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April 7, 2015

COMPTROLLER'S MEMORANDUM NO. 2015-06

TO: Heads of Departments and Agencies
CC: Administrative, Business Management, and Fiscal Officers
FROM: Douglas Murdock, Comptroller 
SUBJECT: INTERNAL CONTROL OVER FINANCIAL REPORTING

The purpose of this memorandum is to provide an overview of the State's guidelines and responsibilities for internal control over financial reporting.

BACKGROUND

Management is responsible for establishing and maintaining internal control over financial reporting. Internal control should provide reasonable assurance that transactions are executed in accordance with management's authorization and properly recorded to permit the preparation of financial reports in conformity with Generally Accepted Accounting Principles (GAAP).

FINANCIAL REPORTING OBJECTIVES

The State will design, implement, and maintain internal controls to ensure proper review and authorization of its financial transactions. Transactions will be recorded promptly and consistently in compliance with professional standards, federal and State laws, and instructions provided by the Department of Accounting and General Services (DAGS).

The State will design, implement, and maintain internal controls to ensure that financial transactions are properly recorded to permit the preparation and fair presentation of the Comprehensive Annual Financial Report (CAFR) in accordance with GAAP.

The State will prepare its CAFR timely, accurately, and in the spirit of transparency and full disclosure.

RESPONSIBILITIES

Departments and Agencies

In accordance with Hawaii Revised Statutes (HRS) §40-2, departments and agencies are charged with the responsibility of maintaining an adequate system of internal control over financial reporting and with the further responsibility to ensure that the system of internal control continues to function effectively.

Department and agency heads set the tone at the top by demonstrating commitment to integrity and ethical values through their directives, attitudes, and behavior. Departments and agencies shall ensure that their employees understand and adhere to State ethics requirements. In delegating authority, department and agency heads shall ensure that individuals have the appropriate levels of authority and competency to effectively perform delegated functions.

On a continuous basis, departments and agencies are responsible for certain application controls, including controls over input, processing, and output for systems that feed the Financial Accounting and Management Information System (FAMIS).

Departments and agencies have primary responsibility for the completeness, timeliness, and accuracy of their financial information. On a continuous basis, departmental Administrative/Business/Fiscal Offices, and other appropriate personnel, shall ensure that their accounts are properly reconciled and that all financial transactions and schedules are proper, timely, and are reviewed for completeness, accuracy, consistency, and appropriate coding.

At fiscal year-end, departments and agencies shall ensure that all CAFR deliverables are proper, timely, and are reviewed for completeness, accuracy, consistency, and appropriate coding. Departments and agencies are reminded to thoroughly review post-closing entries prior to submitting to DAGS.

DAGS Accounting Division

On a continuous basis, the DAGS Accounting Division (Accounting Division) is responsible for certain application controls, including controls over input, processing, and output, for FAMIS.

Also, on a continuous basis, the Accounting Division plans, coordinates, and facilitates preparation of the CAFR. The Accounting Division identifies and analyzes new legislation and authoritative pronouncements to determine their impact on the financial reporting responsibilities. The Accounting Division develops statewide accounting policies and advises departmental personnel in the interpretation and application of authoritative professional literature to ensure appropriate and consistent application.

At fiscal year-end, the Accounting Division allocates shared costs to departments and agencies including building depreciation for DAGS managed buildings and expense and liability for Other Post Employment Benefits. With the implementation of GASB Statement No. 68 in fiscal year 2015, the Accounting Division will begin allocating Net Pension Liability, Pension Expense, Deferred Inflows of Resources Related to Pensions, and Deferred Outflows of Resources Related to Pensions to departments and agencies. The Accounting Division will provide allocations in a timely manner in order to provide departments and agencies and their independent auditors with sufficient time to review, record, audit, and incorporate their allocations into their financial statements and notes thereto.

The Accounting Division prepares all modified accrual fund binders and government-wide audit schedules and journal entries, incorporating departmental submittals where applicable. The Accounting Division prepares/reviews the CAFR in accordance with GAAP including the Letter of Transmittal, Management's Discussion and Analysis, financial statements, notes to the financial statements, Required Supplementary Information and Statistical Section.

Information Technology

On a continuous basis, DAGS Information Communication Services Division (ICSD), the Office of Information Management and Technology (OIMT), and departmental information technology offices are responsible for designing the State's information technology system and related control activities to achieve the State's operational and financial reporting objectives and respond to risk. Appropriate general controls, including security management, logical and physical access, configuration management, segregation of duties, and contingency planning, should be in place and should create an environment for proper operation of application controls. ICSD, OIMT, and departmental information technology offices are responsible for certain application controls, including controls over master files and interfaces and data management system controls. In addition, ICSD, OIMT, and departmental information technology offices are responsible for information technology design, acquisition, development, and maintenance.

Communication

On a continuous basis, all parties are responsible for identifying information required to meet financial reporting objectives and address risks, obtaining relevant data from reliable sources, and processing the data into quality information that is appropriate, current, complete, accurate, accessible, and provided all relevant parties in an appropriate format and on a timely basis.

OVERALL TIMING AND METHODOLOGY

Annually, the Accounting Division coordinates preparation of the CAFR calendar with the Office of the Auditor and the independent auditor. The Accounting Division provides departments and agencies written instructions including required formats and delivery dates. Departments and agencies should provide accurate and complete submissions in required format no later than the specified delivery dates. The Accounting Division reviews departmental submissions for reasonableness and monitors the receipt of deliverables in relation to delivery dates. Accounting Division personnel escalate late items to the attention of the Accounting System Administrator and Deputy Comptroller; and when necessary, the Comptroller; to address with the appropriate departments and/or agencies. DAGS' management meets with the Office of the Auditor and the independent auditor on a regular basis to monitor timeliness of deliverables and resolve potential issues.

It should be noted that while adherence to the CAFR calendar is important, it is equally important for all departments and agencies to continuously monitor their systems of internal control and to ensure that their transactions are accurately prepared, properly authorized and reviewed, and submitted in a timely manner.

Should you have any questions regarding this memorandum, your staff may call Mr. Wayne Horie, Accounting System Administrator, at 586-0600.

REFERENCES

Hawaii State Constitution Article XIV – Code of Ethics

HRS §40-2 – Accounting Systems and Internal Control; Enforcing the Use of and Inspection of the Same

HRS §40-4 – Publication of Statements

HRS Chapter 84 - State Ethics

HRS Chapter 103D – The Hawaii Procurement Code

HRS Chapter 103F – Purchases of Health and Human Services

Hawaii Administrative Rules Chapters 3-120 – 3-132

Hawaii Administrative Rules Chapters 3-140 – 3-149

Comptroller's Memorandum including:

- CM 2005-12 Contract Encumbrances and Contract Processing Procedures
- CM 2005-19 Financial Statement Reporting
- CM 2008-07 Financial Statement Reporting for General and General Obligation Bond Appropriations
- CM 2008-22 Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)
- CM 2009-06 Footnote Disclosures Relating to Postemployment Benefits Other than Pensions (OPEB)
- CM 2011-29 New Fund Balance Reporting Policy for Governmental Funds
- CM 2014-07 Accounting for Internally Generated Computer Software
- CM 2014-29 Capitalization Thresholds and Estimated Useful Lives for Intangible Assets

State of Hawaii Accounting Manual

United States Government Accountability Office Standards for Internal Control in the Federal Government (GAO-14-704G)