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# **Financial Audit of the Department of Accounting and General Services**

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

Report No. 91-4  
January 1991

**THE AUDITOR**  
STATE OF HAWAII

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Governor  
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the State of  
Hawaii

Conducted by

The Auditor  
State of Hawaii  
and  
Coopers & Lybrand  
Certified Public  
Accountants

Submitted by

**THE AUDITOR**  
STATE OF HAWAII

Report No. 91-4  
January 1991

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## Foreword

This is a report of a financial audit of the Department of Accounting and General Services for the fiscal year July 1, 1989, to June 30, 1990. The audit was conducted pursuant to Section 23-4, *Hawaii Revised Statutes*, which requires the auditor to conduct post audits of all departments, offices, and agencies of the State. The audit was conducted by the Office of the Auditor and the certified public accounting firm of Coopers & Lybrand.

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

Newton Sue  
Acting Auditor  
State of Hawaii

January 1991

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# Chapter 1

## Introduction

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This is a report of our financial audit of the Department of Accounting and General Services (DAGS). The audit was conducted by the Office of the Auditor and the certified public accounting firm of Coopers & Lybrand.

The audit was conducted 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 and its political subdivisions.

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### Objectives of the Audit

1. Report on the fair presentation of the financial statements of the department.
2. Assess the adequacy, effectiveness, and efficiency of the department's systems and procedures for financial accounting, internal control, and financial reporting; and recommend improvements.
3. Ascertain whether expenditures and other disbursements have been made and all revenues and other receipts have been collected and accounted for in accordance with federal and state laws, rules and regulations, and policies and procedures.

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### Scope and Methodology

We examined the financial records and transactions and the related systems of accounting and internal controls of DAGS for the fiscal year July 1, 1989, to June 30, 1990. Included were all fund types and account groups except the general fixed assets account group. We also reviewed for compliance with applicable laws and regulations those transactions, systems, and procedures tested.

The audit examined the accounting, reporting, and internal control structure to identify deficiencies and weaknesses and make appropriate recommendations for improvements. Covered were the forms and records, the management information system, and the accounting and operating procedures.

The accountants' opinion as to the fairness of the financial statements presented is that of Coopers & Lybrand. Coopers & Lybrand relied on the work of other auditors who conducted the

financial audit of the State of Hawaii, Stadium Authority for the fiscal year July 1, 1989, to June 30, 1990.

The audit was conducted from July 1990 through November 1990 in accordance with generally accepted government auditing standards.

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## Background

In the Hawaii State Government Reorganization Act of 1959 (Act 1, *Session Laws of Hawaii 1959*), the Legislature created the Department of Accounting and General Services. Section 26-6, *Hawaii Revised Statutes*, enumerates the department's responsibilities:

The department shall preaudit and conduct after-the-fact audits of the financial accounts of all state departments to determine the legality of expenditures and the accuracy of accounts; report to the governor and to each regular session of the legislature as to the finances of each department of the State; manage the inventory, equipment, surplus property, insurance, and centralized purchasing programs of the State; establish and manage motor pools; manage the preservation and disposal of all records of the State; undertake the program of centralized engineering services, including operation and maintenance of public buildings, for departments of the State; undertake the functions of the territorial or state surveyor; and establish, analyze, and enforce accounting and internal control systems.

## Organization of the department

The department is headed by an executive known as the Comptroller, who decides on matters which require policy determination and executive direction. The Comptroller plans, organizes, coordinates, directs, and controls the departmental programs.

### Staff offices

Three staff offices provide support services to the department.

- The *Administrative Services Office* provides administrative and fiscal support to departmental programs. The Risk Management Office, which comes under administrative services, administers activities aimed at protecting the State against catastrophic losses.
- The *Personnel Office* develops and coordinates the department's personnel management activities. It functions as the liaison to the State's central personnel agency, employee organizations, and other agencies.



- The *Systems and Procedures Office* coordinates electronic data processing activities for the department.

## District offices

Located in Hawaii, Maui, and Kauai, these offices provide program and staff services in the respective counties and serve as liaison to other public and private agencies.

## Divisions

Eight divisions administer a variety of departmental functions.

- The *Accounting Division* develops and maintains a central accounting system for State funds, maintains control accounts of all departmental funds, prepares financial statements, reviews and determines propriety of payrolls and encumbrances, and issues warrants.
- The *Archives Division* administers and directs a program to manage and store records and to preserve permanent records in a central records depository.
- The *Audit Division* audits the fiscal records of State agencies, schools, courts, and the Legislature.
- The *Automotive Management Division* establishes and manages motor pools for the State. Its activities include controlling, assigning, and maintaining State vehicles and also controlling vehicular traffic and parking on state property.
- The *Central Services Division* is responsible for mail and messenger services, maintenance and repair of State buildings and facilities, maintenance of State grounds, and student transportation services.
- The *Public Works Division* manages and implements State public works projects contained in the capital improvement program, which are not assigned to other State agencies.
- The *Purchasing and Supply Division* does the centralized purchasing, sets standards and guidelines for units doing their own purchasing, manages state and federal surplus property programs and the State inventory management program.
- The *Survey Division* performs field and office land survey work for various government agencies, prepares and

maintains maps and descriptions of public lands, and verifies boundaries, closures, and descriptions for all land court applications.

## Agencies

Three agencies are placed within the department for administrative purposes.

- The *King Kamehameha Celebration Commission* coordinates and helps plan annual Kamehameha Day celebration activities throughout the State.
- The *Stadium Authority* maintains, operates, and manages the Aloha Stadium and its related facilities.
- The *State Foundation on Culture and the Arts* administers the Arts in Public Places program which includes placement of commissioned and relocatable works of art in public buildings throughout the State.

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## Organization of the Report

Chapter 1 is this introduction and background. Chapter 2 presents our findings and recommendations on the internal control structure and its operations. Chapter 3 presents the results of the financial audit, including the reports on the internal control structure and tests of compliance with laws and regulations.

# Chapter 2

## Internal Control Practices

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This chapter presents a general finding and recommendations on the financial accounting and internal control practices and procedures of the Department of Accounting and General Services.

