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# Financial Audit of the Department of the Attorney General

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A Report to the  
Governor  
and the  
Legislature of  
the State of  
Hawai`i

Report No. 04-05  
May 2005



**THE AUDITOR**  
STATE OF HAWAI`I

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## Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawai'i State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds are existing funds meet legislative criteria.
7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawai'i's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



### THE AUDITOR STATE OF HAWAII

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# OVERVIEW

## *Financial Audit of the Department of the Attorney General*

Report No. 05-04, May 2005

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### Summary

The Office of the Auditor and the certified public accounting firm of PricewaterhouseCoopers LLP conducted a financial audit of the Department of the Attorney General, State of Hawai'i, for the fiscal year July 1, 2003 to June 30, 2004. The audit examined the financial records and transactions of the department; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

In the opinion of the firm, the financial statements present fairly, in all material respects, the department's financial position and changes in its financial position for the fiscal year ended June 30, 2004, in conformity with generally accepted accounting principles. However, the firm was unable to apply auditing procedures to satisfy itself regarding the amounts reported as due to and held for Child Support Enforcement Agency recipients in the agency funds in the statement of fiduciary net assets and therefore, the scope of the firm's work was not sufficient to enable it to express an opinion on the aggregate remaining fund information of the department.

With respect to the department's internal control over financial reporting and operations, we found several deficiencies, including a significant reportable condition considered to be a material weakness. In the material weakness, we found that the department has never reconciled its Child Support Enforcement Agency bank account to the child support subsidiary records. Therefore, the department cannot accurately determine the amount that should be reflected as "due to and held for agency recipients."

We also found that the department's poor procurement practices resulted in noncompliance with certain provisions of the Hawai'i Public Procurement Code. Our testing of the department's procurement practices revealed that small purchase forms were not properly utilized; vendor quotations were not obtained for small purchases; competitive sealed proposal selections were not properly documented; bid opening procedures were not followed; and performance bond requirements were not met. As a result, there was no assurance that fair competition was sought by the department and that state funds were spent in an effective and cost-beneficial manner.

Finally, we found that the department's reporting process is inefficient. Compiled financial statements for the year ending June 30, 2004, were not available until February 23, 2005, nearly eight months after the fiscal year-end. Additionally, three out of 40 federal categorical assistance progress reports were not filed by their respective due dates.



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## Recommendations and Response

We recommend that the department maintain accurate and complete child support subsidiary records and ensure that the balances reconcile to the related bank accounts.

We also recommend that the department ensure compliance with the Hawai'i Public Procurement Code by 1) providing procurement training to all responsible personnel, 2) requiring division heads to ensure responsible personnel have copies of current procurement guidance, and 3) ensuring all required procurement forms and procedures are completed and complied with.

We also recommend that the department develop procedures that ensure timely year-end financial reporting. Finally, the department should establish and enforce formal written procedures to delineate responsibilities and deadlines for federal financial report completion and submission.

In its written response, the department disagrees with several of our findings and recommendations. The department disagrees with the merit and severity of our finding involving the failure to reconcile child support cash accounts and subsidiary records. In support of its stance, the department details its child support cash reconciliation procedures, while simultaneously admitting that some of the reconciling items will never be completely resolved. The department further states that we failed to consider reconciliations of and between subsidiary ledgers extracted from the automated child support system and the child support bank account, none of which support the focus of our finding—the child support benefits liability reported as “due to and held for agency recipients.” The department concludes that since the problem was *created* so long ago (1987), it cannot be severe enough to warrant a “material weakness” and should at least be downgraded to a “reportable condition.”

The department also objects to two separate procurement findings; however, evidence cited to support its claims was not found in the respective procurement files and was not mentioned by department personnel at the time of our testwork.

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**State of Hawai'i**

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# Financial Audit of the Department of the Attorney General

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A Report to the  
Governor  
and the  
Legislature of  
the State of  
Hawai`i

Conducted by

The Auditor  
State of Hawai`i  
and  
PricewaterhouseCoopers  
LLP

Submitted by

**THE AUDITOR**  
STATE OF HAWAI`I

Report No. 05-04  
May 2005

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## Foreword

This is a report of the financial audit of the Department of the Attorney General, State of Hawai'i, for the fiscal year July 1, 2003 to June 30, 2004. The audit was conducted pursuant to Section 23-4, Hawai'i Revised Statutes, which requires the State Auditor to conduct postaudits of all departments, offices, and agencies of the State and its political subdivisions. The audit was conducted by the Office of the Auditor and the certified public accounting firm of PricewaterhouseCoopers LLP.

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

Marion M. Higa  
State Auditor

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# Chapter 1

## Introduction

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This is a report of our financial audit of the Department of the Attorney General, State of Hawai`i. The audit was conducted by the Office of the Auditor and the independent certified public accounting firm of PricewaterhouseCoopers LLP. The audit was conducted pursuant to Section 23-4, Hawai`i Revised Statutes (HRS), which requires the State Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State of Hawai`i and its political subdivisions.

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## Background

The Department of the Attorney General is part of the executive branch of the State of Hawai`i. The department administers and renders legal services, including furnishing written legal opinions to the governor, Legislature, and such state departments and offices as the governor may direct; represents the State in all civil actions in which the State is a party; approves as to legality and form all documents relating to the State's acquisition of any land or interest in land; and unless otherwise provided by law, prosecutes cases involving agreements, uniform laws, or other matters that are enforceable in the courts of the State.

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## Organization

The department is headed by the attorney general. The Office of the Attorney General directs and coordinates the various activities of the department within the scope of laws, rules, and established policies. Exhibit 1.1 displays the department's organizational structure. The primary responsibilities of these units follow:

### ***Administrative Services Office***

This central office provides management, accounting, data processing, and other administrative services for the department.

### ***Legal services***

The **Administration Division** provides legal services to the Judiciary, the Office of the Governor, the Office of the Lieutenant Governor, the Department of Accounting and General Services, and the Department of Budget and Finance.

The **Civil Recoveries Division** systematically recovers and collects moneys ranging from accounts receivable, dishonored checks, delinquent loans, salary and benefit overpayments, complex delinquent child

support cases, unpaid traffic fines, 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.

The **Civil Rights Litigation Division** provides legal defense to the State, its department/agencies, and certain state employees' in lawsuits or other claims that involve allegations of constitutional/civil rights violations.

The **Commerce and Economic Development Division** provides legal services to the Department of Business, Economic Development, and Tourism and the Department of Commerce and Consumer Affairs. The antitrust section is responsible for mediating, investigating, and prosecuting antitrust law violations.

The **Criminal Justice Division** reviews and prosecutes, if appropriate, cases referred to the department for criminal actions involving a state official or agency, or criminal cases with statewide impact. The division also provides assistance to the Office of the Prosecuting Attorney in each county, coordinates investigations and prosecutions of crimes occurring in more than one county, and develops special prosecution units to investigate and prosecute selected crimes.

The **Education Division** provides legal services to the Board of Education, state educational institutions, the Department of Education, and the Department of Health as it relates to *Felix* consent decree matters, the Office of Elections, the Judiciary, as well as the Legislature.

The **Employment Law Division** is responsible for advising, counseling, and representing the State in all matters arising out of its activities as an employer.

The **Family Law Division** provides representation at Family Court for the Department of Human Services in child abuse and neglect cases and provides legal services to other state agencies.

The **Health and Human Services Division** furnishes legal services to the Department of Health and the Department of Human Services, except for Family Court matters.

The **Labor Division** assists the Department of Labor and Industrial Relations in the interpretation of state statutes and their application to factual situations, many of which arise in the context of decision-making under programs such as workers' compensation, unemployment insurance, occupational safety and health, wage and hour, and fair employment practices. It also advises the Department of Labor and

Industrial Relations with regard to the interpretation of federal statutes and federal common law.

The **Land/Transportation Division** provides legal services on all matters relating to the Department of Land and Natural Resources and the Department of Transportation, including the preparation of deeds, leases, easements, grants, and litigation-related documents for cases involving injunctions, condemnations, and quiet title handled by the Litigation Division.

The **Legislative Division** provides legal services on all matters pertaining to legislation and to administrative rules to be adopted pursuant to valid delegations of legislative authority.

The **Medicaid Investigations Division** is responsible for planning, supervising, and coordinating the investigations of provider fraud and abuse in the Medicaid program.

The **Public Safety, Hawaiian Homelands, and Housing Division** provides legal services to the Department of Public Safety (except for civil litigation matters), the Department of Hawaiian Home Lands, and the Hawai'i Community Development Corporation of Hawai'i.

The **Special Assignment Division** provides legal services on any special assignment as determined by the attorney general or the special assistant to the attorney general.

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 also contains a bankruptcy unit devoted to handling all bankruptcy cases for the Departments of Taxation and Human Services. The division also represents the Attorney General in the oversight and enforcement of charitable trusts.

The **Tort Litigation Division** provides legal defense to personal injury lawsuits/claims made against the State and/or its departments and agencies.

### ***Other divisions***

The **Child Support Enforcement Agency** formulates and implements the state child support enforcement plan as required under Title IV-D of the Social Security Act and administers Chapter 576D, HRS, in accordance with Title IV-D and applicable state laws.

The **Crime Prevention and Justice Assistance Division** serves as a central agency for the maintenance of information regarding financial

(federal and state funds) and nonfinancial resources available to assist in improving the coordination of programs of the criminal justice and juvenile justice systems and agencies.

The **Hawai'i Criminal Justice Data Center** manages the criminal justice information system and the criminal justice telecommunications network, provides statistical information, and coordinates criminal identification resources in support of the criminal justice process in the State. The center also manages the State's civil identification program.

The **Investigations Division** provides criminal, civil, and administrative investigative services. It investigates the nonconformance or nonadherence to statutes or regulations of municipal and state agencies; investigates fraud and abuse directed against the state medical assistance (Medicaid) program; investigates matters submitted to the Office of the Governor through the board of pardons, parole or independent channels that involve the disposition of persons convicted of criminal offenses; and provides security services to the governor, her immediate family, other state officials, and visiting officials as required.

### ***Attached agencies***

These following agencies are attached to the department for administrative purposes:

The **Commission to Promote Uniform Legislation** provides advice on matters relating to the promotion of uniform legislation in accordance with Chapter 3 (Uniformity of Legislation), HRS, and Section 26-7, HRS. The five commission members are appointed by the governor and confirmed by the Senate and serve without compensation for a term of four years.

