

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Financial Audit of the Department of Business, Economic Development, and Tourism

Summary

The Office of the Auditor and the certified public accounting firm of Nishihama & Kishida, CPA's, Inc. conducted a financial audit of the Department of Business, Economic Development, and Tourism pursuant to Section 23-4, Hawaii Revised Statutes, which requires the Auditor to conduct post audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State.

The financial audit was for the fiscal year July 1, 1990 to June 30, 1991. The audit examined the department's financial records and its systems of accounting and internal controls. Systems and records were also examined for compliance with applicable laws and regulations.

In the opinion of Nishihama & Kishida, CPA's, Inc., the department's financial statements present fairly its financial position and the results of its operations as of June 30, 1991. Except for the presentation of the Foreign Trade Zone as a special fund instead of an enterprise fund, all were in conformity with generally accepted accounting principles. Nishihama & Kishida, CPA's, Inc. found no instances where the department did not comply with applicable laws and regulations, nor did the firm find weaknesses in the department's control measures that would affect an opinion on the financial statements.

We found that the department has engaged in practices that violate the intent of state law and the requirements of state financial administration. In one instance the department entered into a contract with the Department of Accounting and General Services (DAGS) to avoid the Constitutional provisions on the lapsing of funds. The contract allowed the department to prevent the funds from lapsing and to avoid having to resubmit a funding request to the Legislature. This practice violates the intent of Constitutional provisions on the lapsing of funds, that is, that the Legislature be given the opportunity to review and reconsider the project for continued funding.

We found also that the department has avoided the required approval process for individual consultant contracts by executing master contracts with the Research Corporation of the University of Hawaii (RCUH). The master contracts are merely pro forma contracts whereby RCUH, on behalf of the department, contracts with consultants who must then report directly to the department.

In addition, we found that the department has administered contracts inconsistently because it lacks written procedures. There are no written guidelines for loan

administration; the processing of loan payment receipts needs to be improved; and procedures at the Foreign Trade Zone Division with respect to tariffs charged, security deposits, and petty cash need to be improved.

Recommendations and Responses

We recommended that the department and DAGS not enter into contracts merely to avoid lapsing of funds. We also recommended that the department be required to comply with the State Accounting Manual and the governor's budget execution policies. We further recommended that the department develop written guidelines for the content of contracts and their administration, and for the evaluation of loan applications and documentation of loan activities. Additionally, we recommended that loan receipt and recording duties be segregated and receipts be deposited to the state treasury daily. Finally, we recommended that the Foreign Trade Zone include all charges in its tariff booklet, record all security deposits, and improve controls over its petty cash.

Department of Business, Economic Development, and Tourism. The department generally concurs with our recommendations. The department states it contracted with DAGS in order to carry out the legislative intent of the appropriation in an expedient and efficient manner. It deferred to DAGS to comment on our recommendation on interdepartmental contracts. The department disagrees with our recommendations about its master contracts with RCUH. It states it has obtained the necessary approvals because this practice of contracting for consultant services through RCUH was approved by the Governor in 1986. We believe that a blanket authorization received some four years in the past is insufficient for current contracts.

Two of our recommendations concerning the Foreign Trade Zone seem to have been misunderstood by the department. The department does not agree that security deposits should be recorded in DAGS' accounting records because they have not been cashed and recorded as revenues. This is not the point. DAGS maintains the official accounting records of the State and the requirement that security deposits and the related liability be recorded on those accounting records has nothing to do with cashing them and recording the cash as revenues. We also recommended that the overage in petty cash be returned to the state treasury. The department interpreted state treasury to mean the general fund and therefore does not agree with our recommendation. The state treasury is comprised of all cash of the State, to include special fund cash as well as general fund cash. We made no recommendation to return the cash to the general fund, but that the cash be returned to the state treasury.

Department of Accounting and General Services. The department does not disagree with our finding concerning the use of interdepartmental contracts to avoid constitutional lapsing of appropriations. It believes that any attempt to prohibit this contracting process should be debated and decided through the legislative process.

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