

**Department of the Attorney General
State of Hawaii**

**Financial Statements
with Accompanying Information
for the Year Ended June 30, 2017**

and

Independent Auditor's Report

**Submitted by
The Auditor
State of Hawaii**



AKAMINE, OYADOMARI & KOSAKI
CPA'S, INC.



February 26, 2018

The Auditor
State of Hawaii

This is our report on the audit of the financial statements of the Department of the Attorney General, State of Hawaii, for the year ended June 30, 2017. Our audit was performed in accordance with the terms of our contract with the Office of the Auditor, State of Hawaii, and with the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Department of the Attorney General's financial statements for the year ended June 30, 2017, and to comply with the requirements of the Uniform Guidance, which established audit requirements for states, local governments, and non-profit organizations that receive federal awards.

More specifically, the objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the Department of the Attorney General's financial statements.
2. To determine whether expenditures have been made and all revenues and other receipts to which the Department of the Attorney General is entitled have been collected and accounted for in accordance with the laws, rules, regulations, policies, and procedures of the State of Hawaii and where applicable, the federal government.
3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the Department of the Attorney General with the proper information to plan, evaluate, control, and correct program activities.
4. To determine whether the Department of the Attorney General's internal controls are adequate in assuring that there is effective control over and proper accounting of revenues, expenditures, assets, and liabilities.
5. To ascertain and report on whether the Department of the Attorney General has established sufficient internal controls to properly manage federal programs and to comply with the applicable federal statutes and regulations.

6. To ascertain and report on whether the Department of the Attorney General has complied with the requirements of federal statutes, regulations, and the terms and conditions of federal awards that may have a material effect on the financial statements and on each major federal program.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America, as prescribed by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States, as they pertain to financial audits. The scope of our audit included a general audit of the financial transactions and accounting records of the Department of the Attorney General for the year ended June 30, 2017. In addition, we considered internal control over financial reporting as part of our determination as to whether the Department of the Attorney General has effective controls over and proper accounting of revenues, receipts, expenditures, disbursements, assets, and liabilities. We also performed tests to determine the Department of the Attorney General's compliance with the fiscal provisions of its grant agreements and applicable laws and regulations.

ORGANIZATION OF THE REPORT

This report is presented in four parts as follows:

- Part I - Financial Section
- Part II - Compliance and Internal Control
- Part III - Findings and Questioned Costs
- Part IV - Response of the Department of the Attorney General, State of Hawaii

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

Sincerely,

Akamine, Oyadomari & Kosaki CPAs, Inc.



**Department of the Attorney General
State of Hawaii
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PART I
FINANCIAL SECTION





Independent Auditor's Report

To the Auditor
Office of the Auditor
State of Hawaii

Report on the Financial Statements

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, 2017, and the related notes to the financial statements, which collectively comprise the Department of the Attorney General, State of Hawaii's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 June 30, 2017, and the respective changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the financial statements, the financial statements of the Department of the Attorney General, State of Hawaii, are intended to present the financial position, the changes in financial position, and budgetary comparisons of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department of the Attorney General. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2017, and the changes in its financial position and budgetary comparisons for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 8 through 12, and pages 23 to 24, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of the Attorney General, State of Hawaii's, basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.



The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2018 on our consideration of the Department of the Attorney General, State of Hawaii's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of the Attorney General, State of Hawaii's, internal control over financial reporting and compliance.

Akamine, Oyadomari + Kosaki CPAs, Inc.

Honolulu, Hawaii
February 26, 2018



**Department of the Attorney General
State of Hawaii**

Management's Discussion and Analysis
June 30, 2017

The Department of the Attorney General (the AG), State of Hawaii (the State), was created in 1959 by the Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959). The primary function of the AG is to provide legal and other services to the State of Hawaii (the State), including agencies, officers, and employees of the Executive, Legislative, and Judicial branches of the State's government.

As management of the AG, we offer readers of these basic financial statements this narrative overview and analysis of the financial activities of the AG for the year ended June 30, 2017. This discussion and analysis is designed to assist the reader in the analysis of the AG's financial statements based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

Financial Highlights

Departmental Financial Statement Highlights

The assets of the AG exceeded its liabilities at June 30, 2017 by \$17,328,786 (net position). Of this amount, \$5,702,868 was invested in capital assets, \$13,758,179 was restricted for specified purposes and there was a deficit of \$2,132,261 in unrestricted net position. The deficit in unrestricted net position is due to vacation liability and legal claims payable which have not yet been funded by the Legislature as of June 30, 2017 and certain 2017 salary and wage liabilities which will be funded by the fiscal 2018 budget.

Program revenues increased by \$10,328,051 or +25.4% in fiscal 2017 due primarily to increases in charges for services. General revenue support from the State has decreased by \$4,995,976 or -10.5% due primarily to decreased appropriations for legislative relief claims. Total expenses increased by \$8,223,968 or +9.5% in fiscal 2017 due mainly to increases Child support enforcement services, Criminal justice data center expenses, and Crime prevention and justice assistance expenses. As a result, net position decreased by \$1,727,377 in fiscal year 2017.

Fund Financial Statement Highlights

At June 30, 2017, the AG's governmental funds reported combined ending fund balances of \$18,238,548, an decrease of \$1,057,367 or -5.5% from the prior fiscal year.

Expenditures (actual on a budgetary basis) for the department were \$150,095 or -0.5% below general fund budget (appropriated).



**Department of the Attorney General
State of Hawaii**

Management's Discussion and Analysis
June 30, 2017

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the AG's basic financial statements. The AG's basic financial statements consist of three components: (1) departmental financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Departmental Financial Statements

The departmental financial statements are designed to provide readers with a broad overview of the AG's finances, in a manner similar to a private sector business.

The statement of net position presents information on all of the AG's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the AG is improving or deteriorating.

The statement of activities presents information showing how the AG's net position changed during the most recent fiscal year. Functional activities are highlighted in this statement, with functional expenses shown net of related program revenue. This statement shows the extent to which the various functions depend on State appropriations for support.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The AG uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the AG can be divided into two categories: (1) governmental funds; and (2) agency funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the departmental financial statements. However, unlike the departmental financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the AG's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the departmental financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the departmental financial statements. By doing so, readers may better understand the long-term impact of the AG's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this



**Department of the Attorney General
State of Hawaii**

Management's Discussion and Analysis
June 30, 2017

comparison between governmental funds and governmental activities in the departmental financial statements.

The AG maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Child Support Enforcement, Legal Services, Crime Prevention and Justice Assistance, and Criminal Justice Data Center Funds. The AG adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and special revenue funds to demonstrate compliance with this budget. The budgetary comparison statement is located in the basic financial statements and additional budgetary information on differences is presented in the notes to the basic financial statements.

Agency Funds (Fiduciary Funds)

Agency funds are used to account for resources held for the benefit of parties outside the AG. Agency funds presented separately are not reflected in the governmental fund financial statements because the funds are not available to support the AG's own programs.

The net excess of liabilities over assets of \$1,273,343 in the Statement of Fiduciary Net Assets (Liabilities) result from the Child Support Enforcement Services program and are due to uncollected recoupments due from custodial parents resulting from overpayments, and uncollected nonsufficient fund (NSF) payments due from non-custodial parents.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the departmental and fund financial statements.



Department of the Attorney General
State of Hawaii
Management's Discussion and Analysis
June 30, 2017

Financial Information

The AG's condensed financial information for the fiscal years 2017 and 2016 include:

Statement of Net Position	<u>2017</u>	<u>2016</u>
Current assets	\$ 30,851,373	\$ 32,805,225
Capital assets, net of accumulated depreciation	<u>7,234,223</u>	<u>8,164,794</u>
Total assets	<u><u>\$ 38,085,596</u></u>	<u><u>\$ 40,970,019</u></u>
Current liabilities	\$ 17,006,478	\$ 17,514,938
Noncurrent liabilities	<u>3,750,332</u>	<u>4,398,918</u>
Total liabilities	<u><u>20,756,810</u></u>	<u><u>21,913,856</u></u>
Net position:		
Net investment in capital assets	5,702,868	6,036,811
Restricted	13,758,179	15,607,865
Unrestricted	<u>(2,132,261)</u>	<u>(2,588,513)</u>
Total net position	<u><u>17,328,786</u></u>	<u><u>19,056,163</u></u>
Total liabilities and net position	<u><u>\$ 38,085,596</u></u>	<u><u>\$ 40,970,019</u></u>



**Department of the Attorney General
State of Hawaii**

Management's Discussion and Analysis
June 30, 2017

Changes in Net Position	2017	2016
Program revenues:		
Charges for services	\$ 22,363,184	\$ 17,224,014
Operating grants and contributions	28,668,723	23,479,842
General revenues	42,716,152	47,712,128
Total revenues	93,748,059	88,415,984
Expenses:		
General administrative and legal services	54,892,604	55,563,378
Child support enforcement	25,555,632	18,715,626
Crime prevention and justice assistance	7,532,083	6,129,584
Criminal justice data center	7,138,653	6,486,416
Total expenses	95,118,972	86,895,004
Other financing uses	(356,464)	(115,409)
Changes in net position	(1,727,377)	1,405,571
Net position - beginning of year	19,056,163	17,650,592
Net position - end of year	\$ 17,328,786	\$ 19,056,163

Current assets decreased by \$1,953,852 principally due to a decrease in cash resulting from legislative appropriation to fund legal claims payable. Current liabilities decreased by \$508,460 due mainly to decreased liabilities for legal claims payable.

At June 30, 2017 and 2016, the AG's investment in capital assets, net of accumulated depreciation amounted to \$5,702,868 and \$6,036,811, respectively, representing a decrease of \$333,943 or -5.5% principally due to excess of depreciation over additions and net transfers of capital assets to other State Departments. Capital assets include buildings, improvements, furniture and equipment.

Request for Information

Questions concerning any of the information provided in this report or request for additional financial information should be addressed in writing to the Department of the Attorney General, State of Hawaii, 425 Queen Street, Honolulu, Hawaii 96813 or by email at hawaiiag@hawaii.gov. General information about the AG can be found on the State's website, <http://www.hawaii.gov/ag>.