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### Outstanding Encumbrances Were Not Reviewed for Validity

The department did not have available any documentation to substantiate the validity of long outstanding encumbrances. These encumbrances are not subject to periodic review to determine whether or not they are still valid.

An encumbrance is an obligation which is chargeable to an appropriation. An encumbrance reserves, or sets aside, the amount of the obligation from the appropriation. Amounts set aside by encumbrances may not be used for any other purpose, nor can they be automatically lapsed. They must be used to satisfy specific obligations when they become payable.

There are two types of encumbrances. *Contract encumbrances* are obligations incurred under a contractual agreement to pay for the performance of acts required by the agreement. *Claim encumbrances* are obligations incurred to cover costs of outstanding purchase orders, payroll for time worked but not yet paid, commitments to purchase land, and estimated project costs of incomplete capital improvement projects.

Both types of encumbrances are classified as either *operating encumbrances*, which pertain to the department's operating appropriation, or *capital improvement encumbrances*, which pertain to the department's capital improvement project appropriation. Operating appropriations, if unencumbered, lapse at the end of the fiscal year for which they were appropriated. Capital improvement project appropriations, if unencumbered, normally lapse one year after the end of the biennium appropriation.

As of June 30, 1990, outstanding contract encumbrances pertaining to the department's general fund operating appropriations for FY1988-89 and prior years amounted to \$5 million. Some of the encumbrances are from appropriations that go back as far as FY1980-81. Table 2.1 presents the composition of these encumbrances by fiscal years.



**TABLE 2.1**  
**Composition of Outstanding Operating Contract**  
**Encumbrances on June 30, 1990**

Fiscal Year	Contract Encumbrances
<u>General Fund:</u>	
1980-81	\$ 37,473
1981-82	1,122
1982-83	1,354
1983-84	11,959
1984-85	288,859
1985-86	36,522
1986-87	56,166
1987-88	515,701
1988-89	4,233,095
	<u>\$ 5,182,251</u>

**Source:** State of Hawaii Financial Accounting & Management Information System, Status of Appropriation Account Balance, as of June 30, 1990, MBP430-B.

Outstanding contract and claim encumbrances pertaining to the department's capital improvement project appropriations for FY1986-87 and prior years amount to \$70 million. Some of these encumbrances are from appropriations that go back as far as the late 1960s and 1970s. Table 2.2 presents the composition of these encumbrances by fiscal years.

During our examination, we selected a random sample of long outstanding encumbrances for supporting documentation. Only 15 percent of those selected had documentation supporting their validity and continuance. Further, staff were unable to locate supporting documentation or explain why documentation was not available. One of the divisions exhausted all means of locating such documentation and suggested it could be found in the Archives Division. When documentation could not be found there, we were referred to a retired employee who it was hoped could explain why the encumbrance was still valid.

For those encumbrances with supporting documentation, there was no evidence or other indication of periodic review as to their continued validity. Department personnel acknowledged that periodic reviews of outstanding encumbrances were not being performed.



**TABLE 2.2**  
**Composition of Outstanding Capital Improvement Project**  
**Encumbrances on June 30, 1990**

Fiscal Year	Contract Encumbrances	Claim Encumbrances	Total
<u>General Fund:</u>			
1979-80	\$ ---	\$ 2,006	\$ 2,006
1983-84	97,894	17,956	115,850
1984-85	4,323	2,607	6,930
1985-86	429,613	66,272	495,885
1986-87	<u>19,883,015</u>	<u>12,738,347</u>	<u>32,621,362</u>
	<u>20,414,845</u>	<u>12,827,188</u>	<u>33,242,033</u>
<u>General Obligation Bond:</u>			
1965-66 to 1968-69	5,527	---	5,527
1969-70 to 1978-79	563,321	170,354	733,675
1979-80	272,380	289,743	562,123
1980-81	120,808	413,187	533,995
1981-82	58,395	232,712	291,107
1982-83	392,705	727,101	1,119,806
1983-84	524,444	1,228,761	1,753,205
1984-85	740,425	3,904,461	4,644,886
1985-86	2,325,570	3,978,202	6,303,772
1986-87	<u>7,938,665</u>	<u>13,310,515</u>	<u>21,249,180</u>
	<u>12,942,240</u>	<u>24,255,036</u>	<u>37,197,276</u>
	<u>\$ 33,357,085</u>	<u>\$ 37,082,224</u>	<u>\$ 70,439,309</u>

**Source:** State of Hawaii Financial Accounting & Management Information System, Status of Appropriation Account Balance, as of June 30, 1990, MBP430-B.

By holding open encumbrances, the appropriations do not lapse and the funds cannot be used for other purposes. Lapsing of non-essential, or invalid encumbrances should be done on a timely basis so that the funds can be made available for other governmental programs or operations.

All encumbrances should be supported by documentation sufficient to validate the need for the encumbrance. The documentation should be periodically reviewed by a responsible departmental staff. Encumbrances that are no longer necessary should be removed, and the funds lapsed to the respective fund.

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## Recommendations

We recommend that the department take steps to identify and substantiate the validity of long outstanding encumbrances and to lapse those that cannot be substantiated. We further recommend that the department institute procedures to review periodically and lapse those that are no longer valid.

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# Chapter 3

## Financial Audit

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This chapter presents the results of the financial audit of the Department of Accounting and General Services for the year ended June 30, 1990. It displays financial statements of all fund types and account groups administered by the department, together with explanatory notes. It also includes the reports on the internal control structure and tests of compliance with laws and regulations.

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### Summary of Findings

In the opinion of Coopers & Lybrand, based on their audit and the report of other auditors, except for the general fixed assets account group, the financial statements present fairly, in all material respects, the combined financial position of the department as of June 30, 1990, and the combined results of its operations and its changes in financial position of the proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand noted no matters involving the internal control structure and its operation that they considered to be material weaknesses as defined in the report on the internal control structure. They also noted, with respect to items tested, that the department has complied, in all material respects, with laws and regulations applicable to the department.

