# STATE OF HAWAII

## BASIC FINANCIAL STATEMENTS, SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND OMB CIRCULAR A-133 COMPLIANCE REPORTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**DEAN H. SEKI**
**COMPTROLLER**

**Prepared by Accounting Division**
**Department of Accounting and General Services**

**Independent Audit Contracted and Administered by**
**Office of the State Auditor**

# STATE OF HAWAII

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## INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii:

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State of Hawaii's basic financial statements (pages 22–93) as listed in the accompanying 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.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these respective financial statements based on our audit. We did not audit the financial statements of the Department of Transportation — Airports and Harbors Divisions, which are major enterprise funds, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, which are nonmajor enterprise funds, and the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation which are discretely presented component units. These financial statements that we did not audit reflect the following percentages of total assets and program revenues or additions for the indicated opinion units.

| Opinion Unit | Percent of Opinion Unit's Total Assets | Percent of Opinion Unit's Total Program Revenues/Additions |
|---|---|---|
| Governmental Activities | - % | - % |
| Business-Type Activities | 94% | 59% |
| Aggregate Discretely Presented Component Units | 100% | 100% |
| Fiduciary Funds | 50% | 7% |

Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Transportation — Airports and Harbors Divisions, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, is based solely on the reports of the other auditors. 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 respective financial statements are free of 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 State of Hawaii'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 State of Hawaii's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective net position or financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4-20), Schedule of Revenue and Expenditures — Budget and Actual (pages 96-98 and 108-113), and Schedules of Funding Progress (page 100) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise the State of Hawaii's basic financial statements. The combining and individual fund statements and schedules (pages 106–109 and 117–123) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of the State of Hawaii's management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including compiling and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2014, on our consideration of the State of Hawaii's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Hawaii's internal control over financial reporting and compliance.

Deloitte + Touche LLP

Honolulu, HI
January 27, 2014

As management of the State of Hawaii (the "State"), we offer readers of the State's basic financial statements this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2013.

## Financial Highlights

### Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2013 by $4.8 billion (net position). Unrestricted net position which may be used to meet the State's ongoing obligations to citizens and creditors was a negative $1.8 billion, an increase of $24.4 million from the previous year. Net position of governmental activities and business-type activities decreased by $84.4 million and increased by $391.5 million, respectively. The combined increase to the State was $307.1 million from the prior fiscal year.

### Fund Highlights

At June 30, 2013, the State's Governmental Funds reported combined ending fund balances of $1.9 billion, an increase of $485.2 million from the prior fiscal year. Of this amount, $1.4 billion, or 73.7%, of total fund balances was in the General Fund, and the remaining $509.8 million represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net fund position at June 30, 2013, of $3.6 billion, an increase of $391.5 million during the fiscal year.

### Liabilities

The State's liabilities increased during the current fiscal year to $13.0 billion, an increase of $807.1 million. During fiscal 2013, the State issued General Obligation bonds in the amount of $397.0 million to advance refund $435.1 million of previously issued outstanding General Obligation bonds. In addition, the State issued $444.0 million in General Obligation bonds and $26.0 million in taxable General Obligation bonds for the purpose of financing or reimbursing the State of Hawaii for the Hawaiian Home Lands Settlement and for financing capital projects. The State did not issue Revenue Bonds during fiscal 2013.

In accordance with GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,* the State increased the liability for Postemployment Benefits Other Than Pension, to $3.1 billion, an increase of $556.3 million for the fiscal year ended June 30, 2013.

## Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements are comprised of three components: (1) Government-Wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements**

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

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

The statement of activities presents information showing how the State's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and unused vacation leave).

Both of the Government-Wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues ("governmental activities") from other functions that are intended to recover all or a significant portion of their costs through user fees and charges ("business-type activities"). The governmental activities of the State include general government, public safety, conservation of natural resources, highways, health, welfare, education, culture and recreation, urban redevelopment and housing, economic development and assistance, and interest on long-term debt. The business-type activities of the State include the Department of Transportation — Airports Division ("Airports"), Department of Transportation — Harbors Division ("Harbors"), and the Unemployment Compensation Fund, which are considered to be major funds, while the remaining business-type activities are combined into a single aggregate presentation.

The Government-Wide financial statements include not only the State itself (known as the "Primary Government"), but also the activities of seven legally separate Component Units: the Hawaii Community Development Authority, the Hawaii Health Systems Corporation, the Hawaii Housing Finance and Development Corporation, the Hawaii Hurricane Relief Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, and the University of Hawaii, comprised of the State's public institutions of higher education, for which the State is financially accountable. Financial information for these Component Units is reported separately from the financial information presented for the Primary Government itself. The Component Units issue separate financial statements containing management's discussion and analysis.

The Government-Wide financial statements can be found on pages 22–24 of this report.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State can be divided into three categories: (1) Governmental Funds, (2) Proprietary Funds, and (3) Fiduciary Funds.

### *Governmental Funds*

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

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

Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Capital Projects Fund, and Med-Quest Special Revenue Fund, each of which is considered to be a major fund. Data from the other Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor Governmental Funds is provided in the form of combining financial statements in the supplementary information section of this report.

The State adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison schedule has been provided for the General Fund and each Special Revenue Fund to demonstrate compliance with this budget. The budgetary comparison schedule for the General Fund is located in the required supplementary information and the budgetary comparison statements for each of the Special Revenue Funds are located in the supplementary information section of this report.

The basic Governmental Funds financial statements can be found on pages 25–28 of this report.

### *Proprietary Funds*

Proprietary Funds are used to show activities that operate more like those of commercial enterprises. They are known as Enterprise Funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the Government-Wide financial statements. The State uses Enterprise Funds to account for the operations of Airports, Harbors, the Unemployment Compensation Fund, and its other business-type activities.

Proprietary Funds provide the same type of information as the Government-Wide financial statements, only in more detail. The Proprietary Funds financial statements provide separate information for Airports, Harbors, and the Unemployment Compensation Fund, each of which are considered to be major funds of the State. Conversely, the other business-type activities are combined into a single, aggregate presentation in the Proprietary Funds financial statements.

The basic Proprietary Funds financial statements can be found on pages 29–33 of this report.

***Fiduciary Funds***

Fiduciary Funds are used to account for resources held for the benefit of parties outside the State. Fiduciary Funds are not reflected in the Government-Wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for Fiduciary Funds is much like that used for Proprietary Funds.

The basic Fiduciary Funds financial statements can be found on page 34 of this report.

***Notes to Basic Financial Statements***

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and fund financial statements. The notes to basic financial statements can be found on pages 42–93 of this report.

**Other Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report presents the combining financial statements referred to earlier in connection with nonmajor Governmental and Fiduciary Funds. These statements are presented immediately following the notes to basic financial statements. The total columns of these combining financial statements carry to the applicable fund financial statements.

**Government-Wide Financial Analysis**

The following financial analysis focuses on the Primary Government (governmental and business-type activities of the State). Separate financial statements for each of the State's Component Units, including their respective management's discussion and analysis, can be obtained from the Department of Accounting and General Services.

Net position is a useful indicator of a government's financial position. For the State, total assets exceed liabilities by $4.8 billion as of June 30, 2013, and net position increased $307.1 million, or 6.8%, over the course of this fiscal year's operations. The net position of the governmental activities decreased by $84.4 million, or 6.3%, and business-type activities had an increase of $391.5 million, or 12.3%. The following table was derived from the Government-Wide Statement of Net Position.

## Summary Schedule of Net Position

June 30, 2013 and 2012
(Amounts in thousands)

| | Primary Government | | | | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Assets: | | | | | | |
| Current and other assets | $ 3,664,426 | $ 3,001,480 | $ 2,664,900 | $ 2,369,460 | $ 6,329,326 | $ 5,370,940 |
| Capital assets, net | 8,929,329 | 8,833,349 | 2,533,079 | 2,473,197 | 11,462,408 | 11,306,546 |
| Total assets | 12,593,755 | 11,834,829 | 5,197,979 | 4,842,657 | 17,791,734 | 16,677,486 |
| Liabilities: | | | | | | |
| Long-term liabilities | 9,508,549 | 8,952,869 | 1,486,514 | 1,518,782 | 10,995,063 | 10,471,651 |
| Other liabilities | 1,839,670 | 1,552,059 | 144,096 | 147,983 | 1,983,766 | 1,700,042 |
| Total liabilities | 11,348,219 | 10,504,928 | 1,630,610 | 1,666,765 | 12,978,829 | 12,171,693 |
| Net position: | | | | | | |
| Net investment in capital assets | 2,863,379 | 2,794,481 | 1,599,483 | 1,560,267 | 4,462,862 | 4,354,748 |
| Restricted | 1,051,548 | 930,294 | 1,068,146 | 966,042 | 2,119,694 | 1,896,336 |
| Unrestricted | (2,669,391) | (2,394,874) | 899,740 | 649,583 | (1,769,651) | (1,745,291) |
| Total net position | $ 1,245,536 | $ 1,329,901 | $ 3,567,369 | $ 3,175,892 | $ 4,812,905 | $ 4,505,793 |

### *Analysis of Net Position*

By far, the largest portion of the State's net position ($4.5 billion or 92.7%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net position ($2.1 billion or 44.0%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of negative $1.8 billion or negative 36.8% represents unrestricted net position.

At June 30, 2013, the State is able to report positive balances in two of the categories of net position for governmental activities and all three categories for business-type activities. The negative balance of unrestricted net position for governmental activities is primarily attributed to the State's other postemployment benefit liability of $3.1 billion.

### *Changes in Net Position*

The State's net position increased by $307.1 million, or 6.8%, during the fiscal year ended June 30, 2013. Approximately 56.5% of the State's total revenues came from taxes, while 26.8% resulted from grants and contributions (including federal aid). Charges for various goods and services provided

16.1% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, general government, and highways.

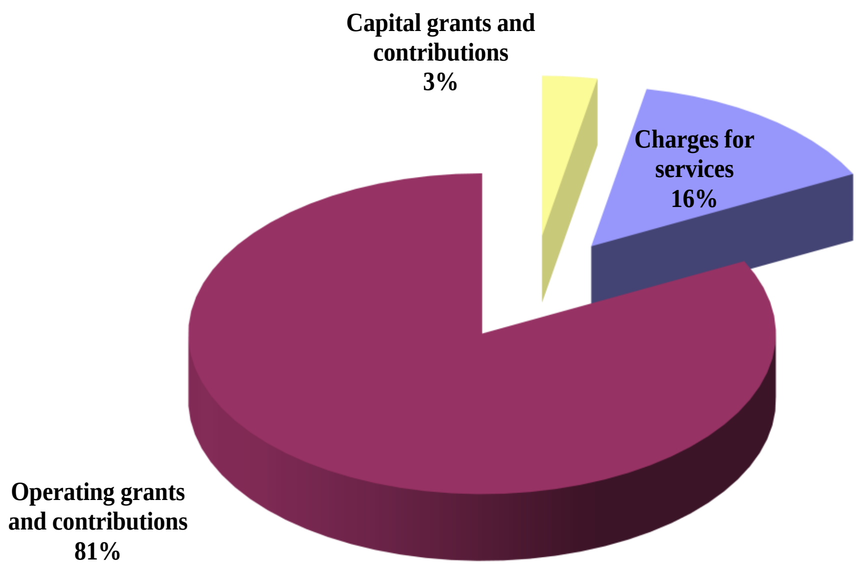
The following financial information was derived from the Government-Wide Statement of Activities and reflects how the State's net position changed during the fiscal year.

## Summary Schedule of Changes in Net Position
## For the Fiscal Years Ended June 30, 2013 and 2012
## (Amounts in thousands)

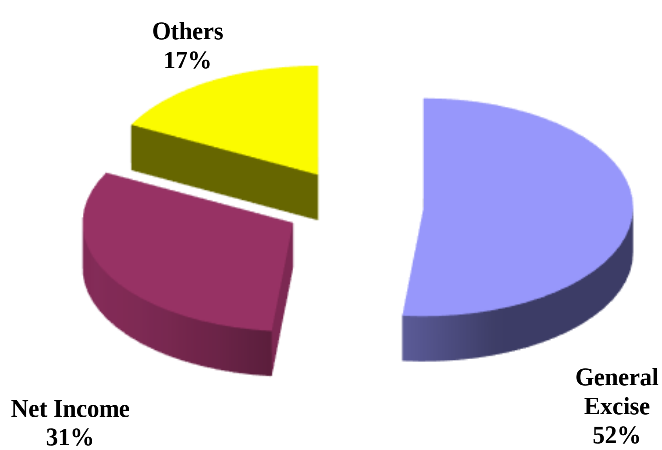
| | Primary Government | | | | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 494,647 | $ 421,145 | $ 1,154,047 | $ 1,149,559 | $ 1,648,694 | $ 1,570,704 |
| Operating grants and contributions | 2,589,537 | 2,370,437 | - | - | 2,589,537 | 2,370,437 |
| Capital grants and contributions | 96,184 | 97,322 | 64,313 | 85,899 | 160,497 | 183,221 |
| General revenues: | | | | | | |
| Taxes | 5,796,549 | 5,358,622 | - | - | 5,796,549 | 5,358,622 |
| Investment income and other | 25,502 | 5,347 | 33,633 | 4,164 | 59,135 | 9,511 |
| Total revenues | 9,002,419 | 8,252,873 | 1,251,993 | 1,239,622 | 10,254,412 | 9,492,495 |
| Expenses: | | | | | | |
| General government | 531,839 | 552,788 | - | - | 531,839 | 552,788 |
| Public safety | 451,946 | 502,002 | - | - | 451,946 | 502,002 |
| Highways | 490,091 | 516,924 | - | - | 490,091 | 516,924 |
| Conservation of natural resources | 52,208 | 96,349 | - | - | 52,208 | 96,349 |
| Health | 813,190 | 773,288 | - | - | 813,190 | 773,288 |
| Welfare | 2,798,053 | 2,464,582 | - | - | 2,798,053 | 2,464,582 |
| Lower education | 2,592,125 | 2,598,444 | - | - | 2,592,125 | 2,598,444 |
| Higher education | 654,611 | 672,716 | - | - | 654,611 | 672,716 |
| Other education | 20,086 | 16,753 | - | - | 20,086 | 16,753 |
| Culture and recreation | 94,679 | 111,628 | - | - | 94,679 | 111,628 |
| Urban redevelopment and housing | 173,677 | 23,888 | - | - | 173,677 | 23,888 |
| Economic development and assistance | 172,602 | 209,460 | - | - | 172,602 | 209,460 |
| Interest expense | 241,677 | 243,938 | - | - | 241,677 | 243,938 |
| Airports | - | - | 366,918 | 353,541 | 366,918 | 353,541 |
| Harbors | - | - | 90,548 | 84,826 | 90,548 | 84,826 |
| Unemployment compensation | - | - | 336,931 | 468,610 | 336,931 | 468,610 |
| Nonmajor proprietary fund | - | - | 66,119 | 169,166 | 66,119 | 169,166 |
| Total expenses | 9,086,784 | 8,782,760 | 860,516 | 1,076,143 | 9,947,300 | 9,858,903 |
| Change in net position | (84,365) | (529,887) | 391,477 | 163,479 | 307,112 | (366,408) |
| Net position – beginning of year | 1,329,901 | 1,859,788 | 3,175,892 | 3,012,413 | 4,505,793 | 4,872,201 |
| Net position – end of year | $ 1,245,536 | $ 1,329,901 | $ 3,567,369 | $ 3,175,892 | $ 4,812,905 | $ 4,505,793 |

The following charts depict revenues of the governmental activities for the fiscal year:

**Program Revenues by Source — Governmental Activities**
**Fiscal Year Ended June 30, 2013**




**Tax Revenues by Source — Governmental Activities**
**Fiscal Year Ended June 30, 2013**



### *Analysis of Changes in Net Position*

The State's net position increased by $307.1 million during the current fiscal year. This is explained in the governmental and business-type activities discussion, and is primarily due to decrease in net position of governmental activities of $84.4 million offset by increases in net position of Unemployment Compensation Fund of $173.1 million, Airports of $122.1 million, Harbors of $27.6 million, and Nonmajor Proprietary Funds of $68.7 million.