Department of the Attorney General
State of Hawaii
Statement of Net Position
June 30, 2017

	Governmental Activities	Total
<u>ASSETS:</u>		
Current assets:		
Cash (Note 3)	\$ 26,879,816	\$ 26,879,816
Due from grantor - Federal	1,866,479	1,866,479
Due from other State agencies (Note 7)	2,105,078	2,105,078
Total current assets	30,851,373	30,851,373
Noncurrent assets:		
Capital assets - net of accumulated depreciation (Note 4)	7,234,223	7,234,223
Total noncurrent assets	7,234,223	7,234,223
Total assets	\$ 38,085,596	\$ 38,085,596

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



**Department of the Attorney General
State of Hawaii**

Statement of Net Position (continued)
June 30, 2017

	Governmental Activities	Total
<u>LIABILITIES:</u>		
Current liabilities:		
Vouchers and contracts payable	\$ 3,233,060	\$ 3,233,060
Accrued wages and employee benefits payable	3,747,027	3,747,027
Accrued vacation (Note 5)	3,788,000	3,788,000
Obligation under capital lease (Note 8)	605,653	605,653
Due to State of Hawaii	5,632,738	5,632,738
Total current liabilities	17,006,478	17,006,478
Long-term liabilities:		
Accrued vacation (Note 5)	2,824,630	2,824,630
Obligation under capital lease (Note 8)	925,702	925,702
Total long-term liabilities	3,750,332	3,750,332
Total liabilities	20,756,810	20,756,810
Commitments and contingencies (Notes 8, 9, 10, and 11)		
<u>NET POSITION:</u>		
Net investment in capital assets	5,702,868	5,702,868
Restricted	13,758,179	13,758,179
Unrestricted	(2,132,261)	(2,132,261)
Total net position	17,328,786	17,328,786
Total liabilities and net position	\$ 38,085,596	\$ 38,085,596

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



**Department of the Attorney General
State of Hawaii**

Statement of Activities
for the year ended June 30, 2017

<u>FUNCTIONS/PROGRAMS:</u>	Program Revenues			Net Revenue (Expense) and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Departmental activities:				
General administrative and legal services (Notes 6 and 7)	\$ 54,892,604	\$ 19,642,874	\$ 1,970,387	\$ (33,279,343)
Child support enforcement	25,555,632	-	18,191,577	(7,364,055)
Crime prevention and justice assistance	7,532,083	-	7,166,876	(365,207)
Criminal justice data center	7,138,653	2,720,310	1,339,883	(3,078,460)
Total departmental activities	\$ 95,118,972	\$ 22,363,184	\$ 28,668,723	\$ (44,087,065)
				32,170,570
				10,545,582
				42,716,152
				(356,464)
				42,359,688
				(1,727,377)
				19,056,163
				\$ 17,328,786

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



Department of the Attorney General
State of Hawaii
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Child Support Enforcement	Legal Services	Crime Prevention and Justice Assistance	Criminal Justice Data Center	Total
<u>ASSETS:</u>						
Cash (Note 3)	\$ 811,372	\$ 11,867,851	\$ 10,478,054	\$ 1,965,475	\$ 1,757,064	\$ 26,879,816
Due from grantor - Federal	-	640,158	102,957	1,095,688	27,676	1,866,479
Due from other State agencies (Note 7)	-	-	2,105,078	-	-	2,105,078
Due from other funds	399,206	-	-	-	-	399,206
Total assets	<u>\$ 1,210,578</u>	<u>\$ 12,508,009</u>	<u>\$ 12,686,089</u>	<u>\$ 3,061,163</u>	<u>\$ 1,784,740</u>	<u>\$ 31,250,579</u>
<u>LIABILITIES AND FUND BALANCES:</u>						
Liabilities:						
Vouchers and contracts payable	\$ 1,097,845	\$ 744,161	\$ 93,258	\$ 1,045,177	\$ 252,619	\$ 3,233,060
Accrued wages and employee benefits payable	1,554,851	640,158	1,352,615	48,744	150,659	3,747,027
Due to State of Hawaii	25,400	-	5,607,338	-	-	5,632,738
Due to other funds	-	-	399,206	-	-	399,206
Total liabilities	<u>2,678,096</u>	<u>1,384,319</u>	<u>7,452,417</u>	<u>1,093,921</u>	<u>403,278</u>	<u>13,012,031</u>
Fund balances (Note 14):						
Restricted	-	11,123,690	625,144	1,967,242	42,103	13,758,179
Committed	-	-	4,608,528	-	1,339,359	5,947,887
Assigned	780,005	-	-	-	-	780,005
Unassigned	(2,247,523)	-	-	-	-	(2,247,523)
Total fund balances	<u>(1,467,518)</u>	<u>11,123,690</u>	<u>5,233,672</u>	<u>1,967,242</u>	<u>1,381,462</u>	<u>18,238,548</u>
Total liabilities and fund balances	<u>\$ 1,210,578</u>	<u>\$ 12,508,009</u>	<u>\$ 12,686,089</u>	<u>\$ 3,061,163</u>	<u>\$ 1,784,740</u>	<u>\$ 31,250,579</u>



**Department of the Attorney General
State of Hawaii**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the year ended June 30, 2017

	General Fund	Child Support Enforcement	Legal Services	Crime Prevention and Justice Assistance	Criminal Justice Data Center	Total
Revenues:						
State allotted appropriations	\$ 32,320,169	\$ -	\$ -	\$ -	\$ -	\$ 32,320,169
State revenue for non-imposed employee fringe benefits (Note 6)	10,545,582	-	-	-	-	10,545,582
Fees and other	-	82,943	2,332,246	19,494	2,720,310	5,154,993
Intergovernmental	-	-	1,620,387	7,147,382	1,339,883	10,107,652
Special fund revenues (Note 7)	-	14,150,819	17,310,628	-	-	31,461,447
Share of TANF collections	-	3,957,815	-	-	-	3,957,815
Litigation settlements	-	-	350,000	-	-	350,000
Total revenues	<u>42,865,751</u>	<u>18,191,577</u>	<u>21,613,261</u>	<u>7,166,876</u>	<u>4,060,193</u>	<u>93,897,658</u>
Expenditures:						
General administrative and legal services (Note 6)	34,186,225	-	20,304,971	-	-	54,491,196
Child support enforcement	5,664,220	19,706,775	-	-	-	25,370,995
Crime prevention and justice assistance	-	-	-	7,195,016	-	7,195,016
Criminal justice data center	2,812,572	-	-	-	4,579,183	7,391,755
Total expenditures	<u>42,663,017</u>	<u>19,706,775</u>	<u>20,304,971</u>	<u>7,195,016</u>	<u>4,579,183</u>	<u>94,448,962</u>
Excess (deficiency) of revenues over (under) expenditures	<u>202,734</u>	<u>(1,515,198)</u>	<u>1,308,290</u>	<u>(28,140)</u>	<u>(518,990)</u>	<u>(551,304)</u>
Other financing sources (uses)						
Lapsed appropriations	(149,599)	-	-	-	-	(149,599)
Other	458,936	-	(815,400)	(210,827)	210,827	(356,464)
Total other financing sources (uses)	<u>309,337</u>	<u>-</u>	<u>(815,400)</u>	<u>(210,827)</u>	<u>210,827</u>	<u>(506,063)</u>
Net change in fund balances	<u>512,071</u>	<u>(1,515,198)</u>	<u>492,890</u>	<u>(238,967)</u>	<u>(308,163)</u>	<u>(1,057,367)</u>
Fund balances - beginning of year	<u>(1,979,589)</u>	<u>12,638,888</u>	<u>4,740,782</u>	<u>2,206,209</u>	<u>1,689,625</u>	<u>19,295,915</u>
Fund balances - end of year	<u>\$ (1,467,518)</u>	<u>\$ 11,123,690</u>	<u>\$ 5,233,672</u>	<u>\$ 1,967,242</u>	<u>\$ 1,381,462</u>	<u>\$ 18,238,548</u>

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



**Department of the Attorney General
State of Hawaii**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2017

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Position
<u>ASSETS:</u>				
Current assets:				
Cash	\$ 26,879,816	\$ -	\$ -	\$ 26,879,816
Due from grantor - Federal	1,866,479	-	-	1,866,479
Due from other State agencies	2,105,078	-	-	2,105,078
Due from other funds	399,206	-	(399,206) (5)	-
Total current assets	<u>31,250,579</u>	<u>-</u>	<u>(399,206)</u>	<u>30,851,373</u>
Noncurrent assets:				
Capital assets net of accumulated depreciation	-	7,234,223 (1)	-	7,234,223
Total noncurrent assets	<u>-</u>	<u>7,234,223</u>	<u>-</u>	<u>7,234,223</u>
Total assets	<u>\$31,250,579</u>	<u>\$ 7,234,223</u>	<u>\$ (399,206)</u>	<u>\$38,085,596</u>



**Department of the Attorney General
State of Hawaii**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (continued)
June 30, 2017

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Position
<u>LIABILITIES:</u>				
Current liabilities:				
Vouchers and contracts payable	\$ 3,233,060	\$ -	\$ -	\$ 3,233,060
Accrued wages and employee benefits payable	3,747,027	-	-	3,747,027
Accrued vacation	-	3,788,000 (2)	-	3,788,000
Obligation under capital lease	-	605,653 (3)	-	605,653
Due to State of Hawaii	5,632,738	-	-	5,632,738
Due to other funds	399,206	-	(399,206) (5)	-
Total current liabilities	13,012,031	4,393,653	(399,206)	17,006,478
Long-term liabilities:				
Accrued vacation	-	2,824,630 (2)	-	2,824,630
Obligation under capital lease	-	925,702 (3)	-	925,702
Total long-term liabilities	-	3,750,332	-	3,750,332
Total liabilities	13,012,031	8,143,985	(399,206)	20,756,810
<u>FUND BALANCES/NET POSITION:</u>				
Net investment in capital assets	-	7,234,223 (1) (1,531,355) (3)	-	5,702,868
Restricted	-	-	13,758,179 (4)	13,758,179
Unrestricted	-	(6,612,630) (2)	4,480,369 (4)	(2,132,261)
Restricted	13,758,179	-	(13,758,179) (4)	-
Committed	5,947,887	-	(5,947,887) (4)	-
Assigned	780,005	-	(780,005) (4)	-
Unassigned	(2,247,523)	-	2,247,523 (4)	-
Total fund balances/net position	18,238,548	(909,762)	-	17,328,786
Total liabilities and fund balances/net position	\$ 31,250,579	\$ 7,234,223	\$ (399,206)	\$ 38,085,596

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



**Department of the Attorney General
State of Hawaii**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (continued)
June 30, 2017

Total fund balances - governmental funds \$ 18,238,548

Amounts reported for governmental activities in the statement of net position are different because:

- (1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. These assets consist of:

Buildings and improvements	\$ 12,241,669
Office, furniture, and equipment	9,496,131
Accumulated depreciation	<u>(14,503,577)</u>

Total capital assets 7,234,223

- (2) Accrued vacation is not reported in the governmental funds.