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### Independent Auditor's Report

Coopers & Lybrand's report filed with the auditor is as follows:

#### Independent Auditor's Report

To the Auditor  
State of Hawaii

We have audited the following financial statements of the State of Hawaii, Department of Accounting and General Services:

Combined balance sheet--all fund types and account groups--  
June 30, 1990 (Exhibit A);

Combined statement of revenues, expenditures and changes  
in fund equity--all governmental fund types and expendable  
trust funds--for the year ended June 30, 1990 (Exhibit B);



Combined statement of revenues and expenditures--budget and actual (budgetary basis), general and special revenue funds--for the year ended June 30, 1990 (Exhibit C);

Combined statement of revenues, expenses and changes in retained earnings (deficit)--all proprietary fund types--for the year ended June 30, 1990 (Exhibit D); and

Combined statement of changes in financial position--all proprietary fund types--for the year ended June 30, 1990 (Exhibit E).

These financial statements are the responsibility of the management of the State of Hawaii, Department of Accounting and General Services. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the State of Hawaii, Stadium Authority, which statements reflect total assets constituting 58 percent of the Enterprise Fund total assets. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the State of Hawaii, Stadium Authority is based solely upon the report of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with the terms of our engagement, the scope of our audit did not include the audit of the general fixed assets account group and, accordingly, we express no opinion on it.

As discussed in the notes to the financial statements, the general fund accounts of the Department of Accounting and General Services are a part of the State of Hawaii's general fund and our opinion expressed herein, insofar as it relates to the amounts included for the general fund is limited to only the transactions of the Department of Accounting and General Services.

In our opinion, based upon our audit and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the general fixed assets account group, the financial statements referred to above present fairly, in all material respects, the combined financial position of the State of Hawaii, Department of Accounting and General Services as of June 30, 1990, and the combined results of its operations and its changes in financial position of the proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand

Honolulu, Hawaii  
November 14, 1990

## Descriptions and Definitions

### *Descriptions of financial statements and schedules*

This section provides descriptions of the financial statements audited and definitions of technical terms used in this chapter.

The following is a brief description of the financial statements audited by Coopers & Lybrand. The financial statements are attached at the end of this chapter.

**Combined balance sheet--all fund types and account groups (Exhibit A).** This statement presents assets, liabilities, and fund balances of all fund types and account groups used by the department on an aggregate basis.

**Combined statement of revenues, expenditures, and changes in fund equity--all governmental fund types and expendable trust funds (Exhibit B).** This statement presents revenues, expenditures, other financing sources (uses) and changes in fund equity for all governmental fund types, and expendable trust funds used by the department on an aggregate basis. Revenues include state appropriations mandated by the General Appropriations Act of 1989 (Act 316, *Session Laws of Hawaii* 1989) and other specific appropriations acts.

**Combined statement of revenues and expenditures--budget and actual (budgetary basis), general and special revenue funds (Exhibit C).** This statement presents a comparison of



budgeted and actual revenues, expenditures, and other financing sources for the general fund accounts and combined special revenue funds used by the department.

**Combined statement of revenues, expenses, and changes in retained earnings (deficit)--all proprietary fund types (Exhibit D).** This statement presents revenues, expenses, and changes in the retained earnings of all proprietary fund types used by the department on an aggregate basis.

**Combined statement of changes in financial position--all proprietary fund types (Exhibit E).** This statement presents sources and uses of working capital of all proprietary fund types used by the department on an aggregate basis.

### ***Definition of terms***

Technical terms are used in the financial statements and in the notes to the financial statements. The more common terms and their definitions are as follows:

**Appropriation.** An authorization granted by the State Legislature permitting a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures.

**Allotment.** An authorization by the director of finance to a state agency to incur obligations and to make expenditures pursuant to the appropriation made by the State Legislature.

**Encumbrance.** An obligation in the form of a purchase order or contract which is chargeable to an appropriation, the incurring of which sets aside the appropriation for the amount of the obligation.

**Expenditure.** The actual disbursement of funds for the payment of goods delivered or services rendered, the obligation to pay for such goods or services having been incurred against authorized funds.

**Reserve.** An account used to earmark a portion of the fund balance to indicate that it is not available for expenditure.

**Transfers.** The transactions between funds, departments, and/or programs which are approved by the appropriate authority.

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## **Notes to Financial Statements**

Explanatory notes which are pertinent to an understanding of the financial statements and financial condition of the funds administered by the department are discussed in this section.

## ***Financial statement presentation***

**General.** The accompanying financial statements of the Department of Accounting and General Services (DAGS) present the financial position of the various fund types and account groups, the results of operations of the various fund types and the changes in financial position of the proprietary fund types as of and for the year ended June 30, 1990.

**Reporting entity.** The Department of Accounting and General Services is a department of the State of Hawaii.

**Fund accounting.** The financial activities are recorded in individual funds classified by type and described in the following sections, each of which is deemed to be a separate accounting entity. The financial position and operations of each fund are accounted for in separate self-balancing accounts which represent the fund's assets, liabilities, equity, revenues and expenditures or expenses.

Account groups are used to establish accounting control and accountability for the department's general fixed assets and general long-term obligations. Account groups are not funds as they do not reflect available financial resources and related liabilities.

**Governmental fund types.** Financial resources which are not accounted for in other funds are accounted for in the *general fund*. The budget as adopted by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted. The general fund of the department is a part of the State's general fund and the accompanying general fund financial statements are limited to and reflect only the appropriations, expenditures, and obligations of the general fund accounts used by the department, and the general fund allotments received by the department.

Financial resources obtained from specific revenue sources and used for restricted purposes are accounted for in *special revenue funds*.

Substantially all financial resources obtained and used for the acquisition or construction of the department's general fixed assets and facilities are reflected in the *capital projects fund*. Such resources are derived principally from proceeds of general obligation bond issues, Federal grants and operating transfers from the special revenue funds.

**Proprietary fund types.** *Enterprise funds* include the (1) Stadium Authority which maintains, operates, and manages the Aloha Stadium and its related facilities, and (2) the State Parking Revolving Fund, which controls vehicular traffic and parking on



grounds and in parking structures. *Internal service fund* is the State Motor Pool Revolving fund, which establishes and manages motor pools for the State's automotive vehicles.

