DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
STATE OF HAWAII

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT

Fiscal Year Ended June 30, 2019

Submitted by
The Auditor
State of Hawaii

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
STATE OF HAWAII

TABLE OF CONTENTS

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
STATE OF HAWAII

TABLE OF CONTENTS

PART I

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Director
Department of Commerce and
Consumer Affairs, 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 Commerce and Consumer Affairs of the State of Hawaii (Department) as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Department'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 unmodified and qualified audit opinions.

Basis for Qualified Opinion on Governmental Activities

As discussed in Note E to the financial statements, management has not recorded land and buildings in governmental activities and accordingly has not recorded depreciation expense on those assets subject to depreciation. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated unless they are inexhaustible, for example, land. Capital asset records maintained by the Department of Accounting and General Services indicate that the gross carrying value of land and buildings allocated to the Department was approximately $39,779,000 as of June 30, 2019. However, the breakdown between land and buildings was not provided, therefore, it was not practicable to quantify the full financial effect of the omission of land and buildings from the Department's government-wide financial statements as of and for the fiscal year ended June 30, 2019.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Department, as of June 30, 2019, and the changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Department, as of June 30, 2019, and the respective changes in financial position, and the respective budgetary comparison for each major fund for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Relationship to the State of Hawaii

As discussed in Note A, the financial statements of the Department 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 of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2019, the changes in its financial position and budgetary comparisons, for the fiscal 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

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2021, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the effectiveness of the Department's 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's internal control over financial reporting and compliance.

N+K CPAs, INC.

Honolulu, Hawaii
April 28, 2021

Department of Commerce and Consumer Affairs
State of Hawaii
STATEMENT OF NET POSITION
June 30, 2019

		Governmental Activities
ASSETS		
Current assets		
Cash and cash equivalents	$	113,734,815
Interest receivable		2,435,400
Other receivables		1,520,390
Prepaid expenses		377,972
Total current assets		118,068,577
Capital assets, net of accumulated depreciation		381,689
Total assets	$	118,450,266
LIABILITIES AND NET POSITION		
Current liabilities		
Vouchers payable	$	230,345
Accrued wages and employee benefits		3,057,622
Accrued compensated absences, current portion		1,561,368
Total current liabilities		4,849,335
Accrued compensated absences, less current portion		2,733,914
Total liabilities		7,583,249
Net position		
Net investment in capital assets		381,689
Restricted		110,485,328
Total net position		110,867,017
Total liabilities and net position	$	118,450,266

See accompanying notes to the basic financial statements.

Department of Commerce and Consumer Affairs
State of Hawaii
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2019

		Program revenues			Net revenue (expense) and changes in net position
Functions/Programs	**Expenses**	**Charges for services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**
Governmental activities:					
Regulation of services	$ 29,534,077	$ 27,331,278	$ 9,475,680	$ --	$ 7,272,881
Enforcement of fair business practices	17,643,471	26,911,647	--	--	9,268,176
General support	8,327,078	560,415	--	--	(7,766,663)
Total governmental activities	$ 55,504,626	$ 54,803,340	$ 9,475,680	$ --	8,774,394
General revenues:					
Interest and investment income					2,099,554
Total general revenues					2,099,554
Change in net position					10,873,948
Net position at June 30, 2018					99,993,069
Net position at June 30, 2019					$ 110,867,017

See accompanying notes to the basic financial statements.

Department of Commerce and Consumer Affairs
State of Hawaii
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

	Compliance Resolution Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 94,550,830	$ 19,183,985	$ 113,734,815
Prepaid expenses	367,085	10,887	377,972
Total assets	$ 94,917,915	$ 19,194,872	$ 114,112,787
LIABILITIES			
Vouchers payable	$ 218,472	$ 11,873	$ 230,345
Accrued wages and employee benefits payable	2,852,312	205,310	3,057,622
Total liabilities	3,070,784	217,183	3,287,967
FUND BALANCES			
Restricted	91,847,131	18,977,689	110,824,820
Total fund balances	91,847,131	18,977,689	110,824,820
Total liabilities and fund balances	$ 94,917,915	$ 19,194,872	$ 114,112,787

See accompanying notes to the basic financial statements.

Department of Commerce and Consumer Affairs
State of Hawaii
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2019

Total fund balances - governmental funds			$	110,824,820
Amounts reported for governmental activities in the statement of net position are different because:				
Receivables are not available to pay for current-period expenditures and are not recognized in governmental funds.				3,955,790
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.				
Capital assets				
Governmental capital assets	$	2,568,638		
Less accumulated depreciation		(2,186,949)		381,689
Accrued compensated absences are not due in the current period and therefore are not reported in the governmental funds.				(4,295,282)
Net position of governmental activities			$	110,867,017

See accompanying notes to the basic financial statements.

Department of Commerce and Consumer Affairs
State of Hawaii
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Fiscal Year Ended June 30, 2019

	Compliance Resolution Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Licenses and fees	$ 22,937,299	$ 2,770,384	$ 25,707,683
Charges for current services	23,274,783	377,885	23,652,668
Fines and penalties	5,670,399	--	5,670,399
Tax on premiums of captive insurance companies	--	2,573,645	2,573,645
Franchise tax	2,000,000	--	2,000,000
Intergovernmental	4,348,405	553,630	4,902,035
Interest and investment income	622,527	110,719	733,246
	58,853,413	6,386,263	65,239,676
EXPENDITURES			
Regulation of services	25,112,225	4,394,795	29,507,020
Enforcement of fair business practices	17,623,054	3,679	17,626,733
General support	8,172,542	1,947	8,174,489
	50,907,821	4,400,421	55,308,242
EXCESS OF REVENUES OVER EXPENDITURES	7,945,592	1,985,842	9,931,434
FUND BALANCES AT JULY 1, 2018	83,901,539	16,991,847	100,893,386
FUND BALANCES AT JUNE 30, 2019	$ 91,847,131	$ 18,977,689	$ 110,824,820

See accompanying notes to the basic financial statements.