### *Governmental Activities*

Governmental activities decreased the State's net position by $84.4 million. The elements of this decrease are reflected below:

| | Governmental Activities (Amounts in thousands) | |
|---|---|---|
| | **2013** | **2012** |
| General revenues: | | |
| Taxes | $ 5,796,549 | $ 5,358,622 |
| Interest and investment income and other | 25,502 | 5,347 |
| Total general revenues | 5,822,051 | 5,363,969 |
| Expenses, net of program revenues: | | |
| General government | 18,757 | 38,688 |
| Public safety | 407,183 | 463,945 |
| Highways | 313,526 | 351,757 |
| Conservation of natural resources | (16,969) | 36,699 |
| Health | 582,276 | 573,125 |
| Welfare | 1,097,537 | 1,003,240 |
| Lower education | 2,203,050 | 2,216,887 |
| Higher education | 654,611 | 672,716 |
| Other education | 20,086 | 16,753 |
| Culture and recreation | 91,430 | 108,859 |
| Urban redevelopment and housing | 141,583 | (9,402) |
| Economic development and assistance | 151,669 | 176,651 |
| Interest expense | 241,677 | 243,938 |
| Total governmental activities expenses, net of program revenues | 5,906,416 | 5,893,856 |
| Decrease in governmental activities net position | $ (84,365) | $ (529,887) |

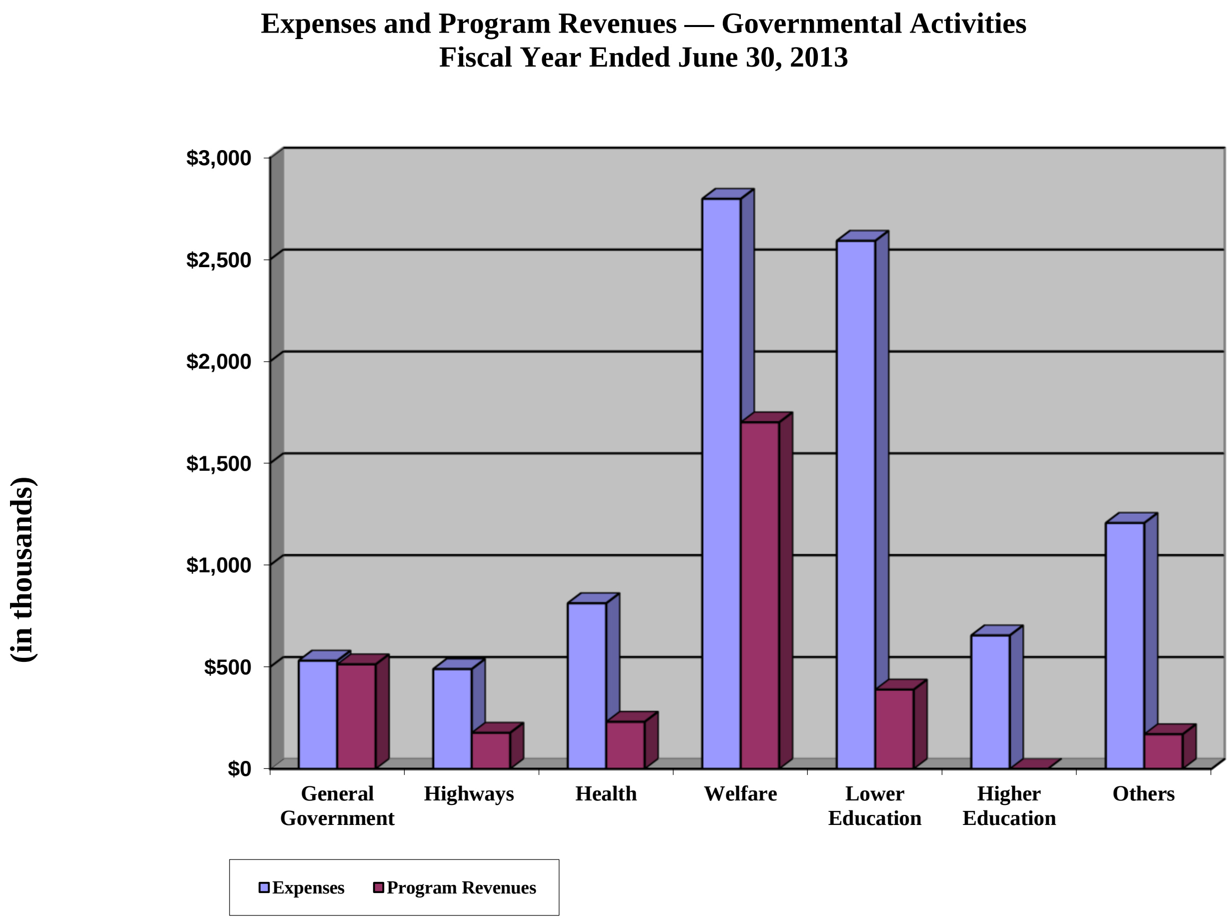
Tax revenues increased by $437.9 million, or 8.2%, from the previous fiscal year. The increase was primarily due to increases in general excise taxes of $217.2 million, in individual and corporate income taxes of $162.6 million, and in transient accommodations taxes of $47.8 million.

Interest and investment income increased by $20.2 million from the previous year. The increase is primarily due to the increase in the fair market value of the student loan auction rate securities, which increased $12.6 million in fiscal year 2013, compared to decreasing $4.7 million in fiscal year 2012.

Urban redevelopment and housing net expenses increased $151.0 million or 1606% from the previous year. The increase is primarily attributed to $93 million of General Obligation bond proceeds that were released to the Hawaii Public Housing Authority in fiscal year 2013.

Welfare net expenses increased $94.3 million or 9.4%. This change is primarily due to increased general fund expenses for the State's share of medical assistance programs.

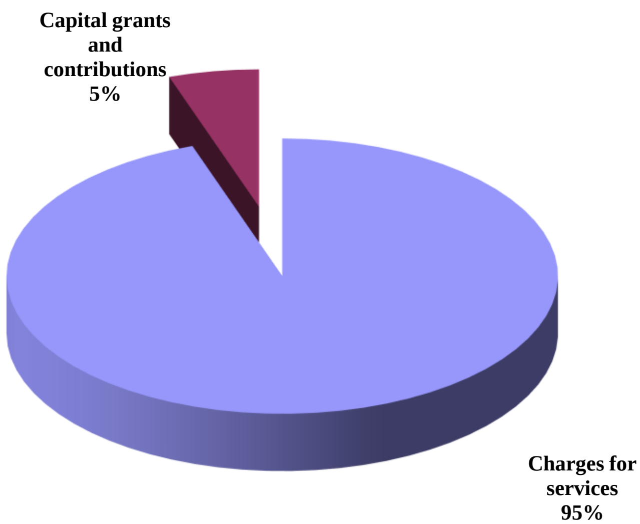
A comparison of the cost of services by function of the State's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State:



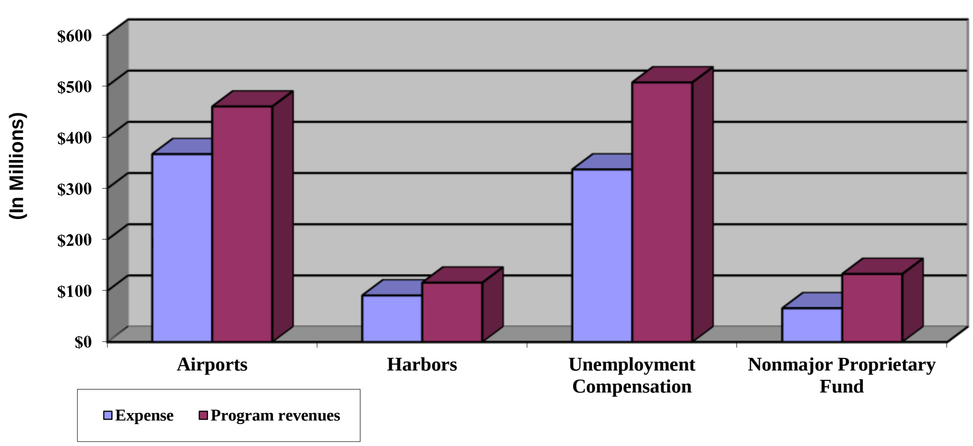
### *Business-Type Activities*

The following charts depict revenues and expenses of the business-type activities for the fiscal year:

**Program Revenues by Source — Business-Type Activities**
**Fiscal Year Ended June 30, 2013**




**Expenses and Program Revenues — Business-Type Activities**
**Fiscal Year Ended June 30, 2013**



Business-type activities increased the State's net position by $391.5 million in fiscal 2013, compared to an increase of $163.5 million in fiscal 2012. Key elements of this increase are as follows:

- Airport's net position increased $122.1 million compared to an increase of $41.6 million in the prior fiscal year. Charges for current services increased by $88.4 million primarily due to the reinstatement of the rental car customer facility charges which amounted to an increase of $55.5 million. Also contributing to the increase was a $19.0 million business interruption insurance settlement relating to events of the September 11th. Operating and capital grants and contributions decreased $18.8 million mainly due to a decrease in federal capital and federal stimulus grants.

- Harbor's net position increased $27.6 million in fiscal 2013 compared to an increase of $38.8 million in fiscal 2012. Charges for current services increased by $8.2 million offset by a decrease in capital contributions of $15.2 million and an increase in expenses of $5.7 million.

- The Unemployment Compensation Fund's net position increased $173.1 million compared to an increase of $66.0 million in the prior fiscal year. The change was primarily due to a decrease in unemployment benefits paid of $131.7 million offset by a decrease in unemployment tax revenues of $26.9 million.

- Nonmajor Proprietary Fund's net position increased $68.7 million in fiscal 2013 compared to an increase of $17.0 million in fiscal 2012. The change was primarily due to the operations of the Employer-Union Health Benefits Trust Fund (EUTF). EUTF's expenses for self-funded plans decreased $103.8 million while charges for current services decreased by $64.7 million. Also contributing to the increase was an increase in capital contribution of $13.3 million in the Water Pollution Control Revolving Fund.

- Key elements of the State's business-type activities for the fiscal years ended June 30, 2013 and 2012 are as follows:

**Business-Type Activities**
**(Amounts in thousands)**

| | Program Revenues | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Charges for Services | | Operating/Capital Grants and Contributions | | Total | | Expenses | | Program Revenues Net of Expenses | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Airports | $ 431,708 | $ 343,279 | $ 30,619 | $ 49,375 | $ 462,327 | $ 392,654 | $ 366,918 | $ 353,541 | $ 95,409 | $ 39,113 |
| Harbors | 112,060 | 103,876 | 4,115 | 19,357 | 116,175 | 123,233 | 90,548 | 84,826 | 25,627 | 38,407 |
| Unemployment Compensation | 507,096 | 533,963 | - | - | 507,096 | 533,963 | 336,931 | 468,610 | 170,165 | 65,353 |
| Nonmajor Proprietary Funds | 103,183 | 168,441 | 29,579 | 17,167 | 132,762 | 185,608 | 66,119 | 169,166 | 66,643 | 16,442 |
| Total | $ 1,154,047 | $ 1,149,559 | $ 64,313 | $ 85,899 | $ 1,218,360 | $ 1,235,458 | $ 860,516 | $ 1,076,143 | $ 357,844 | $ 159,315 |

## Financial Analysis of the State's Individual Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### *Governmental Funds*

The focus of the State's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In fiscal 2011, the State implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement which applies to governmental funds, provides new fund balance classifications that comprise a hierarchy based primarily on the extent the State is bound to honor constraints on the specific purpose for which amounts can be spent. The previous reserved and unreserved classifications have been replaced with restricted, committed, and unassigned. Additional information on fund balance classifications is found in Note 1.

At the end of the fiscal year, the State's Governmental Funds reported combined ending fund balances of $1.9 billion. Of this amount, $21.9 million is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $486.2 million has been committed to specific purposes. An additional $883.8 million has been assigned to specific purposes by management. The unassigned fund balance was $543.2 million at fiscal year end. This amount includes a deficit of a negative unrestricted fund balance of $563.5 million in the Capital Projects Fund, which indicates that the fund spent or committed more than what was expendable.

The General Fund is the chief operating fund of the State. At the end of the fiscal year, the total fund balance of the General Fund was $1.4 billion compared to $807.4 million in fiscal 2012. This increase is mainly attributed to the increase in tax revenues. The fund balance of the State's Capital Projects Fund decreased $176.5 million during the fiscal year. This deficit is the result of the State's policy of recording expenditures upon the allotment of general obligation bond appropriations expended by component units and incurring general obligation bond expenditures in excess of cash available. The deficit caused by the recording of expenditures when funds are allotted is $512.7 million and is reflected on the balance sheet as "Due to Component Units". The fund balance of the Med-Quest Special Fund and other Nonmajor Governmental Funds decreased $2.6 million and increased $46.5 million, respectively.

### *Proprietary Funds*

The State's Proprietary Funds provide the same type of information found in the Government-Wide financial statements, but in more detail. At the end of the current fiscal year, Airports had an increase in net position of $122.1 million, Harbors had an increase in net position of $27.6 million, the Unemployment Compensation Fund had an increase in net position of $173.1 million, and the Nonmajor Proprietary Funds had an increase in net position of $68.7 million. Other factors concerning the finances of Airports, Harbors, the Unemployment Compensation Fund, and the Nonmajor Proprietary Funds have already been addressed in the discussion of the State's business-type activities.

### *General Fund Budgetary Highlights*

The General Fund revenues were $267.4 million, or 4.5%, more than the final budget. The increase was attributed to higher tax revenues of $161.5 million, which was comprised of increases in corporate and individual net income tax of $167.8 million, tax on premium of insurance companies of $9.9 million, and public service companies taxes of $8.2 million, offset by lower general excise taxes of $18.0 million and tobacco taxes of $8.9 million. Other revenues increased $110.9 million, mainly attributed to drug rebate collections by the Medquest program of $62.9 million.

The difference between the final budget and actual expenditures on a budgetary basis was $224.3 million. The large positive variance in general government of $124.9 million was mostly due to $81.8 million savings in health premium and retirement payments. Retirement savings was the result of reduced employer contributions paid in fiscal 2013 because of overpayments made in prior years. Savings in health premiums were due to lower premium rates and lower than projected enrollments. Also contributing to the positive variance in general government was $14.8 million of appropriations made to the State Legislature that was carried over to the next fiscal year. Positive variances in health and welfare resulted from spending restrictions. As in previous fiscal years, the positive variance in lower education resulted when the Department of Education carried over $28.4 million of unencumbered appropriations into the next fiscal year. The Department of Education is allowed by statute to carry up to 5% of its unencumbered appropriations. Also contributing to the positive variance in lower education was $12.2 million appropriated to the Department of Education that lapsed because of imposed spending restrictions. The positive variance of $15.5 million in other is attributed to the appropriation made for the payment of legislative claims that was carried over to the next fiscal year.

### *Capital Asset and Debt Administration*

The State's capital assets for its governmental and business-type activities as of June 30, 2013, amounted to $11.5 billion (net of accumulated depreciation of $9.8 billion), an increase of $155.9 million from fiscal 2012. The increase is due to an increase in governmental activities assets of $477.3 million and in business-type assets of $170.9 million offset by increases in primary governmental activities and business-type activities accumulated depreciation of $381.3 million and $111.1 million, respectively. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2013, included the following:

- $236.0 million for various capital improvement projects and repairs and maintenance of public school facilities throughout the State.
- $40.0 million for the design and construction of the new Kapolei II Elementary School.
- $40.7 million for airfield improvements at airfields, statewide.
- $48.4 million for various capital improvement projects at the Honolulu International Airport.
- $96.6 million for construction of a new access road, land acquisition, and various construction projects at Kahului Airport.

- $50.2 million for improvements to rental car facilities, statewide.
- $25.2 million for improvements to Kalaeloa Barbers Point Harbor.
- $42.5 million for Kapalama Military Reservation improvements at Honolulu Harbor.
- $51.0 million for the expansion of the interisland cargo terminal at Hilo Harbor.
- $141.9 million for various construction, maintenance, and renovation projects at various University of Hawaii campuses.
- $32.2 million for various health and safety renovation projects at state community hospitals.
- $91.3 million for renovations and improvements to federal and state low income housing projects.

Additional information on the State's capital assets can be found in Note 3 to the basic financial statements.

***Debt Administration***

At the end of the current fiscal year, the State had total bonded debt outstanding of $7.3 billion. Of this amount, $5.6 billion comprises debt backed by the full faith and credit of the State and $1.8 billion (i.e., revenue bonds), is revenue bonded debt that is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

**Long-Term Debt**
June 30, 2013 and 2012
(Amounts in thousands)

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | June 30, 2013 | June 30, 2012 | June 30, 2013 | June 30, 2012 | June 30, 2013 | June 30, 2012 |
| General obligation bonds | $ 5,534,921 | $5,475,348 | $ 32,934 | $ 34,611 | $ 5,567,855 | $ 5,509,959 |
| Revenue bonds | 441,150 | 468,180 | 1,326,112 | 1,370,314 | 1,767,262 | 1,838,494 |
| Total | $ 5,976,071 | $5,943,528 | $ 1,359,046 | $ 1,404,925 | $ 7,335,117 | $ 7,348,453 |

The State's total long-term debt decreased by $13.3 million, or 0.2%, during the current fiscal year. The decrease resulted from declining principal balances in revenue bonds of the State's business-type activities, and partially offset by issuances of general obligation bonds (see Notes 4 and 5 to the basic financial statements).

As of June 30, 2013, the State's underlying general obligation bond ratings were Moody's Investors Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA) based on the credit of the State.

The State Constitution limits the amount of general obligation bonds that may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit. The legal debt margin at June 30, 2013 was $353.4 million.

Additional information on the State's long-term debt can be found in Notes 4, 5 and 6 to the basic financial statements.

## Other Post-Employment Benefits (OPEB)

The State implemented provisions of GASB No. 45 for fiscal year ended June 30, 2008.

The latest actuarial valuation studies were completed as of July 1, 2011 for the Employer-Union Health Benefits Trust Fund (EUTF) and the University of Hawaii. These studies determined the State's combined unfunded actuarial accrued liability to be approximately $13.7 billion. The State's combined annual OPEB cost for fiscal 2013 was $1.0 billion and its OPEB contributions were $277.9 million, resulting in an increase in the net OPEB obligation of $732.3 million. The total net OPEB obligation balance at fiscal year end increased to $3.9 billion.