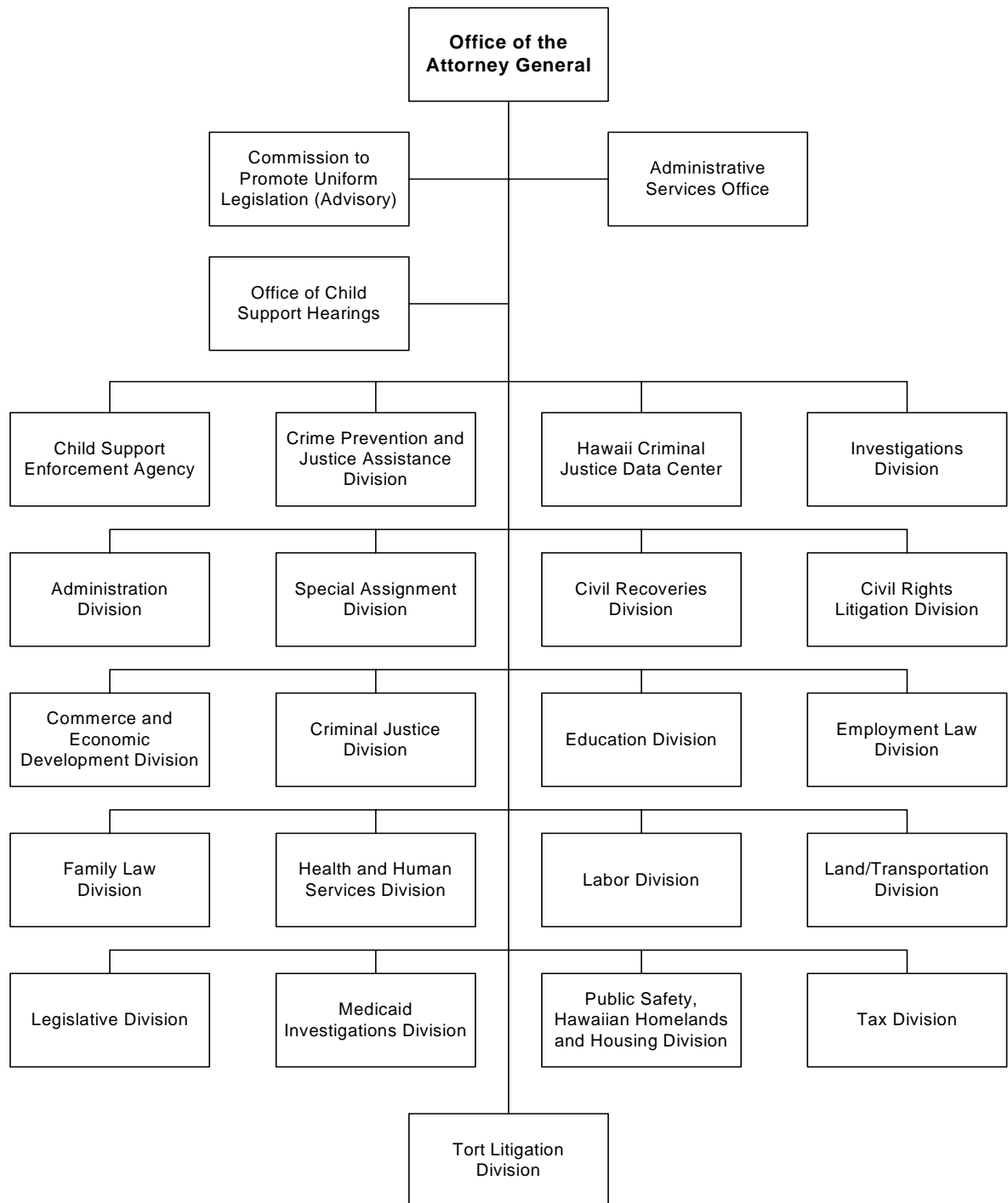
The **Office of Child Support Hearings** establishes, modifies, enforces, suspends, and terminates support obligations owed to dependent children by parents, through an administrative process in accordance with state and federal laws.

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## **Objectives of the Audit**

1. Assess the adequacy, effectiveness, and efficiency of the systems and procedures for the financial accounting, internal control, and financial reporting of the Department of the Attorney General; recommend improvements to such systems, procedures, and reports; and report on the fairness of the financial statements of the department.

**Exhibit 1.1**  
**State of Hawaiʻi**  
**Department of the Attorney General**  
**Organizational Chart**



Source: Department of the Attorney General

2. Ascertain whether expenditures or deductions and other disbursements have been made and all revenues or additions and other receipts have been collected and accounted for in accordance with federal and state laws, rules and regulations, and policies and procedures.
3. Make recommendations as appropriate.

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## Scope and Methodology

We audited the financial records and transactions, and reviewed the related systems of accounting and internal controls of the department, for fiscal year July 1, 2003 to June 30, 2004. We tested financial data to provide a basis to report on the fairness of the presentation of the financial statements. We also reviewed the department's transactions, systems, and procedures for compliance with applicable laws, regulations, and contracts.

We examined the department's accounting, reporting, and internal control structure, and identified deficiencies and weaknesses therein. We made recommendations for appropriate improvements including, but not limited to, the department's management and administration of contracts, forms and records, and accounting and operating procedures.

In addition, we reviewed the extent to which recommendations made in the department's previous external financial audit report have been implemented. Where recommendations have not been implemented in whole or in part, the reasons were evaluated.

The independent auditors' opinion as to the fairness of the department's financial statements presented in Chapter 3 is that of PricewaterhouseCoopers LLP. The audit was conducted from July 2004 through March 2005 according to auditing standards generally accepted in the United States of America as set forth by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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# Chapter 2

## Internal Control Deficiencies

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Internal controls are steps instituted by management to ensure that objectives are met and resources are safeguarded. This chapter presents our findings and recommendations on the financial accounting and internal control practices and procedures of the Department of the Attorney General.

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### Summary of Finding

We found a material weakness and several reportable conditions involving the department's internal control over financial reporting and operations. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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. Reportable conditions are significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following matter is considered a material weakness:

1. The department has never reconciled its Child Support Enforcement Agency (CSEA) bank account to child support subsidiary records. Therefore, the department cannot determine the amount that should be reflected as due to and held for agency recipients.

We also found reportable conditions as follows:

2. The department's poor procurement practices resulted in noncompliance with certain provisions of the Hawai'i Public Procurement Code. Our testing of the department's procurement practices revealed that small purchase forms were not properly utilized; vendor quotations were not obtained for small purchases; competitive sealed proposal selections were not properly documented; bid opening procedures were not followed; and performance bond requirements were not met. There is no assurance that fair competition was sought by the department and that state funds were spent in an effective and cost-beneficial manner.

3. Financial reports are untimely. The department's year-end financial reporting process is inefficient. Additionally, several federal financial reports were not filed by their respective due dates.

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## **The Department Does Not Reconcile the CSEA Bank Account to Child Support Subsidiary Records**

The department has never properly reconciled its CSEA bank account to child support subsidiary records. As a result, the department cannot determine the accuracy of the CSEA \$5.0 million liability that is reflected as due to and held for agency recipients in the statement of fiduciary net assets at June 30, 2004. Without a proper reconciliation, the department cannot be assured that the amount of cash available or the amount of cash owed for child support benefits is accurate.

The CSEA serves a custodial role in collecting, recording, and disbursing child support benefits. The department uses the automated child support enforcement system KEIKI, implemented in April 1998, to track receipts and disbursements for the various child support cases. As of June 30, 2004, there were approximately 111,000 active child support benefit cases; the department reported \$4.8 million in cash available for payments and \$5.0 million in amounts owed. We note that differences in the cash available and related liability can arise from timing differences in receipts and disbursements. Total child support cash receipts and disbursements were \$103 million and \$107 million, respectively, for the year ended June 30, 2004. As authorized under Section 576D-10, HRS, the CSEA holds this cash in a separate bank account outside the state treasury.

A sound internal control system would require a monthly reconciliation of this bank account to arrive at the book balance, by adjusting the bank account balance to reflect items such as outstanding checks and deposits-in-transit. This book balance represents the actual amount of cash available and is the amount that should be reported in the department's financial statements. Furthermore, the book balance should then be reconciled to the KEIKI system balance to ensure the accuracy of both the cash on hand and the amounts owed in child support benefits.

The department began performing monthly reconciliations of the CSEA bank account in May 2000; however, these procedures do not ensure an accurate cash balance. No reconciliations had been performed prior to May 2000. When the department began its monthly reconciliations of the CSEA bank account, there was no reliable method to determine the proper beginning cash balance. The department simply derived the book balance of cash by taking the May 31, 2000, bank balance and adjusting it for known outstanding checks and deposits-in-transit. As adjusted, the CSEA book balance of cash rose from a negative \$4 million balance to a positive \$4.9 million balance, a total adjustment of \$8.9 million. Other



reconciling items may have existed, but been overlooked. As a result, there is uncertainty regarding accuracy of the cash balance at the time of the first reconciliation. This uncertainty will be carried forward until a thorough reconciliation of the cash account is performed.

The effects of the uncertainty of the cash available for child support benefit payments is amplified by inaccuracies involving the offsetting amounts owed for child support benefits. The department is capable of verifying individual case balances by reviewing account histories and related supporting documents. However, the department cannot accurately attest to a total amount owed for all child support benefit cases. Poor recordkeeping of individual cases in prior years, coupled with the sheer volume of existing cases, preclude a thorough reconciliation to ensure liabilities under the child support enforcement system are accurate. The KEIKI system itself contributes to the problem. It is incapable of providing a single listing of all child support cases and the total amount owed for child support. We do note, however, that KEIKI does meet federal child support enforcement system requirements and that the department is in the process of improving the system's documentation and reporting capabilities.

There is no feasible way of verifying the accuracy of cash available and owed for child support benefits as reported. As a result, the significance of these problems resulted in the issuance of a disclaimer of opinion on the aggregate remaining fund information which comprise the fiduciary funds and other governmental funds of the department's June 30, 2004 financial statements.

Furthermore, we were informed that, in reports to the Department of Accounting and General Services (DAGS), which generates the department's general ledger, CSEA improperly reports bank balances rather than book balances related to cash in banks held outside the state treasury. CSEA staff are unable to reconcile the account and determine the book balance for timely reporting to DAGS. We reviewed the department's June 30, 2003, audited financial statements and noted that CSEA's reported cash balance reflected the bank balance of \$7.9 million rather than the book balance of \$4.6 million, a potential overstatement of \$3.3 million. The department's June 30, 2004, general ledger, generated by DAGS, also reflected CSEA's bank balance of \$7.0 million rather than the book balance of \$4.8 million. However, the FY2003-04 financial statements were subsequently adjusted to properly reflect the book balance of cash.

Without proper reconciliations of and between both the cash available *and* the amounts owed for child support benefits, the department cannot accurately state either balance. Moreover, any errors, whether unintentional or intentional, could go unnoticed and uncorrected.

***Recommendation***

The department should maintain accurate and complete child support subsidiary records and ensure the balances reconcile to the CSEA bank accounts. Additionally, the department should ensure that the cash balances reported to DAGS are the department's book balances rather than bank balances. Finally, the department should continue efforts to enhance the functionality of its child support enforcement system.

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**The Department's  
Poor Procurement  
Practices Resulted  
in Noncompliance**

We found instances of the department's noncompliance with the Hawai'i Public Procurement Code. Our testing of procurement practices revealed that small purchase forms were not properly utilized, vendor quotations were not obtained for small purchases, competitive sealed proposal selections were not properly documented, bid opening procedures were not followed, and performance bond requirements were not met.

The department's procurement process is decentralized and is handled by personnel of the various divisions. The department informed us that when the State Procurement Office (SPO) distributes procurement rule changes to chief procurement officers (CPO), the department's CPO disseminates these changes to division heads. Division heads are in turn responsible for providing these changes to the appropriate personnel within their respective divisions. However, some of the personnel responsible for procuring goods and services were not aware of the procurement rules or did not have the most recent rules, calling into question the systematic dissemination of rules and rule changes.

The lack of communication and awareness of updated procurement policies is the underlying cause for all of the procurement violations identified by our audit and described below.

***Noncompliance with  
rules on small  
purchase procurement***

We tested a sample of 30 small purchases and noted six instances in which the department either failed to complete the required small purchase form, completed an outdated small purchase form, or did not obtain the required written quotes from vendors as follows:

1. The department purchased computers for \$3,091 and completed the Record of Computer Equipment Purchase form as provided in the SPO computer equipment and services vendor list dated November 1, 2000, to September 2, 2002. However, the SPO computer equipment and services vendor list was revised on July 18, 2003, effective from November 1, 2000, to September 2, 2004, and requires that SPO Form-10 Record of Small Purchase (SPO Form-10) be completed.