Department of Commerce and Consumer Affairs
State of Hawaii
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2019

Net change in fund balances - total government funds		$ 9,931,434
Amounts reported for governmental activities in the statement of activities are different because:		
Some revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, offset by amounts that provide current financial resources that were reported as revenue in governmental activities in the prior year.		1,138,898
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are depreciated over their estimated useful lives as depreciation expense.		
Depreciation of capital assets	$ (132,007)	(132,007)
Change in compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(64,377)
Change in net position of governmental activities		$ 10,873,948

See accompanying notes to the basic financial statements.

Department of Commerce and Consumer Affairs
State of Hawaii
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - Compliance Resolution Fund
Fiscal Year Ended June 30, 2019

	Budgeted Amounts		Actual on Budgetary Basis	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
License and fees	$ 22,604,990	$ 22,604,990	$ 22,044,173	$ (560,817)
Charges for current services	19,415,868	19,415,868	22,069,823	2,653,955
Fines and penalties	3,649,000	3,649,000	5,670,399	2,021,399
Franchise tax	2,000,000	2,000,000	2,000,000	--
Intergovernmental	4,241,000	4,241,000	4,348,405	107,405
Interest and investment income	411,037	411,037	622,527	211,490
	52,321,895	52,321,895	56,755,327	4,433,432
EXPENDITURES				
Regulation of services	35,071,635	35,731,829	28,066,516	7,665,313
Enforcement of fair business practices	18,202,398	18,728,275	16,076,954	2,651,321
General support	8,389,721	8,581,124	8,557,641	23,483
	61,663,754	63,041,228	52,701,111	10,340,117
Excess (deficiency) of revenues over (under) expenditures	$ (9,341,859)	$ (10,719,333)	$ 4,054,216	$ 14,773,549

See accompanying notes to the basic financial statements.

Department of Commerce and Consumer Affairs
State of Hawaii
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
June 30, 2019

		Agency Funds
ASSETS:		
Cash and cash equivalents	$	2,063,763
Receivables		7,577,887
Total assets	$	9,641,650
LIABILITIES:		
Public, educational, or governmental access liability	$	6,763,200
Trust clearing account liability		1,948,671
INET and broadband liability		814,687
Driver education liability		115,092
Total liabilities	$	9,641,650

See accompanying notes to the basic financial statements.

NOTE A - FINANCIAL REPORTING ENTITY

The Department of Commerce and Consumer Affairs (DCCA), State of Hawaii (the State) serves the public through a variety of functions, including regulating and licensing more than 140,000 professionals, monitoring the financial solvency of local banks and insurance companies, and investigating complaints of fraudulent and unfair business practices. The DCCA is made up of nine divisions:

- ***Business Registration Division*** - The Business Registration Division (BREG) has three primary functions: (1) ministerial business registration, processing, and maintenance of business registration documents for public access, including corporations, general and limited partnerships, limited liability partnerships, limited liability limited partnerships, limited liability companies, cooperatives, trade names, trademarks, service marks, and publicity rights; (2) one-stop assistance to businesses applying for state business and employer registrations and state taxpayer IDs; and (3) regulatory oversight over the securities industry and franchises in the State.

- ***Cable Television Division*** - The Cable Television Division (CATV) supports the Director of the DCCA in the issuance of cable franchises, regulation of cable operators, and facilitation of expanded access and usage of broadband services throughout the State. The CATV's primary regulatory function is to determine whether the issuance, renewal, or transfer of a cable franchise is in the public interest.

- ***Division of Consumer Advocacy*** - The Division of Consumer Advocacy (DCA) represents, protects, and advances the interests of consumers of utility and transportation services before regulatory agencies, primarily the Hawaii Public Utilities Commission.

- ***Division of Financial Institutions*** - The Division of Financial Institutions (DFI) provides regulatory oversight for the State's financial service providers, which include both bank and nonbank companies. The DFI provides supervision, regulation, and examination of all Hawaii state-chartered and state-licensed financial institutions, including banks, foreign banking agencies and representative offices, savings banks, trust companies, financial services loan companies, and credit unions.

- ***Insurance Division*** - The Insurance Division (INS) is responsible for overseeing the State's insurance industry, which includes insurance companies, insurance agents, self-insurers, and captive insurance companies. The division ensures that commercial and individual consumers are provided with insurance services that meet acceptable standards of quality, equity, and dependability at fair rates by establishing and enforcing appropriate service standards and by monitoring the solvency of insurers. The INS licenses, supervises, and regulates all insurance transactions in the State under Hawaii Revised Statutes (HRS) title 24 (Insurance Code). Legal service plans also fall under the division's duties.

NOTE A - FINANCIAL REPORTING ENTITY (Continued)

- ***Office of Administrative Hearings*** - The Office of Administrative Hearings (OAH) is a support office under the Director's Office and is responsible for conducting administrative hearings and issuing recommended decisions for all DCCA divisions that are statutorily required to provide contested case hearings under HRS chapter 91.

- ***Office of Consumer Protection*** - The Office of Consumer Protection (OCP) acts on behalf of the DCCA Director, who serves as the consumer counsel for the State under HRS chapter 487. The OCP reviews, investigates, and conducts enforcement actions against unfair or deceptive trade practices in consumer transactions. The OCP also provides consumer education and promotes awareness of important consumer protection issues through its programs, media releases, and educational materials.

- ***Professional and Vocational Licensing Division*** - The Professional and Vocational Licensing Division (PVL) is responsible for implementing the licensing regulations of 52 different professions and vocations. The PVL provides support to licensing regulatory boards, commissions, and programs; handles applications and licenses; reviews and processes renewals; maintains license records; provides guidance to properly implement licensing laws and administrative rules; and responds to consumer inquiries on whether a person or an entity is properly licensed, to help them decide whether to use the services of that person or entity.