In July 2013, Act 268 was signed into law which established the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability. The law also requires the State beginning in fiscal 2015 to pay additional amounts towards reducing the unfunded liability until fiscal 2019 when 100% of the annual required contribution must be paid. Commencing fiscal year 2019, general excise tax revenues will be used to fund any difference between the annual required contribution and the payment made by the State.

## Economic Factors and Next Year's Budget

The statewide seasonally adjusted unemployment rate for November 2013 was 4.4% while the seasonally adjusted national unemployment rates was 7.0%. One year ago, the State's seasonally adjusted unemployment rate stood at 5.3% while the seasonally adjusted national unemployment rate was 7.8%.

In January 2014, the Council of Revenues revised the State's General Fund tax revenue growth rate for fiscal year 2014 from 4.1% to 3.3% and kept the revenue growth rate for fiscal year 2015 unchanged at 7.4%.

Cumulative general fund tax revenues for the first six months of fiscal 2014 were $2.6 billion, a decrease of $18.6 million from the same period last fiscal year. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, decreased 2.6%.

The State is optimistic about the recovery of Hawaii's economy but remains cautious about its sustainability in the face of numerous uncertainties. Therefore, the Governor has imposed a 5% spending restriction on discretionary operating expenses of General Funds for all departments and agencies of the Executive Branch for fiscal year 2014.

**Requests for Information**

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, Department of Accounting and General Services, P.O. Box 119, Honolulu, Hawaii 96810-0119. General information about the State can be found at the State's website, http://www.hawaii.gov.

# BASIC FINANCIAL STATEMENTS

## STATE OF HAWAII

### STATEMENT OF NET POSITION
### JUNE 30, 2013
### (Amounts in thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| ASSETS | Governmental Activities | Business-Type Activities | Total | Component Units |
| CASH AND CASH EQUIVALENTS | $ 194,578 | $ 1,124,534 | $ 1,319,112 | $ 391,280 |
| RECEIVABLES: | | | | |
| Taxes | 461,846 | 117,185 | 579,031 | - |
| Accounts and accrued interest — net | - | 26,620 | 26,620 | 198,063 |
| Notes, loans, mortgages, and contributions — net | 75,743 | 30,568 | 106,311 | 89,095 |
| Federal government | 119,794 | 10,294 | 130,088 | 2,507 |
| Premium | - | 67,896 | 67,896 | - |
| Other — net | 36,363 | 5,604 | 41,967 | 39,024 |
| Total receivables | 693,746 | 258,167 | 951,913 | 328,689 |
| INTERNAL BALANCES | 1,597 | (1,597) | - | - |
| DUE FROM COMPONENT UNITS | 305,442 | - | 305,442 | - |
| DUE FROM PRIMARY GOVERNMENT | - | - | - | 524,420 |
| INVESTMENTS | 2,324,388 | - | 2,324,388 | 332,021 |
| INVENTORIES: | | | | |
| Developments in progress and dwelling units | - | - | - | 24,174 |
| Materials and supplies | - | 228 | 228 | 31,938 |
| Total inventories | - | 228 | 228 | 56,112 |
| RESTRICTED ASSETS | - | 912,333 | 912,333 | 194,456 |
| OTHER ASSETS: | | | | |
| Prepaid expenses | 5,523 | 6,198 | 11,721 | 26,652 |
| Bond issue costs — net | 138,220 | 7,329 | 145,549 | 1,396 |
| Note receivable | - | 336,269 | 336,269 | 485,131 |
| Investments | - | - | - | 506,263 |
| Other | 932 | 21,439 | 22,371 | 25,456 |
| Total other assets | 144,675 | 371,235 | 515,910 | 1,044,898 |
| CAPITAL ASSETS: | | | | |
| Land and land improvements | 2,232,588 | 1,794,368 | 4,026,956 | 478,971 |
| Infrastructure | 9,046,606 | - | 9,046,606 | 193,414 |
| Construction in progress | 864,716 | 415,562 | 1,280,278 | 487,429 |
| Buildings, improvements, and equipment | 4,469,612 | 2,445,452 | 6,915,064 | 4,056,199 |
| Accumulated depreciation | (7,684,193) | (2,122,303) | (9,806,496) | (2,077,391) |
| Total capital assets — net | 8,929,329 | 2,533,079 | 11,462,408 | 3,138,622 |
| TOTAL ASSETS | $ 12,593,755 | $ 5,197,979 | $ 17,791,734 | $ 6,010,498 |

(continued)

## STATE OF HAWAII

### STATEMENT OF NET POSITION
### JUNE 30, 2013
### (Amounts in thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| **LIABILITIES** | Governmental Activities | Business-Type Activities | Total | Component Units |
| LIABILITIES: | | | | |
| Vouchers and contracts payable | $ 312,579 | $ 33,633 | $ 346,212 | $ 205,405 |
| Other accrued liabilities | 398,236 | 68,021 | 466,257 | 104,878 |
| Due to Component Units | 524,420 | - | 524,420 | - |
| Due to Primary Government | - | - | - | 305,442 |
| Due to federal government | 37,145 | - | 37,145 | - |
| Unearned revenue | - | 6,671 | 6,671 | 61,901 |
| Estimated future costs of land sold | - | - | - | 35,347 |
| Unamortized bond premium | 496,302 | - | 496,302 | - |
| Premiums payable | - | 35,771 | 35,771 | - |
| Other | 70,988 | - | 70,988 | 17,233 |
| Long-term liabilities: | | | | |
| Due within one year: | | | | |
| Payable from restricted assets — revenue bonds payable — net | - | 53,798 | 53,798 | - |
| Prepaid airport use charge fund | - | 2,865 | 2,865 | - |
| General obligation (GO) bonds payable | 430,556 | 1,758 | 432,314 | - |
| Notes, mortgages, and installment contracts payable | - | - | - | 1,652 |
| Accrued vacation and retirement benefits payable | 63,290 | 3,753 | 67,043 | 43,573 |
| Revenue bonds payable — net | 28,425 | - | 28,425 | 83,281 |
| Reserve for losses and loss adjustment costs | 39,493 | 1,003 | 40,496 | 8,736 |
| Capital lease obligations | 6,092 | - | 6,092 | 8,512 |
| Due in more than one year: | | | | |
| Prepaid airport use charge fund | - | 37,932 | 37,932 | - |
| GO bonds payable | 5,104,365 | 31,176 | 5,135,541 | - |
| Notes, mortgages, and installment contracts payable | - | - | - | 55,365 |
| Accrued vacation and retirement benefits payable | 157,483 | 8,726 | 166,209 | 68,494 |
| Revenue bonds payable — net | 412,725 | 1,272,314 | 1,685,039 | 916,037 |
| Reserve for losses and loss adjustment costs | 115,645 | 3,812 | 119,457 | 19,701 |
| Capital lease obligations | 83,787 | - | 83,787 | 18,013 |
| Premium on bonds payable | - | - | - | 4,703 |
| Other postemployment benefit liability | 3,066,452 | 68,424 | 3,134,876 | 800,342 |
| Other | 236 | 953 | 1,189 | 67,767 |
| TOTAL LIABILITIES | 11,348,219 | 1,630,610 | 12,978,829 | 2,826,382 |
| **NET POSITION** | | | | |
| NET INVESTMENT IN CAPITAL ASSETS | 2,863,379 | 1,599,483 | 4,462,862 | 2,250,671 |
| RESTRICTED FOR: | | | | |
| Capital maintenance projects | 133,835 | - | 133,835 | - |
| Health and welfare | 124,621 | - | 124,621 | - |
| Natural resources | 114,675 | - | 114,675 | - |
| Hawaiian programs | 277,015 | - | 277,015 | - |
| Other purposes | 401,339 | - | 401,339 | - |
| Bond requirements and other | 63 | 1,068,146 | 1,068,209 | 916,129 |
| UNRESTRICTED | (2,669,391) | 899,740 | (1,769,651) | 17,316 |
| TOTAL NET POSITION | $ 1,245,536 | $ 3,567,369 | $ 4,812,905 | $ 3,184,116 |

See accompanying notes to basic financial statements.

(concluded)

# STATE OF HAWAII

## STATEMENT OF ACTIVITIES
## FOR THE FISCAL YEAR ENDED JUNE 30, 2013
## (Amounts in thousands)

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Primary Government | | | |
| **FUNCTIONS/PROGRAMS** | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total | Component Units |
| PRIMARY GOVERNMENT: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | $ 531,839 | $ 267,081 | $ 246,001 | $ - | $ (18,757) | $ - | $ (18,757) | |
| Public safety | 451,946 | 40,090 | 4,673 | - | (407,183) | - | (407,183) | |
| Highways | 490,091 | 7,856 | 72,525 | 96,184 | (313,526) | - | (313,526) | |
| Conservation of natural resources | 52,208 | 29,411 | 39,766 | - | 16,969 | - | 16,969 | |
| Health | 813,190 | 56,963 | 173,951 | - | (582,276) | - | (582,276) | |
| Welfare | 2,798,053 | 40,670 | 1,659,846 | - | (1,097,537) | - | (1,097,537) | |
| Lower education | 2,592,125 | 42,606 | 346,469 | - | (2,203,050) | - | (2,203,050) | |
| Higher education | 654,611 | - | - | - | (654,611) | - | (654,611) | |
| Other education | 20,086 | - | - | - | (20,086) | - | (20,086) | |
| Culture and recreation | 94,679 | - | 3,249 | - | (91,430) | - | (91,430) | |
| Urban redevelopment and housing | 173,677 | 4,559 | 27,535 | - | (141,583) | - | (141,583) | |
| Economic development and assistance | 172,602 | 5,411 | 15,522 | - | (151,669) | - | (151,669) | |
| Interest expense | 241,677 | - | - | - | (241,677) | - | (241,677) | |
| Total governmental activities | 9,086,784 | 494,647 | 2,589,537 | 96,184 | (5,906,416) | - | (5,906,416) | |
| Business-type activities: | | | | | | | | |
| Airports | 366,918 | 431,708 | - | 30,619 | - | 95,409 | 95,409 | |
| Harbors | 90,548 | 112,060 | - | 4,115 | - | 25,627 | 25,627 | |
| Unemployment compensation | 336,931 | 507,096 | - | - | - | 170,165 | 170,165 | |
| Nonmajor proprietary funds | 66,119 | 103,183 | - | 29,579 | - | 66,643 | 66,643 | |
| Total business-type activities | 860,516 | 1,154,047 | - | 64,313 | - | 357,844 | 357,844 | |
| TOTAL PRIMARY GOVERNMENT | $ 9,947,300 | $ 1,648,694 | $ 2,589,537 | $ 160,497 | (5,906,416) | 357,844 | (5,548,572) | |
| COMPONENT UNITS: | | | | | | | | |
| University of Hawaii | $ 1,648,158 | $ 384,387 | $ 482,619 | $ - | | | | $ (781,152) |
| Hawaii Housing Finance and Development Corporation | 52,770 | 49,985 | 12,570 | | | | | 9,785 |
| Hawaii Public Housing Authority | 125,850 | 18,014 | 72,422 | 12,466 | | | | (22,948) |
| Hawaii Health Systems Corporation | 713,924 | 550,004 | 3,055 | 31,498 | | | | (129,367) |
| Hawaii Tourism Authority | 105,672 | 9,462 | - | - | | | | (96,210) |
| Hawaii Community Development Authority | 32,272 | 3,369 | - | - | | | | (28,903) |
| Hawaii Hurricane Relief Fund | 5 | - | - | - | | | | (5) |
| Total component units | $ 2,678,651 | $ 1,015,221 | $ 570,666 | $ 43,964 | | | | (1,048,800) |
| GENERAL REVENUES: | | | | | | | | |
| Taxes: | | | | | | | | |
| General excise tax | | | | | 2,991,792 | - | 2,991,792 | - |
| Net income tax — corporations and individuals | | | | | 1,795,683 | - | 1,795,683 | - |
| Public service companies tax | | | | | 163,930 | - | 163,930 | - |
| Transient accommodations tax | | | | | 186,377 | - | 186,377 | 104,000 |
| Tobacco and liquor taxes | | | | | 161,066 | - | 161,066 | - |
| Liquid fuel tax | | | | | 87,645 | - | 87,645 | - |
| Tax on premiums of insurance companies | | | | | 133,585 | - | 133,585 | - |
| Vehicle weight and registration tax | | | | | 121,605 | - | 121,605 | - |
| Rental motor/tour vehicle surcharge tax | | | | | 52,112 | - | 52,112 | - |
| Franchise tax | | | | | 22,673 | - | 22,673 | - |
| Other tax | | | | | 80,081 | - | 80,081 | - |
| Interest and investment income | | | | | 25,502 | 14,633 | 40,135 | 34,154 |
| Payments from the State — net | | | | | - | - | - | 874,541 |
| Other | | | | | - | 19,000 | 19,000 | 39,421 |
| Total general revenues | | | | | 5,822,051 | 33,633 | 5,855,684 | 1,052,116 |
| CHANGE IN NET POSITION | | | | | (84,365) | 391,477 | 307,112 | 3,316 |
| NET POSITION — Beginning of year | | | | | 1,329,901 | 3,175,892 | 4,505,793 | 3,180,800 |
| NET POSITION — End of year | | | | | $ 1,245,536 | $ 3,567,369 | $ 4,812,905 | $ 3,184,116 |

See accompanying notes to basic financial statements.

## STATE OF HAWAII

### GOVERNMENTAL FUNDS
### BALANCE SHEET
### JUNE 30, 2013
### (Amounts in thousands)

| | General Fund | Capital Projects Fund | Med-Quest Special Revenue Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| CASH AND CASH EQUIVALENTS | $ 76,050 | $ 7,595 | $ 1,427 | $ 109,506 | $ 194,578 |
| RECEIVABLES: | | | | | |
| Taxes | 461,846 | - | - | - | 461,846 |
| Notes and loans — net | 1,440 | - | - | 74,303 | 75,743 |
| Federal government | - | - | 103,094 | 16,700 | 119,794 |
| Other | 8,763 | - | - | - | 8,763 |
| DUE FROM OTHER FUNDS | 120,748 | - | - | 63 | 120,811 |
| DUE FROM PROPRIETARY FUNDS | - | 1,597 | - | - | 1,597 |
| DUE FROM COMPONENT UNITS | 23,800 | - | - | - | 23,800 |
| INVESTMENTS | 1,102,679 | 139,657 | 22,353 | 1,059,699 | 2,324,388 |
| OTHER ASSETS | 932 | - | - | - | 932 |
| TOTAL ASSETS | $ 1,796,258 | $ 148,849 | $ 126,874 | $ 1,260,271 | $ 3,332,252 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| LIABILITIES: | | | | | |
| Vouchers and contracts payable | $ 105,252 | $ 97,368 | $ 16,300 | $ 93,659 | $ 312,579 |
| Other accrued liabilities | 250,459 | 12,430 | 99,194 | 36,489 | 398,572 |
| Due to federal government | - | - | - | 37,145 | 37,145 |
| Due to other funds | 63 | 89,900 | 10,500 | 20,348 | 120,811 |
| Due to Component Units | 1,601 | 512,667 | - | - | 514,268 |
| Unearned revenue | 13,610 | - | - | - | 13,610 |
| Payable from restricted assets — matured bonds and interest payable | - | - | - | 235 | 235 |
| Total liabilities | 370,985 | 712,365 | 125,994 | 187,876 | 1,397,220 |
| FUND BALANCES: | | | | | |
| Restricted | - | - | - | 21,854 | 21,854 |
| Committed | - | - | - | 486,240 | 486,240 |
| Assigned | 271,020 | - | 880 | 611,882 | 883,782 |
| Unassigned | 1,154,253 | (563,516) | - | (47,581) | 543,156 |
| Total fund balances | 1,425,273 | (563,516) | 880 | 1,072,395 | 1,935,032 |
| TOTAL | $ 1,796,258 | $ 148,849 | $ 126,874 | $ 1,260,271 | $ 3,332,252 |

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
## TO THE STATEMENT OF NET POSITION
## JUNE 30, 2013
## (Amounts in thousands)

| | |
|---|---|
| TOTAL FUND BALANCE — Governmental Funds | $ 1,935,032 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of: | |
| Land and land improvements | 2,232,588 |
| Infrastructure | 9,046,606 |
| Construction in progress | 864,716 |
| Buildings, improvements, and equipment | 4,469,612 |
| Accumulated depreciation | (7,684,193) |
| | 8,929,329 |
| Accrued interest and other payables are not recognized in Governmental Funds | (564,033) |
| Other assets are not available to pay for current-period expenditures and are not recognized in governmental funds, such as unearned revenue and settlement receivables | 463,673 |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of: | |
| General obligation bonds payable | (5,534,921) |
| Accrued vacation payable | (220,773) |
| Revenue bonds payable | (441,150) |
| Reserve for losses and loss adjustment costs | (155,138) |
| Other postemployment benefit liability | (3,066,452) |
| Long-term transactions with Component Units | (10,152) |
| Capital lease obligations | (89,879) |
| | (9,518,465) |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | $ 1,245,536 |

See accompanying notes to basic financial statements.