Due within one year	\$ (3,788,000)
Due in more than one year	<u>(2,824,630)</u>

Total accrued vacation (6,612,630)

- (3) The obligation under capital lease is not reported in the governmental funds.

Due within one year	\$ (605,653)
Due in more than one year	<u>(925,702)</u>

Total obligation under capital lease (1,531,355)

- (4) Reclassify fund balances to net position -

- (5) Interfund balances are not reported in the statement of net position. -

Total net position \$ 17,328,786



**Department of the Attorney General
State of Hawaii**

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
for the year ended June 30, 2017

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities
Revenues:				
State allotted appropriations	\$ 32,320,169	\$ -	\$ (149,599) (4)	\$ 32,170,570
State revenue for non-imposed employee fringe benefits	10,545,582	-	-	10,545,582
Fees and other	5,154,993	-	(5,154,993) (5)	-
Intergovernmental	10,107,652	-	(10,107,652) (5)	-
Special fund revenues	31,461,447	-	(31,461,447) (5)	-
Share of TANF collections	3,957,815	-	(3,957,815) (5)	-
Litigation settlements	350,000	-	(350,000) (5)	-
Charges for services	-	-	22,363,184 (5)	22,363,184
Operating grants and contributions	-	-	28,668,723 (5)	28,668,723
TOTAL REVENUES	93,897,658	-	(149,599)	93,748,059
Expenditures:				
General administrative and legal services	54,491,196	80,404 (1) 321,004 (2)	-	54,892,604
Child support enforcement	25,370,995	127,092 (1) 57,545 (2)	-	25,555,632
Crime prevention and justice assistance	7,195,016	157,198 (1) 179,869 (2)	-	7,532,083
Criminal justice data center	7,391,755	565,877 (1) (222,351) (2) (596,628) (3)	-	7,138,653
TOTAL EXPENDITURES	94,448,962	670,010	-	95,118,972
Excess (deficiency) of revenues over (under) expenditures	(551,304)	(670,010)	(149,599)	(1,370,913)
Other financing sources (uses)				
Lapsed appropriations	(149,599)	-	149,599 (4)	-
Other	(356,464)	-	-	(356,464)
Total other financing sources (uses)	(506,063)	-	149,599	(356,464)
Net change in fund balances/net position	\$ (1,057,367)	\$ (670,010)	\$ -	\$ (1,727,377)

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



**Department of the Attorney General
State of Hawaii**

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities (continued)
for the year ended June 30, 2017

Net change in fund balances - governmental funds \$ (1,057,367)

Amounts reported for governmental activities in the statement of activities are different because:

- (1) 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 fiscal year 2017, these transactions were:

Capital outlays and equipment purchases	\$ 458,676	
Depreciation expense	<u>(1,389,247)</u>	(930,571)

(2) The increase in accrued vacation is not reported in governmental funds. (336,067)

(3) The decrease in the obligation under capital lease is not reported in governmental funds. 596,628

(4) Lapsed appropriations are netted against appropriations in the statement of activities. -

(5) Reclassification of revenues -

Change in net position \$ (1,727,377)



**Department of the Attorney General
State of Hawaii**

Statement of Revenues and Expenditures - Budget and Actual
General Fund
for the year ended June 30, 2017

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget-Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Appropriations	\$ 32,320,169	\$ 32,320,169	\$ 32,320,169	\$ -
Expenditures:				
General administrative and legal services (Note 10)	25,498,281	25,498,281	25,666,314	(168,033)
Child support enforcement	4,657,883	4,657,883	4,296,861	361,022
Criminal justice data center	<u>2,164,005</u>	<u>2,164,005</u>	<u>2,206,899</u>	<u>(42,894)</u>
	<u>32,320,169</u>	<u>32,320,169</u>	<u>32,170,074</u>	<u>150,095</u>
Excess of appropriations over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 150,095</u>	<u>\$ 150,095</u>

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



**Department of the Attorney General
State of Hawaii**

Statement of Revenues and Expenditures - Budget and Actual
Special Funds
for the year ended June 30, 2017

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget-Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<u>Child Support Enforcement</u>				
Revenues	\$ 18,874,775	\$ 18,874,775	\$ 18,191,577	\$ (683,198)
Expenditures	<u>18,874,775</u>	<u>18,874,775</u>	<u>20,537,906</u>	<u>(1,663,131)</u>
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,346,329)</u>	<u>\$ (2,346,329)</u>
<u>Legal Services</u>				
Revenues	\$ 21,961,537	\$ 21,961,537	\$ 21,613,261	\$ (348,276)
Expenditures	<u>21,961,537</u>	<u>21,961,537</u>	<u>20,105,567</u>	<u>1,855,970</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,507,694</u>	<u>\$ 1,507,694</u>
<u>Crime Prevention and Justice Assistance</u>				
Revenue	\$ 14,564,817	\$ 14,564,817	\$ 7,166,876	\$ (7,397,941)
Expenditures	<u>14,564,817</u>	<u>14,564,817</u>	<u>7,173,862</u>	<u>7,390,955</u>
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,986)</u>	<u>\$ (6,986)</u>
<u>Criminal Justice Data Center</u>				
Revenue	\$ 4,861,841	\$ 4,861,841	\$ 4,060,193	\$ (801,648)
Expenditures	<u>4,861,841</u>	<u>4,861,841</u>	<u>4,552,855</u>	<u>308,986</u>
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (492,662)</u>	<u>\$ (492,662)</u>



**Department of the Attorney General
State of Hawaii**

Statement of Fiduciary Net Position
June 30, 2017

	<u>Agency Funds</u>
ASSETS:	
Cash (Note 3)	<u>\$ 12,363,904</u>
Total assets	<u>12,363,904</u>
LIABILITIES:	
Due to agency recipients	<u>13,637,247</u>
Total liabilities	<u>13,637,247</u>
NET POSITION (Note 15)	<u><u>\$ (1,273,343)</u></u>

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



**Department of the Attorney General
State of Hawaii**

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies

The Department of the Attorney General of the State of Hawaii (AG) 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 of Hawaii (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 which are enforceable in the courts of the State.

The AG's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the AG are discussed below.

Financial Reporting Entity

The AG is part of the Executive Branch of the State of Hawaii. The AG's financial statements reflect only its portion of the activities attributable to the AG. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually which includes the AG's financial activities.

The accompanying financial statements reflect the financial position and changes in financial position of the following divisions of the AG:

Administrative Services Office – This office provides fiscal, personnel, data processing, library, messenger, reception, and other support services to the department and its operating divisions.

Office of Child Support Hearings (OCSH) – The Office of Child Support Hearings is an office funded with State and Federal funds that provides a fair and impartial forum for expeditious resolution of child support disputes. Once a part of the Child Support Enforcement Agency, the office has been a separate office of the AG since 1992. The office has concurrent jurisdiction with the court in proceedings in which a support obligation is established, modified, or terminated. Attorney hearings officers issue orders establishing, modifying, terminating, and enforcing child support obligations.

Child Support Enforcement Agency (CSEA) – The Child Support Enforcement Agency provides assistance to children by locating parents, establishing paternity and support obligations (both financial and medical), and enforcing those obligations.



Department of the Attorney General
State of Hawaii

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

Hawaii Criminal Justice Data Center – The Hawaii Criminal Justice Data Center is responsible for the statewide Criminal Justice Information System (CJIS-Hawaii), the statewide Automated Fingerprint Identification System (AFIS), and the statewide sex offender registry.

Investigations Division – The Investigations Division conducts investigations in support of the department’s civil, criminal, and administrative cases. These investigations involve such areas as homeland security; internet crimes against children; high technology computer crimes; drug nuisance abatement; environmental crimes; tobacco tax enforcement; airport, harbors, and highways; cold homicide cases; and other criminal and civil matters.

Crime Prevention and Justice Assistance Division – The Crime Prevention and Justice Assistance Division serves as a central point for obtaining, disseminating, and maintaining information regarding available financial (Federal and State funds) and non-financial resources to assist in improving the coordination of programs of the criminal justice and juvenile justice systems and agencies. It administers grants, provides training and technical assistance, engages in multi-agency and statewide planning efforts, conducts crime prevention programs, researches and analyzes crime issues, develops and maintains a computerized juvenile offender information system, and assists in locating, recovering, and reuniting missing children and runaways with their families.

Legal Services –

- **Administration Division:** The Administration Division is principally responsible for commercial-related and financial-related legal issues. The division provides legal advice and litigation support to various departments and offices, including the Office of the Governor; the Office of the Lieutenant Governor; the Department of Accounting and General Services (including the State Foundation on Culture and the Arts, the Stadium Authority, and the State Procurement Office); the Department of Budget and Finance (including advice regarding bond matters and advice to the Employees’ Retirement System, the Employer-Union Health Benefits Trust Fund, and the Office of the Public Defender); the Judiciary (including the Commission of Judicial Conduct, the Office of Disciplinary Counsel, the Judiciary Personnel Appeals Board, the Judicial Selection Commission; general consultation with and advice to the staff attorney’s office, and representation of judges in writs and civil lawsuits); the Hawaii State Land Use Commission; the Hawaii State Commission on the Status of Women; the Campaign Spending Commission; and the Office of Elections.



**Department of the Attorney General
State of Hawaii**

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

Legal Services (continued) –

- **Civil Recoveries Division:** This division systematically recovers and collects monies ranging from accounts receivable, dishonored checks, delinquent loans, salary and benefit overpayments, complex delinquent child support cases, 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.
- **Civil Rights Litigation:** This division provides legal defense to all State departments and agencies that are sued for monetary damages in cases that may involve an element of personal injury, but primarily arise from allegations of constitutional/civil rights violations.
- **Commerce and Economic Development Division:** The Commerce and Economic Development Division provides legal services and litigation support to the Department of Commerce and Consumer Affairs (including the Professional and Vocational Licensing Boards), the Department of Business, Economic Development, and Tourism (including the Aloha Tower Development Corporation, the Hawaii Strategic Development Corporation, the Hawaii Tourism Authority, the High Technology Development Corporation, and the Natural Energy Laboratory of Hawaii Authority), and the Department of Agriculture (including the Agribusiness Development Corporation). The division also enforces the antitrust laws, administers the laws providing for the commissioning of notaries public, and provides legal services to the Board of Trustees of the State's Deferred Compensation Plan and to other state agencies involved in administering tax deferral programs.
- **Commission to Promote Uniform Legislation:** This commission was placed in the AG to provide advice on matters relating to the promotion of uniform legislation in accordance with HRS Chapter 3 (Uniformity of Legislation) and Section 26-7. The commission consists of five members appointed by the Governor and confirmed by the State Senate, who serve without compensation for a term of four years.
- **Criminal Justice Division:** The Criminal Justice Division performs prosecutorial functions on behalf of the State in areas such as welfare fraud, tax fraud, unemployment fraud, unauthorized practice of law, and public corruption. The division is also responsible for prosecuting Internet crimes against children, high technology crimes, Medicaid fraud and elder abuse, violations of State tobacco laws, drug nuisance, environmental crimes, cold homicide cases, and conflict cases from the four county prosecutor's offices.



