

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

Constitutional Mandate

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

Audit of the Comprehensive Annual Financial Report

Financial Statements, Fiscal Year Ended June 30, 2012

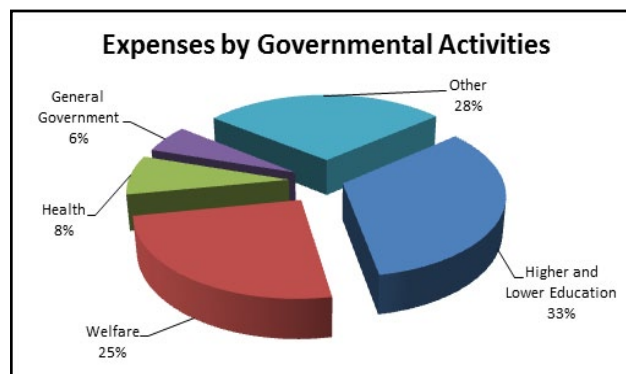
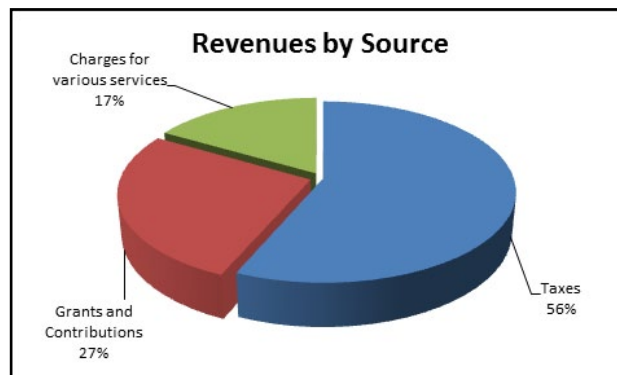
The primary purpose of the audit was to form an opinion on the fairness of the presentation of the State of Hawai'i's basic financial statement as presented in the Comprehensive Annual Financial Report (CAFR) for the State of Hawai'i as of and for the fiscal year ended June 30, 2012, and to comply with the requirements of federal OMB Circular A-133, which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by Deloitte & Touche LLP.

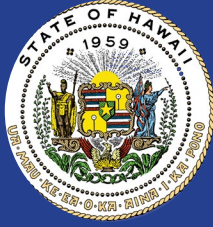
About the State

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

Financial Highlights

For the fiscal year ended June 30, 2012, total revenues was \$9.5 billion and total expenses was \$9.9 billion, resulting in a decrease in net assets of \$366 million. Approximately 56 percent of the State's total revenues came from taxes (\$5.4 billion), 26.9 percent from grants and contributions (\$2.5 billion), and 17 percent from charges for various goods and services (\$1.6 billion). The largest expenses were for higher and lower education at 33 percent (\$3.3 billion), welfare at 25 percent (\$2.5 billion), health at 8 percent (\$800 million), and general government at 6 percent (\$600 million).





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Auditors' Opinions

Financial Statements: +
Unmodified opinion

Federal Compliance: -
Qualified opinion

Issues of Concern

Material Weaknesses
7

Significant Deficiencies
67

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

The assets of the State exceeded its liabilities at June 30, 2012 by \$4.5 billion (net assets). Unrestricted net assets, which may be used to meet the State's ongoing obligations to citizens and creditors, was a negative \$1.7 billion, an increase of \$60 million from the previous fiscal year. Net assets of governmental activities and business-type activities decreased by \$530 million and increased by \$164 million, respectively. The combined decrease to the State was approximately \$366 million from the prior fiscal year.

Auditors' Opinions

The State received an unmodified opinion that the basic financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. However, the State received a qualified opinion on its compliance with major federal programs.

Findings

Deloitte & Touche LLP reported two material weaknesses and four significant deficiencies over internal control over financial reporting.

Material Weaknesses

- The process used by the DAGS Accounting Division to consolidate required information from departments and agencies to create the CAFR is inefficient, time-consuming, and causes delays in statewide reporting.
- Lack of a well-defined process for federal financial reporting that includes the preparation of the Schedule of Expenditures of Federal Awards.

Significant Deficiencies

- Accounting policy to report component units and proprietary funds is not in accordance with the Governmental Accounting Standards Board when preparing the CAFR.
- Lack of formal policies and procedures over the accounting for capital assets.
- Weak security controls over access to mainframe.
- Weak security controls over electronic accounting system.

Deloitte and Touche LLP also reported five material weaknesses and 63 significant deficiencies over compliance and internal control over major federal programs. The findings have been grouped and identified with the number of occurrences.

Material Weaknesses Over Compliance

- Lack of formal procedures to ensure Treasury-State Agreement timely executed. (2)
- Lack of procedures to comply with the Federal Funding Accountability and Transparency Act. (2)
- Cash advances are not correctly tracked to monitor compliance with cash management procedures. (1)

Significant Deficiencies Over Compliance

- Lack of internal control to minimize the time lag between federal fund drawdown and disbursement of funds. (12)
- Lack of adequate sub-recipient monitoring procedures. (8)
- Property and equipment not properly recorded on the state inventory system. (6)
- Procedures over employee payroll certifications not followed as required by federal regulations. (6)
- Proper documentation to support costs claimed not maintained. (1)
- Federal program was incorrectly charged as costs for another program. (2)
- Eligibility requirements and review process not communicated to employees timely. (1)
- Expenditures incurred after the period of availability were improperly funded by federal funds. (1)
- Employees not compliant with State Procurement Office's travel policy. (3)
- Procurement documents not maintained to comply with procurement policies. (1)
- Lack of controls over the preparation, review, and submission of federal reports. (19)
- Analysis not performed to determine cost-benefit relationship of changing personnel on processing of unemployment benefit claims with the Benefit Accuracy Measurement requirements. (1)
- Training not provided to employees responsible for updating donee eligibility files. (1)
- External audit not performed at least every two years for the Federal Surplus Property Donation Program. (1)

For the complete report, including the State's corrective action plan, visit our website at:
http://files.hawaii.gov/auditor/Reports/2012_Audit/CAFR2012.pdf