2. The department purchased computers for \$15,790, but did not obtain a minimum of two written quotes, as recommended by the SPO. The requester failed to complete SPO Form-10 as required. The requester was not aware of this requirement. As a result, no documentation exists to explain the reasons for not obtaining quotations from more than one vendor for price comparison, as required by SPO Form-10. In addition, the chief procurement officer or designee must indicate purchase approval on SPO Form-10.
3. The department failed to complete SPO Form-10 for transcription services obtained amounting to \$2,366. Accordingly, no record of quotations (written or verbal) from vendors is on file. The department informed us that staff did not complete SPO Form-10 for these services to avoid delaying the timing of depositions. The department has difficulty finding transcribers available during specified periods. The individual who approved the purchase order was not aware that SPO Form-10 was required or that purchase approval had to be noted on the form.
4. The department purchased uniforms for \$5,053 and supplies for \$1,370, but did not complete SPO Form-10 or obtain three price quotations from vendors for either purchase. The individual who purchased these items was not aware of the requirements. The individual informed us that the same vendors are utilized to purchase uniforms and supplies for the timeliness of deliveries and the vendor's ability to accommodate the department's needs.
5. SPO Form-10 was not completed and approved for registration fees amounting to \$2,590 for two department employees attending a project planning and tracking workshop. The department informed us that completion of the form was overlooked since registration fees for training are usually less than \$1,000 and therefore, under the small purchase procurement threshold of \$1,000.
6. A written quotation was not obtained for a copier maintenance agreement costing \$1,028. The SPO copiers and facsimile machines vendor list dated February 1, 2002, through July 31, 2005, lists the vendors authorized to sell, lease and/or rent, and provide services for copiers and facsimile machines. The list requires at least one quotation from vendors on the list for expenditures less than \$5,000. The vendor's quotation or pricing information from the vendor's web site or catalog should be retained for verification purposes. The department informed us that staff were not aware that a quotation was required since only one vendor services the type of copier used by the department.

The SPO's Circular No. 1997-06 provides guidelines for small purchase procurements, which are those less than \$25,000. The circular requires at least three quotations (verbally or by facsimile) for purchases of \$1,000 or more, but less than \$15,000, and at least three written quotations for purchases of \$15,000 or more, but less than \$25,000. The award for goods or services must consider price, quality, warranty, and delivery, and be offered to the most advantageous bid. If it is not practical to solicit three quotations or if the award was made to other than the lowest bidder, justification must be documented on the SPO Form-10, or similar form, and retained in the department's procurement file.

Without completion of proper small purchase forms and the obtainment of required quotations, the department cannot ensure that fair competition was properly sought. Furthermore, there is no assurance that state funds were spent in an effective and cost-beneficial manner.

***The department violated the Hawai'i Procurement Code in two out of three competitive sealed proposal contracts***

The department executed three contracts through competitive sealed proposals during the FY2003-04. Two of these contracts was for upgrading the CSEA KEIKI system and violated several provisions of the procurement code relating to documenting justification of vendor selection, receiving of bids, and performance bonds. The two contracts in question are as follows:

Division	Contract Number	Execution Date	Contract Amount
Child Support Enforcement Agency	52226	June 1, 2004	\$1,333,842
Child Support Enforcement Agency	52227	June 1, 2004	\$868,849

**The department did not document justification for the selection of competitive sealed proposal bids**

The two contracts identified above had only one vendor submitting a proposal. However, the department could not provide documentation of the chief procurement officer's determination that the price was fair and reasonable and that prospective offerors had reasonable opportunity to respond. The department's electronic mail to the vendor confirmed the best and final offer and award of both contracts to the vendor. The department was not aware of the requirement for documented justification when a single offeror is selected in a competitive sealed proposal process.

Section 3-122-59, Hawai'i Administrative Rules (HAR), provides that if there is only one responsible offeror submitting an acceptable proposal, then an award may be made to the single offeror, provided the procurement officer determines in writing that the price submitted is fair and reasonable and that either: (A) other prospective offerors had reasonable opportunity to respond, or (B) there is not adequate time for resolicitation.

The department's failure to properly document its justification of an award to a single offeror raises doubts about its efforts to seek fair competition. Furthermore, there is no assurance that state funds were spent in an effective and cost-beneficial manner.

### **Bid opening procedures need improvement**

For the two CSEA contracts identified above, bids were not properly time-stamped upon receipt, as required by Section 3-122-30, HAR. As previously noted, only one vendor submitted proposals for both of these contracts and the proposals were submitted in a banker's box. The administrative secretary informed us that she had time-stamped a Post-it® and affixed it to the banker's box, but did not obtain approval from the chief procurement officer to utilize this method. The box was not retained, leaving no evidence that the bidder had submitted its proposals in a timely fashion.

The department asserted that since the proposals were submitted in a banker's box, the box could not be time-stamped. Section 3-122-30, HAR, provides that each bid be time-stamped upon receipt. Purchasing agencies may use other methods of receipt when approved by the chief procurement officer. By not complying with procurement rules to time-stamp submitted bids, the department cannot demonstrate that the awarded bid was actually received by the official due date. The SPO procurement manual provides that bid receipt, accuracy of the time and date stamp, security of storage, and restricted personnel access to bid documents are important components in the public perception of the integrity of the purchasing process.

Similar to the previous instances, this is another example of the department not being aware of the procurement requirements. Section 103D-320, HRS, provides that all procurement records shall be retained and disposed of in accordance with Chapter 94, HRS, and record retention guidelines and schedules approved by the State of Hawai'i comptroller. Furthermore, all time-stamped envelopes or other items should be retained as evidence of timely bid submissions.

### **Noncompliance related to performance bonds**

The two CSEA contracts in question required performance bonds, but this requirement was not approved by the chief procurement officer, as required by Section 3-122-224, HAR, for goods and services contracts (performance bonds, when required by rule, ordinarily apply to construction contracts). Both of these contracts were to upgrade the CSEA KEIKI system to retain historical information for management reporting and to install a data modeling system. The request for proposals required that the contractor provide a performance bond payable to the State of Hawai'i, for an amount equal to the total costs of the bidder's proposal.

Section 3-122-224, HAR, provides that performance and payment bonds are required for goods and services contracts exceeding the limits of section 103D-305, HRS, when the head of the purchasing agency has secured the approval of the chief procurement officer. It further provides that the amount of the performance bonds for goods and services shall not exceed 50 percent of the amount of the contract price.

The department informed us that the information technology manager of the CSEA division had created the request for proposals and was not aware of the requirement to obtain approval from the chief procurement officer to require a performance bond for these services nor was he aware of the 50 percent performance bond allowance. We were informed that the department's deputy attorney general had also reviewed the request for proposals, but did not identify these violations at that time.

The validity of the contracts and performance bonds were brought into question when the department failed to obtain the requisite approval and in addition, exceeded the stipulated performance bond amount. The department's deputy attorney general, however, discovered these violations after the contracts were executed. Consequently, the department reported these procurement violations to the chief procurement officer in June 2004, providing explanations and taking corrective actions. On June 30, 2004, the chief procurement officer approved the SPO Form-16, "Procurement Violation: Report of Findings and Corrective Actions – Request for After-the-Fact Payment Approval."

### **Recommendations**

The department should comply with the Hawai'i Public Procurement Code and applicable procurement rules as follows:

1. The department should provide appropriate training to ensure all personnel involved in the procurement process are knowledgeable about the procurement requirements.

2. The division heads should ensure that each division has a complete set of procurement rules, circulars, and directives and that changes to these documents are properly and timely disbursed to the appropriate personnel within their divisions.
3. The required forms are completed and approved and proper quotations are solicited.
4. Proper documentation is retained in the contract files with the department's justification for selecting any single offeror for competitive sealed proposals.
5. All bids are time-stamped, or approval is obtained from the chief procurement officer to utilize another method.
6. The proper performance bonds are requested.

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## **Financial Reports Are Untimely**

Accurate and timely financial reports provide management with an effective decision making tool. Without timely information, management may not be adequately equipped to evaluate an organization's performance and determine appropriate courses of action. We found that the department's year-end financial reporting process is inefficient. We also found that certain federal financial reports were filed past their deadlines.

Although contractors may provide assistance, it is ultimately the department's responsibility to ensure that its financial statements are compiled in a timely manner. Compiled financial statements as of June 30, 2004, were not made available to us until February 23, 2005, nearly eight months after the fiscal year-end. This tardiness was a major contributing factor in delaying completion of our audit.

We also tested 40 federal reports filed in FY2003-04 and noted that the department had filed three of the categorical assistance progress reports after the required submittal dates, as follows:

<b>Federal Grant Number</b>	<b>Federal Grant Award</b>	<b>Semi-Annual Period End</b>	<b>Date Due</b>	<b>Date Submitted</b>	<b>Number of Days Late</b>
2000-RG-CX-K011	\$2,200,000	December 31, 2003	January 30, 2004	February 26, 2004	27 days
2000-RG-CX-K011	\$2,200,000	June 30, 2004	July 30, 2004	September 10, 2004	42 days
2003-DD-BX-1060	\$1,788,300	June 30, 2004	July 30, 2004	September 10, 2004	42 days

Federal regulations provide that no further moneys or other benefits can be paid out under related programs unless the categorical assistance progress report is completed and filed. See Uniform Administrative Requirements for Grants and Cooperative Agreements, Code of Federal Regulations, Title 28, Part 66, Common Rule, Office of Management and Budget Circular No. A-110. The instructions for completing the categorical assistance progress report dated April 2003 requires submission no later than January 30 and July 30 for the respective semi-annual reports.

The department does not have any formal written procedures assigning responsibility to ensure submission of the federal reports is timely. The department informed us that the tardiness was due to the oversight of the individual responsible for completing and submitting the reports. Although the department was not assessed any penalty, untimely submittal of reports to the federal government could result in penalties to the department or jeopardize future federal funding.

### ***Recommendation***

The department should develop procedures that ensure timely year-end financial reporting. The department should also establish and enforce formal written procedures to delineate responsibilities and deadlines for federal financial report completion and submission.



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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 the Attorney General as of and for the fiscal year ended June 30, 2004. This chapter includes the independent auditors' report and the report on internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. It also displays the department's financial statements together with explanatory notes.

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### Summary of Findings

In the opinion of PricewaterhouseCoopers LLP, based on its audit, the financial statements present fairly, in all material respects, the financial position of the governmental activities and each major fund for the department as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the general and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. However, PricewaterhouseCoopers LLP was not able to apply auditing procedures to satisfy itself regarding the amounts reported as due to and held for agency recipients in the agency funds in the statement of fiduciary net assets and therefore, the scope of its work was not sufficient to enable it to express an opinion on the aggregate remaining fund information of the department as of and for the fiscal year ended June 30, 2004.

PricewaterhouseCoopers LLP also noted certain matters involving the department's internal control over financial reporting and its operations that the firm considered to be a material weakness and reportable conditions. PricewaterhouseCoopers LLP noted that the results of its tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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### Independent Auditors' Report

The Auditor  
State of Hawaii:

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,

2004, which collectively comprise the department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the department's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the second succeeding paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

As discussed in Note 1, the financial statements of the department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that are attributable to the transactions of the department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The department's accounting records do not provide sufficient evidence to support the amounts that are reported as due to and held for agency recipients of \$4,951,046 as of June 30, 2004, reported in the agency funds in the statement of fiduciary net assets to permit the application of adequate auditing procedures.

Because we were not able to apply auditing procedures to satisfy ourselves regarding the amounts reported as due to and held for agency recipients in the agency funds in the statement of fiduciary net assets, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the aggregate remaining fund information of the department as of and for the year ended June 30, 2004.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund for the department as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the general and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The department has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2005, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/ PricewaterhouseCoopers LLP

Honolulu, Hawaii  
March 18, 2005

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**Report of  
Independent  
Auditors on  
Internal Control  
Over Financial  
Reporting and on  
Compliance and  
Other Matters  
Based on an Audit  
of Financial  
Statements  
Performed in  
Accordance with  
Government  
Auditing  
Standards**

The Auditor  
State of Hawaii:

Except as discussed in the following paragraph, we have audited 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, 2004, which collectively comprise the department's basic financial statements and have issued our report thereon dated March 18, 2005, which includes a disclaimer of opinion on the aggregate remaining fund information of the department. 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.