## STATE OF HAWAII

### GOVERNMENTAL FUNDS
### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
### FOR THE FISCAL YEAR ENDED JUNE 30, 2013
### (Amounts in thousands)

| | General Fund | Capital Projects Fund | Med-Quest Special Revenue Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| REVENUES: | | | | | |
| Taxes: | | | | | |
| General excise tax | $ 2,991,792 | $ - | $ - | $ - | $ 2,991,792 |
| Net income tax — corporations and individuals | 1,804,409 | - | - | - | 1,804,409 |
| Public service companies tax | 163,930 | - | - | - | 163,930 |
| Transient accommodations tax | 185,377 | - | - | 1,000 | 186,377 |
| Tobacco and liquor taxes | 143,141 | - | - | 17,925 | 161,066 |
| Liquid fuel tax | - | - | - | 87,645 | 87,645 |
| Tax on premiums of insurance companies | 131,906 | - | - | 1,679 | 133,585 |
| Vehicle weight and registration tax | - | - | - | 121,605 | 121,605 |
| Rental motor/tour vehicle surcharge tax | 4,519 | - | - | 47,593 | 52,112 |
| Franchise tax | 20,673 | - | - | 2,000 | 22,673 |
| Other | 51,571 | - | - | 28,508 | 80,079 |
| Total taxes | 5,497,318 | - | - | 307,955 | 5,805,273 |
| Interest and investment income | 12,424 | - | - | 13,078 | 25,502 |
| Charges for current services | 122,252 | - | - | 247,017 | 369,269 |
| Intergovernmental | 13,708 | - | 914,647 | 1,444,125 | 2,372,480 |
| Rentals | 276 | - | - | 28,357 | 28,633 |
| Fines, forfeitures, and penalties | 22,343 | - | - | 14,459 | 36,802 |
| Licenses and fees | 6,465 | - | - | 40,374 | 46,839 |
| Revenues from private sources | 2,423 | - | 40,501 | 61,746 | 104,670 |
| Other | 106,795 | - | 69,320 | 59,401 | 235,516 |
| Total revenues | 5,784,004 | - | 1,024,468 | 2,216,512 | 9,024,984 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| General government | 322,464 | 29,260 | - | 56,814 | 408,538 |
| Public safety | 291,855 | 10,774 | - | 129,395 | 432,024 |
| Highways | - | 170,196 | - | 248,795 | 418,991 |
| Conservation of natural resources | 28,260 | 4,522 | - | 59,819 | 92,601 |
| Health | 521,592 | 50,907 | - | 207,256 | 779,755 |
| Welfare | 1,102,912 | 1,415 | 1,003,616 | 665,298 | 2,773,241 |
| Lower education | 1,741,202 | 181,007 | - | 436,554 | 2,358,763 |
| Higher education | 518,486 | 136,125 | - | - | 654,611 |
| Other education | 5,737 | - | - | 14,349 | 20,086 |
| Culture and recreation | 38,979 | 24,491 | - | 44,470 | 107,940 |
| Urban redevelopment and housing | 294 | 3,038 | - | 62,911 | 66,243 |
| Economic development and assistance | 25,876 | 39,459 | - | 92,133 | 157,468 |
| Housing | 19,378 | 93,236 | - | - | 112,614 |
| Other | 23,243 | - | - | 9,473 | 32,716 |
| Debt service | - | - | - | 687,649 | 687,649 |
| Total expenditures | 4,640,278 | 744,430 | 1,003,616 | 2,714,916 | 9,103,240 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 1,143,726 | (744,430) | 20,852 | (498,404) | (78,256) |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Issuance of GO and refunding GO bonds - par | - | 470,000 | - | 396,990 | 866,990 |
| Issuance of of GO and refunding GO bonds - premium | 93,476 | - | - | 106,382 | 199,858 |
| Payment to refunded bond escrow agent | - | - | - | (503,372) | (503,372) |
| Transfers in | 77,451 | 129,953 | 8,356 | 818,157 | 1,033,917 |
| Transfers out | (696,818) | (32,049) | (31,761) | (273,289) | (1,033,917) |
| Total other financing (uses) sources | (525,891) | 567,904 | (23,405) | 544,868 | 563,476 |
| NET CHANGE IN FUND BALANCES | 617,835 | (176,526) | (2,553) | 46,464 | 485,220 |
| FUND BALANCES — Beginning of year | 807,438 | (386,990) | 3,433 | 1,025,931 | 1,449,812 |
| FUND BALANCES — End of year | $ 1,425,273 | $ (563,516) | $ 880 | $ 1,072,395 | $ 1,935,032 |

See accompanying notes to basic financial statements.

## STATE OF HAWAII

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**(Amounts in thousands)**

| | |
|---|---|
| TOTAL NET CHANGE IN FUND BALANCES — Governmental Funds | $ 485,220 |
| AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE: | |
| Capital outlays are reported as expenditures in Governmental Funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are: | |
| Capital outlay — net of disposals | 477,260 |
| Depreciation expense | (388,707) |
| Excess of capital outlay over depreciation expense | 88,553 |
| Debt proceeds provide current financial resources to Governmental Funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, this is the amount of proceeds received from general obligation bonds issued. | (1,066,848) |
| Repayment of long-term debt is reported as an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year, these amounts consist of: | |
| Bond principal retirement | 834,447 |
| Capital lease payments | 5,461 |
| Total long-term debt repayment | 839,908 |
| Revenue timing differences result in greater revenue in the Government-Wide financial statements. | (18,111) |
| Bond issue costs in Governmental Funds - reported in the statement of net position - net of amortization. | 110,525 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds: | |
| Change in postemployment liability | (535,482) |
| Change in accrued vacation payable | (7,990) |
| Change in HHFDC long-term liability | 5,098 |
| Change in reserve for losses and loss adjustment costs | 14,762 |
| Total | (523,612) |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | $ (84,365) |

See accompanying notes to basic financial statements.

## STATE OF HAWAII

### PROPRIETARY FUNDS
### STATEMENT OF FUND NET POSITION
### JUNE 30, 2013
### (Amounts in thousands)

| | Airports | Harbors | Unemployment Compensation | Nonmajor Proprietary Funds | Total Proprietary Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | $ 571,172 | $ 133,218 | $ 193,707 | $ 226,437 | $ 1,124,534 |
| Restricted assets — cash and short-term investments | 68,757 | 33,659 | - | - | 102,416 |
| Receivables: | | | | | |
| Taxes | 356 | - | 116,829 | - | 117,185 |
| Accounts and accrued interest (net of allowance for doubtful accounts of $4,914) | 16,571 | 9,302 | - | 747 | 26,620 |
| Promissory note receivable (net of allowance for doubtful accounts of $4,287) | 5 | - | - | 30,563 | 30,568 |
| Federal government | 8,764 | 936 | - | 594 | 10,294 |
| Premiums | - | - | - | 67,896 | 67,896 |
| Other | 1,416 | 429 | - | 3,759 | 5,604 |
| Materials and supplies inventory | 166 | 62 | - | - | 228 |
| Prepaid expenses and other assets | - | 843 | - | 5,355 | 6,198 |
| Total current assets | 667,207 | 178,449 | 310,536 | 335,351 | 1,491,543 |
| NONCURRENT ASSETS: | | | | | |
| Capital assets: | | | | | |
| Land and land improvements | 1,263,925 | 530,443 | - | - | 1,794,368 |
| Construction in progress | 377,086 | 38,476 | - | - | 415,562 |
| Buildings and improvements | 1,697,221 | 435,311 | - | - | 2,132,532 |
| Equipment | 279,874 | 21,775 | - | 11,271 | 312,920 |
| | 3,618,106 | 1,026,005 | - | 11,271 | 4,655,382 |
| Less accumulated depreciation | (1,829,500) | (286,551) | - | (6,252) | (2,122,303) |
| Net capital assets | 1,788,606 | 739,454 | - | 5,019 | 2,533,079 |
| Bond issue costs — net | 3,926 | 3,403 | - | - | 7,329 |
| Promissory note receivable | - | - | - | 336,269 | 336,269 |
| Restricted assets — net direct financing leases | 30,302 | - | - | - | 30,302 |
| Restricted assets — cash and cash equivalents | 454,503 | 228,219 | - | - | 682,722 |
| Restricted assets — investments | 96,893 | - | - | - | 96,893 |
| Other | 8,965 | 276 | - | 12,198 | 21,439 |
| Total noncurrent assets | 2,383,195 | 971,352 | - | 353,486 | 3,708,033 |
| TOTAL ASSETS | $ 3,050,402 | $ 1,149,801 | $ 310,536 | $ 688,837 | $ 5,199,576 |

(Continued)

# STATE OF HAWAII

## PROPRIETARY FUNDS
## STATEMENT OF FUND NET POSITION
## JUNE 30, 2013
## (Amounts in thousands)

| | Airports | Harbors | Unemployment Compensation | Nonmajor Proprietary Funds | Total Proprietary Funds |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| CURRENT LIABILITIES: | | | | | |
| Vouchers and contracts payable | $ 23,546 | $ 9,197 | $ 272 | $ 618 | $ 33,633 |
| Payable from restricted assets — contracts payable, accrued interest, and other | 39,910 | 17,252 | - | - | 57,162 |
| Other accrued liabilities | 6,383 | - | - | 1,811 | 8,194 |
| Due to Primary Government | - | 1,597 | - | - | 1,597 |
| Benefit claims payable | - | - | - | 2,665 | 2,665 |
| Prepaid airport use charge fund | 2,865 | - | - | - | 2,865 |
| Unearned revenue | 6,671 | - | - | - | 6,671 |
| General obligation bonds payable, current portion | - | 1,758 | - | - | 1,758 |
| Reserve for losses and loss adjustment costs | 869 | 134 | - | - | 1,003 |
| Accrued vacation, current portion | 2,986 | 617 | - | 150 | 3,753 |
| Payable from restricted assets — revenue bonds payable | 41,275 | 12,523 | - | - | 53,798 |
| Premiums payable | - | - | - | 35,771 | 35,771 |
| Total current liabilities | 124,505 | 43,078 | 272 | 41,015 | 208,870 |
| NONCURRENT LIABILITIES: | | | | | |
| General obligation bonds payable | - | 31,176 | - | - | 31,176 |
| Accrued vacation | 6,604 | 1,571 | - | 551 | 8,726 |
| Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding) | 924,320 | 347,994 | - | - | 1,272,314 |
| Reserve for losses and loss adjustment costs | 3,131 | 681 | - | - | 3,812 |
| Other postemployment benefit liability | 54,344 | 10,990 | - | 3,090 | 68,424 |
| Prepaid airport use charge fund | 37,932 | - | - | - | 37,932 |
| Other | 953 | - | - | - | 953 |
| Total long-term liabilities | 1,027,284 | 392,412 | - | 3,641 | 1,423,337 |
| TOTAL LIABILITIES | 1,151,789 | 435,490 | 272 | 44,656 | 1,632,207 |
| **NET POSITION** | | | | | |
| NET INVESTMENT IN CAPITAL ASSETS | 1,077,045 | 517,419 | - | 5,019 | 1,599,483 |
| RESTRICTED FOR BOND REQUIREMENTS AND OTHER | 381,987 | 93,625 | - | 592,534 | 1,068,146 |
| UNRESTRICTED | 439,581 | 103,267 | 310,264 | 46,628 | 899,740 |
| NET POSITION | $ 1,898,613 | $ 714,311 | $ 310,264 | $ 644,181 | $ 3,567,369 |

See accompanying notes to basic financial statements. (Concluded)

# STATE OF HAWAII

## PROPRIETARY FUNDS
## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
## FOR THE FISCAL YEAR ENDED JUNE 30, 2013
## (Amounts in thousands)

| | Airports | Harbors | Unemployment Compensation | Nonmajor Proprietary Funds | Total Proprietary Funds |
|---|---|---|---|---|---|
| OPERATING REVENUES: | | | | | |
| Concession fees | $ 151,391 | $ - | $ - | $ - | $ 151,391 |
| Unemployment compensation | - | - | 507,096 | - | 507,096 |
| Aviation fuel tax | 4,674 | - | - | - | 4,674 |
| Airport use charges | 59,874 | - | - | - | 59,874 |
| Rentals | 117,600 | 27,922 | - | - | 145,522 |
| Services and others | 1 | 82,622 | - | - | 82,623 |
| Administrative fees | - | - | - | 9,887 | 9,887 |
| Premium revenue — self insurance | - | - | - | 50,843 | 50,843 |
| Increase in premium reserves | - | - | - | 39,540 | 39,540 |
| Other | 5,047 | 2,127 | - | 2,913 | 10,087 |
| Total operating revenues | 338,587 | 112,671 | 507,096 | 103,183 | 1,061,537 |
| OPERATING EXPENSES: | | | | | |
| Personnel services | 136,591 | 16,158 | - | 5,537 | 158,286 |
| Depreciation and amortization | 92,231 | 22,751 | - | 1,469 | 116,451 |
| Repairs and maintenance | 32,288 | 2,462 | - | 79 | 34,829 |
| Airports operations | 57,217 | - | - | - | 57,217 |
| Harbors operations | - | 18,192 | - | - | 18,192 |
| Fireboat operations | - | 1,492 | - | - | 1,492 |
| General administration | 17,919 | 8,896 | - | 3,948 | 30,763 |
| Unemployment compensation | - | - | 336,931 | - | 336,931 |
| Claims | - | - | - | 46,819 | 46,819 |
| Other | 290 | - | - | 53 | 343 |
| Total operating expenses | 336,536 | 69,951 | 336,931 | 57,905 | 801,323 |
| Business interruption insurance recovery | 19,000 | - | - | - | 19,000 |
| Operating income | 21,051 | 42,720 | 170,165 | 45,278 | 279,214 |
| NONOPERATING REVENUES (EXPENSES): | | | | | |
| Interest and investment income | 7,661 | 1,969 | 2,949 | 2,054 | 14,633 |
| Interest expense | (30,382) | (20,592) | - | - | (50,974) |
| Federal grants | 5,039 | - | - | - | 5,039 |
| Loss on disposal of capital assets | - | (5) | - | - | (5) |
| Passenger facility charges | 35,333 | - | - | - | 35,333 |
| Other | 57,788 | (611) | - | (8,214) | 48,963 |
| Total nonoperating revenues (expenses) | 75,439 | (19,239) | 2,949 | (6,160) | 52,989 |
| INCOME BEFORE CAPITAL CONTRIBUTIONS | 96,490 | 23,481 | 173,114 | 39,118 | 332,203 |
| CAPITAL CONTRIBUTIONS | 25,580 | 4,115 | - | 29,579 | 59,274 |
| CHANGE IN NET POSITION | 122,070 | 27,596 | 173,114 | 68,697 | 391,477 |
| NET POSITION - Beginning of year | 1,776,543 | 686,715 | 137,150 | 575,484 | 3,175,892 |
| NET POSITION — End of year | $ 1,898,613 | $ 714,311 | $ 310,264 | $ 644,181 | $ 3,567,369 |

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## PROPRIETARY FUNDS
## STATEMENT OF CASH FLOWS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2013
## (Amounts in thousands)

| | Airports | Harbors | Unemployment Compensation | Nonmajor Proprietary Funds | Total Proprietary Funds |
|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Cash received from customers | $ 354,191 | $ 112,321 | $ - | $ - | $ 466,512 |
| Cash received from taxes | - | - | 366,943 | - | 366,943 |
| Cash received from employer and employees for premiums and benefits | - | - | - | 487,681 | 487,681 |
| Cash paid to suppliers | (160,057) | (27,386) | - | (4,258) | (191,701) |
| Cash paid to employees | (70,486) | (13,725) | - | (4,611) | (88,822) |
| Cash paid for unemployment compensation | - | - | (337,164) | - | (337,164) |
| Cash paid for premiums and benefits payable | - | - | - | (486,285) | (486,285) |
| Reserves returned by insurance carriers | - | - | - | 15,914 | 15,914 |
| Interest income from notes receivable | - | - | - | 2,892 | 2,892 |
| Administrative loan fees | - | - | - | 4,245 | 4,245 |
| Principal repayments on notes receivable | - | - | - | 61,655 | 61,655 |
| Disbursement of note receivable proceeds | - | - | - | (31,852) | (31,852) |
| Other cash receipts | - | - | 113,493 | - | 113,493 |
| Net cash provided by operating activities | 123,648 | 71,210 | 143,272 | 45,381 | 383,511 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | | |
| State capital contributions | - | - | - | 5,872 | 5,872 |
| Proceeds from federal operating grants | 4,639 | - | - | 23,353 | 27,992 |
| Disbursements of federal operating grants | - | - | - | (2,949) | (2,949) |
| Other | - | (610) | - | - | (610) |
| Net cash provided by (used in) noncapital financing activities | 4,639 | (610) | - | 26,276 | 30,305 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | | |
| Acquisition and construction of capital assets | (72,175) | (50,952) | - | | (123,127) |
| Repayment of general obligation and revenue bonds principal | (27,545) | (13,718) | - | - | (41,263) |
| Interest paid on bonds | (45,072) | (21,171) | - | - | (66,243) |
| Proceeds from passenger facility charges program | 35,579 | - | - | - | 35,579 |
| Proceeds from rental car customer facility charges program | 50,495 | - | - | - | 50,495 |
| Payments from rental car customer facility charges program | (17,718) | - | - | - | (17,718) |
| Payments from passenger facility charges program | (16,702) | - | - | - | (16,702) |
| Proceeds from federal, state, and capital grants | 22,618 | 9,548 | - | - | 32,166 |
| Net cash used in capital and related financing activities | (70,520) | (76,293) | - | - | (146,813) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Purchase of investments | (193,786) | - | - | - | (193,786) |
| Proceeds from sales and maturities of investments | 193,786 | - | - | - | 193,786 |
| Interest from and change in fair value of investments | 6,695 | 1,972 | 2,949 | 1,988 | 13,604 |
| Net cash provided by investing activities | 6,695 | 1,972 | 2,949 | 1,988 | 13,604 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 64,462 | (3,721) | 146,221 | 73,645 | 280,607 |
| CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — beginning of the year | 1,029,970 | 398,817 | 47,486 | 152,792 | 1,629,065 |
| CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — end of year | $ 1,094,432 | $ 395,096 | $ 193,707 | $ 226,437 | $ 1,909,672 |