- ***Regulated Industries Complaints Office*** - As the enforcement arm of the DCCA, the Regulated Industries Complaints Office (RICO) investigates and prosecutes licensing law violations by Hawaii licensees and unlicensed persons engaging in professions and vocations that require a license. In addition, the RICO assists the general public and licensees with understanding the importance of consumer protection and licensure compliance through its broad and diverse education campaign.

The Public Utilities Commission (PUC) is administratively attached to the DCCA. Although the PUC is not a legally separate organization, it is excluded from the DCCA's financial reporting entity since the DCCA does not hold the PUC's corporate powers.

The DCCA is a part of the executive branch of the State. The financial statements of the DCCA 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 DCCA. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2019, and the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America (GAAP). The State Comptroller maintains the central accounts for all state funds and publishes the State's Comprehensive Annual Financial Report (CAFR), which includes the DCCA's financial activities.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the DCCA have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The DCCA's significant accounting policies are described below:

(1) ***Government-Wide and Fund Financial Statements*** - The government-wide financial statements report information of all nonfiduciary activities of the DCCA.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Resources that are dedicated internally are reported as general revenues rather than program revenues. The DCCA does not allocate general government (indirect) expenses to other functions.

Net position is restricted when constraints placed on it are either imposed by constitutional provisions or enabling legislation or are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governmental agencies. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the DCCA's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and fiduciary funds. However, the fiduciary funds are not included in the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are summarized into a single column.

(2) ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the DCCA generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Business and professional licenses, related fees and charges for services are generally not considered susceptible to accrual. Therefore, revenue is recognized at the time of payment for these revenue sources.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

Fiduciary Funds

The financial statement of fiduciary funds is reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. Agency funds do not have a measurement focus and report only assets and liabilities.

(3) *Fund Accounting*

The financial activities of the DCCA are recorded in individual funds, each of which is deemed to be a separate accounting entity. The DCCA uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the DCCA that are reported in the accompanying governmental fund financial statements include the following major governmental fund:

Compliance Resolution Fund - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Compliance Resolution Fund (CRF) is a special revenue fund that is the primary funding source for the DCCA's programs. Pursuant to HRS section 26-9(o), fees shall be assessed and deposited into the CRF for issuance of a license, permit, certificate, registration, and subsequent renewals, together with all other fines, income, and penalties collected or reimbursement of costs or attorneys' fees assessed from actions brought by the DCCA. The Director of the DCCA may use the moneys in the CRF to employ and train hearings officers, investigators, attorneys, accountants, and other necessary personnel for CRF-funded operations, and the CRF shall defray all other administrative costs, including costs to operate the supporting offices of the DCCA. The CRF may also fund any other activity relating to compliance resolution.

DCCA's nonmajor governmental fund is comprised of various other special revenue funds, the most significant of which is the captive insurance administrative fund.

DCCA's fiduciary funds are comprised of agency funds. Agency funds account for resources held by the DCCA in a purely custodial capacity (assets equal liabilities) Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

(4) ***Capital Assets -*** Capital assets which include furniture, equipment, and computer software are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation or amortization, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities. Capital assets are depreciated or amortized using the straight-line method over the useful lives below.

DCCA has adopted the following capitalization policy:

Asset Type	Minimum Capitalization Amount	Estimated Useful Life
Land	All	Not applicable
Land improvements	$ 100,000	15 years
Buildings and improvements	$ 100,000	30 years
Furniture and equipment	$ 5,000	7 years
Computer software	$ 5,000	7 years

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) ***Compensated Absences*** - It is the DCCA's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred. Employees are credited with vacation at the rate 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the government-wide statement of net position.

(6) ***Net Position*** - In the government-wide financial statements, net position is reported in three components: net investment in capital assets, restricted, and unrestricted. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvements of those assets.

The restricted component of net position is reported as restricted when constraints placed on net position use are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

The unrestricted component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

(7) ***Fund Balance*** - In the governmental funds financial statements, fund balances are classified using a hierarchy based primarily on the extent to which the DCCA is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. Classifications include:

Restricted - Amounts that have constraints placed on the use of resources that are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the State's Legislature, the highest level of decision-making authority in the State.

Assigned - Amounts that are constrained by DCCA's intent to be used for specific purposes, but are neither restricted nor committed.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

When both restricted and unrestricted balances are available for use, generally it is the DCCA's policy to use restricted fund balances first, then unrestricted fund balances.

(8) ***Risk Management*** - The DCCA is exposed to various risks for losses 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 basic financial statements and the amount of the loss is reasonably estimable.

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

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's or the DCCA's basic financial statements.

(10) ***Use of Estimates*** - The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements. Actual results may differ from those estimates.

(11) ***Newly Issued Accounting Pronouncements*** - The GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management has not yet determined the effect this Statement will have on the DCCA's financial statements.

The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021. Management has not yet determined the effect this Statement will have on the DCCA's financial statements.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Management has not yet determined the effect this Statement will have on the DCCA's financial statements.

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. Management has not yet determined the effect this Statement will have on the DCCA's financial statements.

The GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in statements and implementation guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The requirements of this Statement are effective immediately.

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements.* This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITA) for government end users. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. Management has not yet determined the effect this Statement will have on the DCCA's financial statements.

NOTE C - BUDGETING AND BUDGETARY CONTROL

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures - budget and actual (non-GAAP budgetary basis) - Compliance Resolution Funds - are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2018 (Act 053, SLH 2018), and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various Session Laws of Hawaii.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2017-2019 biennial budget and executive supplemental budget. The special revenue funds have legally appropriated budgets.

The final legally adopted budgets in the accompanying statement of revenues and expenditures - budget and actual (non-GAAP budgetary basis) - Compliance Resolution Fund represent the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program and source of funds as established in the appropriations acts. The Governor of the State is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detailed level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2019, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, special revenue fund appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies, which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for each major special revenue that has a legally adopted annual budget are presented in the statement of revenues and expenditures - budget and actual (non-GAAP budgetary basis) - Compliance Resolution Fund. The State's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase orders and contract obligations (basis difference), which is a departure from GAAP.