As described more fully in Chapter 2 of this report, the department's accounting records do not provide sufficient evidence to support the amounts that are reported as due to and held for agency recipients in the statement of fiduciary net assets as of June 30, 2004, and which represents part of the department's aggregate remaining fund information to perform the application of adequate auditing procedures.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions have been reported to the Auditor, State of Hawaii, and described in Chapter 2 of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control

components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted a material weakness as the department's accounting records do not provide sufficient evidence to support the amounts that are reported as due to and held for agency recipients and have reported this matter to the Auditor, State of Hawaii, and described the material weakness in Chapter 2 of this report.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, 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 we have reported to the Auditor, State of Hawaii, and described in Chapter 2 of this report.

This report is intended solely for the information and use of the Auditor, State of Hawaii, and management of the department, and is not intended to be and should not be used by anyone other than those specified parties.

/s/ PricewaterhouseCoopers LLP

Honolulu, Hawaii  
March 18, 2005

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## Description of Basic Financial Statements

The following is a brief description of the basic financial statements audited by PricewaterhouseCoopers LLP, which are presented at the end of this chapter.

### *Basic financial statements*

#### **Government-Wide Financial Statements**

**Statement of Net Assets (Exhibit 3.1).** This statement presents assets, liabilities, and net assets of the department at June 30, 2004 using the accrual basis of accounting. This approach includes reporting not just current assets and liabilities, but also capital assets and long-term liabilities. The department's net assets are classified as invested in capital assets, restricted or unrestricted. Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The restricted net assets result from special revenue funds and the restrictions on their net asset use.

**Statement of Activities (Exhibit 3.2).** This statement presents revenues, expenses, and changes in net assets of the department for the year ended June 30, 2004, using the accrual basis of accounting and presents a comparison between direct expenses and program revenues. 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. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing. Under this approach, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

#### **Fund Financial Statements**

**Balance Sheet – Governmental Funds (Exhibit 3.3).** This statement presents assets, liabilities, and fund balances by major governmental fund and the aggregate remaining fund information using the current financial resources measurement focus and modified accrual basis of accounting. Because the emphasis of this statement is on current financial resources, capital assets, and long-term liabilities are not reported.

**Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit 3.4).** This statement presents revenues, expenditures, and changes in fund balances by major governmental fund and the aggregate remaining fund information using the current financial resources measurement focus and modified accrual basis of accounting. Under this approach, revenues are recognized when measurable and available, while expenditures are recorded when the related fund liability is incurred.

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities (Exhibit 3.5).** This reconciliation identifies the types of differences reported in the statement of revenues, expenditures and changes in fund balances in comparison to the statement of activities.

***Budgetary comparison statement (Exhibit 3.6)***

This statement compares actual revenues and expenditures of the department's general and major special revenue funds on a budgetary basis to the budget adopted by the State Legislature for the year ended June 30, 2004.

***Statement of fiduciary net assets (Exhibit 3.7)***

This statement presents the assets and liabilities of the department's agency funds.

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**Notes to Basic Financial Statements**

Explanatory notes that are pertinent to an understanding of the basic financial statements and financial condition of the department are discussed in this section.

***Note 1 – Financial Statement Presentation***

**Reporting Entity**

The Department of the Attorney General is part of the executive branch of the State of Hawai'i. The department 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 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 enforceable in the courts of the State.

The financial statements of the department present the financial position and the changes in financial position of only that portion of the

governmental activities, each major fund, and the aggregate remaining fund information of the State that are attributable to the transactions of the department. The State Comptroller maintains the central accounts for all state funds and publishes comprehensive financial statements for the State annually, which include the department's financial activities.

## ***Note 2 – Summary of Significant Accounting Policies***

### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The accounting policies of the department conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) through its statements and interpretations. The government-wide statement of net assets and statement of activities are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these activities are included on the statement of net assets.

The accounts of the department are organized and operated on a fund basis. Each fund is a separate fiscal and accounting entity, consisting of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures, as appropriate. The funds are segregated for the purpose of carrying on specific activities or attaining certain objectives. The department uses governmental-fund types.

Governmental-fund types are those through which the acquisition, use, and balances of the department's expendable available financial resources and the related liabilities are accounted for. The measurement focus is upon the availability and use of resources and changes in financial position rather than upon net income determination. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The revenues and expenditures represent increases and decreases in net current assets. The following are the department's governmental-fund types:

General Fund – accounts for all financial activities of the department, except those required to be accounted for in another fund. The general fund presented is a part of the State's general fund and is limited only to those appropriations and obligations of the department.

Special Revenue Funds – account for the proceeds of specific revenue sources that are legally restricted to be expended for specified purposes. The department's major special revenue funds are as follows:

*Child Support Enforcement* – accounts for revenues and expenditures of providing child support services.



*Legal Services* – accounts for revenues and expenditures of providing legal services to the State.

All governmental-fund types are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, that is, both measurable and available, usually when the appropriations are allotted. Expenditures are generally recognized when the related liability is incurred, except for accumulated unpaid vacation and workers compensation benefits, which are recognized as expenditures when payable with expendable available financial resources.

When both restricted and unrestricted resources are available for use, it is the department's policy to use restricted resources first, and then unrestricted resources as they are needed.

In applying the susceptible-to-accrual concept to federal grant revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Under most of the department's federal programs, moneys must be expended for a specific purpose or project; therefore, revenue is recognized to the extent that expenditures are recognized.

Fiduciary Funds – The department has four agency funds. The fiduciary funds are purely custodial and thus cannot be said to have a measurement focus. Agency funds use the accrual basis of accounting to recognize receivables and payables and report only assets and liabilities.

## **Encumbrances**

Encumbrance accounting is employed in the governmental-fund types, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balances since the commitments will be honored when the goods or services are received.

## **Cash**

The department's cash is held primarily by the State Treasury and pooled with funds from other state agencies and departments. At June 30, 2004, information related to the insurance and collateral of funds deposited into the State Treasury was not available, since such information is determined on a statewide basis and not for individual departments. Cash deposits into the State Treasury are either federally insured or collateralized with obligations of the State or United States government. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

The department also maintains demand deposit bank accounts, which are held separately from the State Treasury.

### **Capital Assets**

Capital assets are not capitalized in the governmental funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the statement of net assets. Capital assets are recorded at cost on the date of acquisition, or if donated, at appraised value on the date of donation. Maintenance, repairs, minor replacements, renewals, and betterments are charged to operations as incurred. Capital assets are defined as assets with an initial individual cost of \$5,000 or more for equipment and \$100,000 for buildings and improvements. Depreciation is recorded on capital assets on the government-wide statement of activities. Depreciation is computed using the straight-line method over the following estimated useful lives:

Building and improvements	30 years
Furniture and equipment	7 years

Departments sharing the same building and improvements with other departments of the State report their allocated share of the cost as determined by the Department of Accounting and General Services.

### **Interfund Receivables/Payables**

The general fund and other governmental funds of the department reflected interfund receivables and payables for expense reimbursements owed between funds, which are classified as “due from/to other funds.”

### **Due to State of Hawai`i**

This account consists of reimbursements for expenditures paid by the State’s general fund on behalf of the special revenue funds.

### **Accrued Vacation**

Vacation pay is accrued as earned by employees. Employees hired on or before July 1, 2001, earn vacation at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001, earn vacation at rates ranging between one and two working days for each month of service, depending upon the employees’ years of service and job classification. Vacation days may be accumulated to a maximum of 90 days at the end of the calendar year and is convertible to pay upon termination of employment. The employees’ accrued vacation is expected to be liquidated with future expendable resources and is therefore accrued in the statement of net assets.

## Grants and Deferred Revenue

Grants are recorded as due from grantor and intergovernmental revenues when the related expenditures are incurred.

The Child Support Enforcement Agency (CSEA) receives child support payments on behalf of custodial parents receiving financial aid under the Temporary Assistance for Needy Families (TANF) program from the Department of Human Services. Under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), CSEA is entitled to retain a percentage of the collections to fund its operations. The deferred revenues of \$985,530 represent CSEA's unspent collections as of June 30, 2004.

## Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund.

## Use of Estimates

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

### ***Note 3 – Budgeting and Budgetary Control***

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Budgeted revenues in the budgetary comparison statement are those estimates as compiled by the department and budgeted expenditures are derived primarily from acts of the State legislature and from other authorizations contained in other specific appropriation acts in various Session Laws of Hawai'i.

A comparison of budgeted and actual (budgetary basis) revenues and expenditures of the general and major special revenue funds are presented in the budgetary comparison statement – general fund and special revenue funds. The final legally-adopted budget in the budgetary comparison statement represents the original appropriations, transfers, and other legally authorized legislative changes.

The legal level of budgetary control is maintained at the appropriation line-item level by department, program, and source of funds as established in the appropriations acts. The governor is authorized to

transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the department.

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 dates and any other contingencies that may terminate the authorizations for other appropriations.

Differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with generally accepted accounting principles are mainly due to the different method used to recognize resource uses. For budgeting purposes, revenues are recognized when cash is received and expenditures are recognized when cash disbursements are made or funds are encumbered. In the accompanying financial statements presented in accordance with generally accepted accounting principles, revenues are recognized when they become available and measurable, and expenditures are recognized as incurred.

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles (GAAP) follows:

	General Fund	Child Support Enforcement	Legal Services
<b>Sources/inflows of resources</b>			
Actual amounts (budgetary basis)			
“available for appropriation” from the budgetary comparison statement	\$23,604,488	\$11,887,639	\$8,776,638
Differences – budget to GAAP			
The fund (balance) deficit at the beginning of the year affects budgetary resources but not revenues for financial reporting purposes	(50,429)	(868,277)	1,577,930
Revenues for financial reporting purposes which are not budgetary resources	10,730,738	50,320	3,818,680
Budgetary resources not revenues for financial reporting purposes	(1,095,784)	--	--
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance – governmental funds	<u>\$33,189,013</u>	<u>\$11,069,682</u>	<u>\$14,173,248</u>
<b>Uses/outflows of resources</b>			
Actual amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison statement	\$23,265,360	\$12,944,336	\$9,268,621
Differences – budget to GAAP			
Reserve for encumbrances at year-end are outflows of budgetary resources but are not expenditures for financial reporting purposes	(1,481,089)	(2,365,712)	--
Adjustments for accrued expenses, which are not outflows of budgetary resources but are expenditures for financial reporting purposes	10,062,357	(351,966)	(1,585,407)
Other expenditures for financial reporting purposes that are not outflows of budgetary resources	--	1,327,945	2,240,237
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances – governmental funds	<u>\$31,846,628</u>	<u>\$11,554,603</u>	<u>\$9,923,451</u>

**Note 4 – Reconciliation  
of Government-wide  
and Fund Financial  
Statements**

The governmental funds balance sheet includes a reconciliation between fund balance of total governmental funds and net assets of governmental activities, as reported in the statement of net assets. The reconciling items include differences in reporting of capital assets and long-term liabilities, which represent accrued vacation.

The reconciliation of the net change in fund balances of the total governmental funds statement of revenues, expenditures, and changes in fund balances to the changes in net assets reported in the statement of activities include differences in reporting of capital assets, depreciation expense and compensated absences.

