Hawaii State Department of Taxation to implement procedures regarding the non-debtor spouse claim on the tax refund intercept to rectify the afore-mentioned problem are pending.*

2013-2

Appropriation Should Not Be Overexpended

Condition:

During the audit, the Department of the Attorney General had expended at least \$538,232 in excess of its appropriation for the fiscal year ended June 30, 2013. This excess resulted from expenditures that related to services rendered under contract 12-HAS-01 for the period January 1, 2013 to March 31, 2013 for the fiscal year ended June 30, 2013.

Cause:

The AG does not have adequate procedures to ensure that necessary funds are encumbered upon execution of a contract. As a result, there were inadequate FY13 funds available to fulfill the contract ended June 30, 2014.

Effect:

As a result of the overexpenditure, the department will be using a portion of the fiscal year 2014 budget to pay for fiscal year 2013 expenditures.

Recommendation:

We recommend the Attorney General establish the necessary policies and procedures to help ensure that appropriations are not overexpended. In addition, all expenditures should be charged to the appropriate fiscal year's appropriation. In this connection, expenditures that are readily projectable should be encumbered on a timely basis in the appropriate fiscal year.

Response:

The Department concurs with the recommendation and recognizes that on an accrual basis over expending may have occurred in relation to the expenditure enumerated in the findings. The invoice (\$538,232) causing this condition was received for payment in May, which at that time there was not adequate allotment remaining to allow processing for payment. The reason for the allotment shortfall was a combination of a shortfall in Personal Services due to lower vacancy savings than anticipated and an erroneous reduction in our legislative appropriation in the amount \$252,720 which reduced our budget without passing the legislation necessary to allow us to recoup these funds through collections.

Corrective Action Plan:

The department will remind all department employees with delegated authority to purchase goods and services that funding needs to be determined before the procurement process begins.

The department will strengthen its internal controls regarding its procurement of the purchase of goods and services. The procurement solicitation will identify the funding source before the procurement is initiated. The funding source will be included in the contract executed. The department will comply with the Department of Accounting and General Services' (DAGS) encumbrance policies and procedures.

The department's employees, supervisors, and administrators responsible for the procurement of goods and services will receive additional training. Written instructions will be available as a reference. The department's purchases will be reviewed by the employee's supervisor to ensure funding source before it is submitted for payment. The department's administrators will monitor the overall procurement and payment process to ensure compliance with State procurement and DAGS' policies and procedures.

Person Responsible: George Ganir – Fiscal Supervisor

Anticipated Completion Date: April 30, 2014

SA 2013-1 Controls over compliance with sub-recipient monitoring program should be implemented.

Condition:

During our review of the CPJA monitoring program, we noted that there was no documentation supporting the decision not to perform on-site monitoring visits for the requirements with the County of Hawaii (09-VA-04) and the City & County of Honolulu (09-VA-02), sub-recipients for the CDFA #16.575 Crime Victim Assistance (VOCA).

Cause:

The CPJA did not have controls in place to ensure compliance with its monitoring program of sub-recipients.

Effect:

Failure to adequately monitor sub-recipients could lead to sub-recipients' non-compliance with the applicable federal grant requirements.

Recommendation:

We recommend that the CPJA implement controls to ensure proper monitoring of its sub-recipients.

Response:

The Crime Prevention and Justice Assistance Division (CPJAD) concurs with these findings.

Sub-recipient monitoring procedures have been recently revised to include a risk based assessment tool to identify and deploy resources to the riskiest and most problematic sub-recipients. Projects determined to be 'high risk' will receive an on-site monitoring visit and projects that receive a 'moderate risk' rating will receive either an on-site visit or enhanced desk review. The 'low risk' projects will be monitored as time permits.

The Risk Assessment Monitoring (RAM) tool was developed utilizing the Association of Government Accountants Risk Assessment Monitoring Tool and the Colorado Division of Criminal Justice, Office of Adult and Juvenile Justice Assistance Risk Assessment Clarification tool. The RAM tool determines risk the category of each project through a point system that considers factors such as the dollar amount of the project, scope of work and deliverables, complexity of the project, internal controls, cost control system, prior experience with CPJAD, and the most recent audit report. Projects fill out a self-assessment form and then the Grants & Planning Specialist completes the RAM tool to determine risk level.

The RAM tool was developed and revised to fit the needs of the branch and the sub-recipients through numerous meetings and discussions. In November 2013, the tool was sent to fifteen projects for pilot testing. The RAM tool was further updated and finalized by December 2013. In January 2014, the tool was sent to all live projects (for Federal Awards 2010, 2011 and 2012) that had not been monitored on-site. The completed RAM tools were reviewed and signed off on by the Branch Chief in February 2014. The RAM tools have been filed in each project file and the scores will determine the level of monitoring activity.

For new contracts executed after January 31, 2014, the RAM tool will be completed by the assigned specialist 30-45 days after the contract is executed. The staff has been trained on the new procedures and the Branch Chief will review the project files periodically to ensure the 'highest risk' projects are being monitored on-site.