NOTE C - BUDGETING AND BUDGETARY CONTROL (Continued)

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2019 follows:

		Compliance Resolution Fund
Excess of revenues over expenditures - actual (budgetary basis)	$	4,054,216
Reserve for encumbrances at fiscal year end		3,753,424
Net change in vouchers payable		291,820
Net change in accrued liabilities		(118,501)
Net change in prepaid expenditures		(35,367)
Excess of revenues over expenditures - GAAP basis	$	7,945,592

NOTE D - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of amounts held in the State Treasury. The State Director of Finance is responsible for safekeeping of all monies paid into the State Treasury. The Director of Finance may invest any monies of the State, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or participates in the State Treasury Investment Pool system. Funds in the investment pool accrue interest based on the average weighted cash balances of each account. The State requires that depository banks pledge as collateral, governmental securities held in the name of the State for deposits not covered by federal deposit insurance.

GASB Statement No. 40, Deposit and Investment Risk Disclosures, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the DCCA. However, as all of the DCCA's monies are held in the State cash pool, the DCCA does not manage its own investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the department level. The risk disclosures of the State's cash pool are included in the CAFR which may be obtained from the State Department of Accounting and General Services' website: *http://ags.hawaii.gov/accounting/annual-financial-reports*.

NOTE E - CAPITAL ASSETS

For the fiscal year ended June 30, 2019, capital assets activity for the DCCA was as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Government activities:				
Capital assets, being depreciated:				
Furniture, equipment and computer software	2,568,638	--	--	2,568,638
Less accumulated depreciation for:				
Furniture, equipment, and computer software	(2,054,942)	(132,007)	--	(2,186,949)
Government activities, net	$ 513,696	$ (132,007)	$ --	$ 381,689

As of June 30, 2019, depreciation expense charged to the general support function totaled $132,007.

Management has not recorded land and buildings in governmental activities and accordingly has not recorded depreciation expense on those assets subject to depreciation. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated, unless they are inexhaustible. Capital asset records maintained by the Department of Accounting and General Services (DAGS) indicate that the gross carrying value of land and buildings allocated to DCCA was approximately $39,779,000 as of June 30, 2019. However, the breakdown between land and buildings was not provided, therefore, it was not practicable to quantify the full financial effect of the omission of land and buildings from DCCA's government-wide financial statements as of June 30, 2019.

NOTE F - LONG-TERM LIABILITIES

The change in long-term liabilities during the fiscal year ended June 30, 2019, was as follows:

	Accrued Compensated Absences
Balance at July 1, 2018	$ 4,230,905
Additions	1,945,670
Reductions	(1,881,293)
Balance at June 30, 2019	4,295,282
Less: current portion	(1,561,368)
	$ 2,733,914

The accrued compensated absences liability will be liquidated by the DCCA's governmental funds.

NOTE G - FUND BALANCE

The following table presents the DCCA's fund balance by major function as of June 30, 2019:

	Compliance Resolution Fund	Other Governmental Funds	Total
Restricted			
Regulation of services	$ 44,239,551	$ 18,654,849	$ 62,894,400
Enforcement of fair business practices	45,106,342	208,404	45,314,746
General support	2,501,238	114,436	2,615,674
	$ 91,847,131	$ 18,977,689	$ 110,824,820

NOTE H - COMMITMENTS AND CONTINGENCIES

(1) ***Accumulated Sick Leave***

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the State's Employees' Retirement System. At June 30, 2019, accumulated sick leave was approximately $13,023,000.

(2) ***Encumbrances***

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. These amounts generally will become liabilities in future periods. Significant encumbrances as of June 30, 2019 were as follows:

Fund	Amount
Compliance Resolution Fund	$ 3,534,952
Non-Major Governmental Funds	49,488
	$ 3,584,440

NOTE H - COMMITMENTS AND CONTINGENCIES (Continued)

(3) ***Leases***

The DCCA leases office space and equipment from under operating leases expiring through 2024. Future minimum lease rentals under noncancelable operating leases with terms of one year or more at June 30, 2019 were as follows:

Fiscal Year Ending June 30,		Amount
2020	$	266,000
2021		208,000
2022		138,000
2023		29,000
2024		1,000
	$	642,000

Total rent expense related to the above leases for the fiscal year ended June 30, 2019 amounted to approximately $476,000.

(4) ***Litigation***

From time to time, the DCCA is named as a defendant in various legal proceedings. Such claim amounts cannot be reasonably estimated at this time. Although the DCCA and its counsel are unable to express opinions as to the outcome of on-going litigation, it is their opinion that any potential liability arising therefrom will not have a material adverse effect on the financial position of the DCCA because any judgments against the DCCA are judgments against the State and would be funded by the legislative appropriation of the State General Fund.

NOTE I - CABLE TELEVISION FRANCHISE FEES

The grant of a cable franchise gives the recipient a non-exclusive right to use and occupy certain limited and scarce public places, highways and easements for the construction, use, operation and maintenance of a cable system in the State for a fixed period. In exchange, among other responsibilities, cable operators are required to pay an annual franchise fee in an amount equal to up to 5% of their annual gross revenues of their respective cable systems. For the fiscal year ended June 30, 2019, 1% of the annual franchise fee totaling $3,268,180 was allocated to the DCCA to administer its responsibilities under HRS Section 440G and is presented as program revenue in the government-wide statement of activities. The remaining 4% of the annual franchise fee are State realizations and are not recorded as revenue in the DCCA's financial statements. Since the Director of the DCCA has the power and jurisdiction to supervise and regulate every cable operator in the State, the DCCA has a fiduciary duty to ensure that the proceeds from the 4% franchise fee are remitted by the cable operators in accordance with the terms and conditions of the franchise agreement.