**Note 5 – Cash**

The department maintains a bank account held separately from the State Treasury to be used solely to account for the federal share of child support payment collections retained by CSEA under PRWORA and the TANF programs. As the use of these funds are for CSEA's benefit, this account is reflected in cash under the special revenue fund for Child Support Enforcement. As of June 30, 2004, the carrying amount of this bank account was \$2,022,996.

The second bank account held separately from the State Treasury is used for CSEA's child support collections and disbursements. As of June 30, 2004, the carrying amount of this agency fund account was \$4,552,446 and is reflected in the cash balance in the statement of fiduciary net assets. The department has not reconciled this CSEA bank account to child support subsidiary records through June 30, 2004. Therefore, the department is unable to determine the amount that should be reflected as due to and held for agency recipients in the statement of fiduciary net assets. At June 30, 2004, the amount reported as due to and held for agency recipients in the agency fund was \$4,951,046.

**Note 6 – Interfund Receivables/Payables**

At June 30, 2004, the department reflected the following due from/to other funds:

	<b>Due From</b>	<b>Due To</b>
General fund	\$ --	\$5,813
Special revenue fund –		
Child Support Enforcement	--	170,014
Legal Services	--	3,053
Other Government Funds	3,053	--
Fiduciary fund – Agency fund	<u>175,827</u>	<u>--</u>
	<u>\$178,880</u>	<u>\$178,880</u>

**Note 7 – Capital Assets**

The changes to capital assets as of June 30, 2004, were as follows:

	<b>Balance at July 1, 2003</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance at June 30, 2004</b>
Buildings and improvements	\$9,117,450	\$--	\$--	\$9,117,450
Furniture and equipment	<u>1,048,368</u>	<u>14,321</u>	<u>(48,728)</u>	<u>1,013,961</u>
Total	<u>10,165,818</u>	<u>14,321</u>	<u>(48,728)</u>	<u>10,131,411</u>
Less accumulated depreciation				
Buildings and improvements	4,586,911	295,957	--	4,882,868
Furniture and equipment	<u>699,991</u>	<u>72,835</u>	<u>(48,728)</u>	<u>724,098</u>
	<u>5,286,902</u>	<u>368,792</u>	<u>(48,728)</u>	<u>5,606,966</u>
Total	<u>\$4,878,916</u>	<u>\$(354,471)</u>	<u>\$--</u>	<u>\$4,524,445</u>

Depreciation expense for the year ended June 30, 2004 was charged to the department's functions as follows:

General administrative and legal services	\$182,322
Child support enforcement	4,731
Drug control and crime prevention	109,855
Criminal history and state identification	<u>71,884</u>
Balance at June 30, 2004	<u>\$368,792</u>

***Note 8 – Legislative Relief Payable***

At June 30, 2004, the legislative relief payable account of \$6,167,726 represented appropriations to the department from the State's general fund to satisfy claims against the State for refunds of taxes, judgments and settlements, or other payments.

***Note 9 – Accrued Vacation***

The changes to accrued vacation for the year ended June 30, 2004, were as follows:

Balance at July 1, 2003	\$4,456,965
Increase	369,907
Decrease	<u>(341,393)</u>
Balance at June 30, 2004	<u>\$4,485,479</u>

***Note 10 – Non-Imposed Employee Fringe Benefits***

Payroll fringe benefit costs of the department's employees funded by state appropriations (general fund) are assumed by the State and are not charged to the department's operating funds. These costs, which approximated \$4,563,000 for the fiscal year ended June 30, 2004, have been reported as revenues and expenditures of the department's general fund.

***Note 11 – Related Party Transactions***

Certain department employees perform services for other state departments and agencies. Accordingly, the department receives payroll reimbursements from those departments and agencies. Reimbursements have been recorded as revenues in the special revenue fund to which the payroll costs were actually charged. Reimbursements approximated \$6,381,000 for the fiscal year ended June 30, 2004.

***Note 12 – Lease Commitments***

The department leases office facilities and computer equipment on a long-term basis, the expenditures of which are reported in the general and special revenue funds. The following is a schedule of minimum future rentals on noncancelable operating leases expiring through June 2008:

**Fiscal years ending June 30,**

2005	\$238,400
2006	172,300
2007	93,600
2008	<u>24,000</u>
	<u>\$528,300</u>

Total rent expense for the fiscal year ended June 30, 2004, including rent paid to the State for office space in the Kapolei State Office Building, was approximately \$744,000.

**Note 13 – Retirement Benefits****Employees' Retirement System**

Substantially all eligible employees of the department are members of the Employees' Retirement System of the State of Hawai'i (ERS), a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

The ERS is composed of a contributory retirement option and a noncontributory retirement option. Prior to July 1, 1984, the ERS consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under social security. Persons employed in positions not covered by social security are precluded from the noncontributory option. The noncontributory option 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 option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively. Both options 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 and prior to January 1, 2003, is based on the three highest paid years of service, excluding the vacation payment. Effective January 1, 2003, the AFC is the highest three calendar years or highest five calendar years plus lump sum vacation payment, or highest three school contract years, or last 36 credited months or last 60 credited months plus lump sum vacation payment. Contributions for employees of the department are paid from the State general fund.



Most covered employees of the contributory option are required to contribute 7.8 percent of their salary. Police officers, firefighters, investigators of the departments of the county prosecuting attorney and the state attorney general, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2 percent of their salary. The funding method used to calculate the total employer contribution requirement is the entry age normal actuarial cost method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to amortize the unfunded actuarial accrued liability over the remaining period of 29 years from July 1, 2000.

Actuarial valuations are prepared for the entire ERS and are not separately computed for each department or agency. Information on vested and nonvested benefits and other aspects of the ERS is also not available on a departmental or agency basis.

ERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information, which may be obtained from the following address:

Employees' Retirement System of the State of Hawai'i  
201 Merchant Street, Suite 1400  
Honolulu, Hawai'i 96813

### **Post-retirement Health Care and Life Insurance Benefits**

In addition to providing pension benefits, the State, pursuant to Chapter 87, HRS, provides certain health care and life insurance benefits to all qualified employees. For employees hired before July 1, 1996, the State pays the entire monthly health care premium for those retiring with ten or more years of credited service, and 50 percent of the monthly premium for those retiring with fewer than ten years of credited service. For employees hired after June 30, 1996, and retiring with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50 percent of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and retiring with at least 15 years but fewer than 25 years of service, the State pays 75 percent of the retired employees' monthly Medicare or non-Medicare premium; and for those retiring with over 25 years of service, the State pays the entire health care premium. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement for the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis.

Effective July 1, 2003, the Hawai'i Employer-Union Health Benefit Trust Fund (EUTF) replaced the Hawai'i Public Employees Health Fund under Act 88, SLH 2001. The EUTF was established to provide a single delivery system of health benefits for state and county employees, retirees, and their dependents.

The department's general fund share of the post-retirement benefits expense for the year ended June 30, 2004, was paid from the state general fund and is not reflected in the department's financial statements. The department's special revenue fund share of post-retirement benefits expense for the fiscal year ended June 30, 2004, was approximately \$788,000 and is included in the special revenue funds' financial statements.

**Note 14 –  
Commitments and  
Contingencies**

**Risk Management**

The department is exposed to various risks of loss related to torts and theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. 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.

**Insurance Coverage**

Insurance coverage is maintained at the state level. The State is self-insured for substantially all perils including workers' compensation. Expenditures for workers' compensation and other insurance claims are appropriated annually from the State's general fund.

The department is covered by the State's self-insured workers' compensation program for medical expenses of injured department employees. However, the department is required to pay temporary total and temporary partial disability benefits as long as the employee is on the department's payroll. The claims liabilities are based on such complex factors as inflation, changes in legal doctrines, and damage awards. Claims liabilities may be re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Workers' compensation benefit claims reported as well as incurred but not reported were reviewed at year-end. The estimated losses from these claims are not material.

**Accumulated Sick Leave**

Employees hired on or before July 1, 2001, earn sick leave credits at the rate of one and three-quarters working days for each month of service.

Employees hired after July 1, 2001, earn sick leave credits at the rate of one and one-quarter or one and three-quarters working days for each month of service, depending upon the employees' years of service and job classification. Sick leave can 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 ERS. Accumulated sick leave at June 30, 2004, was approximately \$12,516,000.

### **Deferred Compensation Plan**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but has the duty of due care that would be required of an ordinary prudent investor.

### **Criminal Forfeiture Revolving Fund**

The department is the coordinating agency for the Hawaii Omnibus Criminal Forfeiture Act (Act). Pursuant to this Act, the department 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 department pending a forfeiture decision is recorded in an agency fund. Any bonds posted in connection with judicial forfeitures are similarly recorded.

### **Welfare Reform Act**

The enactment of Public Law 104-193, the PRWORA, implemented changes in the availability of federal funding and in the information required to compute state grant awards. PRWORA made effective the TANF Program under Title IV-A of the Social Security Act and repealed

the Aid to Families with Dependent Children (AFDC) Program under Title VI-A of the Act.

### **Litigation**

The department was a defendant in a class action lawsuit alleging that CSEA had improperly delayed the disbursement of child support payments. In October 2002, the Circuit Court of the First Circuit of the State of Hawai`i (Court) determined that CSEA had been disbursing the “overwhelming majority of child support payments” within required time frames. However, the Court required CSEA to provide an accounting of its outstanding child support payment checks as of December 31, 2002, and of checks returned due to bad addresses, and to disburse these amounts. Any remaining unpaid funds would be set aside to establish a “common fund” to be used for the benefit of those plaintiffs who brought the class action suit. In July 2003, the Court issued its “Final Judgment” regarding the lawsuit. Included in the judgment was a requirement for CSEA to solicit claims from those individuals whose names are included on the lists and to disburse all uncashed and “bad addresses” checks to those individuals who subsequently filed claims. CSEA had until March 31, 2004, to disburse the funds. In accordance with the establishment of a “common fund,” any remaining funds were to be used to pay for the plaintiffs’ attorney fees and costs, which approximated \$503,000. The department has appealed this decision. As of June 30, 2004, the case is pending in the Hawai`i Supreme Court and no amounts have been paid out on the judgment.