Department of the Attorney General
State of Hawaii

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

Legal Services (continued) –

- **Education Division:** The Education Division principally provides legal advice and support to the Department of Education and the Board of Education. Other clients include the Charter School Administrative Office and the Charter Schools; the Hawaii Teacher Standards Board; the Research Corporation of the University of Hawaii; and the Hawaii State Public Library System.
- **Employment Law Division:** The Employment Law Division provides legal representation and advice to the Department of Human Resources Development and to all State departments and agencies on employment-related issues. The division represents all State employers in mandatory arbitration hearings, administrative agency hearings, and civil litigation involving disputes over employment matters with the State's employees.
- **Family Law Division:** The Family Law Division handles all State litigation under the jurisdiction of Family Court, such as child and adult protection, guardianships, truancy, adolescent mental health cases, and involuntary civil mental commitment hearings. Clients include the Department of Health, the Department of Human Services, the Department of Education, and the Office of the Public Guardian. The division also provides support to the Child Support Enforcement Agency.
- **Health and Human Services Division:** The Health and Human Services Division provides the principal legal services and support to the Department of Health and the Department of Human Services. The division enforces the State's environmental laws, provides legal advice to all Department of Health and Department of Human Services programs, takes appeals to circuit court from administrative decisions, defends actions against the State in both State and Federal court, and handles some appeals in both the State and Federal appellate systems.
- **Labor Division:** The Labor Division provides legal services and litigation support to the Department of Labor and Industrial Relations and boards and agencies administratively attached to that department, including the State Fire Council. In connection with its enforcement of the various labor laws, the division also collects penalties, fines, and reimbursements.
- **Land/Transportation Division:** The Land/Transportation Division provides legal services to both the Department of Land and Natural Resources (DLNR) and the Department of Transportation (DOT). These assignments include servicing all divisions of the DLNR (Aquatic Resources, Boating, Conservation and Resources Enforcement, Forestry and Wildlife, Land, State Historic Preservation, State Parks, and Water Resource Management) and the DOT (Airports, Harbors, and Highways). The division also provides services to the following attached commissions, boards, or agencies:



Department of the Attorney General
State of Hawaii

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

Legal Services (continued) –

Kaho’olawe Island Reserve Commission, Natural Area Reserves System Commission, Bureau of Conveyances, the four island Burial Councils, Hawaii Historic Places Review Board, Hawaii Invasive Species Council, Commission on Transportation, State Highway Safety Council, and Medical Advisory Board. Most tort litigation involving the DLNR or the DOT is handled by another division, but the Land/Transportation Division handles a number of cases involving the State as a landlord and as a source of permits or as regulator. The division is responsible for all quiet title actions involving the State and virtually all State eminent domain actions, the bulk of which are done on behalf of the State highways program. The division prepares land disposition documents for the DLNR and the DOT and prepares office leases for the Department of Accounting and General Services when State agencies rent private property as tenants. The division reviews for legality its clients’ contracts and administrative rules. The litigation that the division handles includes enforcement actions for violations of the State Historic Preservation law and the law governing land use in conservation districts and actions for damage to natural resources of the State. The division works on the DOT’s complex construction cases.

- **Legislative Division:** The Legislative Division provides legal services on matters pertaining to legislation and to proposed administrative rules. The division coordinates the preparation and review of all legislative bills proposed by the executive branch agencies and coordinates the review, monitoring, and evaluation of all legislative bills during and after each session of the Legislature. In addition, the division coordinates, monitors, and reviews the preparation of administrative rules of the Department of the Attorney General. This division also performs the final review of the formal opinions issued by the Attorney General and performs the initial review of complaints involving the Sunshine Law.
- **Public Safety, Hawaiian Home Lands, and Housing Division:** The Public Safety, Hawaiian Home Lands, and Housing Division provides legal services and support to the Department of Public Safety, the Department of Hawaiian Home Lands, the Hawaii Public Housing Authority, and the Hawaii Community Development Agency. The division is responsible for reviewing pardon applications and extradition documents, and responding to petitions for release from inmates under Rule 40 of the Hawaii Rules of Penal Procedure.
- **Tax and Charities Division:** 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 includes an informal bankruptcy unit devoted to handling all bankruptcy cases for the Department of Taxation, and occasionally assists other agencies in bankruptcy matters. The division represents the Attorney General in the oversight and enforcement of laws pertaining to charitable trusts, public charities, public benefit corporations, and



**Department of the Attorney General
State of Hawaii**

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

Legal Services (continued) –

private foundations. The division is also responsible for the department’s registration and bonding function for professional solicitors and professional fundraising counsels under HRS Chapter 467B, and enforcement of the State’s charitable solicitation laws. The division is the custodian of certifications by charities that issue charitable gift annuities under HRS § 431:204(b).

- **Tort Litigation Division:** The Tort Litigation Division provides legal defense to personal injury lawsuits and claims made against the State and its departments and agencies. The division does not have primary responsibility for giving advice and counsel to any State department or agency, to provide representation in criminal matters, or to collect monies owed to the State. In general, the services provided by the division include accepting service of legal complaints for the Attorney General, answering legal complaints made against State departments and agencies, investigating claims, conducting discovery on claims, and representing State interests in arbitrations, mediations, and trials.

Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The AG’s general and special revenue funds are grouped into one broad fund category for financial statement presentation purposes - the Governmental Fund (Fund). The AG also has four fiduciary agency funds.

Basis of Accounting

Departmental Financial Statements

The departmental financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the department.

The departmental statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the departmental financial statements and the financial statements for governmental funds. The primary effect of internal activity has been eliminated from the departmental financial statements.



**Department of the Attorney General
State of Hawaii**

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

The departmental Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. 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. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or segment is self-financing or draws from the general revenues of the State.

Net position on the departmental financial statements are reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. There was no net position restricted by enabling legislation at June 30, 2017.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the departmental financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements

Fund financial statements report detailed information about the AG. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus.

The following is a description of the governmental funds of the AG:

- General Fund – This is the AG’s primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.
- Special Funds – These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

When both restricted and unrestricted resources are available for use, it is the AG’s policy to use restricted resources first, followed by unrestricted resources as they are needed. When expenditures are incurred for purposes for which any of the unrestricted fund balances can be used, it is the AG’s policy to use committed funds first followed by assigned funds before unassigned funds are used.



Department of the Attorney General

State of Hawaii

Notes to Financial Statements

June 30, 2017

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition

The governmental financial statements are prepared using the modified accrual basis of accounting. Revenues and related current assets are recognized in the accounting period when they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. Measurable means that the amount of the transactions can be determined. Available means that the amount is collected in the current fiscal year or soon enough after fiscal year-end (60 days) to liquidate liabilities existing at the end of the fiscal year.

The departmental financial statements are prepared using the accrual basis of accounting.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and recorded when the related fund liability is incurred. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Agency Funds

The AG has four agency funds. These funds are purely custodial and thus do not have a measurement focus. Agency funds use the accrual basis of accounting to recognize receivables and payables, and report only assets and liabilities.

Use of Estimates

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

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. In accordance with the State's "New Statewide Capitalization Policy" (Policy), furniture and equipment purchased or acquired with a cost greater than \$5,000 and building with a cost greater than \$100,000, are capitalized at historical cost or estimated historical cost, and depreciated using the straight-line method over their estimated useful lives. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.



Department of the Attorney General
State of Hawaii

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

In accordance with the Policy, the AG provides for depreciation using estimated useful lives as follows:

	<u>Estimated Useful Lives</u>
Buildings and improvements	30 years
Office furniture and equipment	7 years

Departments of the State sharing the same building and improvements report their allocated share of the cost as determined by the State’s Department of Accounting and General Services (DAGS).

Appropriations

Appropriations are an authorization granted by the State Legislature permitting a State agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year or as specified in the enacted legislation.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at fiscal year end are included in fund balances since they do not constitute expenditures or liabilities.

Accumulated Vacation and Sick Leave

Employees’ vested annual vacation and sick leave are recorded as expenditures on the governmental fund financial statements when actually taken. The employees of the AG are entitled to receive cash payment for accumulated vacation leave upon termination. The liability for such accumulated vacation leave pay is maintained separately and recorded only in the departmental financial statements and represents a reconciling item between the governmental funds and departmental financial statement presentations.

Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements. Other interfund activities, such as loans, are reported as interfund receivables and payables as appropriate and are subject to elimination in the departmental financial statements.



Department of the Attorney General
State of Hawaii

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

Grants

All Federal awards are reimbursement-type grants and are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred and funds are available.

Risk Management

The AG is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss is reasonably estimable.

Fund Balances

The governmental fund financial statement reports fund balances as follows:

- a. Nonspendable – Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – Represents amounts that are restricted to specific purposes due to constraints placed on the use of resources that are either:
 - a) Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or
 - b) Imposed by law through constitutional provisions or enabling legislation.
- c. Committed – Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature. Unlike restricted amounts, committed amounts may be redeployed for other purposes by the State Legislature.
- d. Assigned – Represents amounts that are neither restricted nor committed but are constrained by management as to use by the government's intent to use the monies for specific purposes.
- e. Unassigned – Represents the residual classification of the general fund that has not been assigned to other funds and that has not been restricted, committed, or assigned.

At June 30, 2017, the Department of the Attorney General did not have any fund balances that were classified as nonspendable.



**Department of the Attorney General
State of Hawaii**

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

Leases

Leases that transfer substantially all of the risks and benefits of ownership to the lessee are accounted for as capital leases and recorded as an acquisition of an asset and liability.

All other leases are accounted for as operating leases.

