

Office of the Auditor
465 S. King Street
Rm. 500
Honolulu, HI 96813
Ph. (808) 587-0800

Jan K. Yamane
Acting State Auditor
State of Hawai'i

Constitutional Mandate

The Office of the Auditor, pursuant to Article VII, Section 10 of the Hawai'i State Constitution, is required to conduct post-audits of the transactions, accounts, program and performance of departments, offices and agencies of the State and its political subdivisions, and to certify to the accuracy of all financial statements issued by the respective accounting officers.

Audit of the Comprehensive Annual Financial Report

Financial Statements, Fiscal Year Ended June 30, 2013

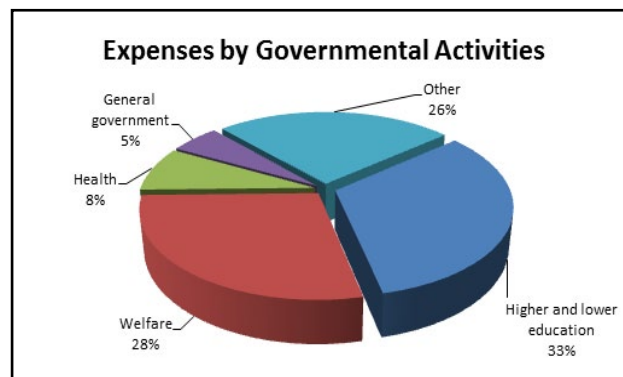
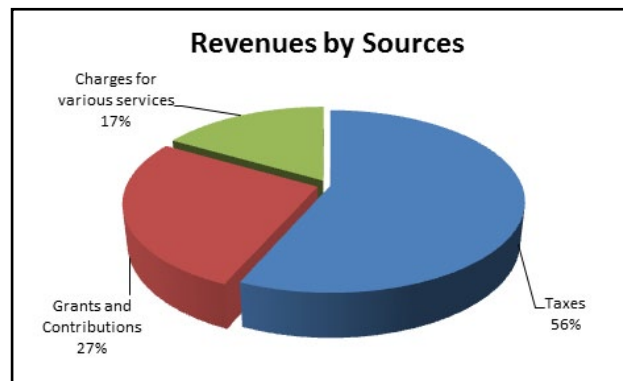
The primary purpose of the audit was to form an opinion on the fairness of the presentation of the State of Hawai'i's financial statement as presented in the Comprehensive Annual Financial Report (CAFR) for the State of Hawai'i as of and for the fiscal year ended June 30, 2013, and to comply with the requirements of federal OMB Circular A-133, which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by Deloitte & Touche LLP.

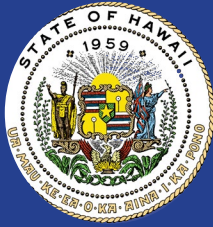
About the State

The State provides a full range of services as mandated by statute. These services include, but are not limited to, education (lower and higher), welfare, transportation (highways, airports, and harbors), health, hospitals, public safety, housing, culture and recreation, economic development, and conservation of natural resources.

Financial Highlights

For fiscal year ended June 30, 2013, total revenues was \$10.2 billion and total expenses was \$9.9 billion, resulting in an increase in net assets of \$300 million. Approximately 56 percent of the State's total revenues came from taxes of \$5.7 billion, 27 percent from grants and contributions of \$2.8 billion, and 16 percent from charges for various goods and services of \$1.7 billion. The largest expenses were for high and lower education at \$3.3 billion or 33 percent, welfare at \$2.8 billion or 28 percent, health at \$800 million or 8 percent, and general government at \$500 million or 5 percent.





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Auditors' Opinions

Financial Statements: +
Unmodified opinion

Federal Compliance: -
Qualified opinion

Issues of Concern

Material Weaknesses
7
Significant Deficiencies
46

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<http://auditor.hawaii.gov/>

The assets of the State exceeded its liabilities by \$4.8 billion. Unrestricted net assets, which may be used to meet the State's ongoing obligations to citizens and creditors, was a negative \$1.7 billion. Net assets of governmental activities and business-type activities decreased by \$84 million and increased by \$391 million, respectively. The combined increase to the State was approximately \$307 million from the prior fiscal year.

Auditors' Opinions

The State received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The State received a qualified opinion on its compliance with requirements that could have a direct and material effect on the State's major federal programs.

Findings

There were four significant deficiencies and no material weaknesses in internal control over financial reporting.

- Process used by the DAGS Accounting Division to consolidate required information from departments and agencies to create the CAFR is inefficient, time-consuming, and caused delays in statewide reporting.
- Current accounting process does not track federal funds individually within the general ledger system.
- Accounting policy to report component units and proprietary funds were not in accordance with the Governmental Accounting Standards Board when preparing the CAFR.
- Online tax payments received by the Department of Taxation were not reconciled to tax returns submitted by the individual taxpayer each accounting period.

There were seven material weaknesses and 46 significant deficiencies in internal control over compliance. The findings have been grouped and identified with the number of occurrences.

Material Weaknesses Over Compliance (7)

- Lack of formal procedures to ensure Treasury-State Agreement timely executed. (2)
- Lack of controls and resources to minimize the time lag between federal funds drawdown and disbursement of funds. (2)
- Reimbursements requested prior to actual payment of expenditures for programs funded on a reimbursement basis. (2)
- Lack of controls to ensure that federal drawdowns were requested from the proper federal award.

Significant Deficiencies Over Compliance (46)

- Lack of controls and resources to minimize the time lag between federal funds drawdown and disbursement of funds. (16)
- Property and equipment were not properly recorded in the state inventory system. (9)
- Lack of procedures to monitor timely preparation and submission of federal reports. (5)
- Lack of procedures to comply with the Federal Funding Accountability and Transparency Act. (4)
- Payroll certifications not completed for employees who work solely on a single federal award.
- Incorrect percentage used to match federal funds with properly coded projects.
- Lack of evidence of review of AARA reports.
- Lack of evidence of review of eligibility verification.
- Expenditures incurred prior to grant funding period.
- Unemployment insurance claim reviews did not meet the timeliness requirement.
- Review and update of donee files not performed timely for the Federal Surplus Donation Program.
- Posting of contract award notification not performed timely as required by the State's procurement policy.
- Lack of monitoring for the accurate reporting of federal expenditures cost reports.
- Lack of adequate subrecipient monitoring procedures.
- Unable to identify specific federal cash draw request to related expenditure transactions.
- Lack of review over accuracy of federal cost reports.

For the complete report, including the State's corrective action plan, visit our website at http://files.hawaii.gov/auditor/Reports/2013_Audit/DHS2013pdf