**Exhibit 3.1**

Department of the Attorney General  
State of Hawaii  
Statement of Net Assets  
June 30, 2004

<b>Assets</b>	
Cash	\$ 20,542,803
Due from grantor	6,295,902
Due from subgrantee	319,755
Due from other agencies	457,087
Settlements receivable	143,800
Capital assets, net of accumulated depreciation	4,524,445
<b>Total assets</b>	<b><u>32,283,792</u></b>
<b>Liabilities</b>	
Vouchers payable	1,445,925
Legislative relief payable	6,167,726
Accrued payroll	1,245,920
Due to other funds	175,827
Due to State of Hawaii	5,932,939
Due to subgrantees	631,751
Deferred revenues	985,530
Accrued vacation	
Due within one year	1,566,495
Due in more than one year	2,918,984
<b>Total liabilities</b>	<b><u>21,071,097</u></b>
<b>Net assets</b>	
Invested in capital assets	4,524,445
Restricted for various purposes	7,648,815
Unrestricted	(960,565)
<b>Total net assets</b>	<b><u>\$ 11,212,695</u></b>

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

## Exhibit 3.2

Department of the Attorney General  
State of Hawaii  
Statement of Activities  
Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
General administrative and legal services	\$ 37,598,851	\$ 60,333	\$ 17,959,325	\$ (19,579,193)
Child support enforcement	14,036,463	1,960,000	9,109,682	(2,966,781)
Drug control and crime prevention	6,196,322	-	6,065,925	(130,397)
Criminal history and state identification	4,391,283	1,788,844	1,233,663	(1,368,776)
Total governmental activities	<u>\$ 62,222,919</u>	<u>\$ 3,809,177</u>	<u>\$ 34,368,595</u>	(24,045,147)
General revenues				
State allotted appropriations				<u>28,626,001</u>
Change in net assets				4,580,854
Net assets				
Beginning of year				<u>6,631,841</u>
End of year				<u>\$ 11,212,695</u>

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

## Exhibit 3.3

Department of the Attorney General  
State of Hawaii  
Balance Sheet  
Governmental Funds  
June 30, 2004

	General Fund	Child Support Enforcement	Legal Services	Other Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 7,674,215	\$ 3,300,036	\$ 7,288,762	\$ 2,279,790	\$ 20,542,803
Due from grantor	-	4,702,116	-	631,751	5,333,867
Due from subgrantees	319,755	-	-	-	319,755
Due from other state agencies	-	-	457,087	-	457,087
Due from other funds	-	-	-	3,053	3,053
Settlements receivable	-	-	143,800	-	143,800
Total assets	<u>\$ 7,993,970</u>	<u>\$ 8,002,152</u>	<u>\$ 7,889,649</u>	<u>\$ 2,914,594</u>	<u>\$ 26,800,365</u>

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

Exhibit 3.3  
(con't)Department of the Attorney General  
State of Hawaii  
Balance Sheet  
Governmental Funds  
June 30, 2004

	General Fund	Child Support Enforcement	Legal Services	Other Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances					
Liabilities					
Vouchers payable	\$ 660,381	\$ 311,608	\$ 263,627	\$ 210,309	\$ 1,445,925
Legislative relief payable	6,167,726	-	-	-	6,167,726
Accrued payroll	629,554	234,461	342,704	39,201	1,245,920
Due to other funds	5,813	170,014	3,053	-	178,880
Due to State of Hawaii	25,400	4,702,115	1,205,424	-	5,932,939
Due to subgrantees	-	-	-	631,751	631,751
Deferred revenues	-	985,530	-	-	985,530
Total liabilities	7,488,874	6,403,728	1,814,808	881,261	16,588,671
Fund balances					
Reserved for encumbrances	7,648,815	-	-	-	7,648,815
Unreserved	(7,143,719)	1,598,424	6,074,841	2,033,333	2,562,879
Total fund balances	505,096	1,598,424	6,074,841	2,033,333	10,211,694
Total liabilities and fund balances	\$ 7,993,970	\$ 8,002,152	\$ 7,889,649	\$ 2,914,594	
Amounts reported in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.					4,524,445
Certain amounts due from grantor are not financial resources in the current period and therefore are not reported in the funds.					962,035
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.					(4,485,479)
Net assets of governmental activities					\$ 11,212,695

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



## Exhibit 3.4

Department of the Attorney General  
State of Hawaii  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2004

	General Fund	Child Support Enforcement	Legal Services	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
State allotted appropriations	\$ 28,626,001	\$ -	\$ -	\$ -	\$ 28,626,001
Non-imposed employee fringe benefits	4,563,012	-	-	-	4,563,012
Intergovernmental	-	-	1,253,361	7,482,298	8,735,659
Special fund revenues	-	3,825,497	2,221,948	-	6,047,445
Share of TANF collections	-	5,214,189	-	-	5,214,189
Fees and others	-	2,029,996	7,289,606	1,862,914	11,182,516
Litigation settlements	-	-	3,408,333	-	3,408,333
<b>Total revenues</b>	<b>33,189,013</b>	<b>11,069,682</b>	<b>14,173,248</b>	<b>9,345,212</b>	<b>67,777,155</b>
<b>Expenditures</b>					
General administrative and legal services	27,559,613	-	9,923,451	-	37,483,064
Child support enforcement	2,494,037	11,554,603	-	-	14,048,640
Drug control and crime prevention	-	-	-	6,086,467	6,086,467
Criminal history and state identification	1,786,078	-	-	2,552,636	4,338,714
Capital expenditures	6,900	-	-	7,421	14,321
<b>Total expenditures</b>	<b>31,846,628</b>	<b>11,554,603</b>	<b>9,923,451</b>	<b>8,646,524</b>	<b>61,971,206</b>
Excess (deficiency) of revenues over expenditures	1,342,385	(484,921)	4,249,797	698,688	5,805,949
<b>Other financing uses</b>	<b>(339,127)</b>	<b>-</b>	<b>(377,475)</b>	<b>(256,780)</b>	<b>(973,382)</b>
<b>Net change in fund balances</b>	<b>1,003,258</b>	<b>(484,921)</b>	<b>3,872,322</b>	<b>441,908</b>	<b>4,832,567</b>
<b>Fund balances</b>					
Beginning of year	(498,162)	2,083,345	2,202,519	1,591,425	5,379,127
End of year	\$ 505,096	\$ 1,598,424	\$ 6,074,841	\$ 2,033,333	\$ 10,211,694

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

**Exhibit 3.5**

Department of the Attorney General  
State of Hawaii  
Governmental Funds  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities  
Year Ended June 30, 2004

Net change in fund balances – total governmental funds	\$ 4,832,567
Amounts reported in the statement of activities are different because:	
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 current period, these amounts are:	
Capital outlays	14,321
Depreciation expense	(368,792)
	<u>(354,471)</u>
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	102,758
	<u>102,758</u>
Change in net assets of governmental activities	<u>\$ 4,580,854</u>

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

## Exhibit 3.6

Department of the Attorney General  
State of Hawaii  
Budgetary Comparison Statement  
Year Ended June 30, 2004

	Budgeted Amounts	Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
General fund –			
Budgetary fund balance at July 1, 2003	\$ -	\$ 50,429	\$ 50,429
Resources (inflows)			
State allotted appropriations	23,604,488	23,604,488	-
Charges to appropriations (outflows)			
General administrative and legal services	18,812,692	18,713,704	98,988
Child support enforcement	3,105,686	2,876,969	228,717
Criminal history and state identification	1,686,110	1,674,687	11,423
Total charges to appropriations	23,604,488	23,265,360	339,128
Budgetary fund balance at June 30, 2004	\$ -	\$ 389,557	\$ 389,557
Child support enforcement –			
Budgetary fund balance at July 1, 2003	\$ -	\$ 868,277	\$ 868,277
Resources (inflows)			
Special fund revenues and share of TANF collections	16,406,623	8,844,086	(7,562,537)
Others	2,703,228	2,175,276	(527,952)
Amounts available for appropriation	19,109,851	11,887,639	(7,222,212)
Charges to appropriations (outflows)			
Child support enforcement	19,109,851	12,944,336	6,165,515
Budgetary fund balance at June 30, 2004	\$ -	\$ (1,056,697)	\$ (1,056,697)
Legal services –			
Budgetary fund balance at July 1, 2003	\$ -	\$ (1,577,930)	\$ (1,577,930)
Resources (inflows)			
Special fund revenues	3,845,830	2,263,728	(1,582,102)
Intergovernmental	1,348,644	886,834	(461,810)
Fees and others	6,879,698	6,067,001	(812,697)
Litigation settlements	646,521	1,137,005	490,484
Amounts available for appropriation	12,720,693	8,776,638	(3,944,055)
Charges to appropriations (outflows)			
General administrative and legal services	12,720,693	9,268,621	(3,452,072)
Budgetary fund balance at June 30, 2004	\$ -	\$ (491,983)	\$ (491,983)

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

**Exhibit 3.7**

Department of the Attorney General  
State of Hawaii  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2004

**Agency Funds**

Assets	
Cash	\$ 4,778,494
Due from governmental funds	<u>175,827</u>
Total assets	<u>\$ 4,954,321</u>
Liabilities	
Due to and held for agency recipients	\$ 4,951,046
Due to others	<u>3,275</u>
Total liabilities	<u>\$ 4,954,321</u>

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

---

## Response of the Affected Agency

### Comments on Agency Response

We transmitted a draft of this report to the Department of the Attorney General on April 14, 2005. A copy of the transmittal letter to the department is included as Attachment 1. The response of the department is included as Attachment 2.

The department concurred with many of our findings and recommendations, and provides additional information to explain its current procedures and corrective actions planned, or already taken, to address the internal control deficiencies identified in our report. The department also offers additional information on the findings with which it disagrees.

The department disagreed with our conclusions on reconciliations of and between the child support bank accounts and the automated child support enforcement system KEIKI. Specifically, the department states that monthly bank reconciliations have been performed since May 2000, the department has been able to work with a monthly subsidiary ledger extracted from the KEIKI system, and that a reconciliation between the child support bank balance and KEIKI system subsidiary balance as of June 30, 2004, was performed and provided to the auditors. Our report does not dispute any of these claims.

The department fails to understand that our finding involves two aspects, the child support payments received, but not yet disbursed, and being reported as “cash,” and the related amounts owed and being reported as “due to and held for agency recipients.” Our report acknowledges that reconciliations of the child support bank accounts, or “cash,” have been performed since May 2000. However, as the department’s response confirms, even these procedures do not ensure an accurate “cash” balance as some of the reconciling items will *never* be completely resolved. In addition, the monthly subsidiary ledger extracted from the KEIKI system and related reconciliation procedures described in the department’s response do not provide any value related to the issues of our audit finding. The department simply extracts a balance from the KEIKI system and adjusts it to whatever the adjusted cash balance is, claiming that, as an agency fund, the department cannot owe cash it does not have. This line of reasoning is faulty as it claims to absolve the department of any liability related to child support benefit payments received but not properly disbursed due to errors or misappropriation.

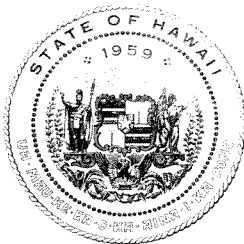
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We maintain that after repeated requests, the department was unable to provide us with a listing that supported the liability related to child support benefits being reported as “due to and held for agency recipients” in the department’s financial statements. Therefore, a proper reconciliation could not have been performed between the child support related “cash” and “due to and held for agency recipients” balances.

The department further contends that the child support problem should be downgraded from a “material weakness” to a “reportable condition” as it was created in 1987. Our assessment holds that *when* the problem was created is irrelevant, as many of the inaccurate or unsupported accounts inherited by the department in 1987 may still be active and currently in the KEIKI system. The “material weakness” focuses on the fact that the department is aware that there are inaccurate and unsupported accounts within its approximate 110,000 active child support benefit cases as of June 30, 2004; however, the department has not identified the number of erroneous cases in the KEIKI system or the related financial impact. Therefore, it is impossible to attest to the accuracy of the total amount owed for child support benefits, as well as any other total, extracted from the KEIKI system.

The department objected to our finding involving its failure to obtain a quotation for a copier maintenance agreement, contending that obtaining quotations was unnecessary as the terms of the copier maintenance services were covered under an existing agreement. The department’s procurement files we reviewed lacked documentation to support the claim and department personnel did not mention any existing agreements covering copier maintenance when asked. The department also disagrees with our conclusion that bids received for two contracts were not properly time-stamped, contending that the boxes the bids were submitted in were time-stamped but subsequently discarded. The department further states there is a record that evidences the date and time of receipt for each bid in the form of delivery receipts, provided by the carrier used to deliver the bids. The department’s procurement files we reviewed lacked documentation to support the claim and department personnel did not provide the delivery receipts when the issue arose.

STATE OF HAWAII  
OFFICE OF THE AUDITOR  
465 S. King Street, Room 500  
Honolulu, Hawaii 96813-2917



MARION M. HIGA  
State Auditor

(808) 587-0800  
FAX: (808) 587-0830

April 14, 2005

**COPY**

The Honorable Mark J. Bennett  
Attorney General  
Department of the Attorney General  
Hale Auhau  
425 Queen Street  
Honolulu, Hawai'i 96813

Dear Mr. Bennett:

Enclosed for your information are three copies, numbered 6 to 8, of our confidential draft report, *Financial Audit of the Department of the Attorney General*. We ask that you telephone us by Monday, April 18, 2005, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Monday, April 25, 2005.