Due To State of Hawaii

The AG receives payments for legal settlements on behalf of the State of Hawaii. The undistributed balance of settlements at fiscal year-end are recorded as Due to State of Hawaii. At June 30, 2017, the AG had legal settlements included in Due to State of Hawaii amounting to approximately \$3,064,000.

2. Compliance and Accountability

Budget Requirements, Accounting and Reporting

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 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 the State of Hawaii.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations. During 2017, the AG expended approximately \$405,000 in excess of a general fund appropriation. This amount was included in the vouchers payable balance at June 30, 2017.

Summarization of the budgets adopted by the State Legislature for the general and special revenue funds is presented in the Statements of Revenues and Expenditures – Budget and Actual. For purposes of budgeting, the AG’s budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with generally accepted accounting principles (GAAP). The AG’s annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to (1) the encumbrance of purchase orders and contract obligations, and (2) the budgeting of salaries and wages.



Department of the Attorney General
State of Hawaii
Notes to Financial Statements
June 30, 2017

2. Compliance and Accountability (continued)

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with GAAP are as follows:

	<u>General Fund</u>	<u>Child Support Enforcement</u>	<u>Legal Services</u>	<u>Crime Prevention and Justice Assistance</u>	<u>Criminal Justice Data Center</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures - actual on a budgetary basis	\$ 150,095	\$ (2,346,329)	\$ 1,507,694	\$ (6,986)	\$ (492,662)	\$ (1,188,188)
Reserve for encumbrances at June 30, 2017	465,413	918,186	770,115	-	809,416	2,963,130
Reserve for encumbrances at June 30, 2016	(295,153)	(52,790)	(776,966)	-	(820,057)	(1,944,966)
Fiscal 2017 salaries and wages funded by fiscal 2018 budget	(1,554,851)	(640,158)	(1,352,615)	(48,744)	(150,659)	(3,747,027)
Fiscal 2016 salaries and wages funded by fiscal 2017 budget	<u>1,437,230</u>	<u>605,893</u>	<u>1,160,062</u>	<u>27,590</u>	<u>134,972</u>	<u>3,365,747</u>
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	<u>\$ 202,734</u>	<u>\$ (1,515,198)</u>	<u>\$ 1,308,290</u>	<u>\$ (28,140)</u>	<u>\$ (518,990)</u>	<u>\$ (551,304)</u>



Department of the Attorney General

State of Hawaii

Notes to Financial Statements

June 30, 2017

3. Cash

AG's cash at June 30, 2017 consisted of the following:

	<u>Governmental Funds</u>	<u>Agency Funds</u>
Cash in State Treasury	\$ 16,476,113	\$ 724,798
Cash held outside of State Treasury	<u>10,403,703</u>	<u>11,639,106</u>
	<u>\$ 26,879,816</u>	<u>\$ 12,363,904</u>

The AG's cash held in State Treasury is pooled with cash from other State agencies and departments. Cash that is not required for immediate payments is invested by the Department of Budget and Finance, State of Hawaii. Cash accounts that participate in the investment pool accrue interest based on average weighted cash balances.

Detailed information relating to cash and investments held in the State Treasury and related insurance, collateral and risks relating to interest rate, credit, custodial, and concentration are further described in the State of Hawaii Comprehensive Annual Financial Report (CAFR).

The AG also maintains certain funds in two interest bearing accounts in a Hawaii bank which are held separately from the State Treasury. One bank account is used primarily for CSEA agency transactions. As of June 30, 2017, the carrying amount of this account was \$11,639,106 and was reflected in "Cash" of the Agency Fund's Statement of Fiduciary Net Position.

The second bank account, opened in fiscal year 2003, is used solely to account for the Federal share of child support payment collections retained by CSEA under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) and the Temporary Assistance for Needy Families (TANF) program. As the use of these funds is for CSEA's benefit, this account is reflected in "Cash" of the Governmental Fund Balance Sheet under the special fund for Child Support Enforcement. As of June 30, 2017, the carrying amount of this bank account was \$10,403,703.

With respect to the cash held outside the State Treasury, the Federal Deposit Insurance Corporation provided insurance coverage limited to \$250,000 per depositor. At June 30, 2017, the uninsured amount totaled approximately \$25,258,000.



**Department of the Attorney General
State of Hawaii**

Notes to Financial Statements
June 30, 2017

4. Capital Assets and Depreciation

Capital assets activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets, being depreciated -				
Building and improvements				
Cost	\$ 12,210,091	\$ 31,578	\$ -	\$ 12,241,669
Accumulated depreciation	(8,733,360)	(389,939)	-	(9,123,299)
Building and improvements - net	3,476,731	(358,361)	-	3,118,370
Office furniture and equipment				
Cost	9,145,547	427,098	(76,514)	9,496,131
Accumulated depreciation	(4,457,484)	(999,308)	76,514	(5,380,278)
Office furniture and equipment - net	4,688,063	(572,210)	-	4,115,853
Capital assets - net	<u>\$ 8,164,794</u>	<u>\$ (930,571)</u>	<u>\$ -</u>	<u>\$ 7,234,223</u>

Depreciation expense was charged to functions of the AG in the statement of activities as follows:

Governmental activities:	
General administrative and legal services	\$ 266,905
Crime prevention and justice assistance	182,167
Criminal justice data center	696,308
Child support enforcement	243,867
Total governmental activities depreciation expense	<u>\$ 1,389,247</u>

5. Accrued Vacation

Effective July 1, 2004, eligible employees are credited with vacation at a rate of 14 hours per month. Accumulation of such vacation credits is limited to 720 hours at calendar year-end. The departmental financial statements present the cost of accumulated vacation leave as a liability. Liabilities for vacation pay are inventoried at the end of each accounting period and adjusted to current salary levels.



Department of the Attorney General
State of Hawaii

Notes to Financial Statements
June 30, 2017

5. Accrued Vacation (continued)

For the year ended June 30, 2017, changes in accrued vacation liabilities were as follows:

Balance at July 1, 2016	\$ 6,276,563
Net increase	336,067
Balance at June 30, 2017	<u>6,612,630</u>
Less: current portion	3,788,000
Non-current portion	<u><u>\$ 2,824,630</u></u>

6. Non-Imposed Employee Fringe Benefits

Payroll fringe benefit costs of the AG's employees funded by State appropriations (general fund) are assumed by the State and are not paid by the AG's operating funds. These costs, totaling \$10,545,582 for the year ended June 30, 2017, have been reported as revenues and expenditures in the AG's General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and in the departmental statement of activities.

7. Related Party Transactions

Certain AG employees perform services for other State departments and agencies. The AG bills those departments and agencies for such services and records revenues in the special fund to which the payroll costs were actually charged. Revenues totaled approximately \$14,077,000 for the fiscal year ended June 30, 2017, and the amount due from other State agencies totaled approximately \$2,105,000 at June 30, 2017.

8. Lease Commitments

The AG leases office facilities and office equipment on a long-term basis, the expenditures of which are reported in the general and special funds.

In addition to the minimum rent, certain leases also provide for the payment of operating costs and general excise taxes.

Total rent expense including rents under short-term operating leases for the fiscal year ended June 30, 2017 was approximately \$1,029,000.

The AG also leased office equipment under a noncancelable lease expiring in December 2019 with interest at approximately 1.5%. Payments of \$156,321 are due quarterly. The lease meets the criteria for capitalization established by the Financial Accounting Standards Board in *Accounting Standards Codification 840*. The lease is financed from federal grants. The estimated value of the leased equipment at the inception of the capital lease aggregated approximately \$3,007,422.



Department of the Attorney General
State of Hawaii

Notes to Financial Statements
June 30, 2017

8. Lease Commitments (continued)

Capital lease expenditures for the year ended June 30, 2017, approximated \$597,000 and \$28,000, for principal and interest, respectively. Depreciation expense totaling approximately \$301,000 is included in the statement of activities for these assets.

The cost basis and accumulated depreciation of the leased assets at June 30, 2017 were as follows:

Cost	\$ 3,007,422
Less: Accumulated depreciation	(300,742)
Net amount	\$ 2,706,680

These amounts are included with capital assets (Note 4) in the financial statements and footnotes.

The following is a schedule of minimum future payments on noncancelable leases expiring through July 2022:

Year ending June 30,	Operating leases	Capital leases
2018	\$ 585,000	\$ 625,000
2019	561,000	625,000
2020	479,000	313,000
2021	331,000	-
2022	244,000	-
Thereafter	13,000	-
	\$ 2,213,000	1,563,000
	Less: amount representing interest	(31,645)
		\$ 1,531,355

The following is a summary of the changes in the obligation under capital lease for the year ended June 30, 2017:

	Amount
Balance at July 1, 2016	\$ 2,127,983
Less: Principal payments	596,628
Balance at June 30, 2017	1,531,355
Less: current portion	605,653
Noncurrent portion	\$ 925,702

The interest portion of the lease payments is included in direct expenses of the Criminal Justice Data Center on the statement of activities.



Department of the Attorney General
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Notes to Financial Statements
June 30, 2017

9. Employee Benefits

Employees' Retirement System of the State of Hawaii

Substantially all full-time employees of the AG are required to become members of the Employees' Retirement System (ERS), a cost-sharing, multiple-employer defined benefit pension plan. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS provides retirement, disability, and death benefits that are covered by the provisions of the noncontributory, contributory, and hybrid retirement membership classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credit service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees. Contributions for employees of the AG are paid from the State's general fund.

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. Accordingly, the State's policy on the accounting and reporting for pension benefits is to allocate a portion of the net pension liability, pension expense, and deferred inflows and outflows of resources required under GASB Statement No. 68 only to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's Comprehensive Annual Financial Report (CAFR). The basis for the allocation is the number of covered employees for each component unit and proprietary fund for pension benefits.

The State's policy is to fund its required contribution annually. The AG's general fund share of the retirement system expense for the year ended June 30, 2017, was included as an item to be expended by the Department of Budget and Finance and is not reflected in the AG's financial statements.

The ERS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained from the ERS.



Department of the Attorney General
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Notes to Financial Statements
June 30, 2017

9. Employee Benefits (continued)

Employees' Retirement System of the State of Hawaii (continued)

The employer contribution rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2017 were 25.00% for police and firefighters and 17.00% for all other employees. Contributions to the pension plan from the State were \$425,954,000 for the fiscal year ended June 30, 2017.

On May 18, 2017, the Governor signed into law Act 17 SLH 2017. Per Act 17, future employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for police and firefighters increases to 28.00% on July 1, 2017; 31.00% on July 1, 2018; 36.00% on July 1, 2019; and 41.00% on July 1, 2020 and the rate for all other employees increases to 18.00% on July 1, 2017; 19.00% on July 1, 2018; 22.00% on July 1, 2019; and 24.00% on July 1, 2020.

