



**STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING  
AND GENERAL SERVICES**

P.O. BOX 119  
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May 10, 2010

**COMPTROLLER'S MEMORANDUM NO. 2010-18**

TO: Heads of Departments and Agencies  
FROM: Russ K. Saito, State Comptroller  
SUBJECT: Departmental Financial Statements

A handwritten signature in cursive script, reading "Russ K. Saito".

This memorandum establishes a statewide policy requiring State departments to prepare annual departmental financial statements.

**I. POLICY**

Beginning with FY2009-2010, departments that previously prepared GAAP financial statements required by the Single Audit federal mandate are no longer required to prepare annual GAAP financial statements, although some departments and agencies will continue to do so. These GAAP financial statements are prepared because of contract requirements, bond sales, management requirements or for presentation in the State's CAFR.

DAGS believes that departmental financial statements are still very important, as they provide an overview of the department's financial condition. Financial statements provide transparency and accountability in State government. Therefore, State departments shall continue to prepare departmental financial statements but in accordance with State statutes.

**II. RATIONALE**

The State's accounting system is based on budgetary controls over revenues and expenditures. State departments are required to convert this financial information into GAAP financial statements. This is a challenge for most departments as resources to prepare GAAP financial statements are not available and other department activities suffer as resources are redirected and used to prepare the financial statements.

In July 2009, DAGS changed the State's policy regarding the scope of the State's Single Audit. As a result, departments are no longer required to prepare annual GAAP

departmental financial statements. This frees resources to further the success and accomplishments of the departments' objectives.

Having departmental financial statements for the last 25 years has been important to State government. They have documented management's administration of departmental resources consumed in accomplishing specific objectives. They have provided transparency and accountability in State government. DAGS believes that departmental financial statements are important to management and must continue to be prepared in an efficient and economical manner.

### III. DEFINITIONS

**State** – State of Hawaii.

**DAGS** – Department of Accounting and General Services.

**GAAP** – Generally accepted accounting principles, commonly abbreviated as US GAAP or simply GAAP, are accounting rules used to prepare, present, and report financial statements for a wide variety of entities, including publicly-traded and privately-held companies, non-profit organizations, and governments. Generally GAAP includes local applicable Accounting Framework, related accounting law, rules and Accounting Standard.

**Financial Statements** - Financial statements (or financial reports) are formal records of the financial activities of a business, person, government or other entity. Financial statements provide an overview of a business, person, or government's financial condition in both short and long term. All the relevant financial information of a business or government enterprise, presented in a structured manner and in a form easy to understand, is called the financial statements.

**Single Audit** - In the United States, the Single Audit, also known as the OMB A-133 audit, is a rigorous, organization-wide audit or examination of an entity that expends \$500,000 or more of Federal assistance (commonly known as Federal funds, Federal grants, or Federal awards) received for its operations. Usually performed annually, the Single Audit's objective is to provide assurance to the US federal government as to the management and use of such funds by recipients such as states, cities, universities, and non-profit organizations. The audit is typically performed by an independent certified public accountant and encompasses both financial and compliance components. The Single Audits must be submitted to the Federal Audit Clearinghouse along with a data collection form, Form SF-SAC.

**CAFR** – Comprehensive Annual Financial Report. "A financial report that encompasses all funds and component units of a government. The CAFR should contain (a) the basic financial statements and required supplementary information, (b) combining statements

to support columns in the basic financial statements that aggregate information from more than one fund or component unit, and (c) individual fund statements as needed. The CAFR is the governmental unit's official annual report and also should contain introductory information, schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, and statistical data." (Source: Government Finance Officer's Association 2005 Governmental Accounting, Auditing, and Financial Reporting, authored by Stephen J. Gauthier, p. 682).

#### **IV. SCOPE**

This policy applies to all State Executive Branch departments of the Hawaii State Government.

#### **V. BACKGROUND**

Prior to 1983, the State departments were not required to prepare departmental financial statements. With state governments receiving federal financial assistance, the federal government passed the Single Audit Act of 1984. The Single Audit Act required state governments to have a financial and compliance audit conducted by an independent auditor of the federal expenditures made during a fiscal year. The State had a choice either to have the audit cover the entire state government's operations or the audit may cover only each department or agency which received, expended or otherwise administered federal financial assistance during the fiscal year. The Hawaii State government elected to conduct Single Audits at the department level. Thus, the departments were required to prepare GAAP financial statements. This practice continued up until FY2008-2009. Comptroller's Memorandum No. 2009-17 changed the State's policy regarding the State's Single Audit that effective for the FY2009-2010 and thereafter, the State's Single Audit would cover the entire state government's operations. Therefore, GAAP departmental financial statements were no longer required.

#### **VI. GENERAL PROVISIONS**

##### **1. MONITORING AND ENFORCEMENT**

The State Comptroller shall ensure the departments' compliance with this policy and procedures through inquiries, reviews, investigations, and audits.

##### **2. STATE COMPTROLLER'S EXCEPTION**

If the policy or procedures result in undue hardship for a department or agency, the State Comptroller may, upon written request of the head of the department or agency, grant an exception to the policy or procedure. Each exception granted shall be by written memorandum.

3. **AMENDMENTS AND REVISIONS OF THIS POLICY**

The State Comptroller reserves the right to amend or revise this policy from time to time, as the need arises.

**VII. RESPONSIBILITIES**

1. **ACCOUNTING DIVISION, DAGS**

The Accounting Division shall be responsible to develop and maintain central accounting records to facilitate the preparation of departmental financial statements in an efficient and effective manner. The Accounting Division shall provide training as needed.

2. **HEADS OF DEPARTMENTS AND AGENCIES**

The heads of departments and agencies or designees shall be responsible to prepare annual departmental financial statements in accordance with State statutes.

**VIII. PROCEDURES**

1. **ACCOUNTING DIVISION, DAGS**

The Accounting Division shall be responsible to:

- a. Develop software applications to electronically prepare departmental financial statements in accordance with State statute;
- b. Provide training to instruct departments and agencies to prepare financial statements in accordance with State statute;
- c. Monitor and enforce compliance with this policy.

2. **HEADS OF DEPARTMENTS AND AGENCIES**

The heads of departments and agencies or designees shall be responsible to:

- a. Prepare annual departmental financial statements in accordance with State statutes.
- b. Require cooperation of department staff to implement the policy and procedures.
- c. Support training programs so that employees responsible for the implementation of the policy and procedures are knowledgeable and responsible.
- d. Periodically assess the implementation of the policy and procedures to determine that they are working as intended and achieving desired results.

**IX. AUTHORITIES AND REFERENCES**

Section 26-06, Hawaii Revised Statutes.  
Section 40-02, Hawaii Revised Statutes.  
State of Hawaii Accounting Manual  
State Comptroller's Memorandum, as appropriate

**X. EFFECTIVE DATE**

This statewide accounting policy and procedures are effective June 1, 2010.