See accompanying notes to basic financial statements

## STATE OF HAWAII

### PROPRIETARY FUNDS
### STATEMENT OF CASH FLOWS
### FOR THE FISCAL YEAR ENDED JUNE 30, 2013
### (Amounts in thousands)

| | Airports | Harbors | Unemployment Compensation | Nonmajor Proprietary Funds | Total Proprietary Funds |
|---|---|---|---|---|---|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | | | |
| Operating income | $ 21,051 | $ 42,720 | $ 170,165 | $ 45,278 | $ 279,214 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | | |
| Provision for uncollectible accounts | - | 104 | - | - | 104 |
| Depreciation | 92,231 | 22,614 | - | 1,469 | 116,314 |
| Other amortization | - | 138 | - | - | 138 |
| Bad debt expense | 580 | - | - | - | 580 |
| Overpayment of airport use charge to be transferred to the prepaid airport use charge fund | 126 | - | - | - | 126 |
| Premium reserves held by insurance companies | - | - | - | (36,405) | (36,405) |
| Principal forgiveness of loans | - | - | - | (1,000) | (1,000) |
| Decrease (increase) in assets: | | | | | |
| Receivables | 1,178 | (530) | (26,660) | 31,720 | 5,708 |
| Inventory of materials and supplies | 47 | 183 | - | - | 230 |
| Deposits | - | - | - | 11,456 | 11,456 |
| Prepaid expenses | - | - | - | (101) | (101) |
| Increase (decrease) in liabilities: | | | | | |
| Vouchers and contracts payable | 543 | 3,281 | (233) | (73) | 3,518 |
| Other accrued liabilities | 14,178 | 2,700 | - | (2,142) | 14,736 |
| Prepaid airport use charge fund | (7,445) | - | - | - | (7,445) |
| Unearned revenue | 1,159 | - | - | - | 1,159 |
| Benefit Claims Payable | - | - | - | (4,821) | (4,821) |
| Net cash provided by operating activities | $ 123,648 | $ 71,210 | $ 143,272 | $ 45,381 | $ 383,511 |

**Supplemental Information**

| | Airports | Harbors | Unemployment Compensation | Nonmajor Proprietary Funds | Total Proprietary Funds |
|---|---|---|---|---|---|
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES: | | | | | |
| Amortization of bond discount, bond issue costs, bond premium, and loss on refunding | $ (3,354) | $ (342) | $ - | $ - | $ (3,696) |
| Interest payments relating to special facility revenue bonds | 1,872 | - | - | - | 1,872 |
| Payments to refund airport system revenue bonds | 905 | - | - | - | 905 |

See accompanying notes to basic financial statements.

## STATE OF HAWAII

**FIDUCIARY FUNDS**
**STATEMENT OF FIDUCIARY NET POSITION**
**JUNE 30, 2013**
**(Amounts in thousands)**

| | Agency Funds | OPEB Trust Fund |
|---|---|---|
| **ASSETS** | | |
| CASH AND CASH EQUIVALENTS | $ 216,683 | $ 314,778 |
| RECEIVABLES — taxes | 39,078 | - |
| INVESTMENTS | 395,971 | - |
| OTHER ASSETS — primarily due from individuals, businesses, and counties | 31,653 | - |
| TOTAL | $ 683,385 | $ 314,778 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES | | |
| VOUCHERS PAYABLE | $ 9,714 | $ - |
| DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES | 673,671 | - |
| OTHER ACCRUED LIABILITIES | - | 14 |
| TOTAL LIABILITIES | 683,385 | 14 |
| NET POSITION | $ - | $ 314,764 |

See accompanying notes to basic financial statements.

## STATE OF HAWAII

**FIDUCIARY FUNDS**
**STATEMENT OF CHANGES IN NET POSITION - OPEB TRUST FUND**
**JUNE 30, 2013**
**(Amounts in thousands)**

| | OPEB TRUST FUND |
|---|---|
| ADDITIONS | |
| Employer pre-funding contributions and related net investment earnings | $ 314,764 |
| Net increase in net assets | 314,764 |
| Beginning fiduciary net position | - |
| Ending fiduciary net position | $ 314,764 |

See accompanying notes to basic financial statements.

## STATE OF HAWAII

### COMPONENT UNITS
### STATEMENT OF NET POSITION
### JUNE 30, 2013
### (Amounts in thousands)

| | University of Hawaii | Hawaii Housing Finance and Development Corporation | Hawaii Public Housing Authority | Hawaii Health Systems Corporation |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CASH AND CASH EQUIVALENTS | $ 78,704 | $ 179,849 | $ 65,342 | $ 34,308 |
| RECEIVABLES: | | | | |
| Accounts and accrued interest (net of allowance for doubtful accounts of $39,798) | 96,789 | 16,194 | 471 | 84,029 |
| Notes, loans, mortgages, and contributions allowance for doubtful accounts) | 15,266 | 73,829 | - | - |
| Federal government | - | - | 2,507 | - |
| Other (net of allowance for doubtful accounts of $2) | - | 2,568 | 953 | 31,744 |
| DUE FROM PRIMARY GOVERNMENT | 329 | 7,000 | 97,990 | 63,397 |
| INVESTMENTS | 298,841 | 1,024 | - | 7,071 |
| INVENTORIES: | | | | |
| Developments in progress and dwelling units | - | 24,174 | - | - |
| Materials and supplies | 12,288 | - | 973 | 18,677 |
| PREPAID EXPENSES AND OTHER ASSETS | 24,013 | 417 | 2,108 | - |
| | 526,230 | 305,055 | 170,344 | 239,226 |
| RESTRICTED ASSETS: | | | | |
| Cash and cash equivalents | - | 68,492 | - | 3,191 |
| Investments | - | 111,431 | - | - |
| Deposits, funded reserves, and other | - | 533 | - | - |
| Total restricted assets | - | 180,456 | - | 3,191 |
| CAPITAL ASSETS: | | | | |
| Land and land improvements | 137,052 | 43,290 | 25,340 | 6,535 |
| Infrastructure | 149,100 | - | - | - |
| Construction in progress | 397,825 | - | 27,423 | 56,418 |
| Buildings, improvements, and equipment | 2,489,985 | 158,524 | 578,847 | 593,273 |
| Less accumulated depreciation | (1,146,842) | (110,073) | (332,999) | (315,935) |
| Total capital assets — net | 2,027,120 | 91,741 | 298,611 | 340,291 |
| OTHER ASSETS: | | | | |
| Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts $7,786) | 24,637 | 435,363 | 8,131 | - |
| Due from Primary Government | 337,674 | 10,152 | - | - |
| Investments | 468,120 | 6,709 | - | - |
| Other assets | 23,591 | 1,396 | - | 1,483 |
| Total other assets | 854,022 | 453,620 | 8,131 | 1,483 |
| TOTAL ASSETS | $ 3,407,372 | $ 1,030,872 | $ 477,086 | $ 584,191 |

| Hawaii Tourism Authority | Hawaii Community Development Authority | Hawaii Hurricane Relief Fund | Total Component Units |
|---|---|---|---|
| $ 12,610 | $ 20,023 | $ 444 | $ 391,280 |
| - | 497 | 83 | 198,063 |
| - | - | - | 89,095 |
| - | - | - | 2,507 |
| 1,110 | 2,649 | - | 39,024 |
| - | 7,878 | - | 176,594 |
| 4,499 | - | 20,586 | 332,021 |
| - | - | - | 24,174 |
| - | - | - | 31,938 |
| 107 | 7 | - | 26,652 |
| 18,326 | 31,054 | 21,113 | 1,311,348 |
| 10,809 | - | - | 82,492 |
| - | - | - | 111,431 |
| - | - | - | 533 |
| 10,809 | - | - | 194,456 |
| 131,497 | 135,257 | - | 478,971 |
| - | 44,314 | - | 193,414 |
| 2,114 | 3,649 | - | 487,429 |
| 215,813 | 19,757 | - | 4,056,199 |
| (118,924) | (52,618) | - | (2,077,391) |
| 230,500 | 150,359 | - | 3,138,622 |
| - | 17,000 | - | 485,131 |
| - | - | - | 347,826 |
| 31,434 | - | - | 506,263 |
| - | 382 | - | 26,852 |
| 31,434 | 17,382 | - | 1,366,072 |
| $ 291,069 | $ 198,795 | $ 21,113 | $ 6,010,498 |

(Continued)

# STATE OF HAWAII

## COMPONENT UNITS
## STATEMENT OF NET POSITION
## JUNE 30, 2013
## (Amounts in thousands)

| | University of Hawaii | Hawaii Housing Finance and Development Corporation | Hawaii Public Housing Authority | Hawaii Health Systems Corporation |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| CURRENT LIABILITIES: | | | | |
| Vouchers and contracts payable | $ 76,431 | $ 901 | $ 5,809 | $ 115,723 |
| Other accrued liabilities | 90,037 | 10,817 | 3,775 | - |
| Due to Primary Government | 6,000 | - | - | 2,000 |
| Unearned revenue | 38,497 | 22,871 | 480 | - |
| Estimated future costs of land sold | - | 35,347 | - | - |
| Notes, mortgages, and installment contracts payable | - | 63 | - | 1,589 |
| Accrued vacation and retirement benefits payable | 27,208 | - | - | 16,143 |
| Revenue bonds payable — net | 14,740 | 68,541 | - | - |
| Reserve for losses and loss adjustment costs | 5,421 | - | - | 3,315 |
| Capital lease obligations | - | - | - | 8,512 |
| Other liabilities | 11,420 | 1,909 | 880 | 1,750 |
| Total current liabilities | 269,754 | 140,449 | 10,944 | 149,032 |
| NONCURRENT LIABILITIES: | | | | |
| Notes, mortgages, and installment contracts payable | 16,500 | 5,517 | - | 33,348 |
| Accrued vacation and retirement benefits payable | 43,550 | - | - | 24,199 |
| Revenue bonds payable — net | 593,930 | 322,107 | - | - |
| Reserve for losses and loss adjustment costs | 9,277 | - | - | 10,424 |
| Premium on bonds payable | 4,703 | - | - | - |
| Capital lease obligations | - | - | - | 18,013 |
| Due to Primary Government | 555 | - | - | 15,800 |
| Other postemployment benefit liability | 514,364 | 3,231 | 12,415 | 267,115 |
| Other liabilities | 17,014 | 291 | 1,509 | 23,229 |
| Total noncurrent liabilities | 1,199,893 | 331,146 | 13,924 | 392,128 |
| TOTAL | 1,469,647 | 471,595 | 24,868 | 541,160 |
| **NET POSITION** | | | | |
| NET INVESTMENT IN CAPITAL ASSETS | 1,492,599 | 25,035 | 298,610 | 287,829 |
| RESTRICTED | 733,922 | 163,714 | 3,851 | 349 |
| UNRESTRICTED (DEFICIT) | (288,796) | 370,528 | 149,757 | (245,147) |
| TOTAL NET POSITION | $ 1,937,725 | $ 559,277 | $ 452,218 | $ 43,031 |

See accompanying notes to basic financial statements.

| Hawaii Tourism Authority | Hawaii Community Development Authority | Hawaii Hurricane Relief Fund | Total Component Units |
|---|---|---|---|
| $ 4,662 | $ 1,560 | $ 319 | $ 205,405 |
| 105 | 144 | - | 104,878 |
| 19,782 | - | - | 27,782 |
| - | 53 | - | 61,901 |
| - | - | - | 35,347 |
| - | - | - | 1,652 |
| 124 | 98 | - | 43,573 |
| - | - | - | 83,281 |
| - | - | - | 8,736 |
| - | - | - | 8,512 |
| - | 1,274 | - | 17,233 |
| 24,673 | 3,129 | 319 | 598,300 |
| - | - | - | 55,365 |
| 352 | 393 | - | 68,494 |
| - | - | - | 916,037 |
| - | - | - | 19,701 |
| - | - | - | 4,703 |
| - | - | - | 18,013 |
| 261,301 | 4 | - | 277,660 |
| 1,824 | 1,393 | - | 800,342 |
| - | 25,724 | - | 67,767 |
| 263,477 | 27,514 | - | 2,228,082 |
| 288,150 | 30,643 | 319 | 2,826,382 |
| (3,760) | 150,358 | - | 2,250,671 |
| 6,679 | 7,614 | - | 916,129 |
| - | 10,180 | 20,794 | 17,316 |
| $ 2,919 | $ 168,152 | $ 20,794 | $ 3,184,116 |

(Concluded)

# STATE OF HAWAII

## COMPONENT UNITS
## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
## FOR THE FISCAL YEAR ENDED JUNE 30, 2013
## (Amounts in thousands)

| | University of Hawaii | Hawaii Housing Finance and Development Corporation | Hawaii Public Housing Authority | Hawaii Health Systems Corporation |
|---|---|---|---|---|
| EXPENSES | $ 1,648,158 | $ 52,770 | $ 125,850 | $ 713,924 |
| PROGRAM REVENUES: | | | | |
| Charges for services | 384,387 | 49,985 | 18,014 | 550,004 |
| Operating grants and contributions | 482,619 | 12,570 | 72,422 | 3,055 |
| Capital grants and contributions | - | - | 12,466 | 31,498 |
| Total program revenues | 867,006 | 62,555 | 102,902 | 584,557 |
| Net program revenues (expenses) | (781,152) | 9,785 | (22,948) | (129,367) |
| GENERAL REVENUES (EXPENSES): | | | | |
| Interest and investment income (loss) | 32,206 | 1,200 | - | 309 |
| Transient accommodations tax | - | - | - | - |
| Payments from (to) the State | 675,155 | 5,000 | 100,824 | 86,027 |
| Other | 39,393 | - | 2,311 | (2,283) |
| Net general revenues (expenses) | 746,754 | 6,200 | 103,135 | 84,053 |
| Change in net assets | (34,398) | 15,985 | 80,187 | (45,314) |
| NET POSITION — Beginning of year | 1,972,123 | 543,292 | 372,031 | 88,345 |
| NET POSITION — End of year | $ 1,937,725 | $ 559,277 | $ 452,218 | $ 43,031 |

See accompanying notes to basic financial statements.

| Hawaii Tourism Authority | Hawaii Community Development Authority | Hawaii Hurricane Relief Fund | Total Component Units |
|---|---|---|---|
| $ 105,672 | $ 32,272 | $ 5 | $ 2,678,651 |
| | | | |
| 9,462 | 3,369 | - | 1,015,221 |
| - | - | - | 570,666 |
| - | - | - | 43,964 |
| 9,462 | 3,369 | - | 1,629,851 |
| (96,210) | (28,903) | (5) | (1,048,800) |
| | | | |
| (276) | 676 | 39 | 34,154 |
| 104,000 | - | - | 104,000 |
| (1,000) | 8,854 | (319) | 874,541 |
| - | - | - | 39,421 |
| 102,724 | 9,530 | (280) | 1,052,116 |
| 6,514 | (19,373) | (285) | 3,316 |
| (3,595) | 187,525 | 21,079 | 3,180,800 |
| $ 2,919 | $ 168,152 | $ 20,794 | $ 3,184,116 |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Reporting Entity** — The accompanying basic financial statements present the financial activity of the State ("Primary Government") and its Component Units, entities for which the Primary Government is considered to be financially accountable. Discretely presented Component Units are legally separate organizations for which the Primary Government is financially accountable or for which the nature and significance of their relationship to the Primary Government are such that exclusion would cause the State's reporting entity to be misleading or incomplete.