**Fiduciary fund types.** *Expendable trust funds* are transactions related to assets held by the department in a trustee capacity to be expended for designated purposes. *Agency funds* are accounts for funds held by the department as agent. Agency funds include funds delegated to the department by other state agencies for purposes of administering various projects.

**Account groups.** The *general fixed assets account group* is used to account for all fixed assets of the department other than those accounted for in the proprietary fund types. The *general long-term obligations account group* is used to account for the accrued vacation payable for governmental fund types.

**Total columns on financial statements.** Total columns on the accompanying financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not purport to present financial position, results of operations, or changes in financial position or fund equity of the department in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation.

### **Summary of significant accounting policies**

**Employees' Retirement System.** Contributions to the Employees' Retirement System include current service costs and amortization of accrued unfunded liability over a period of fifty years from July 1, 1964. The State's policy is to fund its required contribution annually.

**Governmental fund types and expendable trust funds.** *Basis of accounting.* All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The department uses the modified accrual basis of accounting for the general, special revenue, capital projects and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to finance operations of the current fiscal year. Measurable means that the amount of the transaction can be determined. Available means that the amount is collected in the current fiscal year or soon enough after year-end to liquidate liabilities existing at the end of the fiscal year.

Expenditures are recorded on the accrual basis of accounting when the related fund liability is incurred. Encumbrances are recorded obligations in the form of purchase orders or contracts. The department records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at year-end are reported as reservations of fund equity since they do not constitute expenditures or liabilities.

*Inventory of materials and supplies.* Inventory, consisting of materials and supplies, is stated at the lower of cost or market. Cost is determined principally using the first-in, first-out method.

*Accumulated vacation and sick leave.* State employees' accumulated vacation is expected to be liquidated with future expendable resources and therefore is accrued in the general long-term obligations account group. Sick leave is not convertible to pay upon termination of employment and is recorded as an expenditure when taken.

*Fund balances.* Portions of fund balances are reserved for the following: (a) continuing appropriations (encumbrances) which do not lapse at the end of the fiscal year; (b) inventory of materials and supplies which are available for future use; and (c) expendable trust fund balances which are restricted to the purpose of the account. Portions of the unreserved fund balances are designated for future capital and operating expenditures.

**Proprietary fund types.** *Basis of accounting.* All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings (deficit) components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accounts of the proprietary fund types are reported under the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recorded when they are incurred.

*Inventory of materials and supplies.* Inventory, consisting of materials and supplies, is stated at the lower of cost or market. Cost is determined principally using the first-in, first-out method.

*Property, plant and equipment.* Property, plant and equipment acquired by purchase or construction are recorded at cost. Contributed property is recorded at fair market value at date of



receipt. Depreciation is provided on the straight-line basis over estimated useful lives of 30 to 40 years for buildings and other improvements and 5 to 12 years for machinery and equipment.

Maintenance, repairs, minor replacements, renewals and betterments are charged to operations as incurred. Major renewals, replacements and betterments are capitalized. Disposal of assets are recorded by removing the cost and related accumulated depreciation from the accounts with the resulting gain or loss reflected in operations.

*Interest cost.* Total interest cost incurred for the year ended June 30, 1990 amounted to \$628,626.

*Account Groups.* *General fixed assets* are recorded at cost. Certain assets for which cost is not determinable have been valued at estimated historical cost. Contributed fixed assets are recorded at fair market value at the date of donation. Depreciation is not provided on general fixed assets.

## ***Budgeting and budgetary control***

The budget of the department is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in Exhibit C are those estimates as compiled by the department. Budgeted expenditures are derived primarily from the General Appropriations Act of 1989 (Act 316, SLH 1989) and other specific appropriations acts.

All expenditures of these appropriated funds are made pursuant to the appropriations in the 1989-1990 biennial budget as amended by subsequent supplemental appropriations. The final legally adopted budget in Exhibit C represents the original appropriations, supplemental appropriations, transfers and other legally authorized legislative and executive changes.

Budgetary control is maintained at the appropriation line item as established in the appropriations acts. The governor is authorized to transfer appropriations within a state agency; however, transfers of appropriations between state agencies generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the department. During the year ended June 30, 1990, there were no expenditures in excess of appropriations at the legal level of budgetary control.

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 contingencies which may terminate the authorization for other appropriations.

Budgets adopted by the State Legislature for the general and special revenue funds are presented in Exhibit C. The department's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to the encumbrance of purchase order and contract obligations. These differences represent departures from generally accepted accounting principles (GAAP).

	General Fund	Special Revenue Funds
Excess of revenues and other financing sources over (under) expenditures and other financing uses-- non-GAAP budgetary actual	\$ (1,443,269)	\$ 99,668,041
Reserve for encumbrances at year-end, net of encumbrances relating to prior years' appropriations	(10,627,805)	---
Expenditures for unbudgeted programs	---	(55,720,574)
Reserve for encumbrances at year-end, budgeted programs only	---	145,947
Excess of revenues and other financing sources over (under) expenditures and other financing uses before other changes in fund equity--GAAP actual	<u>\$ (12,071,074)</u>	<u>\$ 44,093,414</u>

**Property, plant and equipment**

Enterprise and internal service funds. As of June 30, 1990, property, plant and equipment consisted of the following:

	Enterprise Funds	Internal Service Funds	Total
Land and land improvements	\$ 21,790,574	\$ ---	\$ 21,790,574
Buildings and improvements	98,310,439	---	98,310,439
Equipment	<u>3,749,598</u> 123,850,611	<u>1,528,390</u> 1,528,390	<u>5,277,988</u> 125,379,001
Less accumulated depreciation	<u>31,319,154</u> 92,531,457	<u>840,106</u> 688,284	<u>32,159,260</u> 93,219,741
Construction in progress	<u>6,833,559</u>	<u>---</u>	<u>6,833,559</u>
	<u>\$ 99,365,016</u>	<u>\$ 688,284</u>	<u>\$ 100,053,300</u>

General fixed assets account group. Changes in general fixed assets during the year ended June 30, 1990, were as follows:

	Land	Buildings and Improvements	Equipment	Total
Balance, July 1, 1989	\$ 82,002,378	\$136,304,226	\$12,628,108	\$230,934,712
Additions	---	---	1,241,640	1,241,640
Deductions	---	---	(349,808)	(349,808)
Balance, June 30, 1990	<u>\$ 82,002,378</u>	<u>\$136,304,226</u>	<u>\$13,519,940</u>	<u>\$231,826,544</u>

**Bonds payable**

The department reimburses the State of Hawaii for its portion of debt service on several general obligation bonds issued by the State of Hawaii. The bond debts are allocated to the State Parking Revolving Fund under acts of various session laws of Hawaii.