The State's statutorily required contribution as of June 30, 2017, 2016, and 2015 were approximately \$445,000,000, \$432,000,000, and \$410,000,000, respectively. The State contributed 100.0% of its statutorily required contribution for those years. Covered payroll for the fiscal year ended June 30, 2017 was approximately \$2,559,000,000.

Postemployment Healthcare and Life Insurance Benefits

The State contributes to the Hawaii Employer-Union Health Benefit Trust Fund (EUTF), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for State and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.



**Department of the Attorney General
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Notes to Financial Statements
June 30, 2017

9. Employee Benefits (continued)

Postemployment Healthcare and Life Insurance Benefits (continued)

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

The actuarial valuation of the EUTF does not provide other post-employment benefits (OPEB) information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of State's Annual Required Contribution (ARC), interest, and any adjustments to the ARC, to component units and proprietary funds that are reported separately in the State's CAFR or in standalone department financial statements. The basis for the allocation is the proportionate share of contributions made by each component unit and proprietary fund for retiree health benefits.

The State's CAFR includes the required footnote disclosures and required supplementary information on the State's OPEB plans. The State's CAFR can be found at the Department of Accounting and General Services' website: <http://hawaii.gov/dags/rpts>.

The AG's share of the non-pension post-retirement benefits is expended by the Department of Budget and Finance and is not reflected in the AG's financial statements.

The State's CAFR also includes financial disclosure and required supplementary information on the State's pension and non-pension retirement benefits.

10. Risk Management

The State is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State has property, crime and other liability insurance policies in force through various outside insurance carriers to mitigate this risk. The State generally retains the risk of losses up to deductible amounts per occurrence, and for amounts over the coverage limits. Insurance coverage is subject to various exclusions as specified in the insurance policies. Losses not covered by the insurance policies are paid by DAGS' Risk Management Fund or through legislative appropriation.

Insurance coverage for the policy year December 1, 2016 through December 1, 2017, are summarized below.

The State has real and personal property insurance covering risk of direct physical loss including named windstorms, flood, tsunami, and earthquakes with a limit of loss of \$200,000,000 per occurrence except for flood and earthquake which each has a \$200,000,000 aggregate loss.



Department of the Attorney General
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Notes to Financial Statements
June 30, 2017

10. Risk Management (continued)

Deductibles are 3% of loss subject to a \$1,000,000 minimum per occurrence for windstorm, flood, tsunami, and earthquake. For other losses, the deductible is \$1,000,000 per occurrence.

The State has terrorism insurance with a limit of loss of \$50,000,000 with a \$10,000 per occurrence deductible and subject to the limitations of the Federal Terrorism Risk Insurance Act.

The State has liability insurance covering bodily injury and property damage, personal injury, automobile and watercraft liability, public errors and omissions liability, employment practices, dam and terrorism liability. Coverage limits are \$5,000,000 in aggregate with a \$4,000,000 per occurrence deductible.

The State has crime insurance for various types of coverage with a loss limit of \$10,000,000 per occurrence, with a \$500,000 deductible per occurrence.

The State is self-insured for its automobile no fault, worker compensation and unemployment benefits for its employees. These benefits are administered by other State departments.

DAGS' Risk Management Office handles tort, property, and automobile claims of \$10,000 or less for most departments of the State. Claims over \$10,000 are handled by the State's Department of the Attorney General. Losses of \$10,000 or less are paid from DAGS' Risk Management Fund. Losses in excess of \$10,000 are paid through legislative appropriation to the Department of the Attorney General.

11. Commitments and Contingencies

Accumulated Sick Leave – Employees earn sick leave credits at the rate of one and three-quarters working days for each month of service without limit. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an 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 for the AG as of June 30, 2017 was approximately \$25,087,000.

Deferred Compensation Plan – The State has a deferred compensation plan which enables State employees to defer a portion of their compensation. The State Department of Human Resources Development has the fiduciary responsibility of administering the plan. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and income earned thereon are held in trust outside the State Treasury for the exclusive benefit of participants and their beneficiaries.



**Department of the Attorney General
State of Hawaii**

Notes to Financial Statements
June 30, 2017

12. Criminal Forfeiture Revolving Fund

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

13. Welfare Reform Act

The enactment of Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), implemented changes in the availability of Federal funding and in the information required to compute State grant awards. PRWORA made effective the Temporary Assistance for Needy Families (TANF) Program under Title IV-A of the Social Security Act and repealed the Aid to Families With Dependent Children (AFDC) Program under Title IV-A of this Act.



**Department of the Attorney General
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Notes to Financial Statements
June 30, 2017

14. Fund Balances

At June 30, 2017, the Department of the Attorney General's governmental fund financial statements reported fund balances as follows:

	General Fund	Child Support Enforcement	Legal Services	Crime Prevention and Justice Assistance	Criminal Justice Data Center	Total
Restricted for:						
Federal grants	\$ -	\$ 282,006	\$ 32,838	\$ 1,967,242	\$ 42,103	\$ 2,324,189
Child support enforcement	-	10,841,684	-	-	-	10,841,684
Tobacco enforcement fund	-	-	469,397	-	-	469,397
Other	-	-	122,909	-	-	122,909
	<u>-</u>	<u>11,123,690</u>	<u>625,144</u>	<u>1,967,242</u>	<u>42,103</u>	<u>13,758,179</u>
Committed to:						
Medicaid investigation recovery fund	-	-	795,113	-	-	795,113
DNA Registry	-	-	627,090	-	-	627,090
Litigation services	-	-	734,381	-	-	734,381
Enforcement for charitable solicitations	-	-	1,622,914	-	-	1,622,914
Criminal forfeiture fund	-	-	258,666	-	-	258,666
Criminal history record revolving fund	-	-	-	-	1,339,359	1,339,359
Other	-	-	570,364	-	-	570,364
	<u>-</u>	<u>-</u>	<u>4,608,528</u>	<u>-</u>	<u>1,339,359</u>	<u>5,947,887</u>
Assigned to:						
Encumbrances	780,005	-	-	-	-	780,005
Unassigned	<u>(2,247,523)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,247,523)</u>
Total Fund Balance	<u>\$ (1,467,518)</u>	<u>\$ 11,123,690</u>	<u>\$ 5,233,672</u>	<u>\$ 1,967,242</u>	<u>\$ 1,381,462</u>	<u>\$ 18,238,548</u>

Encumbrances and other commitments at June 30, 2017 amounted to:

General Fund	\$ 780,005
Child Support Enforcement	918,186
Legal Services	770,115
Criminal Justice Data Center	809,416
	<u>\$ 3,277,722</u>



**Department of the Attorney General
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Notes to Financial Statements
June 30, 2017

15. Fiduciary Net Position

The net excess of liabilities over assets of \$1,273,343 in the Statement of Fiduciary Net Position results from the Child Support Enforcement program and are due to uncollected recoupments due from custodial parents resulting from overpayments, and uncollected non-sufficient fund (NSF) payments due from non-custodial parents.

The Department has requested funding from the Legislature to cover the deficit in the CSEA Agency Fund.



**Department of the Attorney General
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Schedule of Expenditures of Federal Awards
for the year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Passed Through To Subrecipients</u>	<u>Total Federal Expenditures</u>
<u>U.S. Department of Justice</u>				
Sexual Assault Services Formula Program	16.017	2014-KF-AX-0043	\$ 62,251	\$ 62,251
		2015-KF-AX-0050	235,408	235,408
			<u>297,659</u>	<u>297,659</u>
Internet Crimes Against Children	16.543	2014-MC-FX-K002	-	228,719
Probation and Parole Mapping	16.550	2015-BJ-CX-K003	24,800	27,072
		2016-BJ-CX-K027	-	1,305
			<u>24,800</u>	<u>28,377</u>
Passed through the State Department of Transportation:				
National Criminal History Improvement Program (NCHIP)	16.554	2011-MU-BX-K070	-	18,275
		2012-RU-BX-K010	-	58,676
		2013-MU-BX-K056	-	37,047
		2014-RU-BX-K012	-	3,799
		2015-RU-BX-K010	-	631,557
		2016-RU-BX-K005	-	162,885
			<u>-</u>	<u>912,239</u>
Crime Victim Assistance (VOCA)	16.575	2013-VA-GX-0071	512,039	512,039
		2014-VA-GX-0049	1,611,447	1,688,541
		2015-VA-GX-0035	1,134,984	1,301,312
			<u>3,258,470</u>	<u>3,501,892</u>
Stop Violence Against Women Formula Grants	16.588	2011-WF-AX-0008	3,794	3,794
		2012-WF-AX-0032	46,686	79,619
		2013-WF-AX-0002	169,984	209,252
		2014-WF-AX-0019	600,561	600,561
		2015-WF-AX-0024	20,255	20,255
			<u>841,280</u>	<u>913,481</u>
Residential Substance Abuse Treatment for State Prisoners	16.593	2011-RT-BX-0060	45,226	45,319
		2012-RT-BX-0042	35,000	35,000
			<u>80,226</u>	<u>80,319</u>
Public Safety Partnership and Community Policing Services Grant	16.710	2010-CK-WX-0492	-	91,771
Subtotal carried forward			<u>4,502,435</u>	<u>6,054,457</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.



**Department of the Attorney General
State of Hawaii**

Schedule of Expenditures of Federal Awards (continued)
for the year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Passed Through To Subrecipients</u>	<u>Total Federal Expenditures</u>
<u>U.S. Department of Justice (continued)</u>				
Subtotal brought forward			\$ 4,502,435	\$ 6,054,457
Edward Byrne Memorial Justice Assistance Grant (JAG)	16.738	2011-DJ-BX-2205	166,688	182,474
		2012-DJ-BX-0436	67,766	68,730
		2013-DJ-BX-0018	113,059	122,179
		2013-DG-BX-K010	-	6,432
		2014-DJ-BX-0049	422,292	496,983
		2015-DJ-BX-0342	50,569	65,031
		<u>820,374</u>	<u>941,829</u>	
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	2015-CD-BX-0010	53,817	55,776
		2016-CD-BX-0002	-	5,275
			<u>53,817</u>	<u>61,051</u>
Support for Adam Walsh Act Implementation Grant	16.750	2014-AW-BX-0016	-	148
		2015-AW-BX-0006	-	143,228
		2016-AW-BX-0006	-	223,602
			<u>-</u>	<u>366,978</u>
Edward Byrne Memorial Competitive Grant Program	16.751	2015-XT-BX-0009	<u>23,150</u>	<u>23,251</u>
John R. Justice Grant Program	16.816	2016-RJ-BX-0011	<u>-</u>	<u>32,337</u>
Total U.S. Department of Justice			<u>5,399,776</u>	<u>7,479,903</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.