*Primary Government* — The following branches and departments are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

Executive:
- Accounting and General Services
- Agriculture
- Attorney General
- Budget and Finance
- Business, Economic Development and Tourism
- Commerce and Consumer Affairs
- Defense
- Education
- Hawaiian Home Lands
- Health
- Human Resources Development
- Human Services
- Labor and Industrial Relations
- Land and Natural Resources
- Public Safety
- Taxation
- Transportation

Judicial

Legislative

*Discretely Presented Component Units* — The Component Units column in the basic financial statements includes the financial data of the State's discretely presented Component Units. They are reported in a separate column to emphasize that they are legally separate from the State. The governing bodies of these discretely presented Component Units are appointed by the Governor of the State ("Governor"). The discretely presented Component Units are as follows:

**University of Hawaii** — The University of Hawaii ("UH" or the "University") is Hawaii's sole public higher education system and is governed by a Board of Regents consisting of fifteen members appointed by the Governor. The University system is comprised of ten campuses with approximately 60,000 students and 10,000 faculty and staff. The University provides a broad range of 385 degree programs from baccalaureate to post-doctoral level, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on Oahu, Hawaii, Maui, and Kauai, UH offers more than 279 certificate and associate degree programs and in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the UH system houses more than a hundred centers with research and service activities at hundreds of Hawaii schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries. Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of UH.

**Hawaii Housing Finance and Development Corporation** — Hawaii Housing Finance and Development Corporation (HHFDC) is a corporate body placed within the Department of Business, Economic Development and Tourism (DBEDT) for administrative purposes. Act 196, Session Laws of Hawaii (SLH) of 2005, as amended by Act 180, SLH of 2006, created the HHFDC. The HHFDC is tasked with developing and financing low and moderate income housing projects and administering home-ownership programs. HRS 201H states that the HHFDC shall be a public body and a body corporate and politic and be headed by a board of directors comprised of nine voting members. The nine members consist of the following:

- Six shall be public members appointed by the Governor:
  - At least four of the public members shall have knowledge and expertise in public or private financing and development of affordable housing.
  - Public members shall be appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai.
  - At least one public member shall represent community advocates for low-income housing, affiliated with private nonprofit organizations that serve the residents of low-income housing.
  - The public members of the board of directors shall serve four-year staggered terms; provided that the initial appointments shall be as follows:
    - Two members to be appointed for four years;
    - Two members to be appointed for three years; and
    - Two members to be appointed for two years.
- The Director of DBEDT or a designated representative,
- The Director of Finance or a designated representative, and
- A representative of the Governor's office.

**Hawaii Public Housing Authority** — Act 196, SLH of 2005, as amended by Act 180, SLH of 2006, created the Hawaii Public Housing Authority ("HPHA" or the "Authority").

The Authority is administratively attached to the Department of Human Services. Its mission is to provide safe, decent and sanitary dwelling for low and moderate income residents of Hawaii and to operate its housing program in accordance with federal and State laws and regulations.

HRS Chapter 356D states that the HPHA shall be a public body and a body corporate and politic and be headed by a board of directors comprised of 11 members. The 11 members consist of the following:

- Nine public members appointed by the Governor (four appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai, and five appointed at large);
- The Director of Human Services, as an Ex Officio voting member; and
- The Representative of the Governor's Office, as an Ex Officio voting member.

**Hawaii Health Systems Corporation** — The Hawaii Health Systems Corporation (HHSC) is a public body corporate and politic and an instrumentally and agency of the State. HHSC is managed by a chief executive officer under the control of a 13-member board of directors.

Act 262, SLH of 1996, which became effective in fiscal year 1997, transferred all facilities under the administration of the Department of Health — Division of Community Hospitals to HHSC. HHSC operates the following facilities:

East Hawaii Region:
Hilo Medical Center
Hale Hoʻola Hamakua
Kaʻu Hospital
Yukio Okutsu Veterans Care Home

West Hawaii Region:
Kona Community Hospital
Kohala Hospital

Kauai Region:
Kauai Veterans Memorial Hospital
Samuel Mahelona Memorial Hospital

Maui Region:
Maui Memorial Medical Center
Kula Hospital
Lanai Community Hospital

Oahu Region:
Leahi Hospital
Maluhia

Kahuku Medical Center

Act 262 also amended a previous act to exempt all facilities from the obligation to pay previously allocated central service and departmental administration expenses by the State.

HHSC is considered to be administratively attached to the Department of Health of the State and is a component unit of the State. Hawaii Health Systems Foundation (HHSF) and Alii Community Care, Inc. (Alii) are nonprofit organizations of which HHSC is the sole member. The purpose of HHSF is to raise funds and obtain gifts and grants on behalf of HHSC. The purpose of Alii is to own, manage, and operate assisted living and other healthcare facilities in the State.

Act 290, SLH of 2007, which became effective July 1, 2007, required the establishment of a seven to 15 member regional system board of directors for each of the five regions of the HHSC system. Each regional board was given custodial control and responsibility for management of the facilities and other assets in their respective regions. This Act also restructured the 13-member HHSC board of directors to 15 members, comprised of 10 members appointed by the governor from nominees submitted by legislative leadership, two at-large members at the governor's discretion, two physician members selected by the HHSC board, and the State Director of Health.

Act 290 also exempted the regions from the requirements of the State procurement code and other exemptions from State agency laws, such as tax clearance certificate requirements, the concession law, and the sunshine law.

Act 182, SLH of 2009, effective July 1, 2009, allowed the individual facilities or regions of HHSC to transition into a new legal entity in any form recognized under the laws of the State of Hawaii, including but not limited to a nonprofit corporation, a for-profit corporation, a municipal facility, a public benefit corporation, or a combination of the above. The act also amended the requirement for maintenance of services to outline a process that must be followed in order for a facility to substantially reduce or eliminate a direct patient care service. Further, the Act reconstituted the HHSC board of directors to a 12-member board of directors which includes the five regional chief executive officers, one representative each appointed by the East Hawaii, West Hawaii, Kauai, and Oahu regional boards, two members appointed by the Maui regional board, and the Director of the Department of Health as an ex-officio non-voting member.

Act 126, SLH of 2011, effective July 1, 2011, reconstituted the HHSC board of directors to a 13-member board of directors by adding an at-large voting member appointed by the governor of the State of Hawaii and changing the voting status of the Director of the Department of Health from non-voting to voting member.

In June 2013, the Legislature passed Act 278, H.B. 1130, effective July 2013, which reconstituted the HHSC board of directors by adding five regional members appointed by the governor and making the five regional chief executive officers ex-officio, nonvoting members.

**Hawaii Tourism Authority** — The Hawaii Tourism Authority (HTA) was established on January 1, 1999, by Act 156, SLH of 1998 and was placed within DBEDT for administrative purposes. The HTA is responsible for developing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan as it relates to the State's tourism industry, employment, taxes, and lesser known and underutilized destinations. In addition, effective July 1, 2000, control and management of the Hawaii Convention Center (the "Center") was transferred to the HTA from the Convention Center Authority (CCA) by Executive Order No. 3817. Effective July 1, 2002, the Center, by statute, became the responsibility of the HTA. The Center, which opened to the general public in June 1998, is used for a variety of events including conventions and trade shows, public shows, and spectator events. The Center offers approximately 350,000 square feet of rentable space including 51 meeting rooms.

The HTA is governed by a board of directors comprised of 12 voting members. The governor appoints the 12 voting members.

**Hawaii Community Development Authority** — The Hawaii Community Development Authority (HCDA) was established as a body corporate and a public instrumentality of the State of Hawaii which is attached to DBEDT for administrative purposes. The HCDA was established to supplement traditional community renewal methods by promoting and coordinating public and private sector community development. The HCDA has redevelopment responsibility for the Kaka‘ako, Kalaeloa, and He‘eia Community Development Districts.

The HCDA was established by HRS Chapter 206E, to join the strengths of private enterprise, public development and regulation into a form capable of long-term planning and implementation of improved community development in urban areas in the State.

The HCDA is comprised of 16 (five regular members, one member who votes only on Kalaeloa matters, one member who votes only on Kaka`ako and He`eia matters, three members who vote only on Kaka`ako matters, three members who vote only on Kalaeloa matters, and three members who vote only on He`eia matters) voting members who, as a body, oversee the HCDA’s operations and establish policies to implement its legislative objectives. The board is required to report annually to the State Legislature and the Governor. The 16 member board is comprised of the following:

- Five members that vote on issued related to Kaka`ako, Kalaeloa and He`eia:
  - The Director of Budget and Finance, as an Ex Officio voting member,
  - The Director of DBEDT, as an Ex Officio voting member,
  - The Comptroller of the Department of Accounting and General Services, as an Ex Officio voting member,
  - The Director of Transportation, as an Ex Officio voting member, and
  - One member who is a cultural expert.
- The Chairperson of the Hawaiian Homes Commission who votes only on issues related Kalaeloa.
- One member appointed by the Governor that votes only on issues related to Kaka`ako and He`eia.
- Three members appointed by the Governor that vote only on issues related to Kaka`ako:
  - All three members are selected by the Governor from a list of names submitted by the Honolulu City Council.
- Three members appointed by the Governor that vote only on issues related to Kalaeloa:
  - All three members are selected by the Governor from a list of names submitted by the Honolulu City Council.
- Three members appointed by the Governor that vote only on issued related to He`eia:
  - All three members shall be residents of the He`eia community development district or the Koolaupoko district.

**Hawaii Hurricane Relief Fund** — The Hawaii Hurricane Relief Fund (HHRF) was organized pursuant to, and operates in accordance with, HRS Chapter 431P. The HHRF, which began its operations on July 1, 1993, was established as a public body and a body corporate and politic to be placed within the Department of Commerce and Consumer Affairs for administrative purposes. The HHRF was primarily organized to provide hurricane property insurance policies in Hawaii in the event the private insurance market does not make such policies readily available to consumers in Hawaii.

Due to the increase in the availability of hurricane property insurance coverage from the private sector, the HHRF ceased writing hurricane property insurance policies effective December 1, 2000.

Although the HHRF no longer functions in its capacity to provide hurricane property insurance coverage subsequent to November 2001, it has been determined at this time that the HHRF should not be dissolved in the event it may need to reenter the insurance market.

The HHRF is administered and operated by a board of directors. The board of directors consists of the following seven members:

- The Insurance Commissioner, as an Ex Officio voting member, appointed by the Governor; and
- Six members appointed by the Governor with the advice and consent of the Senate:
  - Two members appointed by the Governor;
  - Two members appointed by the Governor from a list of nominations submitted by the President of the Senate; and
  - Two members appointed by the Governor from a list of nominations submitted by the Speaker of the House of Representatives.

Information for obtaining financial statements for the discretely presented Component Units may be obtained from the Department of Accounting and General Services (DAGS), 1151 Punchbowl Street, Room 400, Honolulu, Hawaii 96813.

The Employees' Retirement System of the State of Hawaii (ERS), which is administered on behalf of public employees for both the State and county governments, and the Office of Hawaiian Affairs (OHA), which exists for the betterment of the conditions of native Hawaiians, are excluded from the State's reporting entity because those agencies, based on the fiscal independence and/or separate legal entity status, are not accountable to the State.

**Government-Wide and Fund Financial Statements** — The Government-Wide financial statements (the Statement of Net Position and the Statement of Activities) report information of all of the nonfiduciary activities of the Primary Government and its Component Units. For the most part, the effect of interfund activity has been removed from these Government-Wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from the legally separate Component Units for which the Primary Government is financially accountable.

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

Net position is restricted when legally enforceable enabling legislation places restrictions or when restrictions are externally imposed by citizens and/or public interest groups. Additionally, restricted net position is reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the government has other cause for reconsideration. 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 State's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for Governmental Funds, Proprietary Funds, Fiduciary Funds, and major Component Units. However, the Fiduciary Funds are not included in the Government-Wide financial statements. Major individual Governmental Funds and major individual Proprietary Funds are reported as separate columns in the fund financial statements.

**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 related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

*Governmental Funds Financial Statements* — The Governmental Funds 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 State considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include taxpayer-assessed tax revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. Other revenues which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits, and franchises.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

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

*Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements* — The financial statements of the Proprietary Funds, Fiduciary Funds, and Component Units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the Government-Wide financial statements described above. Agency Funds do not have a measurement focus and report only assets and liabilities.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Fund Accounting** — The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State 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 State that are reported in the accompanying fund financial statements have been classified into the following major and nonmajor Governmental and Proprietary Funds. In addition, a description of the Fiduciary Funds and Component Units are as follows:

*Governmental Fund Types* — The State reports the following major Governmental Funds:

- General Fund — This fund is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- Capital Projects Fund — This fund accounts for substantially all of the financial resources obtained and used for the acquisition or construction of the State's capital assets and facilities. Such resources are derived principally from proceeds of general obligation and revenue bond issues, federal grants, and transfers from the Special Revenue Funds.

- Med-Quest Special Revenue Fund — This fund accounts for the State's Medicaid program through which healthcare is provided to the low-income population. The Medicaid program is jointly financed by the State and the federal government.

The nonmajor Governmental Funds are comprised of the following:

- Special Revenue Funds — These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.

- Debt Service Fund — This fund accounts for the financial resources obtained and used for the payment of principal and interest on general and revenue long-term bond obligations. This fund also accounts for financial resources obtained and used to refund existing debt.

*Proprietary Fund Type — Enterprise Funds* — The major Enterprise Funds are comprised of the following:

- Department of Transportation — Airports Division ("Airports") — Airports operates the State's airports and air navigation facilities and is responsible for general supervision of aeronautics within the State.

- Department of Transportation — Harbors Division ("Harbors") — Harbors maintains and operates the State's commercial harbors system.

- Unemployment Compensation Fund — This fund accounts for the unemployment compensation benefits to qualified recipients.

The nonmajor Enterprise Funds are comprised of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), the Water Pollution Control Revolving Fund (WPCF), and the Drinking Water Treatment Revolving Loan Fund (DWTLF). The EUTF accounts for the benefits relating to active employees and beneficiaries, which includes medical, dental, and life insurance coverage. The WPCF accounts for loans to county agencies for the construction of wastewater treatment facilities. The DWTLF accounts for loans to county agencies for the construction of drinking water treatment facilities.

*Fiduciary Fund Types*

- Agency Funds — Agency Funds account for retiree healthcare benefits, which includes medical, dental, and life insurance coverage as well as, various taxes, deposits, and property held by the State, pending distribution to other governments and individuals.

- Other Post-Employment Benefit ("OPEB") Trust Fund - Accounts for plan assets and related expenses from the pre-funding contributions made by the State and counties. The OPEB Trust Fund meets the criteria for plans that are administered as trusts, or equivalent arrangements.

*Component Units* — Component Units are comprised of (1) the UH, which is comprised of the State's public institutions of higher education; (2) the HHFDC, which finances housing programs for residents of the State; (3) the HPHA, which manages state housing programs; (4) the HHSC, which was established to provide quality health care for all of the people of the State; (5) the HTA, which manages the State's convention center as well as markets the State's visitor industry; (6) the HCDA, which coordinates private and public community development for residents of the State; and (7) the HHRF, which funds, assesses, and provides, when necessary, hurricane property insurance to residents of the State.

**Cash and Cash Equivalents** — Cash and cash equivalents include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and time certificates of deposit. For purposes of the statement of cash flows, the State has defined cash equivalents to be all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

**Receivables and Payables** — Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the Government-Wide financial statements as internal balances.

All tax and other receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

**Investments** — Investments in U.S. government securities and time certificates of deposit are carried at fair value based on quoted market prices. Investments in repurchase agreements are carried at cost.

**Inventories** — Inventories of developments in progress and units available for sale are stated at the lower of cost or estimated net realizable value, with cost being determined by the specific-identification method. All estimated carrying costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Units available for sale include constructed units, developed lots, and repurchased units available for sale. Developments in progress include construction in progress and land held for future development.

Materials and supplies inventories are stated at the lower of cost or market, with cost being determined principally using the first-in, first-out method.

**Restricted Assets** — Revenue bond indentures authorize the State's trustees to invest monies in time certificates of deposit, money market funds, and investment securities, including U.S. government or agency obligations, certain municipal bonds, and repurchase agreements. Uninsured time certificates of deposit are required to be collateralized by investment securities of an equal or greater market value. The underlying securities for repurchase agreements are required to be U.S. government or agency obligations of an equal or greater market value held by the State's agent in the State's name.

**Capital Assets** — Capital assets, which include land and land improvements, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), buildings and improvements, and equipment, are reported in the applicable governmental and business-type activities columns, as well as the Component Units column, 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 fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed to the extent the State's capitalization thresholds are met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned, on the invested proceeds over the same period.

The State's capitalization thresholds are $5,000 for equipment, and $100,000 for land and land improvements, infrastructure, and buildings and improvements. 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, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities.

Capital assets of the Primary Government, as well as the Component Units, are depreciated or amortized using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Infrastructure | 12–50 years |
| Buildings and improvements | 15–30 years |
| Equipment | 5–7 years |

Works of art and historical treasures held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are capitalized. These items are protected, kept encumbered, conserved, and preserved by the State. It is the State's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

**Compensated Absences** — It is the State'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 in the Government-Wide, Proprietary Funds, and Component Units financial statements. A liability for these amounts is reported in the Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

**Long-Term Obligations** — In the Government-Wide financial statements, Proprietary Fund financial statements, and Component Unit financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, Proprietary Fund, or Component Units statement of net position. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, Governmental Funds recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Position and Fund Balance** — In the Government-Wide financial statements and Proprietary Funds and Component Units financial statements, net position is reported in three categories: net position invested in capital assets, net of related debt; restricted net position; and unrestricted net position. Restricted net position represents net position restricted by parties outside of the State (such as citizens, public interest groups, or the judiciary), or imposed by law through enabling legislation, and include unspent proceeds of bonds issued to acquire or construct capital assets.