NOTE I - CABLE TELEVISION FRANCHISE FEES (Continued)

In issuing a cable franchise, the State through the DCCA requires that cable operators support public, educational, and governmental (PEG) access facilities and services. Support may be provided in various ways, including setting aside several channels for PEG access and through providing a percentage of gross revenues for PEG use. The DCCA has contracted oversight of access channels to nonprofit entities located in each of Hawaii's four major counties. In fiscal year 2019, 3% of the annual franchise fee was allocated to PEG access facilities and services. These fees, totaling $9,991,275 for the period January 1, 2018 to December 31, 2018, were remitted directly from the cable operators to the contracted PEG entities during the fiscal year ended June 30, 2019.

Cable franchises are also required to provide funding to Hawaii Public Television Foundation (HPTF) dba PBS Hawaii, or the Director's designee. HPTF provides statewide non-commercial broadcasting of Public Broadcasting Service's educational, cultural, and historic programs as well as local programming that educates, informs, and entertains residents, businesses, and visitors. In fiscal year 2019, 1% of the annual franchise fee was allocated to HPTF. These fees, totaling $3,493,790 for the period January 1, 2018 to December 31, 2018, were remitted directly from the cable operators to HPTF during the fiscal year ended June 30, 2019.

As of June 30, 2019, approximately $6,763,000 in franchise fees allocated to PEG entities and to HPTF for the period January 1, 2019 to June 30, 2019 have not been remitted by the cable operators. This amount is presented as a receivable and corresponding liability in the DCCA's statement of fiduciary net position (agency funds) as of June 30, 2019.

NOTE J - TRANSACTIONS WITH OTHER STATE DEPARTMENTS AND AGENCIES

In accordance with HRS Section 269-33, the PUC allocates funds to the DCCA on a quarterly basis that are deposited in the Compliance Resolution Fund. For the fiscal year ended June 30, 2019, the amount allocated to the DCCA totaled $4,348,405.

The DCCA assesses a quarterly administrative charge to the PUC. Amounts assessed by DCCA totaled $452,508 for the fiscal year ended June 30, 2019.

The Central Services Division, DAGS, is responsible for providing maintenance and repair of State buildings and facilities as well as custodial and grounds maintenance services at the aforementioned State facilities. On a quarterly basis, the DCCA is assessed an amount for services provided by DAGS at State facilities that are occupied by the DCCA. For the fiscal year ended June 30, 2019, the amounts assessed to DCCA totaled $745,576.

In accordance with HRS Section 36-27, the Director of Finance of the State assesses the DCCA an amount equal to five percent of the DCCA's special fund receipts for the purpose of defraying the prorated estimate of central service expenses of the State. For the fiscal year ended June 30, 2019, the amounts assessed to DCCA totaled $2,668,198.

NOTE K - RETIREMENT BENEFITS

(1) ***Pension Plan***

Plan Description

Generally, all full-time employees of the State and counties are required to be members of the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at ERS' website: http://www.ers.ehawaii.gov.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement plans. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.25%) 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 credited 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.

NOTE K - RETIREMENT BENEFITS (Continued)

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

Retirement Benefits - General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

Death Benefits - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

NOTE K - RETIREMENT BENEFITS (Continued)

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

Death Benefits - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump-sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

Disability and Death Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

NOTE K - RETIREMENT BENEFITS (Continued)

Hybrid Class for Members Hired Prior to July 1, 2012

Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Death Benefits - For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

NOTE K - RETIREMENT BENEFITS (Continued)

Disability and Death Benefits - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions - Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer 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 rate for fiscal year 2019 were 31% for police officers and fire fighters and 19% for all other employees. Contributions to the pension plan from DCCA were approximately $4,688,000 for the year ended June 30, 2019.

Pursuant to Act 17 SLH 2017, employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for police and firefighters increased to 31% on July 1, 2018; and increases to 36% on July 1, 2019 and 41% on July 1, 2020. The rate for all other employees increased to 19% on July 1, 2018; and increases to 22% on July 1, 2019 and 24% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

State Policy - Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the DCCA. It is the State's policy on the accounting and reporting for pension benefits to allocate a portion of the net pension liability, pension expense, and related deferred inflows and outflows of resources to only component units and proprietary funds that are reported separately in the State's CAFR. The State's CAFR includes the note disclosures and required supplementary information on the State's pension plan.

NOTE K - RETIREMENT BENEFITS (Continued)

(2) ***Post-Employment Healthcare and Life Insurance Benefits***

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. 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. The 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 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 employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees 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.

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.

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the other postemployment benefit (OPEB) plan from the DCCA was $5,989,000 for the fiscal year ended June 30, 2019. The employer is required to make all contributions for members.

Measurement of the actuarial valuation and the annual required contribution are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the DCCA. The State has only computed the allocation of the OPEB costs to component units and proprietary funds that are reported separately in the State's CAFR. Therefore, the OPEB costs for the DCCA was not available and are not included in the financial statements. The State's CAFR includes the note disclosures and required supplementary information on the State's OPEB plan.

NOTE L - RISK MANAGEMENT

The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past ten fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance - The State has an insurance policy with various insurers for property coverage. The limit of loss per occurrence is $200,000,000, except for terrorism losses, which has a $100,000,000 per occurrence limit. There are two different types of deductibles for the property coverage. The deductible for losses such as hurricanes, floods and earthquakes are 3% of the replacement costs to the property subject to a $1,000,000 per occurrence minimum. The deductible for all other perils such as a fire is $1,000,000. The deductible for terrorism coverage is $1,000,000.

Crime Insurance - The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage, which has a $100,000 limit per occurrence and a $1,000 deductible. Losses under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services, and losses not covered by insurance are paid from the State's General Fund.

General Liability (including torts) - Liability claims up to $10,000 and automobile claims up to $15,000 are handled by the Risk Management Office. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, employment liability, and employee benefits liability insurance policy in force with a $4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $9,000,000.

Cyber Liability Insurance - The State is insured for various types of cyber-related activities with a loss limit of $50 million with a deductible of $500,000 per occurrence. This policy includes (with sub-limits) system failure business interruption, dependent business interruption system failure, and Payment Card Industry - Data Security Standard coverage.