**Department of the Attorney General
State of Hawaii**

Schedule of Expenditures of Federal Awards (continued)
for the year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Passed Through To Subrecipients</u>	<u>Total Federal Expenditures</u>
<u>U.S. Department of Health and Human Services</u>				
ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	93.506	1A1CMS 331099-01-01	\$ -	\$ 148,097
Child Support Enforcement Title IV-D	93.563	G-16-04-HI-4004 G-17-04-HI-4004	- -	50,594 13,808,738
			-	13,859,332
State Medicaid Fraud Control Units	93.775	01-1601-HI-5050 01-1701-HI-5050	- -	340,164 956,326
			-	1,296,490
Total U.S. Department of Health and Human Services			-	15,303,919
<u>U.S. Department of Homeland Security</u>				
Homeland Security Grant Program	97.067	EMW-2015-SS-00003	-	25,283
Total U.S. Department of Homeland Security			-	25,283
<u>Executive Office of the President</u>				
High Intensity Drug Trafficking Areas Program	95.001	G16HI0007A G17HI0007A	409,786 415,403	417,868 415,825
			825,189	833,693
Total Executive Office of the President			825,189	833,693
Total Expenditures of Federal Awards			\$ 6,224,965	\$23,642,798

See accompanying notes to Schedule of Expenditures of Federal Awards.



**Department of the Attorney General
State of Hawaii**

Notes to the Schedule of Expenditures of Federal Awards
June 30, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the Federal award activity of the Department of the Attorney General of the State of Hawaii (AG). The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the AG, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the AG.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The AG has not elected to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.



PART II
COMPLIANCE AND INTERNAL CONTROL





**Report 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***

Independent Auditor's Report

To the Auditor
Office of the Auditor
State of Hawaii

We have audited, in accordance with the 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, 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, 2017, and the related notes to the financial statements, which collectively comprise the Department of the Attorney General, State of Hawaii's, basic financial statements, and have issued our report thereon dated February 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department of the Attorney General, State of Hawaii's, internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department of the Attorney General, State of Hawaii's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of the Attorney General, State of Hawaii's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, as item 2017-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department of the Attorney General, State of Hawaii's, financial statements are free from 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 of the 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 are described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002.

The Department of the Attorney General, State of Hawaii's, Response to Findings

The Department of the Attorney General, State of Hawaii's, response to the findings identified in our audit is described in the accompanying response to schedule of findings and questioned costs. The Department of the Attorney General, State of Hawaii's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Department of the Attorney General, State of Hawaii's, internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of the Attorney General, State of Hawaii's, internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Akamine, Oyadomari & Kosaki CPAs, Inc.

Honolulu, Hawaii
February 26, 2018





**Report on Compliance for Each Major Federal Program and Report on
Internal Control Over Compliance Required by the Uniform Guidance**

Independent Auditor's Report

To the Auditor
Office of the Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the Department of the Attorney General, State of Hawaii's, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Department of the Attorney General, State of Hawaii's major federal programs for the year ended June 30, 2017. The Department of the Attorney General, State of Hawaii's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department of the Attorney General, State of Hawaii's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department of the Attorney General, State of Hawaii's, compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Department of the Attorney General, State of Hawaii's, compliance.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-003 and 2017-004. Our opinion on each major federal program is not modified with respect to these matters.

The Department of the Attorney General, State of Hawaii's response to the noncompliance findings identified in our audit is described in the accompanying response to schedule of findings and questioned costs. The Department of the Attorney General, State of Hawaii's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Opinion on Each Major Federal Program

In our opinion, the Department of the Attorney General, State of Hawaii, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Department of the Attorney General, State of Hawaii, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department of the Attorney General, State of Hawaii's, internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department of the Attorney General, State of Hawaii's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section, and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. We did not



identify any deficiencies in internal control over compliance that we consider to be material weaknesses. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-003 and 2017-004, that we consider to be significant deficiencies.

The Department of the Attorney General, State of Hawaii's response to the internal control over compliance findings identified in our audit is described in the accompanying response to schedule of findings and questioned costs. The Department of the Attorney General, State of Hawaii's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Akamine, Oyadomari + Kosaki CPAs, Inc.

Honolulu, Hawaii

February 26, 2018



PART III
FINDINGS AND QUESTIONED COSTS



**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
for the year ended June 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes None reported

Noncompliance material to financial statements noted? X Yes No

Federal Awards

Internal controls over major federal programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes None reported

Type of auditor’s report issued on compliance for major federal programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Identification of major federal programs:

<u>CFDA No.</u>	<u>Name of Federal Program or Cluster</u>
16.554	National Criminal History Improvement Program
16.750	Support for Adam Walsh Act Implementation Grant Program
93.563	Child Support Enforcement Title IV-D
93.775	State Medicaid Fraud Control Units
95.001	High Intensity Drug Trafficking Areas Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000
Auditee qualifies as low-risk auditee? X Yes No



**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
for the year ended June 30, 2017

Section II – Financial Statement Findings

2017-001 Deficit in CSEA Agency Fund should be addressed and resolved.

Criteria:

The Department of the Attorney General (AG) maintains four agency funds including an Agency Fund for the Child Support Enforcement Agency (CSEA), a division of the Department of the Attorney General, which provides for a system of collections, disbursements, and enforcement of court ordered child support payments. Amounts collected for child support are custodial in nature and are under the control of the CSEA as a fiduciary and are not available for use in government operations.

Condition:

Cash receipts collected from non-custodial parents are deposited into the CSEA bank account for disbursement to custodial parents. Transactions are recorded in the CSEA Agency Fund.

At June 30, 2017 the balance sheet of the CSEA Agency Fund comprised:

Cash, net of outstanding checks of \$3,493,000 of which \$2,864,000 were over one year old	\$ 11,639,000
Liability to agency recipients	<u>12,912,000</u>
Deficit	<u><u>\$ 1,273,000</u></u>

The deficit of \$1,273,000 is comprised of the following:

Unrecovered nonsufficient funds support payments from non-custodial parents	\$ 1,104,000
Uncollected amounts due from custodial parents resulting from overpayment of child support payments	837,000
Other	<u>(668,000)</u>
	<u><u>\$ 1,273,000</u></u>



**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
for the year ended June 30, 2017

Federal regulations provide for child support payments from the non-custodial parent to be remitted to the custodial parent within two business days upon receipt by the CSEA. Certain support payments, however, are held and not immediately disbursed due to payments received with insufficient information to identify the intended custodial parent, child support payment checks returned as undeliverable to the custodial parent, amounts intercepted and withheld from the delinquent non-custodial parent's income tax return refund which are subject to challenge, prepaid child support payments made by the non-custodial parent not yet due to the custodial parent, and amounts held for overpayments for public assistance to the custodial parent.

The total support payments due to agency recipients was approximately \$12,912,000 at June 30, 2017. CSEA has over the years accumulated a deficit of approximately \$1,273,000 in the Agency Fund at June 30, 2017. Since the child support monies are custodial in nature, the Agency Fund should not be operating with a deficit.

We noted that during the fiscal year ending June 30, 2017, the AG reduced the deficit by replenishing the Agency Fund with reserves from federal incentive payments. These transfers aggregated approximately \$300,000.

Cause:

Since Federal regulations require disbursement of child support payments to custodial parents within two business days of receipt, CSEA disbursed amounts received without knowing whether the non-custodial parent had sufficient funds at the bank. Nonsufficient funds (NSF) checks rejected by the bank result in amounts due from non-custodial parents. Recovery of such funds were dependent on collecting from the non-custodial parent and not by reducing future child support payments to the custodial parent.

Errors in the payment process gave rise to uncollected recoupments due from the custodial parent resulting from overpayment of child support payments. CSEA's ability to collect such overpayment from the custodial parent by reducing future child support payments was limited.

Over the years, the Agency trust fund monies have been used by CSEA to pay for all of the above items and as of June 30, 2017, obligations exceeded cash, resulting in a \$1,273,000 deficit in the CSEA Agency Fund. The present deficit is being funded by the "float" created by outstanding uncashed checks (\$2,864,000 over one year old) and from obligations due to parents not being immediately payable. Any recovery from parents for either NSF payments or overpayments of support is problematic.

Effect: As a result of the deficit, there is presently not enough cash in the Agency Fund to pay all of the Agency Fund obligations.

Recommendation: We noted that during the fiscal years ended June 30, 2017 and 2016, the AG made transfers amounting to approximately \$300,000 and \$869,000, respectively, to replenish the Agency Fund. We recommend that the AG continue to resolve the deficit position in its Agency Fund.



**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
for the year ended June 30, 2017

2017-002 Controls over expenditures and encumbrances should be improved.

Criteria:

HRS §37-42, relating to expenditure controls, provides that no department or establishment shall expend or be allowed to expend any sum, or incur or be allowed to incur any obligation in excess of an allotment. Under HRS §37-31, appropriated funds are intended to meet the requirements of the department for the period of the appropriation.

Condition and Effect:

During our audit, we noted that the department paid approximately \$406,000 with fiscal 2018 funds for fiscal 2017 expenditures, although the department lapsed approximately \$1,000 of fiscal 2017 general funds. Accordingly, the AG may have expended at least \$405,000 in excess of its appropriation for the fiscal year ended June 30, 2017. This excess resulted primarily from expenditures for services rendered from April 2017 through June 2017 funded with monies budgeted for fiscal 2018.

Cause:

The AG does not have adequate procedures in place to ensure that the necessary funds are available prior to, and encumbered upon, entering into a firm commitment.

Recommendation:

We recommend that the AG establish the necessary policies and procedures to help ensure that adequate funds are available prior to entering into a firm commitment. In addition, the AG should implement the necessary policies and procedures to utilize encumbrances upon entering firm commitments. In this connection, expenditures should be encumbered on a timely basis in the appropriate fiscal year.



**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
for the year ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs

Finding 2017-003 Cash Management

Federal Programs:

U.S. Department of Justice – (Passed Through the Department of Transportation, State of Hawaii) 16.554 National Criminal History Improvement Program; (Direct) 16.750 Support for Adam Walsh Act Implementation Grant Program

Questioned Costs:

\$0

Criteria:

The Attorney General should minimize the time between drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes pursuant to 31 CFR Part 205.33(a).