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The State classifies fund balance based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54 ("GASB 54"), *Fund Balance Reporting and Governmental Fund Type Definitions*. Classifications include:

- *Restricted* — Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

- *Committed* — Balances 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. Committed amounts cannot be used for other than the specified purposes unless the Legislature changes the specified purpose.

- *Assigned* — Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed. In contrast to the restricted and committed balances, the authority for making an assignment is not required to be made by the State's Legislature.

- *Unassigned* — Residual balances that are not contained in the other classifications.

**Nonexchange Transactions** — The Enterprise Funds and Component Units recognize contributed capital as nonoperating revenues.

**Medicare and Medicaid Reimbursements** — Revenues from services reimbursed under Medicare and Medicaid programs are recorded at the estimated reimbursable amounts. Final determination of the amounts earned is subject to review by the fiscal intermediary or a peer review organization. The State has the opinion that adequate provision has been made for any adjustments that may result from such reviews.

**Risk Management** — The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first $1,000,000 per occurrence of property losses, the first $4,000,000 with respect to general liability claims, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $225,000,000, except for flood and earthquake, which individually is a $225,000,000 aggregate loss, and terrorism, which is $50,000,000 per occurrence. The annual aggregate limit for general liability losses is $15,000,000 per occurrence and for crime losses, the limit per occurrence is $10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of $35,000,000 per occurrence and $39,000,000 in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim 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.

**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 accompanying basic financial statements.

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

**Newly Issued Accounting Pronouncements**

GASB Statement No. 60 — The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which became effective for fiscal years beginning after December 15, 2011. This Statement improves financial reporting by addressing issues related to service concession arrangements. This Statement did not have a material effect on the State's financial statements.

GASB Statement No. 61 — The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, which became effective for fiscal years beginning after June 15, 2012. This Statement modifies certain requirements for inclusion of Component Units in the financial reporting entity. This Statement did not have a material effect on the State's financial statements.

GASB Statement No. 62 — The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which became effective for reporting periods beginning after December 15, 2011. The objective of this Statement is to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board ("FASB") and American Institute of Certified Public Accountants ("AICPA") pronouncements. This Statement did not have a material effect on the State's financial statements.

GASB Statement No. 63 — The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which became effective for financial statements for periods beginning after December 15, 2011. GASB Statement No. 63 provides financial statement presentation guidance for these elements; however, it does not identify any additional items that should be recognized within these element classifications. GASB Statement No. 63 only will apply to items that have been specifically identified by the GASB as deferred outflows of resources or deferred inflows of resources. This Statement did not have a material effect on the State's financial statements.

GASB Statement No. 65 — The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will become effective for financial statements for periods beginning after December 15, 2012. This Statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources or inflows of resources. The State is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 66 — The GASB issued Statement No. 66, *Technical Corrections — 2012 — an Amendment of GASB Statements No. 10 and No. 62*, which will become effective for financial statements for periods beginning after December 15, 2012. The objective of this Statement is to resolve conflicting accounting and financial reporting guidance between previously issued statements. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 67 — The GASB issued Statement No. 67 - *Financial Reporting for Pension plans; an Amendment of GASB Statement No. 25*, which will become effective for financial periods beginning after June 15, 2013. This statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trust or equivalent arrangements. The ERS, which is administered on behalf of public employees for both the State and county governments, is excluded from the State's reporting entity; therefore, the State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 68 — GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* which will become effective for financial statements for fiscal years beginning after June 15, 2014. This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement replaces the requirements of GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of GASB No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of GASB No. 27 and GASB No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The State is currently evaluating the impact that GASB No. 68 will have on its financial statements.

GASB Statement No. 69 – The GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which will become effective for financial statements for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 70 – The GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which will become effective for reporting periods beginning after June 15, 2013. This Statement establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees). The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 71 – The GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*, which should be applied simultaneously with the provisions of GASB No. 68. GASB No. 71 amends the requirement related to certain pension contributions made to defined benefit pension plans prior to implementation of GASB No. 68 by employers and nonemployer contributing entities. The State is currently evaluating the impact that this statement will have on its financial statements.

## 2. CASH AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Primary Government based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, auction rate securities, and repurchase agreements with federally-insured financial institutions.

**Cash** — The State maintains approximately 20 bank accounts for various purposes at locations throughout the State and the nation. Bank deposits are under the custody of the Director of Finance. For financial statement reporting purposes, cash and cash equivalents consist of cash, time certificates of deposit, and money market accounts. Cash and cash equivalents also include repurchase agreements and U.S. government securities with original maturities of three months or less.

The carrying amount of the State's unrestricted and restricted deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2013, was $1,319,112,000 and $912,333,000, respectively, for the Primary Government and unrestricted cash for the Fiduciary Funds as of June 30, 2013, was $531,461,000.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the Primary Government and Fiduciary Funds amounted to approximately $2,233,878,000 at June 30, 2013. Of that amount, approximately $2,223,778,000 represents bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State. Bank balances of $193,257,000 represent deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized and the Special Revenue Funds' and Proprietary Funds' cash in bank, which was uninsured and uncollateralized. The Special Revenue Funds' and Proprietary Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

**Investments** — The State holds investments both for its own benefit and as an agent for other parties.

Further, the State pools all excess funds into an investment pool that is administered by the State Department of Budget and Finance. The pool's investment options are limited to investments listed in the Hawaii Revised Statutes. As of June 30, 2013, the State had material investments in repurchase agreements.

According to the Department of Budget and Finance, the repurchase agreement investment contracts are valued on the cost basis.

At the end of each year the Department of Budget and Finance ("Budget and Finance") allocates the investment pool amount to each of the participants including those participants who are part of the Proprietary Fund and Fiduciary Fund. The allocation is based on the average monthly investment balance of each participant in the investment pool.

The following tables present the State's investments and maturities at June 30, 2013 (amounts expressed in thousands).

| | | Maturity (in Years) | | |
|---|---|---|---|---|
| | Fair Value | Less than 1 | 1–5 | >5 |
| Investments — Primary Government: | | | | |
| Certificates of deposit | $ 976,243 | $ 878,619 | $ 97,624 | $ - |
| U.S. government securities | 1,092,462 | 567,854 | 320,667 | 203,941 |
| Repurchase agreements | 255,683 | 219,887 | 35,796 | - |
| | $ 2,324,388 | $ 1,666,360 | $ 454,087 | $ 203,941 |
| Investments — Fiduciary Funds: | | | | |
| Certificates of deposit | $ 166,308 | $ 149,677 | $ 16,631 | $ - |
| U.S. government securities | 186,106 | 99,614 | 50,716 | 35,776 |
| Repurchase agreements | 43,557 | 37,459 | 6,098 | - |
| | $ 395,971 | $ 286,750 | $ 73,445 | $ 35,776 |

*Interest Rate Risk* — As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

*Credit Risk* — The State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds maintaining a Triple-A rating.

*Custodial Risk* — For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms, which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping, certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

*Concentration of Credit Risk* — The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

## 3. CAPITAL ASSETS

For the fiscal year ended June 30, 2013, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

| | Governmental Activities | | | |
|---|---|---|---|---|
| | Balance — July 1, 2012 | Additions | Deductions | Balance — June 30, 2013 |
| Capital assets not being depreciated: | | | | |
| Land and land improvements | $ 2,207,145 | $ 25,443 | $ - | $ 2,232,588 |
| Construction in progress | 707,883 | 386,038 | (229,205) | 864,716 |
| Total capital assets not being depreciated | 2,915,028 | 411,481 | (229,205) | 3,097,304 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 8,915,933 | 130,673 | - | 9,046,606 |
| Buildings and improvements | 3,919,334 | 145,886 | (274) | 4,064,946 |
| Equipment | 385,967 | 29,019 | (10,320) | 404,666 |
| Total capital assets being depreciated | 13,221,234 | 305,578 | (10,594) | 13,516,218 |
| Less accumulated depreciation: | | | | |
| Infrastructure | (4,918,285) | (225,882) | - | (5,144,167) |
| Buildings and improvements | (2,071,343) | (140,626) | - | (2,211,969) |
| Equipment | (313,285) | (22,199) | 7,427 | (328,057) |
| Total accumulated depreciation | (7,302,913) | (388,707) | 7,427 | (7,684,193) |
| Total capital assets | $ 8,833,349 | $ 328,352 | $ (232,372) | $ 8,929,329 |

| | Business-Type Activities | | | |
|---|---|---|---|---|
| | Balance — July 1, 2012 | Additions | Deductions | Balance — June 30, 2013 |
| Capital assets not being depreciated: | | | | |
| Land and land improvements | $ 585,215 | $ 20,700 | $ - | $ 605,915 |
| Construction in progress | 394,123 | 150,106 | (128,667) | 415,562 |
| Total capital assets not being depreciated | 979,338 | 170,806 | (128,667) | 1,021,477 |
| Capital assets being depreciated: | | | | |
| Land and improvements | 1,175,429 | 13,024 | - | 1,188,453 |
| Buildings and improvements | 2,074,723 | 57,819 | (10) | 2,132,532 |
| Equipment | 254,958 | 59,358 | (1,396) | 312,920 |
| Total capital assets being depreciated | 3,505,110 | 130,201 | (1,406) | 3,633,905 |
| Less accumulated depreciation: | | | | |
| Land and improvements | (749,174) | (33,982) | - | (783,156) |
| Buildings and improvements | (1,082,382) | (56,905) | - | (1,139,287) |
| Equipment | (179,695) | (25,427) | 5,262 | (199,860) |
| Total accumulated depreciation | (2,011,251) | (116,314) | 5,262 | (2,122,303) |
| Total capital assets | $ 2,473,197 | $ 184,693 | $ (124,811) | $ 2,533,079 |

Depreciation expense for the fiscal year ended June 30, 2013, was charged to functions/programs of the Primary Government as follows (amounts expressed in thousands):

| | |
|---|---|
| Governmental activities: | |
| Highways | $209,650 |
| Lower education | 69,893 |
| General government | 33,223 |
| Urban redevelopment and housing | 22,620 |
| Public safety | 19,503 |
| Conservation of natural resources | 10,170 |
| Health | 7,907 |
| Economic development and assistance | 4,446 |
| Welfare | 2,369 |
| Culture and recreation | 8,926 |
| Total depreciation expense — governmental activities | $388,707 |
| Business-type activities: | |
| Airports | $ 92,231 |
| Harbors | 22,614 |
| EUTF | 1,375 |
| DWTLF | 10 |
| WPCF | 84 |
| Total depreciation expense — business-type activities | $116,314 |

## 4. GENERAL OBLIGATION BONDS PAYABLE

The State issues general obligation bonds primarily to provide for the acquisition and construction of major capital facilities. Although certain general obligation debt are being retired from the resources of the Proprietary Funds — Airports and Harbors and are recorded in those funds, all general obligation bonds are backed solely by the full faith and credit of the State.

All issues, except Series CH, issued November 1, 1993; Series CM, issued December 1, 1996; Series CY, issued February 15, 2002; Series DL and DM, issued May 20, 2008; Series DO and DP, issued December 16, 2008; Series DR, issued June 23, 2009; Series DT and DW, issued November 24, 2009, Series DY, issued February 18, 2010, and Series EC and ED, issued December 7, 2011, contain call provisions. Stated interest rates range from 0.2% to 6.5%.

On December 4, 2012, the State issued $444,000,000 of general obligation bonds, $396,990,000 of general obligation refunding bonds, and $26,000,000 of taxable general obligation bonds of 2012, Series EE, EF, and EG, respectively. The bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method. Within the newly issued Series EE, EF, and EG, the bonds that mature on or after November 1, 2023 are subject to optional redemption.

Refunding Series EF has an interest rate of 5.0% and was used to advance refund $435,065,000 of certain general obligation bonds previously issued. The net proceeds of $502,244,000 (including a premium of $106,382,000 and after payment of $1,128,000 in underwriting fees and other issuance costs) related to the issuance of Series EF were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding general obligation bonds series DD, DE, DF, DI, DJ, DK, and DQ. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. Due to the advanced refunding, the State decreased its total debt service payments over the next 12 years by $54,861,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $58,967,000.

The State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust, to provide for all future debt service payments on the refunding bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's basic financial statements. At June 30, 2013, $828,420,000 of bonds outstanding is considered defeased. At June 30, 2013, the general obligation bonds consisted of the following (amounts expressed in thousands):

| | |
|---|---|
| Callable | $ 4,566,320 |
| Noncallable | 1,001,535 |
| Total general obligation bonds outstanding | 5,567,855 |
| Less amount recorded as a liability of — Proprietary Funds — Harbors | (32,934) |
| Amount recorded in the governmental activities of the Primary Government | $ 5,534,921 |

A summary of general obligation bonds outstanding by series as of June 30, 2013, is as follows (amounts expressed in thousands):

| Series | Date of Issue | Interest Rates | Maturity Dates | Original Amount | Amount Outstanding |
|---|---|---|---|---|---|
| CH | November 1, 1993 | 4.750% | November 1, 2013 | $ 250,000 | $ 13,885 |
| CM | December 1, 1996 | 6.500% | December 1, 2013–2016 | 150,000 | 33,320 |
| CW | August 1, 2001 | 4.500% | August 1, 2013 | 156,750 | 1,220 |
| CY | February 15, 2002 | 5.750% | February 1, 2014–2015 | 319,290 | 84,685 |
| CZ | November 26, 2002 | 3.750% | July 1, 2013 | 300,000 | 1,945 |
| DA | September 16, 2003 | 4.000%–5.250% | September 1, 2013–2023 | 225,000 | 89,580 |
| DB | September 16, 2003 | 4.000%–5.250% | September 1, 2013–2016 | 188,650 | 85,765 |
| DD | May 13, 2004 | 4.000%–5.250% | May 1, 2014–2016 | 225,000 | 30,635 |
| DE | November 10, 2004 | 3.375%–5.000% | October 1, 2013–2015 | 225,000 | 36,350 |
| DF | June 15, 2005 | 3.500%–5.000% | July 1, 2013–2025 | 225,000 | 71,115 |
| DG | June 15, 2005 | 5.000% | July 1, 2013–2017 | 722,575 | 441,085 |
| DI | March 23, 2006 | 3.900%–5.000% | March 1, 2014–2026 | 350,000 | 90,340 |
| DJ | April 12, 2007 | 3.700%–5.000% | April 1, 2014–2027 | 350,000 | 236,370 |
| DK | May 20, 2008 | 3.750%–5.000% | May 1, 2014–2028 | 375,000 | 337,570 |
| DL | May 20, 2008 | 3.250%–5.000% | May 1, 2014–2018 | 29,010 | 21,405 |
| DM | May 20, 2008 | 4.670% | May 1, 2014 | 25,000 | 4,590 |
| DN | December 16, 2008 | 3.500%–5.500% | August 1, 2013-2028 | 100,000 | 96,115 |
| DO | December 16, 2008 | 3.250%–5.000% | August 1, 2013-2018 | 101,825 | 79,420 |
| DP | December 16, 2008 | 4.650%–5.680% | August 1, 2013-2016 | 26,000 | 18,155 |
| DQ | June 23, 2009 | 3.600%–5.000% | June 1, 2014-2029 | 500,000 | 445,785 |
| DR | June 23, 2009 | 3.000%–5.000% | June 1, 2014-2019 | 225,410 | 203,910 |
| DS | November 5, 2009 | 0.200%–1.450% | September 15, 2014-2024 | 32,000 | 32,000 |
| DT | November 24, 2009 | 2.250%–5.000% | November 1, 2014-2019 | 204,140 | 204,140 |
| DW | November 24, 2009 | 2.250%–5.000% | November 1, 2013 | 36,425 | 36,425 |
| DX | February 18, 2010 | 3.000%–5.530% | February 1, 2015-2030 | 500,000 | 500,000 |
| DY | February 18, 2010 | 3.000%–5.000% | February 1, 2015-2020 | 221,625 | 221,625 |
| DZ | December 7, 2011 | 3.500%–5.000% | December 1, 2016- 2031 | 800,000 | 800,000 |
| EA | December 7, 2011 | 2.000%- 5.000% | December 1, 2016- 2023 | 403,455 | 403,455 |
| EC | December 7, 2011 | 2.000%- 5.000% | December 1, 2013 | 56,225 | 56,225 |
| ED | December 7, 2011 | 2.000%- 5.000% | December 1, 2015 | 23,750 | 23,750 |
| EE | December 4, 2012 | 1.000%- 5.000% | November 1, 2017-2032 | 444,000 | 444,000 |
| EF | December 4, 2012 | 5.000% | November 1, 2017- 2024 | 396,990 | 396,990 |
| EG | December 4, 2012 | 1.000%- 3.625% | November 1, 2017-2032 | 26,000 | 26,000 |
| | | | | | $ 5,567,855 |

The general obligation bonds outstanding financed the Hawaiian Homes Lands Trust settlement and the acquisition, construction, extension, or improvement of various public improvement projects, including public buildings and facilities, public schools, community college and university facilities, public libraries and parks, and for other public purposes.