Self-Insured Risks - The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses up to $15,000 are administered by Risk Management Office. The State administers its workers' compensation losses.

NOTE M - NOVEL CORONAVIRUS DISEASE (COVID-19)

On March 11, 2020 the World Health Organization declared the outbreak of COVID-19 as a pandemic, which has led to an economic downturn on a global scale that has created significant uncertainty, volatility, and disruption across economies and financial markets. The pandemic has also resulted in federal, state, and local governments and private entities mandating various restrictions, including restrictions on group gatherings, travel and business restrictions, temporary closures of nonessential businesses, and wide-sweeping quarantines and stay-at-home orders. While the disruption caused by COVID-19 is expected to be temporary, there is uncertainty around the duration and severity of this pandemic. The related financial impact on the DCCA's financial statements cannot be reasonably determined at this time.

PART II

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

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INDEPENDENT AUDITOR'S 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*

To the Director
Department of Commerce and
Consumer Affairs, 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 Commerce and Consumer Affairs of the State of Hawaii (Department) as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated April 28, 2021. In our report on the basic financial statements, our opinion on the governmental activities of the Department was qualified because, as discussed in the "Basis for Qualified Opinion on Governmental Activities" paragraph in the report on the basic financial statements, management has not recorded land and buildings in governmental activities and accordingly has not recorded depreciation expense on those assets subject to depreciation, as required by accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings as items 2019-004 and 2019-005 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings as items 2019-001 to 2019-003, and 2019-006 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department's Response to Findings

The Department's response to the findings identified in our audit are described in the accompanying schedule of findings. The Department'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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

N+K CPAs, INC.

Honolulu, Hawaii
April 28, 2021

PART III

SCHEDULE OF FINDINGS

<u>Ref. No.</u> **Financial Statement Internal Control Findings**

2019-001 Accounting for Capital Assets - Information Technology Hardware and Software

Criteria:

Governments should report all capital assets in the government-wide statement of net assets and generally should report depreciation expense in the statement of activities. For financial reporting purposes, the term *capital assets* includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets (e.g. computer software) that are used in operations and that have initial useful lives of more than one year. Prepayments for good or services are not considered to be an intangible asset for financial reporting purposes and should not be classified as a capital asset.

In general, all capital assets should be depreciated (termed *amortization* for intangible assets) over their estimated useful lives unless they are inexhaustible (e.g. land). The useful life of an intangible asset that arises from contractual or other legal rights (e.g. licensing agreement) should not exceed the period to which the service capacity of the asset is limited by contractual or legal provisions.

Condition:

We noted 3 instances out of 15 items tested where the carrying value reflected in the Fixed Asset Inventory System (FAIS) included costs for future maintenance and support, which are prepayments for services that should not be classified as a capital asset for financial reporting purposes. DCCA included these prepaid costs with the underlying capital asset and depreciated these assets over the standard seven year asset life used for IT equipment and software.

We noted 1 instance out of 15 items tested where a cost related to a twelve month licensing agreement was erroneously included in FAIS. This cost did not meet DCCA's capitalization threshold and therefore should not have been recorded in FAIS or classified as a capital asset for financial reporting purposes.

Cause:

Personnel responsible for inputting costs in FAIS were not provided with guidance or instruction necessary to properly account for capital assets, including intangible assets such as computer software and licensing agreements, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Ref. No. **Financial Statement Internal Control Findings (Continued)**

Effect:

When personnel responsible for the accounting for capital assets are not familiar with GAAP relevant to capital assets, there is an increased likelihood of errors occurring.

Identification as a Repeat Finding, if applicable:

Not applicable.

Recommendation:

Management should implement procedures to ensure that personnel responsible for inputting and reviewing costs posted to FAIS are provided with guidance or instruction necessary to properly account for capital assets, including intangible assets such as computer software and licensing agreements, in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on pages 52 - 55.

2019-002 Accounting for Compensated Absences

Criteria:

For financial statements prepared in accordance with GAAP, liabilities for vacation leave and other compensated absences with similar characteristics should be accrued when the benefits are earned by the employee if the leave is attributable to past service and it is probable that the employer will compensate the employee through paid time off or some other means, such as cash payments at termination or retirement.

Governments should provide detail in the notes to the financial statements about the compensated absences liability reported in the government-wide statement of net assets. Information presented about long-term liabilities should include:

a) Beginning and end-of-year balances

b) Increases and decreases (separately presented)

c) The portion of the liability that is due within one year of the statement date

d) Which governmental funds typically have been used to liquidate other long-term liabilities such as compensated absences in prior years

Ref. No. **Financial Statement Internal Control Findings (Continued)**

Condition:

Management represents that a detail schedule of compensated absences sufficient to support the information that is required to be presented about long-term liabilities in the notes to the financial statements was prepared at the end of fiscal year 2019. However, this schedule was purged prior to the preparation of the 2019 financial statements and was not available to provide the information needed to present the required note disclosure. As a result, management needed to compile the necessary information from DCCA's electronic leave records for the fiscal year ended June 30, 2019.

Cause:

Prior to the annual reporting period ended June 30, 2019, DCCA did not prepare financial statements in accordance with GAAP.

Effect:

Because a supporting schedule of compensated absences, by employee, is not prepared and maintained, management is unable to review the information for completeness and accuracy to ensure that both the compensated absences liability as of the end of the reporting period and the detailed information presented about long-term liabilities in the notes to the financial statements are fairly presented in accordance with GAAP.

Identification as a Repeat Finding, if applicable:

Not applicable.

Recommendation:

Management should implement a process to prepare a supporting schedule of compensated absences, by employee, at the end of each annual reporting period. The schedule should be reconciled to the relevant data in the Electronic Leave System (ELS), reviewed by the appropriate management-level personnel, and maintained in conformity with DCCA's record retention policy.

Views of Responsible Officials and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on pages 52 - 55.