The following is a summary of such general obligation bonds reimbursable by the department at June 30, 1990:

Series	Interest Rate	Final Maturity Date	Original Amount Of Issue	Outstanding Amount
AW	7.00 - 9.25 %	06/01/91	\$ 1,700,000	\$ 94,520
AY	9.10 - 9.75	04/01/91	101,293	5,632
BA	8.40 - 9.375	03/01/95	2,434,585	716,055
BG	6.00 - 6.80	11/01/03	1,431,172	1,431,172
BH	5.40 - 6.00	03/01/07	1,296,481	1,224,445
BJ	6.75 - 7.70	12/01/07	3,340,000	3,340,000
BK	6.125 - 7.50	04/01/08	939,132	939,132
BO	6.10 - 6.60	08/01/02	<u>1,155,740</u>	<u>1,155,740</u>
			<u>\$ 12,398,403</u>	8,906,696
Less current portion				<u>553,158</u>
				<u>\$ 8,353,538</u>

Maturities on bonds payable, including interest of \$4,950,327, subsequent to June 30, 1990, are as follows:

**Year ending June 30**

1991	\$ 1,147,940
1992	1,114,124
1993	1,075,874
1994	1,037,625
1995	1,123,757
Thereafter	<u>8,357,703</u>
	<u>\$13,857,023</u>

**Segment  
information--  
enterprise funds**

The department has two enterprise fund segments which account for the operations of the State of Hawaii, Stadium Authority and State Parking Revolving Fund. Segment information as of and for the year ended June 30, 1990, is as follows:

	Stadium Authority	State Parking	Total
Operating revenues	\$ 4,901,260	\$ 1,390,075	\$ 6,291,335
Operating expenses:			
Depreciation	1,432,517	1,474,078	2,906,595
Other	3,432,838	1,551,046	4,983,884
	<u>4,865,355</u>	<u>3,025,124</u>	<u>7,890,479</u>
Operating income (loss)	35,905	(1,635,049)	(1,599,144)
Nonoperating income (expense):			
Interest income	---	786,007	786,007
Interest expense	---	(628,626)	(628,626)
Income from litigation claims	<u>10,130,000</u>	<u>---</u>	<u>10,130,000</u>
Total nonoperating income	<u>10,130,000</u>	<u>157,381</u>	<u>10,287,381</u>
Income (loss) before operating transfers	10,165,905	(1,477,668)	8,688,237
Operating transfers out	<u>---</u>	<u>(4,607,621)</u>	<u>(4,607,621)</u>
Net income (loss)	<u>\$ 10,165,905</u>	<u>\$ (6,085,289)</u>	<u>\$ 4,080,616</u>
Capital contributions	<u>\$ 65,811,311</u>	<u>\$ 42,639,890</u>	<u>\$108,451,201</u>
Total assets	\$ 62,904,679	\$ 46,454,919	\$109,359,598
Total liabilities	<u>775,917</u>	<u>9,690,152</u>	<u>10,466,069</u>
Fund equity	<u>\$ 62,128,762</u>	<u>\$ 36,764,767</u>	<u>\$ 98,893,529</u>
Additions to property, plant and equipment	<u>\$ 11,608,317</u>	<u>\$ 33,892</u>	<u>\$ 11,642,209</u>

### **Lease commitments**

The department occupies a number of office spaces under operating leases which expire on various dates through 1995. Certain leases provide for renewal options or renegotiation of rental at fixed intervals. In addition to minimum rent, the leases provide for the payment of certain expenses.

At June 30, 1990, future minimum payments for operating leases consisted of the following:



Year	
1991	\$ 2,926,000
1992	3,129,000
1993	2,986,000
1994	2,853,000
1995	<u>2,028,000</u>
Total minimum lease payments	<u>\$ 13,922,000</u>

Lease rent expense for fiscal 1990 amounted to approximately \$1,004,000.

### ***Retirement benefits***

**Employees' retirement system.** All full-time employees of the department are required by Chapter 88, HRS, to participate in the Employees' Retirement System (ERS) of the State of Hawaii, a cost sharing multiple-employer public employee retirement plan covering eligible employees of the State and Counties. The ERS provides retirement benefits as well as death and disability benefits. Prior to June 30, 1984, the plan was only a contributory plan. In 1984, legislation was enacted to create a new noncontributory plan for members of the ERS who are also covered under social security. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were given the option of remaining in the contributory plan or joining the new noncontributory plan and receiving a refund of employee contributions. All benefits vest after five and ten years of credited service for the contributory and noncontributory plans, respectively.

Measurement of assets and actuarial valuations are made for the entire ERS and are not separately computed for individual participating employers such as the department. The disclosure required by Governmental Accounting Standards Board Statement No. 5 are presented in the State of Hawaii Comprehensive Annual Financial Report (CAFR). The following data is provided as of June 30, 1988 for the entire ERS from the disclosure contained in the CAFR for the year ended June 30, 1989, the most recent available. The entire ERS actuarially determined employer contribution requirements were met as of June 30, 1988.

Total pension benefit obligation	\$ 4,361,051,000
Net assets available for benefits	<u>3,414,406,000</u>
Pension benefit obligation in excess of net assets available for benefits	<u>\$ 946,645,000</u>

The department's general fund share of the retirement system expense for the year ended June 30, 1990, was included in the General Appropriations Act as an item to be expended by the Department of Budget and Finance and is not reflected in the department's general fund financial statements. No contributions were required by the department's special revenue funds.