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

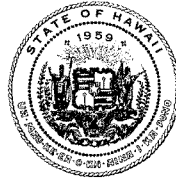
Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa  
State Auditor

Enclosures

LINDA LINGLE  
GOVERNOR



MARK J. BENNETT  
ATTORNEY GENERAL

LISA M. GINOZA  
FIRST DEPUTY ATTORNEY GENERAL

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

April 26, 2005

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OFC. OF THE AUDITOR  
STATE OF HAWAII

The Honorable Marion Higa  
State Auditor  
Office of the Auditor  
465 S. King Street, Room 500  
Honolulu, Hawaii 96813

Dear Ms. Higa:

Thank you for the opportunity to provide comments on the draft *Financial Audit of the Department of the Attorney General*. Our comments are as follows:

**Finding #1: Page 8**

Material Weakness - *"The department has never properly reconciled its Child Support Enforcement Agency bank account to child support subsidiary records... the department cannot determine the accuracy of the CSEA \$5.0 million liability that is reflected as due to and held for agency recipients in the statement of fiduciary net assets at June 30, 2004. Without a proper reconciliation, the department cannot be assured that the amount of cash available or the amount of cash owed for child support benefits is accurate...The KEIKI system...is incapable of providing a single listing of all child support cases and the total amount owed for child support."*

Recommendation: Page 10: *"The department should maintain accurate and complete child support subsidiary records and ensure the balances reconcile to the CSEA bank accounts. Additionally, the department should ensure that the cash balances reported to DAGS are the department's book balances rather than bank balances. Finally, the department should continue efforts to enhance the functionality of its child support enforcement system."*



**Comments:** The problem of bank reconciliation dates back as far as 1987, when the Department of the Attorney General took over responsibility for CSEA from the Department of Human Services. In 1987, at the time the transfer was made, the agency bank accounts were not reconciled - there were no records or subsidiary ledgers available or provided. And, unfortunately, this problem was not corrected soon after the transfer (assuming it could have been). This created a problem that continued year after year and has been noted in every (or virtually every) audit for more than ten years.

However, due to the many steps taken by CSEA over the past several years to rectify the problem, ***we strongly disagree with the finding of a material weakness.*** We believe that the finding ought to be, at most, a reportable condition.

The most notable action taken was in May 2000 when CSEA began reconciling the activities of the bank account with what is collected and disbursed in KEIKI on a daily basis, and a monthly bank reconciliation record was created. Since June 2002, the agency has been able to work with a monthly subsidiary ledger that was extracted from the State child support enforcement system (KEIKI) with case-specific details to identify the amount owed to each recipient of the funds that are not yet disbursed (these subsidiary records were provided to the auditors for their review during this audit period.) Attachment A itemizes the steps the accountants at CSEA follow on a daily basis to ensure that collections and disbursements in KEIKI agree with the activities recorded in the bank account and to work on the monthly bank reconciliation.

In addition to the subsidiary ledger and detailed bank reconciliation records, the agency provided the auditors with the reconciliation between the subsidiary ledger balance and the bank cash balance as of June 30, 2004 during this audit period. However, it appears that the auditors did not take all these records into consideration. Also, we do not believe that the auditors sampled the records in the subsidiary ledger they were provided since they did not ask staff to explain how the support payment allocations and distributions worked at the case level according to the federal and state regulations of the child support enforcement financial area. Therefore, we do not understand the auditors' comment that "... the department cannot

*determine the accuracy of the CSEA \$5.0 million liability that is reflected as due to and held for agency recipients..."*

Another concern expressed by the auditors relates to the fact that when CSEA first attempted the bank reconciliation, it derived the beginning book cash balance from the bank balance without considering all possible reconciling items other than the outstanding checks and deposits-in-transits. As mentioned above, there were no records or subsidiary ledgers available or provided during the transition from the Judiciary or the Department of Human Services to the agency in the 1980s. As a result, some of the reconciling items will never be completely resolved even if additional resources were made available to CSEA.

Nevertheless, in yet another effort to address this long-standing finding regarding bank reconciliation, the department met, on April 21, 2005, with Cindy Yee, PricewaterhouseCoopers LLC, Greg Ushijima, G. Ushijima CPAs LLC, and Calvin Hangai, Office of the Auditor, to request further clarification on a suggestion they offered at our April 6, 2005, exit conference meeting and to elicit specific suggestions and steps we could begin to take immediately that would cure this problem. After much discussion, however, Ms. Yee was unable to describe or offer any practical way in which we could completely eliminate this 'material weakness'. Furthermore, based on the definition of "material weakness"<sup>1</sup> cited in the audit report on page 7, we strongly believe that a problem that was created in 1987 (when CSEA was transferred from DHS to AG), should not be categorized as a "material weakness," especially in light of the fact that since May 2000 CSEA has been reconciling the bank balances on a daily and monthly basis. Accordingly, we believe the reconciliation issue cited as a "material weakness" should be categorized as a "reportable condition."

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<sup>1</sup> A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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.

**Finding #2: Page 7**

Reportable Condition: "The department's poor procurement practices resulted in noncompliance with certain provisions of the Hawaii Public Procurement Code. Our testing of the department's procurement practices revealed that small purchase forms were not properly utilized; vendor quotations were not obtained for small purchases; competitive sealed proposal selections were not properly documented; bid opening procedures were not followed; and performance bond requirements were not met. There is no assurance that fair competition was sought by the department and that state funds were spent in an effective and cost-beneficial manner." Page 10: "The lack of communication and awareness of updated procurement policies is the underlying cause for all of the procurement violations identified by our audit and described below."

Recommendation: "The department should comply with the Hawaii Public Procurement Code and applicable procurement rules as follows:

1. The department should provide appropriate training to ensure all personnel involved in the procurement process are knowledgeable about the procurement requirements.
2. The division heads should ensure that each division has a complete set of procurement rules, circulars, and directives and that changes to these documents are properly and timely disbursed to the appropriate personnel within their divisions.
3. The required forms are completed and approved and proper quotations are solicited."

**Comments and Remedy:**

Regarding #1, page 10:

"The department purchased computers for \$3091 and completed the Record of Computer Equipment Purchase form as provided in the SPO computer equipment and services vendor list dated November 1, 2000, to September 2, 2002. However, the SPO computer equipment

*and services vendor list was revised on July 18, 2003, effective from November 1, 2000, to September 2, 2004, and requires SPO Form-10 Record of Small Purchase to be completed."*

**Comments:** While the department did not use the updated form (SPO Form 10) the Record of Computer Equipment Purchase form that was completed contains information that is very similar to that required by the Record of Small Purchase - SPO Form 10. We believe the purpose of Form 10 was met by the completion and submission of the Record, and the requirements of the Procurement Code were actually satisfied. The purchase price was fair as the purchase was off the price list. Nonetheless, we should have used the correct form.

Regarding #2, page 11:

*"The department purchased computers for \$15,790, but did not obtain a minimum of two written quotes, as recommended by the SPO. The requester failed to complete SPO Form-10 as required. The requester was not aware of this requirement. As a result, no documentation exists to explain the reasons for not obtaining quotations from more than one vendor for price comparison, as required by SPO Form-10. In addition, the chief procurement officer or designee must indicate purchase approval on SPO Form 10."*

**Comments:** The IT Specialist who was involved in this procurement did obtain quotes from both Dell and the IBM website; however, he did not complete the SPO Form 10. Website quotes are permitted by the price list at issue; however, this should have been noted and an SPO Form-10 should have been completed. Similarly, approval by the chief procurement officer's designee was obtained, but not noted on the Form. We believe that the purchase price was fair, but this does not excuse the lack of documentation.

Regarding #3, Page 11:

*"The department failed to complete SPO Form 10 for transcription services obtained amounting to \$2,366. Accordingly, no record of quotations (written or verbal) from vendors is on file. The department informed us that staff did not complete SPO Form-10 for these services to avoid delaying the time of depositions. The department has difficulty finding transcribers available during specified periods. The*

*individual who approved the purchase order was not aware that SPO Form 10 was required or that purchase approval had to be noted on the form."*

**Comments:**

While the SPO Form 10 was not completed, the cost of the services was fair. We note that the procurement of court reporting services presents many unique problems, such as: 1) it is often difficult and impractical to obtain 3 quotes/bids for depositions since the turn around time between the receipt of the notice of the deposition and the need for court reporting services for the deposition can be as little as 2 days; 2) there is no choice in the court reporters when transcripts are being obtained from the court or opposing counsel (we have to use the same court reporter used by the court or opposing counsel); 3) due to the unpredictability of litigation it is difficult to predict how much will be spent on court reporting services for a particular case, and whether it will fall under 'small purchase' or exceed \$25,000; and 4) we are unable to retain court reporters and use them on an as-needed basis because HRS section 606-13.6 prohibits court reporters from entering into contracts if there is no specific case or 'reporting incident' at hand. Due to the unusual issues related to court reporting services, and to avoid future procurement problems, in February 2005 we secured an exemption from the Chief Procurement Officer for court reporting services.

Regarding #4, page 11:

*"The department purchased uniforms for \$5,053 and supplies for \$1370, but did not complete SPO Form 10 or obtain three price quotations from vendors or either purchase. The individual who purchased these items was not aware of the requirements. The individual informed us that the same vendors are utilized to purchase uniforms and supplies for the timeliness of deliveries and the vendor's ability to accommodate the department's needs."*

**Comments:** SPO Form 10 was not completed because the division erroneously believed the vendor had been approved as a sole source. This is unacceptable, and those involved have been so informed and counseled and will be trained in proper procurement procedures.

Regarding #5, Page 11:

*"The SPO Form 10 was not completed and approved for registration fees amounting to \$2590 for two department employees attending a project planning and tracking workshop. The department informed us that completion of the form was overlooked since registration fees for training are usually less than \$1000 and therefore, under the small purchase procurement threshold of \$1000."*

**Comments:** SPO Form 10 was not completed. This was an oversight. The division involved indicated that since most of their training is sponsored by the Department of Human Resources Development and does not require SPO Form 10, the Form 10 was overlooked. We believe the registration fees were reasonable and appropriate.

Regarding #6, Page 11:

*"A written quotation was not obtained for a copier maintenance agreement costing \$1028. The SPO copiers and facsimile machines vendor list dated February 1, 2002, through July 31, 2005, lists the vendors authorized to sell, lease and/or rent, and provide services for copies and facsimile machines. The list requires at least one quotation from vendors on the list for expenditures less than \$5,000. The vendor's quotation or pricing information from the vendor's website or catalog should be retained for verification purposes. The department informed us that staff were not aware that a quotation was required since only one vendor services the type of copier used by the department."*

**Comments:** We disagree with this finding. No quotes were necessary because the terms of these copier maintenance services were still under an existing agreement. The copier in question was leased in December 1999 from an SPO price list, and not from the SPO price list cited in this audit report. The agreement was for a 60 month term until December 2004. This agreement required a monthly payment for the use of the copier and a yearly maintenance payment for a set number of copies. Therefore, the SPO Form 10 was not necessary since we were obligated by the agreement to obtain copier maintenance services from the same vendor that leased us the copier.

**General Comments:** The Department of the Attorney General should be 100% compliant with procurement law. Although the cited violations were relatively immaterial (and one, we believe, was incorrectly noted as a violation), we should do better. We believe we have room to improve in procuring goods and services, and we are committed to comply with all State procurement rules, policies, and procedures. As such, the following remedies shall be implemented:

**Remedies:**

- 1) All divisions will be given new updated "Procurement Binders" that contain all current procurement rules, policies, procedures, etc. Divisions will be advised to review the appropriate sections of the binder prior to conducting any type of procurement.
- 2) All division employees who work with procurement issues will be required to attend procurement training. The first training session, dealing with "small purchasing", will be conducted on May 3, 2005, by a representative from the State Procurement Office.
- 3) Procedures will be developed to ensure that all required forms are properly completed, with the required number of quotations for small purchases, and approved.