Ref. No. **Financial Statement Internal Control Findings (Continued)**

2019-003 Hawaii Information Consortium, LLC Transaction Fees

Criteria:

An entity should design and implement procedures to ensure that expenditures incurred are valid, complete, and accurate.

Condition:

DCCA contracts with Hawaii Information Consortium, LLC (HIC) to provide approximately 27 digital government services to the public via online portals. The primary online services provided, based on the dollar amount of funds processed by HIC during the fiscal year ended June 30, 2019, are as follows:

- Annual business filings
- Business registration
- Hawaii insurance license renewals
- Professional vocational licensing renewals

One of HIC's responsibilities is to process online payments and to remit the funds to DCCA via ACH payments. Payments remitted to DCCA are net of the transaction fees owed to HIC. The total fees paid by DCCA to HIC was approximately $2,505,000 for the fiscal year ended June 30, 2019.

The following DCCA divisions are responsible for reviewing and reconciling the majority of payments processed and remitted by HIC:

- Business Registration Division
- Insurance Division
- Professional Vocational and Licensing Division

However, the review and reconciliation process within the Business Registration and Insurance Divisions did not include a review of the transaction fees that are deducted by HIC prior to the remittance of funds to DCCA.

Cause:

HIC transaction fees are deducted from payments collected from the public and the net amounts are remitted to DCCA. Internal control procedures within the Business Registration and Insurance Divisions primarily focus on the review and reconciliation of the net ACH payments that are received. Therefore, the HIC transaction fees that are deducted prior to the ACH transfer are not included within the scope of the internal control policies and procedures.

Ref. No. **Financial Statement Internal Control Findings (Continued)**

Effect:

If DCCA does not review the validity and accuracy of HIC transaction fees that are deducted prior to the ACH transfer of funds, there is risk that the amount of fees charged to DCCA could be misstated.

Identification as a Repeat Finding, if applicable:

Not applicable.

Recommendation:

Management should design and implement procedures to ensure that transaction fees directly deducted by HIC are valid, complete, and accurate.

Views of Responsible Officials and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on pages 52 - 55.

2019-004 Accounting for Land and Buildings

Criteria:

Accounting principles generally accepted in the United States of America require that land and buildings be capitalized and depreciated unless they are inexhaustible. Inexhaustible capital assets such as land and land improvements should not be depreciated.

The State's reporting policy for capital assets is based on ownership. The department/agency holding title to a capital asset should report the capital asset. When the State rather than a specific department/agency holds title to a capital asset, the department/agency with the greatest usage will report the capital asset.

Condition:

Management has not recorded land and buildings in governmental activities and accordingly has not recorded depreciation expense on those assets subject to depreciation.

Cause:

Management represents that DCCA does not hold legal title to any land or buildings that are occupied by DCCA. Accordingly, management does not believe it is proper to record these capital assets in DCCA's financial statements.

Ref. No. **Financial Statement Internal Control Findings (Continued)**

Effect:

Capital asset records maintained by the Department of Accounting and General Services indicate that the gross carrying value of land and buildings allocated to DCCA was approximately $39,779,000 as of June 30, 2019. However, the breakdown between land and buildings was not provided, therefore, it was not practicable to quantify the full financial effect of the omission of land and buildings from DCCA's government-wide financial statements as of June 30, 2019

Identification as a Repeat Finding, if applicable:

Not applicable.

Recommendation:

Management should record land and buildings in governmental activities in accordance with accounting principles generally accepted in the United States of America and the State's reporting policy for capital assets.

Views of Responsible Officials and Planned Corrective Action:

Management does not agree with the finding and recommendation. See Corrective Action Plan on pages 52 - 55.

2019-005 Cable Television Franchise Fees - Agency Funds

Criteria:

The State, through the DCCA, as the local franchising authority, is authorized to assess franchise fees from cable operators up to a maximum of 5% of a cable system's annual gross revenues. In 2019, 1% was the annual fee paid to DCCA pursuant to HRS Section 440G-15. This amount was recognized by DCCA as revenue for the fiscal year ending June 30, 2019.

The remaining franchise fees - 3% public, educational, and governmental (PEG) access operating fee and 1% Hawaii Public Television fee - are paid directly from the cable operators to the PEG access providers and Hawaii Public Television Foundation dba PBS Hawaii (PBS), respectively, at the direction of the Director of the DCCA. Since these amounts are not deposited to the State Treasury, the amounts are not recorded in the DCCA's accounting system. The remaining 4% in franchise fees are State realizations and should not be recognized as revenue in the DCCA's financial statements. However, since the DCCA is responsible for the supervision and regulation of every cable operator within the State, it is the DCCA's fiduciary duty to ensure that the 4% franchise fees are remitted by the cable operators to the PEG access providers/PBS pursuant to the applicable franchise agreements and decision and order(s). This amount will vary from year to year based due to variability in the annual gross revenues generated by the cable operators.

Ref. No. **Financial Statement Internal Control Findings (Continued)**

As of June 30, 2019, approximately $6,763,000 in franchise fees allocated to PEG access providers and to PBS for the period January 1, 2019 to June 30, 2019 have not been remitted by the cable operators. This amount is presented as a receivable and corresponding liability in the DCCA's statement of fiduciary net position (agency funds) as of June 30, 2019 in accordance with GAAP.

Condition:

These nonroutine transactions that are outside the normal course of the accounting function were not recorded during the year-end financial closing process.

Cause:

The 3% PEG access operating fee and 1% Hawaii Public Television fee are not deposited to the State Treasury. Therefore, the transactions do not flow through the DCCA's accounting system and were overlooked during the year-end financial closing process.

Prior to the fiscal year ended June 30, 2019, DCCA did not prepare financial statements in accordance with GAAP.

Effect:

Franchise fees receivables held by the DCCA in an agency capacity, and the corresponding liability, were not initially recorded as of June 30, 2019. Management corrected the misstatement to properly reflect the balances in the DCCA's statement of fiduciary net position (agency funds) as of June 30, 2019.