**Post-retirement health care and life insurance benefits.** In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired state employees. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. The department's general fund share of the expense for post-retirement benefits for the year ended June 30, 1990, has not been separately computed and is not reflected in the department's general fund financial statements. The department's special revenue funds' share of the post-retirement health care and life insurance benefits expense for the year ended June 30, 1990, was approximately \$40,000 and is included in the funds' financial statements.

### ***Commitments and contingencies***

**Accumulated sick pay.** Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System. Accumulated sick leave at June 30, 1990, aggregated approximately \$13,446,000.

**Deferred compensation plan.** In 1983, the State established a deferred compensation plan which enables state employees to defer a portion of their compensation. The State of Hawaii, Department of Personnel Services, has the fiduciary responsibility of administering the plan. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject to the claims of the State's general creditors. Participants' rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.



**Insurance coverage.** The State maintains certain insurance coverages to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. Expenditures for workers' compensation are appropriated annually.

**Litigation.** The department is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the department's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State's general fund.

### ***Subsequent event***

Subsequent to June 30, 1990, the State of Hawaii, Stadium Authority received approximately \$220,000 in addition to the \$10,130,000 received during the year ended June 30, 1990, in settlement of the State's claims against certain defendants in two suits involving the design and construction of the Aloha Stadium. These settlement amounts are earmarked for stadium repairs.

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## **Report on the Internal Control Structure**

To the Auditor  
State of Hawaii

We have audited the financial statements of the State of Hawaii, Department of Accounting and General Services as of and for the year ended June 30, 1990, and have issued our report thereon dated November 14, 1990.

We conducted our audit in accordance with generally accepted auditing standards and *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.

In planning and performing our audit of the financial statements of the State of Hawaii, Department of Accounting and General Services for the year ended June 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the State of Hawaii, Department of Accounting and General Services is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are

required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Revenue/Receipts cycle
- Purchases/Disbursements cycle

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the Auditor, State of Hawaii, in Chapter 2.



This report is intended for the information of the Auditor, State of Hawaii and management of the State of Hawaii, Department of Accounting and General Services. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

/s/ Coopers & Lybrand

Honolulu, Hawaii  
November 14, 1990

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## **Report on Tests of Compliance with Laws and Regulations**

To the Auditor  
State of Hawaii

We have audited the financial statements of the State of Hawaii, Department of Accounting and General Services as of and for the year ended June 30, 1990, and have issued our report thereon dated November 14, 1990.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws and regulations applicable to the State of Hawaii, Department of Accounting and General Services is the responsibility of the State of Hawaii, Department of Accounting and General Services' management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the State of Hawaii, Department of Accounting and General Services' compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the State of Hawaii, Department of Accounting and General Services complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Hawaii, Department of Accounting and General Services had not complied, in all material respects, with those provisions.

This report is intended for the information of the Auditor, State of Hawaii and management of the State of Hawaii, Department of Accounting and General Services. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

/s/ Coopers & Lybrand

Honolulu, Hawaii  
November 14, 1990

(Exhibit A)

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

Combined balance sheet - all fund types and account groups  
 June 30, 1990

	Governmental fund types			Proprietary fund types		Fiduciary fund types	Account groups		Total
	General	Special revenue	Capital projects	Enterprise	Internal service	Trust and agency	General fixed assets (unaudited)	General long-term obligations	(memorandum only)
<b>ASSETS</b>									
Cash in state treasury, including time certificates of deposit of \$1,000,000 in enterprise funds	\$37,376,702	\$47,361,067	\$256,274,545	\$ 8,005,661	\$ 326,756	\$16,736,795	\$ -	\$ -	\$366,081,526
Cash in bank	-	-	-	89,384	-	-	-	-	89,384
Receivables:									
Accounts	-	-	-	162,174	122,587	-	-	-	284,761
Interest	-	-	-	8,655	-	-	-	-	8,655
Inventory of materials and supplies	768,182	-	-	7,874	6,710	-	-	-	782,766
Total current assets	38,144,884	47,361,067	256,274,545	8,273,748	456,053	16,736,795	-	-	367,247,092
Prepaid expenses	-	-	-	1,720,834	-	-	-	-	1,720,834
Property and equipment, net	-	-	-	99,365,016	688,284	-	231,826,544	-	331,879,844
Amount to be provided for retirement of general long-term obligations	-	-	-	-	-	-	-	4,180,329	4,180,329
Total assets	<u>\$38,144,884</u>	<u>\$47,361,067</u>	<u>\$256,274,545</u>	<u>\$109,359,598</u>	<u>\$1,144,337</u>	<u>\$16,736,795</u>	<u>\$231,826,544</u>	<u>\$4,180,329</u>	<u>\$705,028,099</u>
<b>LIABILITIES AND FUND EQUITY</b>									
<b>Liabilities:</b>									
Current maturities of long-term debt	\$ -	\$ -	\$ -	\$ 553,158	\$ -	\$ -	\$ -	\$ -	\$ 553,158
Contracts and vouchers payable	6,107,034	188,236	14,344,261	225,448	11,780	-	-	-	20,876,759
Accrued expenses -									
Interest	-	-	-	125,222	-	-	-	-	125,222
Compensation	-	-	-	297,308	50,806	-	-	4,180,329	4,528,443
Deferred income	-	49,845	-	-	-	-	-	-	49,845
Special fund assessments payable	-	-	-	380,528	54,257	-	-	-	434,785
Due to others	-	-	-	-	-	16,611,538	-	-	16,611,538
Total current liabilities	6,107,034	238,081	14,344,261	1,581,664	116,843	16,611,538	-	4,180,329	43,179,750
Due to State of Hawaii	-	-	-	503,367	-	-	-	-	503,367
Deposits	-	-	-	27,500	-	-	-	-	27,500
Long-term debt	-	-	-	8,353,538	-	-	-	-	8,353,538
Total liabilities	<u>6,107,034</u>	<u>238,081</u>	<u>14,344,261</u>	<u>10,466,069</u>	<u>116,843</u>	<u>16,611,538</u>	<u>-</u>	<u>4,180,329</u>	<u>52,064,155</u>
<b>Fund equity:</b>									
Contributed capital	-	-	-	108,451,201	323,778	-	-	-	108,774,979
Investment in general fixed assets	-	-	-	-	-	-	231,826,544	-	231,826,544
Retained earnings (deficit)	-	-	-	(9,557,672)	703,716	-	-	-	(8,853,956)
Fund balances -									
Reserved for encumbrances	31,269,668	147,415	201,924,854	-	-	73,802	-	-	233,415,739
Reserved for inventory of materials and supplies	768,182	-	-	-	-	-	-	-	768,182
Unreserved	-	46,975,571	40,005,430	-	-	51,455	-	-	87,032,456
Total fund equity	<u>32,037,850</u>	<u>47,122,986</u>	<u>241,930,284</u>	<u>98,893,529</u>	<u>1,027,494</u>	<u>125,257</u>	<u>231,826,544</u>	<u>-</u>	<u>652,963,944</u>
Total liabilities and fund equity	<u>\$38,144,884</u>	<u>\$47,361,067</u>	<u>\$256,274,545</u>	<u>\$109,359,598</u>	<u>\$1,144,337</u>	<u>\$16,736,795</u>	<u>\$231,826,544</u>	<u>\$4,180,329</u>	<u>\$705,028,099</u>