<b>Finding #3:</b> Page 12
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Reportable Condition: *"The department did not document justification for the selection of competitive sealed proposal bids. The two contracts (identified above) had only one vendor submitting a proposal. However, the department could not provide documentation of the chief procurement officer's determination that the price was fair and reasonable and that prospective offerors had reasonable opportunity to respond...The department was not aware of the requirement for documented justification when a single offeror is selected in a competitive sealed proposal process."*

**Recommendation:**

1. *"Proper documentation is retained in the contract files with the department's justification for selecting any single offeror for competitive sealed proposals."*

2. *All bids are time-stamped, or approval is obtained from the chief procurement officer to utilize another method.*
3. *The proper performance bonds are required."*

**Remedy:**

**General comments:** The department materially followed procurement procedures related to competitive sealed proposals (see Attachment B regarding steps taken during RFP process), and is committed to comply with all State procurement rules, policies and procedures related to competitive sealed proposals. We should have been 100% compliant with our documentation and with regard to the bonding requirement, and we will work toward that goal.

1. Regarding recommendation #1, 2 and 3: All divisions who issue RFPs will be provided training on the proper procurement procedures and requirements related to RFPs.
2. Regarding recommendation #2: The two proposals at issue were submitted by one offeror and were time-stamped. The time-stamp was affixed to the boxes (which contained the proposals). We believe this was in accordance with the applicable rule, section 3-122-51, and did not require the approval of the Chief Procurement Officer as an alternate method of receipt. The boxes were destroyed after the proposals were opened. While section 3-122-51 does not require retention of the boxes, there is a record of receipts, copies of the FedEx delivery receipts (See Attachment C1: Proposal submittal due date March 30, 2004; Proposal received March 29, 2004. Attachment C2: Proposal submittal due date March 31, 2004; Proposal received March 15, 2004) that indicate the proposals were received prior to the deadline. These receipts will go into the procurement file. As a remedy, all employees responsible for receiving proposals will be educated on the time-stamping process.
3. Regarding recommendation #3: To correct the problem after it was discovered, the department completed State Procedure Office Form #16, State of Hawaii, Procurement Violation: Report of Findings and Corrective Actions, Request for After-The-Fact-Payment Approval, which was filed with the State Procurement Office and approved by the Chief Procurement Officer in June 2004. As a remedy, all divisions who issue Request for Competitive Sealed Proposals will be required to have their RFPs reviewed by a Deputy Attorney General prior to issuance.



**Finding #4:** Page 15

*"Financial Reports Are Untimely. We also tested 40 federal reports filed in FY2003-04 and noted that the department had filed three of the categorical assistance progress reports after the required submittal dates...The department does not have any formal written procedures assigning responsibility to ensure submission of the federal reports is timely."*

*Recommendation: "The department should develop procedures that ensure timely year-end financial reporting. The department should also establish and enforce formal written procedures to delineate responsibilities and deadlines for federal financial report completion and submission."*

**Remedy:** We have requested each division to submit a list of required federal reports and their required submittal dates. Once the department-wide list of federal reports is established, which we anticipate to be by May 2, 2005, procedures will be developed to delineate responsibilities and to ensure and guarantee timely reporting.

We appreciate the opportunity to provide you with our comments and concerns.

Very truly yours,



Mark J. Bennett  
Attorney General

Attachments

## ATTACHMENT A

### MONTHLY BANK RECONCILIATION

The monthly bank reconciliation process consists of three components:

1. Bank Balance
2. Book Balance
3. Reconciling Items

\* Bank Balance is obtained from the bank statement or report retrieved online.

\* Book Balance is determined based on the following:

1. DEPOSITS - Statewide Disbursement Branch (SDB) posts payments into KEIKI by batches and then combines the batches into a KEIKI deposit. Accountant verifies bank posting against SDB file, which includes a copy of the deposit slip and KEIKI-generated report that lists each payment posted in the deposit.
2. RETURN-ITEM CHARGEBACK - Documents pertaining to returned items are received within 3-7 days after bank posting. One Accountant marks each payment as non-sufficient fund (NSF) in KEIKI, then the other Accountant views the NSF entry.
3. INCOMING ELECTRONIC FUND TRANSFERS (EFT) - Accountant verifies bank posting against incoming EFT file. Then Information Technology Office (ITO) uploads the file into KEIKI and the EFT program creates a KEIKI deposit. The total amount posted into KEIKI is verified by the Accountant the following morning.
4. IRS TAX OFFSET - Data file is sent from Office of Child Support Enforcement (OCSE) then uploaded into KEIKI by ITO. Accountant verifies bank posting against data uploaded into KEIKI and letter from OCSE.
5. INTEREST INCOME - Interest earned is reflected as part of Account Analysis and reported on the bank account.
6. CREDIT MEMO - Documents pertaining to a credit memo are received within 3-14 days after bank posting. Accountant reviews memo and makes referral to SDB if necessary.

7. CHECKS ISSUED - Based on Check Register Report (NSDOBI12).
8. CHECKS VOIDED - Based on actual checks marked "void" and checks with stop payments.
9. EFT DISB ISSUED - Based on Electronics Disbursements Referral List (NSDNBS1N) and outgoing EFT file transmitted to the bank by ITO. Accountant verifies outgoing EFT file against bank posting.
10. EFT DISB VOIDED - Based on Distribution Entries List, which is a report faxed from the bank that lists rejected EFT disbursements. Accountant refers rejected EFT disbursement to SDB who voids disbursement in KEIKI.
11. BANK CHARGES - Bank charges are reflected as part of Account Analysis and reported on the bank account.
12. DEBIT MEMO - Documents pertaining to a debit memo are received within 3-14 days after bank posting. Accountant reviews memo and makes referral to SDB if necessary.

\* Reconciling Items consists of the following:

1. IN-TRANSIT - deposits, return-items chargeback, incoming EFT and IRS tax offset.
2. OUTSTANDING - paper checks and EFT disbursements.
3. EXCEPTIONS - bank encoding errors, duplicates and items to be researched or resolved.

## **ATTACHMENT B**

1. The agency obtained the approvals from the State Comptroller and the Attorney General (AG) to issue the Request for Proposals (RFPs) for the afore-mentioned services;
2. The agency submitted the draft to the deputy attorney general at the Department of Attorney General for review.
3. The agency posted the final version of the Documentation and Data Modeling RFP at the State Procurement Office's website on February 27, 2004 and the Decision Support System on February 29, 2004; a solicitation notice was also advertised in the major local newspapers.
4. In the RFPs all the procurement deadlines were clearly identified so the interested offerors could follow accordingly; The deadline for offerors to submit the proposal was set at 4:30 p.m., March 31, 2004.
5. The agency received several inquiries from various offerors; the agency then invited all of them to attend the pre-proposal conference;
6. The agency held a pre-proposal conference for each proposal on March 9 and 10, 2004; minutes were taken for both conferences.
7. The agency provided offerors who attended the conferences with the minutes and a complete list of questions and answers.
8. The closing deadlines for the Documentation and Data Modeling System and the Decision Support System were 4:30 p.m., March 30, 2004 and 4:30 p.m., March 31, 2004, respectively. By each deadline the agency received only one bid for each RFP.
9. Because the General Fund appropriation approved by the Legislature to improve the KEIKI system had to be encumbered by June 30, 2004, the agency realized that there was no time for re-solicitation. In the meantime, the single vendor, Policy Studies, Inc. (PSI), was known for their extensive experience and expertise in the child support enforcement area. Therefore, the agency decided to go ahead and have PSI do a proposal presentation in front of the RFP evaluation panel;
10. The RFP evaluation panel for System Documentation and Data Modeling RFP and Decision Support System RFP consists of seven (7) and ten (10) members, respectively. Both panels had people from other divisions/departments, who had experience and knowledge with regard to computer systems and procurement processes.

11. PSI did the presentation for each RFP on April 22; the vendor also responded to all the questions that the evaluation panels had.
12. After the vendor's presentations the panels reviewed the RFP and filled out evaluation sheets.
13. Based on the evaluation results, the agency issued a memo dated May 10, 2004 to the AG with a recommendation of awarding PSI for both contracts.
14. Upon the AG's approval of the selection, the contract was drafted and again submitted to the deputy attorney general at the Department of Attorney General for review. A determination was made by the Attorney General (the appropriate procurement officer in this case) that other prospective offerors had a reasonable opportunity to respond, and that there was inadequate time for re-solicitation (HAR, section 3-122-59), but this was not documented, as it should have been.
15. In the beginning of June both contracts were signed by PSI and the AG.
16. The agency submitted the contracts and pertinent documents required by the State procurement law to the State Department of Accounting and General Services (DAGS) for encumbering the funds before the fiscal year end of 2004. (Note that DAGS needs all the procurement documents by June 15 for encumbrance purposes.)

(DSS)  
Decision Support  
System

FedEx Express  
Customer Support  
Domestic Trace  
3875 Airways Boulevard  
Module H, 4th Floor  
Memphis, TN 38118

U.S. Mail: PO Box 727  
Memphis, TN 38194-4042

Telephone 901-389-3800

Attachment C1



April 26, 2005

morti narley  
(303) 295-0244

Dear morti narley:

Our records reflect the following delivery information for the shipment with the tracking number 492580522218. The information is incomplete and we regret the inconvenience this may cause. However, as stated in the FedEx Service Guide, we assume no liability for our inability to provide a copy of the delivery record.

**Delivery Information:**

Signed For By: J.SANTOS

Delivered to: 601 KAMOKILA 207

Delivery Date: March 29, 2004

Delivery Time: 11:00 AM

**Shipping Information:**

Shipment Reference Information: 0000038502

Tracking No: 492580522218

Ship Date: March 26, 2004

Shipper: LUCIA WILLIAMS  
POLICY STUDIES INC.  
1899 WYNKOOP STREET  
SUITE 300  
DENVER, CO 80202  
US

Recipient: MS SHERI WANG  
STATE OF HI DEPT OF ATTY  
GENER  
CSE AGENCY STATE ADMIN  
OFFICE  
601 KAMOKILA BLVD ROOM  
207  
KAPOLEI, HI 96707  
US

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Customer Support  
Domestic Trace  
3875 Airways Boulevard  
Module H, 4th Floor  
Memphis, TN 38118

U.S. Mail: PO Box 727  
Memphis, TN 38194-4843

Telephone 901-366-3820

Attachment C2



April 26, 2005

morti narley  
(303) 295-0244

Dear morti narley:

Our records reflect the following delivery information for the shipment with the tracking number 492580520970. The information is incomplete and we regret the inconvenience this may cause. However, as stated in the FedEx Service Guide, we assume no liability for our inability to provide a copy of the delivery record.

Delivery Information:

Signed For By: R.MOSHER

Delivered to: 601 KAMOKILA 207

Delivery Date: March 15, 2004

Delivery Time: 11:12 AM

Shipping Information:

Shipment Reference Information: 0039502003

Tracking No: 492580520970

Ship Date: March 12, 2004

Shipper: MORTI NARLEY  
POLICY STUDIES  
989 18TH STREET  
SUITE 1000  
DENVER, CO 802022410  
US

Recipient: MS. SHERI WANG, ASST.  
ADMINIST  
DEPARTMENT OF THE  
ATTORNEY GEN  
CSE AGENCY, STATE ADMIN.  
OFFIC  
601 KAMOKILA BLVD., ROOM  
207  
KAPOLEI, HI 96707  
US

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