Identification as a Repeat Finding, if applicable:

Not applicable.

Recommendation:

Management should design and implement procedures to ensure that these nonroutine transactions are evaluated and recorded at the end of each annual reporting period.

Views of Responsible Officials and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on pages 52 - 55.

Ref. No. **Financial Statement Internal Control Findings (Continued)**

2019-006 Accounting for Interest Income and Receivables

Criteria:

Interest income should be recognized on the accrual basis of accounting in the government-wide financial statements in accordance with GAAP.

Condition:

Interest income was not recognized on the accrual basis of accounting in the government-wide financial statements.

Cause:

DCCA participates in the State's investment pool system. The Department of Budget and Finance, State of Hawaii, is responsible for the allocation and recording of interest income to the applicable DCCA appropriation accounts in the State's accounting system. However, during fiscal year 2019, no amounts attributed to fiscal year 2019 were recorded as of June 30, 2019. This resulted in a large accrual of interest income that was overlooked by DCCA and not accrued as of June 30, 2019.

Prior to the fiscal year ended June 30, 2019, DCCA did not prepare financial statements in accordance with GAAP.

Effect:

Interest receivable as of June 30, 2019 was understated by $2,435,400 and interest income for the fiscal year ended June 30, 2019 was understated by $1,366,308. Management corrected the misstatement to properly reflect the balances in the DCCA's government-wide financial statements as of and for the fiscal year ended June 30, 2019.

Identification as a Repeat Finding, if applicable:

Not applicable.

Recommendation:

Management should design and implement procedures to record the necessary year-end adjusting entries to present interest income and receivables in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on pages 52 - 55.

PART IV

RESPONSE OF THE
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS,
STATE OF HAWAII

(Provided by the Department Commerce and Consumer Affairs, State of Hawaii)

DAVID Y. IGE
GOVERNOR

JOSH GREEN
LT. GOVERNOR

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CATHERINE P. AWAKUNI COLÓN
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

April 28, 2021

M E M O R A N D U M

TO: Leslie H. Kondo
State Auditor

FROM: Catherine P. Awakuni Colón, Director Catherine P. Awakuni Colón
Department of Commerce and Consumer Affairs

SUBJECT: DCCA FY19 Audit Corrective Action Plan

In response to the State Auditor Financial Statements with Independent Auditor's Report for Fiscal Year ending 2019, the following corrective action plan is provided:

1. **2019-001 Accounting for Capital Assets – Information Technology Hardware and Software**

   a) View of Responsible Officials
      DCCA agrees with the findings, conclusions, and recommendations.

   b) Planned Corrective Action
      DCCA will reinforce capital asset criteria with the division property custodian.

   c) Person responsible for corrective action
      Sherri Amour, Staff Services Supervisor, Administrative Services Office
      Robert Hiltner, IS Manager, Information Systems & Communications Office

   d) Anticipated completion date
      June 1, 2021

2. 2019-002 Accounting for Compensated Absences

a) View of Responsible Officials
DCCA agrees with the findings, conclusions, and recommendations.

b) Planned Corrective Action
DCCA will ensure retention of hardcopy data, if this data is unavailable from the state's new Hawaii Pay Time and Leave system.

c) Person responsible for corrective action
Patrick Chen, Personnel Officer

d) Anticipated completion date
June 1, 2021

3. 2019-003 Hawaii Information Consortium, LLC Transaction Fees

a) View of Responsible Officials
DCCA agrees with the findings, conclusions, and recommendations.

b) Planned Corrective Action
DCCA's planned system modernizations will eliminate the use of the HIC payment collection model. The launch of Professional and Vocational Licensing division's new Ho'ala on February 22, 2021 in conjunction with the department's automated payment collection systems no longer uses HIC and provides extensive audit and payment verification capabilities. In the interim period before Business Registration and Insurance divisions' new systems are brought on line, DCCA will implement internal control procedures with HIC to ensure the accuracy of transaction fees.

c) Person responsible for corrective action
Ty Nohara, Commissioner, Business Registration Division
Colin Hayashida, Commissioner, Insurance Division

d) Anticipated completion date
August 1, 2021

4. 2019-004 Accounting for Land and Buildings

a) View of Responsible Officials
DCCA does not concur with the findings, conclusions, and recommendations. The GASB criteria for recording of expenses and capital assets rests clearly with the land and building owner and not the tenant or occupant. Recorded conveyances and historical records

provided to the auditor clearly show that DCCA is not the owner of the land or building. Established maintenance procedures with the AOAO and Department of Accounting and General Services are of a tenant landlord nature and does not reflect ownership by DCCA. In fact, under state statue, the department is unable to own such capital assets therefore any land and building recordings should be on either the Department of Land and Natural Resources or Department of Accounting and General Services financial statements.

b) Planned Corrective Action
N/A

c) Person responsible for corrective action
N/A

d) Anticipated completion date
N/A

5. **2019-005 Cable Television Franchise Fees - Agency Funds**

a) View of Responsible Officials
DCCA concurs with the findings, conclusions, and recommendations and will record the receipt of these agency fees into financial statements upon issuance of the funds by the cable operator to the PEGs.

b) Planned Corrective Action
DCCA receives reports from the cable operators and will include any funds transferred to PEGs into corresponding agency fund financial reports.

c) Person responsible for corrective action
Ji Sook Kim, Administrator, Cable Television Division

d) Anticipated completion date
June 30, 2021

6. **2019-006 Accounting for Interest Income and Receivables**

a) View of Responsible Officials
DCCA does concur with the findings, conclusions, and recommendations but notes that this is clearly a Budget and Finance function. DCCA is not advised of this process nor the timing of payments from the state's investment pool.

b) Planned Corrective Action
   Initiate follow up with B&F at the end of every fiscal year to request reports of investment revenue earned.

c) Person responsible for corrective action
   DCCA Fiscal Officer

d) Anticipated completion date
   July 1, 2021