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



(Exhibit B)

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
Combined statement of revenues, expenditures and changes in fund equity -  
all governmental fund types and expendable trust funds  
for the year ended June 30, 1990

	Governmental fund types			Fiduciary fund types Expendable trusts	Total (memorandum only)
	General	Special revenue	Capital projects		
Revenues:					
State	\$111,215,240	\$ 6,350,859	\$188,485,030	\$ -	\$306,051,129
Intergovernmental	-	418,069	-	-	418,069
Other	-	94,004,691	-	141,645	94,146,336
Total revenues	111,215,240	100,773,619	188,485,030	141,645	400,615,534
Expenditures:					
Current -					
Lower education	78,100,138	-	-	-	78,100,138
General government	36,108,236	5,222,844	-	-	41,331,080
Culture and recreation	8,201,923	540,111	-	-	8,742,034
Conservation of natural resources	859,785	-	-	-	859,785
Expendable trust funds	-	-	-	341,501	341,501
Other	16,232	-	-	-	16,232
Capital outlay	-	-	150,677,369	-	150,677,369
Total expenditures	123,286,314	5,762,955	150,677,369	341,501	280,068,139
Excess of revenues over (under) expenditures before other financing sources (uses) and other changes in fund equity	(12,071,074)	95,010,664	37,807,661	(199,856)	120,547,395
Other financing sources (uses):					
Operating transfers in (out)	-	(50,917,250)	56,093,850	-	5,176,600
Excess of revenues and other financing sources over (under) expenditures and other financing uses before other changes in fund equity	(12,071,074)	44,093,414	93,901,511	(199,856)	125,723,995
Other changes in fund equity:					
Increase in reserve for inventory of materials and supplies	41,675	-	-	-	41,675
Excess of revenues and other financing sources over (under) expenditures and other financing uses and other changes in fund equity	(12,029,399)	44,093,414	93,901,511	(199,856)	125,765,670
Fund equity, beginning of year	44,067,249	3,029,572	148,028,773	325,112	195,450,706
Fund equity, end of year	\$ 32,037,850	\$ 47,122,986	\$241,930,284	\$ 125,256	\$321,216,376

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

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

Combined statement of revenues and expenditures -  
budget and actual (budgetary basis) - general and special revenue funds  
for the year ended June 30, 1990

	<u>General Fund Accounts</u>			<u>Special Revenue Funds</u>		
	<u>Budget</u>	<u>Budgetary actual</u>	<u>Variance - favorable (unfavorable)</u>	<u>Budget</u>	<u>Budgetary actual</u>	<u>Variance - favorable (unfavorable)</u>
Revenues	\$111,215,240	\$111,215,240	\$ -	\$98,352,505	\$100,773,583	\$ 2,421,078
Expenditures	<u>112,676,173</u>	<u>112,658,509</u>	<u>17,664</u>	<u>5,180,201</u>	<u>1,105,542</u>	<u>4,074,659</u>
Excess of revenues over (under) expendi- tures before other financing sources (uses)	(1,460,933)	(1,443,269)	17,664	93,172,304	99,668,041	6,495,737
Other financing sources (uses):						
Operating transfers in (out)	<u>1,133,569</u>	<u>-</u>	<u>(1,133,569)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ ( 327,364)</u>	<u>\$ ( 1,443,269)</u>	<u>\$(1,115,905)</u>	<u>\$93,172,304</u>	<u>\$ 99,668,041</u>	<u>\$ 6,495,737</u>

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

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

Combined statement of revenues, expenses and  
changes in retained earnings (deficit) - all proprietary fund types  
for the year ended June 30, 1990

	<u>Enterprise</u>	<u>Internal service</u>	<u>Total (memorandum only)</u>
Revenues:			
Stadium rentals and commissions	\$ 4,901,260	\$ -	\$ 4,901,260
Parking	1,390,075	-	1,390,075
Motor vehicle rental	-	729,738	729,738
	<u>6,291,335</u>	<u>729,738</u>	<u>7,021,073</u>
Total operating revenues			
Operating expenses	<u>7,890,479</u>	<u>669,233</u>	<u>8,559,712</u>
Operating income (loss)	( 1,599,144)	60,505	( 1,538,639)
Nonoperating income (expense):			
Interest income	786,007	-	786,007
Interest expense	( 628,626)	-	( 628,626)
Income from litigation claims	<u>10,130,000</u>	<u>-</u>	<u>10,130,000</u>
Total nonoperating income	<u>10,287,381</u>	<u>-</u>	<u>10,287,381</u>
Income before operating transfers	8,688,237	60,505	8,748,742
Operating transfers out	<u>( 4,607,621)</u>	<u>(392,379)</u>	<u>( 5,000,000)</u>
Net income (loss)	4,080,616	(331,874)	3,748,742
Retained earnings (deficit), beginning of year	<u>(13,638,288)</u>	<u>1,035,590</u>	<u>(12,602,698)</u>
Retained earnings (deficit), end of year	<u><u>\$ ( 9,557,672)</u></u>	<u><u>\$ 703,716</u></u>	<u><u>\$ ( 8,853,956)</u></u>