Condition:

During our audit, we noted 16 instances out of 25 tested in which the Department of the Attorney General disbursed Federal funds more than ten business days after the drawdown of funds from the Federal government. The delays ranged from 11 to 47 business days.

Cause:

AG did not follow its policy of timely processing payments once Federal draws were received.

Effect:

The delays in disbursing funds could jeopardize future Federal funding or prompt additional restrictions on funding by the granting agency.

Recommendation:

We recommend the AG review its cash management policies and procedures to minimize the time elapsing between the drawdown of Federal funds and the related disbursement.



**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
for the year ended June 30, 2017

Finding 2017-004 Reporting

Federal Program:

U.S. Department of Justice: (Passed Through the Department of Transportation, State of Hawaii)
16.554 National Criminal History Improvement Program

Questioned Costs:

\$0

Criteria:

The Uniform Guidance requests that financial management systems must provide for the identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received, pursuant to 2CFR §200.302(b)(1).

Condition:

During our audit, the client provided reconciliations between the expenditures reported on the Federal Financial Report (SF-425) and the expenditures reported in the accounting records. However, the reconciliation for the National Criminal History Improvement Program (NCHIP) was incomplete. After further investigation, we determined the expenditures reported on the June 30, 2017 Federal Financial Report for the 2015-RU-BX-K010 grant was overstated by approximately \$8,380.

Cause:

The AG's internal control over reporting did not function properly and was ineffective in preventing an error in the Federal Financial Report.

Effect:

An audit adjustment of \$8,380 was made to the schedule of expenditures of federal awards for the 2015-RU-BX-K010 grants.

Recommendation:

We recommend the AG strengthen its internal controls over reporting in order to prevent, or detect and correct, errors in Federal expenditure reports.



**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
for the year ended June 30, 2017

Section IV – Prior Year Audit Findings

Internal Control over Financial Reporting

Finding 2016-001 Deficit in CSEA Agency Fund should be addressed and resolved.

Condition:

The deficit in the CSEA Agency Fund amounted to \$1,653,000 at June 30, 2016.

Recommendation:

We recommended that the Department resolve the deficit position of the CSEA Agency Fund.

Current status:

The deficit in the CSEA Agency Fund amounted to approximately \$1,273,000 at June 30, 2017. See finding 2017-001 for further current details relating to this matter.

Finding 2016-002 Appropriation should not be over expended.

Condition:

The AG expended at least \$62,000 in excess of its appropriation for the fiscal year ended June 30, 2016.

Recommendation:

We recommended that the AG establish policies and procedures to help ensure that appropriations are not over expended.

Current status:

Appropriations were over expended during the 2017 fiscal year. See current audit finding 2017-002.

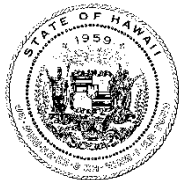
Federal Award Findings and Questioned Costs

No matters reported.



PART IV
RESPONSE OF THE DEPARTMENT OF THE ATTORNEY GENERAL,
STATE OF HAWAII





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

DEPARTMENT OF THE ATTORNEY GENERAL
FISCAL YEAR ENDED JUNE 30, 2017
RESPONSE TO SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2017-001 Deficit in CSEA Agency Fund should be addressed and resolved

Condition and Effect:

Cash receipts collected from non-custodial parents are deposited into the CSEA bank account for disbursement to custodial parents. Transactions are recorded in the CSEA Agency Fund. CSEA has over the years accumulated a deficit of \$1,273,000 in the Agency Fund at June 30, 2017. As a result, there is presently not enough cash in the Agency Fund to pay all of the Agency Fund obligations.

The deficit of \$1,273,000 is comprised of the following:

Unrecovered nonsufficient funds support payments from non-custodial parents	\$1,104,000
Uncollected amounts due from custodial parents resulting from overpayment of child support payments	\$ 837,000
Other	<u>(\$ 668,000)</u>
Total	<u>\$1,273,000</u>

Cause:

The deficit was caused by the following.

Since Federal regulations require disbursement of child support payments to custodial parents within two business days of receipt, CSEA disbursed amounts received without knowing whether the non-custodial parent had sufficient funds at the bank. Nonsufficient funds (NSF) checks rejected by the bank result in amounts due from non-custodial parents. Recovery of such funds was dependent on collecting from non-custodial parent and not by reducing future benefit payments to the custodial parent.

Errors in the payment process gave rise to uncollected recoupments due from the custodial parent resulting from overpayment of child support payments. CSEA's ability to collect such overpayment from the custodial parent by reducing future benefit payments was limited.

Over the years the Agency trust fund monies have been used by CSEA to pay for all of the above items and as of June 30, 2017, obligations exceeded cash, resulting in a \$1,273,000 deficit in the CSEA Agency Fund. The present deficit is being funded by the "float" created by outstanding uncashed checks (\$2,864,000 over one year old) and from obligations due to parents not being immediately payable. Any recovery from parents for either NSF payments or overpayments of support is problematic.

Recommendation:

We continue to recommend the AG resolve the deficit position in its Agency Fund. We noted that during the fiscal year ending June 30, 2017, the AG reduced the deficit by replenishing the Agency Fund with reserves from federal incentive payments. These transfers aggregated approximately \$300,000.

Response:

The AG concurs with the recommendation. The cash deficit in the child support collection and disbursement bank account is attributable to multiple factors such as non-sufficient fund (NSF) checks made by non-custodial parents, fraudulent checks, involuntary pullback from income tax refund offset by taxing authorities, to name a few, and the current amount has been accumulated since the agency's inception. These factors will continue to result in deficits due to the federal law requiring disbursement within 48 hours of receipt of payment. That does not allow adequate time for the payment to clear and receive notification of insufficient funds.

In recent years the agency has been making varied attempts to prevent such deficit from growing by automating the recoupment process for overpayments, implementing a hold period for state tax refund offset, and actively seeking recovery from NSF payers. Additionally, the agency has worked with the State's Risk Management unit on a case-by-case scenario to deal with recoupment. Most of these actions are the agency's preventive measures; they do not eradicate the issue. Because the deficit can only be made whole with general fund, the agency has requested additional general fund appropriation to eliminate or reduce the deficit to much lesser amount since the 2005 legislative session. Such request has never been successful except for the fiscal year 2013 the agency was granted \$50,000 of general fund. The agency will continue looking for ways to effectively manage the cash shortfall; however, to drastically trim down the deficit, supplemental funding will be required.

As a result of the efforts of CSEA, the cash shortfall has decreased from \$2.83 million in FY 2013 to \$1.27 million in FY 2017.

2017-002

Controls over expenditures and encumbrances should be improved.

Condition and Effect:

During the audit, we noted that the department paid approximately \$406,000 with fiscal year 2018 funds for fiscal 2017 expenditures, although the department lapsed approximately \$1,000 of fiscal 2017 general funds. Accordingly, the AG had expended at least \$405,000 in excess of its appropriation for the fiscal year ended June 30, 2017. This excess resulted from expenditures that related to legal services rendered between April 2017 and June 2017.

Cause:

The AG does not have adequate procedures in place to ensure that necessary funds are available prior to, and encumbered upon, entering into a firm commitment.

Recommendation:

We recommend that the AG establish the necessary policies and procedures to help ensure that adequate funds are available prior to entering into a firm commitment. In addition, the AG should implement the necessary policies and procedures to utilize encumbrances upon entering firm commitments. In this connection, expenditures should be encumbered on a timely basis in the appropriate fiscal year.

Response:

The AG concurs with the recommendation. The Department recognizes that on an accrual basis it appears that over expending may have occurred in relation to the expenditure stated in the audit findings. However, the current process is that invoices are paid when presented for payment by the vendor, thus, the payment is done the following fiscal year. The AG would like to mention the circumstances that are causing this condition such as: 1) invoices were received for payment after the fiscal year ended; 2) invoices contained questionable and/or disallowed costs being claimed by the vendor, 3) needed a revised contract for the professional services rendered is needed, or 4) the vendor was not compliant at the time of payment as required by Comptroller's Memorandum 2011-17 pursuant to Sec 103D-310(c) of the Hawaii Revised Statutes, as amended by Act 190, SLH 2011. Moreover, most invoices tagged as possibly exceeding appropriations were to be paid from interdepartmental funds, which were below appropriation level.

The Administrative Services Office (ASO) has established the following policies and procedures:

- *At the beginning and before the end of each fiscal year, the ASO implements a process to identify all projectable expenditures and encumber them as appropriate and as appropriations are available.*

2017-003 Cash Management

Condition and Effect:

During our audit, we noted 16 instances out of 25 tested in which the Department of the Attorney General disbursed Federal funds more than ten business days after the drawdown of funds from the Federal government. The delays ranged from 11 to 47 business days. The delays in disbursing funds could jeopardize future Federal funding or prompt additional restrictions on funding by the granting agency.

Cause:

The AG did not follow its policy of timely processing payments once Federal draws were received.

Recommendation:

We recommend that the AG review its cash management policies and procedures to minimize the time elapsing between drawdown of Federal funds and the related disbursement.

Response:

The AG concurs with the recommendation. The Department requests Federal funds only when invoices are received. Payments are processed right away, but sometimes, they get delayed when DAGS Pre-Audit has questions or needs information. While the Department could sometimes use other funds and do a reimbursement after-the-fact, when an encumbered contract is involved, we are unable to do so because only certain funding sources have been encumbered.

2017-004 Reporting

Condition and Effect:

During our audit, the client provided reconciliations between the expenditures reported on the Federal Financial Report (SF-425) and the expenditures reported in the accounting records. However, the reconciliation for the National Criminal History Improvement Program (NCHIP) was incomplete. After further investigation, we determined the expenditures reported on the June 30, 2017 Federal Financial Report for the 2015-RU-BX-K010 grant was overstated by approximately \$8,380. In effect, an audit adjustment of \$8,380 was made to the schedule of expenditures of federal awards for the 2015-RU-BX-K010 grants.

Cause:

The AG's internal control over reporting did not function properly and was ineffective in preventing an error in the Federal Financial Report.

Recommendation:

We recommend the AG strengthen its internal control over reporting in order to prevent, or detect and correct, errors in Federal expenditures reports.

Response:

- *The AG concurs with the recommendation. The AG/HCJDC normally reconciles its internal records with the State financial system quarterly; it appears that we will need to reconcile on a more frequent basis.*