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



STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

Combined statement of changes in financial position -  
all proprietary fund types  
for the year ended June 30, 1990

	<u>Enterprise</u>	<u>Internal service</u>	<u>Total (memorandum only)</u>
Sources of working capital:			
From operations -			
Net income (loss)	\$ 4,080,616	\$(331,874)	\$ 3,748,742
Items not requiring working capital:			
Depreciation	2,906,595	108,004	3,014,599
Prepaid repairs currently expended	18,643	-	18,643
Working capital provided from (used in) operations	7,005,854	(223,870)	6,781,984
Other sources -			
Prepaid repairs and maintenance transferred to construction in progress	6,829,985	-	6,829,985
Prepaid repairs and maintenance transferred to stadium structure	859,760	-	859,760
Increase in due to State of Hawaii	10,000	-	10,000
Increase in deposits	4,500	-	4,500
Capital contribution	3,884,905	-	3,884,905
Total sources of working capital	<u>18,595,004</u>	<u>(223,870)</u>	<u>18,371,134</u>
Uses of working capital:			
Additions to prepaid repairs and maintenance	8,277,460	-	8,277,460
Acquisition of property and equipment	11,642,209	220,465	11,862,674
Payment of bonds	399,894	-	399,894
Total uses of working capital	<u>20,319,563</u>	<u>220,465</u>	<u>20,540,028</u>
Net decrease in working capital	<u>\$(1,724,559)</u>	<u>\$(444,335)</u>	<u>\$(2,168,894)</u>
Changes in working capital:			
Increase (decrease) in current assets -			
Cash	\$(1,215,189)	\$(387,657)	\$(1,602,846)
Receivables	( 17,966)	( 4,250)	( 22,216)
Inventory of materials and supplies	415	1,819	2,234
Decrease (increase) in current liabilities -			
Current maturities of long-term debt	( 237,759)	-	( 237,759)
Contracts and vouchers payable	( 89,621)	( 5,687)	( 95,308)
Accrued expenses	( 24,743)	( 12,277)	( 37,020)
Deferred income	12,763	-	12,763
Special fund assessments payable	( 247,113)	( 36,283)	( 283,396)
Due to others	94,654	-	94,654
Net decrease in working capital	<u>\$(1,724,559)</u>	<u>\$(444,335)</u>	<u>\$(2,168,894)</u>

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



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## Response of the Affected Agency

### Comments on Agency Response

We transmitted a draft of this report to the Department of Accounting and General Services on January 8, 1991. A copy of the transmittal letter to the department is included as Attachment 1. The response from the department is included as Attachment 2.

The department agrees with our recommendations. It will establish an internal policy and procedure effective January 1, 1991, that will require all divisions and offices to annually review their outstanding encumbrances, to liquidate and lapse those encumbrances that are no longer valid, and to submit their findings to the administrative services office within a specified time period.



# ATTACHMENT 1

STATE OF HAWAII  
OFFICE OF THE AUDITOR  
465 S. King Street, Room 500  
Honolulu, Hawaii 96813



(808) 548-2450  
FAX: (808) 548-2693

January 8, 1991

C O P Y

The Honorable Russel S. Nagata  
State Comptroller  
Kalanimoku Building  
1151 Punchbowl Street  
Honolulu, Hawaii 96813

Dear Mr. Nagata:

Enclosed are three copies, numbers 6 to 8 of our draft report, *Financial Audit of the Department of Accounting and General Services*. We ask that you telephone us by Friday, January 11, 1991, on whether you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Tuesday, January 22, 1991.

The Governor and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Newton Sue  
Acting Legislative Auditor

Enclosures

JOHN WAIHEE  
GOVERNOR



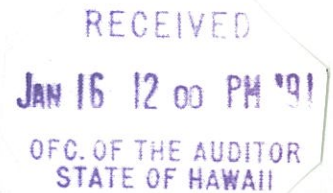
STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING  
AND GENERAL SERVICES

P. O. BOX 119  
HONOLULU, HAWAII 96810-0119

RUSSEL S. NAGATA  
COMPTROLLER

James Yasuda  
DEPUTY COMPTROLLER

January 16, 1991



Mr. Newton Sue  
Acting Legislative Auditor  
465 South King Street, Room 500  
Honolulu, Hawaii 96813

Dear Mr. Sue:

Thank you for allowing us the opportunity to review and respond to the draft report of the "Financial Audit of the Department of Accounting and General Services".

The Department of Accounting and General Services agrees with your general finding and recommendations contained in Chapter 2, Internal Control Practices, that the Department takes steps to identify and substantiate the validity of long outstanding encumbrances and to lapse those encumbrances that cannot be substantiated. Beginning in the mid-1980s, the increased workload especially in capital improvement projects and staff turnover have stretched our staffing resources to the point where we have been unable to periodically review the status of outstanding encumbrances.


In response to your recommendation, the Department is establishing an internal policy and procedure effective January 1, 1991 that will require all divisions and offices to annually review their outstanding encumbrances, to liquidate and lapse those encumbrances that are no longer valid, and to submit their findings to our Administrative Services Office within a specified time period.

We would also like to comment that your audit was conducted in a competent, professional manner, and our Department appreciated the opportunity of working with both members of your staff and the staff of the accounting firm of Coopers & Lybrand.

Mr. Newton Sue  
Page 2  
January 16, 1991

We again thank you for giving us the opportunity to  
review and respond on the report.

Very truly yours,



RUSSEL NAGATA  
Comptroller

cc: Office of the Governor