A summary of the bond premium activities for fiscal year 2013 is as follows (amounts expressed in thousands):

| | |
|---|---|
| Balance — July 1, 2012 | $ 344,857 |
| GO Bond Series EE, EF, and EG | 199,858 |
| Defeased Bond Series DD, DE, DF, DI, DJ, DK, and DQ | (17,196) |
| Current-year amortization | (49,234) |
| Balance — June 30, 2013 | $ 478,285 |

A summary of debt service requirements to maturity on the governmental activities' general obligation bonds is as follows (amounts expressed in thousands):

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 430,556 | $ 259,654 | $ 690,210 |
| 2015 | 412,116 | 241,282 | 653,398 |
| 2016 | 406,473 | 220,708 | 627,181 |
| 2017 | 426,177 | 200,983 | 627,160 |
| 2018 | 407,573 | 179,757 | 587,330 |
| 2019–2023 | 1,592,401 | 652,856 | 2,245,257 |
| 2024–2028 | 1,274,654 | 303,166 | 1,577,820 |
| 2029–2032 | 584,971 | 54,441 | 639,412 |
| | $ 5,534,921 | $ 2,112,847 | $ 7,647,768 |

A summary of debt service requirements to maturity on the business-type activities' general obligation bonds are as follows (amounts expressed in thousands):

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 1,758 | $ 1,623 | $ 3,381 |
| 2015 | 1,844 | 1,537 | 3,381 |
| 2016 | 1,932 | 1,449 | 3,381 |
| 2017 | 2,023 | 1,358 | 3,381 |
| 2018 | 2,122 | 1,258 | 3,380 |
| 2019–2023 | 12,289 | 4,615 | 16,904 |
| 2024–2028 | 10,966 | 1,350 | 12,316 |
| | $ 32,934 | $ 13,190 | $ 46,124 |

The State Constitution limits the amount of general obligation bonds, which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit on the aforementioned issues. The legal debt margin at June 30, 2013, was $353,351,000.

At June 30, 2013, general obligation bonds authorized but unissued were approximately $1,903,968,000.

## 5. REVENUE BONDS PAYABLE

**Governmental Activities** — Revenue Bonds are payable from and collateralized by the Department's revenues generated from certain capital improvement projects. On December 15, 2011, Highways issued $112,270,000 in State of Hawaii Highway Revenue Bonds of 2011, Series A, with interest rates ranging from 1.0% to 5.0% to finance certain highway capital improvement projects and related projects. The bonds are payable annually January 1 through 2032.

On December 15, 2011, Highways issued $5,095,000 in State of Hawaii Highway Revenue Bonds of 2011, Series B, with an interest rate of 4.0% to advance refund $5,400,000 of certain outstanding highway revenue bonds previously issued. The bond is payable on January 1, 2023.

On April 2, 2009, the State of Hawaii Department of Hawaiian Homelands (DHHL) issued $42,500,000 in Revenue Bonds, Series 2009, with interest rates ranging from 4% to 6% to finance the construction of certain DHHL capital improvement projects. The bonds are payable annually on April 1 through 2039.

On December 17, 2008, Highways issued $125,175,000 in State of Hawaii Highway Revenue Bonds, Series 2008, with interest rates ranging from 4.75% to 6.00% to finance certain highway capital improvement projects and related projects. The bonds are payable annually on January 1 through 2029.

On March 15, 2005, Highways issued $60,000,000 in State of Hawaii Highway Revenue Bonds of 2005, Series A, with interest rates ranging from 3.5% to 5.0% to finance certain highway capital improvement projects and related projects. The bonds are payable annually on July 1 through 2025.

On March 15, 2005, Highways issued $123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates ranging from 3.50% to 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable annually on July 1 through 2021.

On April 15, 2003, Highways issued $44,940,000 in State of Hawaii Highway Revenue Bonds, Series of 2003, with interest rates ranging from 4.00% to 5.25% to advance refund $45,350,000 of outstanding State of Hawaii Highway Revenue Bonds, Series of 1993, with an average interest rate of 4.42%. The State made its last bond payment for this series on July 1, 2013.

On July 1, 1998, Highways issued State of Hawaii Highway Revenue Bonds, Series of 1998, in the principal amount of $94,920,000. Bond proceeds related to this issue amounted to $97,542,000, of which $71,921,000 was used to finance certain highway improvements and other related projects for the state highways system, and $25,621,000 was used to advance refund certain outstanding highway revenue bonds. The difference in the principal amount and proceeds relates to bond premium and accrued interest. The bonds bear interest at rates of 5.5% and mature on July 1, 2017 and July 1, 2018.

The bonds are payable solely from and collateralized by the revenues, consisting primarily of highway fuel taxes, vehicle registration fees, vehicle weight taxes, and rental motor vehicle and tour vehicle surcharge taxes.

In addition to the proceeds from the State of Hawaii Highway Revenue Bonds of 2005, Series B; the proceeds of the State of Hawaii Highway Revenue Bond of 2011, Series B, State of Hawaii Highway Revenue Bonds, Series of 2003; and a portion of the proceeds of the State of Hawaii Highway Revenue

Bonds, Series of 1998 (see above); were placed in irrevocable trusts and used to purchase securities of the U.S. government to meet the debt service requirements of the refunded bonds.

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as DHHL and Highways defeased their obligations for payment of those bonds upon completion of those refunding transactions.

The following is a summary of Highways and DHHL revenue bonds issued and outstanding at June 30, 2013 (amounts expressed in thousands):

| Series | Date of Issue | Interest Rates | Maturity Dates | Original Amount of Issue | Outstanding Amount |
|---|---|---|---|---|---|
| Highways: | | | | | |
| 1998 | July 1, 1998 | 5.500 % | July 1, 2017–July 1, 2018 | $ 94,920 | $ 27,580 |
| 2003 | April 15, 2003 | 4.00%–5.25% | July 1, 2013 | 44,940 | 5,360 |
| 2005 A | March 15, 2005 | 3.50%–5.00% | July 1, 2013–2025 | 60,000 | 44,200 |
| 2005 B | March 15, 2005 | 3.50%–5.25% | July 1, 2013–2021 | 123,915 | 101,430 |
| 2008 | December 17, 2008 | 4.75%–6.00% | January 1, 2014–2029 | 125,175 | 109,090 |
| 2011 A | December 15, 2011 | 1.00%-5.00% | January 1, 2014–2032 | 112,270 | 108,580 |
| 2011 B | December 15, 2011 | 4.00% | January 1, 2023 | 5,095 | 5,095 |
| DHHL: | | | | | |
| 2009 | April 2, 2009 | 4.00%–6.00% | April 1, 2014–2039 | 42,500 | 39,815 |
| | | | | | $ 441,150 |

A summary of the revenue bond premium activities for fiscal year 2013 is as follows (amounts expressed in thousands):

| | Revenue Bonds |
|---|---|
| Balance — July 1, 2012 | $ 20,770 |
| Current-year additions | - |
| Current-year amortization | (2,753) |
| Balance — June 30, 2013 | $ 18,017 |

Debt service requirements to maturity on revenue bonds are aggregated below (amounts expressed in thousands):

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 28,425 | $ 21,928 | $ 50,353 |
| 2015 | 29,945 | 20,609 | 50,554 |
| 2016 | 31,390 | 19,148 | 50,538 |
| 2017 | 32,925 | 17,593 | 50,518 |
| 2018 | 34,530 | 15,922 | 50,452 |
| 2019–2023 | 123,095 | 58,114 | 181,209 |
| 2024–2028 | 94,440 | 32,770 | 127,210 |
| 2029–2033 | 51,590 | 10,831 | 62,421 |
| 2034–2038 | 11,970 | 3,087 | 15,057 |
| 2039 | 2,840 | 170 | 3,010 |
| | $ 441,150 | $ 200,172 | $ 641,322 |

**Business-Type Activities** — Revenue bonds are backed by a pledge of resources derived from users of the related facilities and are not supported by the full faith and credit of the State.

*Airports System Revenue Bonds* — The Airports system revenue bonds are payable solely from and collateralized by airport revenues, which include all aviation fuel taxes levied. The Airports system revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from 102% to 100% of principal.

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2013 (amounts expressed in thousands):

| Series | Interest Rates | Final Maturity Date (July 1) | Original Amount of Issue | Outstanding Amount |
|---|---|---|---|---|
| 2010A, refunding | 2.00%–5.25% | 2039 | $ 478,980 | $ 478,395 |
| 2010B, refunding | 3.00%–5.00% | 2020 | 166,000 | 150,750 |
| 2011, refunding | 2.00%-5.00% | 2024 | 300,885 | 288,885 |
| | | | $ 945,865 | 918,030 |
| Add unamortized premium | | | | 23,672 |
| Less: | | | | |
| Deferred loss on refunding | | | | (6,207) |
| Current portion | | | | (40,305) |
| Noncurrent portion | | | | $ 895,190 |

*Airports Special Facility Revenue Bonds* — Airports entered into three special facility lease agreements with Continental Airlines, Inc. (“Continental”) in November 1997 and July 2000, and Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. (“Sky Chefs”) effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $25,255,000, $16,600,000, and $6,600,000, respectively. Those bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities. These bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to $30,100 at June 30, 2013.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2013.

**$25,255,000 Issue**

The bonds bear interest at 5.625% and are subject to redemption at the option of Airports, upon the request of Continental, at prices ranging from 101% to 100%, depending on the dates of redemption, or at 100%, plus interest if the facilities are destroyed or damaged extensively.

Interest-only payments are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due.

**$16,600,000 Issue**

On July 15, 2000, Airports issued $16,600,000 of term special facility bonds (Continental), Refunding Series of 2000, with an interest rate of 7.00%, due June 1, 2020, to, in part; refund $18,225,000 of its outstanding Series of 1990 bonds (Continental). The bonds are subject to redemption on or after June 1, 2010, at the option of Airports, upon the request of Continental or, if the facilities are destroyed or damaged extensively, at 100% of principal, plus interest.

Special facility revenue bonds payable at June 30, 2013, consisted of the following (amounts expressed in thousands):

| | Continental | | Total |
|---|---|---|---|
| Current portion | $ 970 | $ - | $ 970 |
| Noncurrent portion | 7,405 | 21,725 | 29,130 |
| | $ 8,375 | $ 21,725 | $ 30,100 |

The special facility leases are accounted for and recorded as direct financing leases. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as a restricted asset, and the special facility revenue bonds outstanding are recorded as a liability in the accompanying basic financial statements.

*Harbors Revenue Bonds* — The Harbors revenue bonds are collateralized by a charge and lien on the gross revenues of the commercial harbors system and upon all improvements and betterments thereto, and all funds and securities created in whole or in part from revenues or from the proceeds of any bonds issued. The Harbors revenue bonds are subject to redemption at the option of the DOT and the State during specific years at prices at 100% of face value.

The following is a summary of the Harbors revenue bonds as of June 30, 2013 (amounts expressed in thousands):

| | | | | Current | | | |
|---|---|---|---|---|---|---|---|
| Year of Issue | Final Redemption Date | Interest Rates | Original Amount of Issue | Principal Due July 1, 2013 | Due January 1, 2014 | Total | Noncurrent |
| 2000 | July 1, 2029 | 5.75% | $ 79,405 | $ - | $ - | $ - | $ 14,670 |
| 2002 | July 1, 2019 | 3.00%–5.50% | 24,420 | 610 | - | 610 | 8,795 |
| 2004 | January 1, 2024 | 2.50%–6.00% | 52,030 | - | 1,430 | 1,430 | 19,280 |
| 2006 | January 1, 2031 | 4.00%–5.25% | 96,570 | - | 2,780 | 2,780 | 77,640 |
| 2007 | July 1, 2027 | 4.25%–5.50% | 51,645 | 4,475 | - | 4,475 | 37,920 |
| 2010 | July 1, 2040 | 3.00%–5.75% | 201,390 | 3,360 | - | 3,360 | 192,935 |
| | | | $ 505,460 | 8,445 | 4,210 | 12,655 | 351,240 |
| Add: unamortized premium | | | | - | - | - | 1,022 |
| Less: | | | | | | | |
| Unamortized discount | | | | - | - | - | (14) |
| Unamortized deferred loss on refunding | | | | - | - | - | (4,254) |
| | | | | $ 8,445 | $ 4,210 | $ 12,655 | $ 347,994 |

On August 2, 2013, the Harbors Division issued 23,614,000 Series A of 2013 revenue refunding bonds through a private placement transaction with Capital One Public Funding LLC. These bonds refunded the Series A of 2000 and Series B of 2002 revenue bonds. This bond refunding provided net present value savings of approximately $3,940,000 million as measured from the closing date at a fixed coupon rate of 3.25%.

Debt service requirements to maturity on the business-type activities' revenue bonds for fiscal years ending June 30 are aggregated below (amounts expressed in thousands):

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 47,835 | $ 63,716 | $ 111,551 |
| 2015 | 50,045 | 61,494 | 111,539 |
| 2016 | 52,360 | 59,200 | 111,560 |
| 2017 | 54,780 | 56,765 | 111,545 |
| 2018 | 57,450 | 54,125 | 111,575 |
| 2019–2023 | 327,665 | 225,486 | 553,151 |
| 2024–2028 | 231,595 | 149,957 | 381,552 |
| 2029–2033 | 179,255 | 96,329 | 275,584 |
| 2034–2038 | 202,150 | 49,189 | 251,339 |
| 2039–2041 | 68,585 | 4,591 | 73,176 |
| | $ 1,271,720 | $ 820,852 | $ 2,092,572 |

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not present principal payments due on July 1, 2013 and January 1, 2014 of $52,960,000 and interest payments due on July 1, 2013 of $31,843,000.

**Revenue Bonds Authorized, but Unissued** — At June 30, 2013, revenue bonds authorized, but unissued were approximately $4,933,099,000.

**Special Purpose Revenue Bonds** — HRS Chapter 39A authorizes the State (with legislative approval) to issue special purpose revenue bonds. Proceeds from those bonds are loaned to certain enterprises for projects deemed to be in the public interest. The bonds are not general obligations of the State and are payable solely from monies received by the State under project agreements with the recipients of the bond proceeds. Accordingly, the State has not included those bonds in its basic financial statements. Bonds outstanding at June 30, 2013, amounted to approximately $1,328,058,000. At June 30, 2013, special purpose revenue bonds of $1,236,750,000 were authorized, but unissued.

**Improvement District Bonds** — The HCDA is authorized to issue improvement district bonds under HRS Chapter 206E. Proceeds from the bond issues are utilized to finance the redevelopment of districts designated by the State Legislature. The bonds are not general obligations of the State and are payable solely by assessment liens on the real property of the designated district. Accordingly, the State has not included those bonds in its basic financial statements. There were no bonds outstanding as of June 30, 2013.

## 6. CHANGES IN LONG-TERM LIABILITIES

Changes in the long-term liabilities for the Primary Government (governmental activities and business-type activities) were as follows (amounts expressed in thousands):

| | Governmental Activities | | | | |
|---|---|---|---|---|---|
| | Balance — July 1, 2012 | Additions | Deductions | Balance — June 30, 2013 | Due Within One Year |
| General obligation bonds payable — net | $ 5,475,348 | $ 866,990 | $ (807,417) | $ 5,534,921 | $ 430,556 |
| Accrued vacation payable | 212,783 | 91,495 | (83,505) | 220,773 | 63,290 |
| Revenue bonds payable | 468,180 | - | (27,030) | 441,150 | 28,425 |
| Reserve for losses and loss adjustment costs | 169,900 | 25,111 | (39,873) | 155,138 | 39,493 |
| Other postemployment benefits liability | 2,530,970 | 736,968 | (201,486) | 3,066,452 | - |
| Capital lease obligations | 95,340 | - | (5,461) | 89,879 | 6,092 |
| Total | $ 8,952,521 | $ 1,720,564 | $ (1,164,772) | $ 9,508,313 | $ 567,856 |

| | Business-Type Activities | | | | |
|---|---|---|---|---|---|
| | Balance — July 1, 2012 | Additions | Deductions | Balance — June 30, 2013 | Due Within One Year |
| General obligation bonds payable — net | $ 34,611 | $ - | $ (1,677) | $ 32,934 | $ 1,758 |
| Accrued vacation and retirement benefits payable | 12,316 | 5,588 | (5,425) | 12,479 | 3,753 |
| Revenue bonds payable | 1,370,314 | 1,350 | (45,552) | 1,326,112 | 53,798 |
| Reserve for losses and loss adjustment costs | 4,903 | 1,114 | (1,202) | 4,815 | 1,003 |
| Other postemployment benefits liability | 47,568 | 23,709 | (2,853) | 68,424 | - |
| Prepaid airport use charge fund | 48,117 | 126 | (7,446) | 40,797 | 2,865 |
| | $ 1,517,829 | $ 31,887 | $ (64,155) | $ 1,485,561 | $ 63,177 |

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's Governmental Funds. Approximately 79%, 20%, and 1% of the accrued vacation liability has been paid by the General Fund, Special Revenue Funds, and Capital Projects Fund, respectively, during the fiscal year ended June 30, 2013.

## 7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2013 (amounts expressed in thousands):

| | Due From | Due To |
|---|---|---|
| Governmental Funds: | | |
| General Fund: | | |
| Special Revenue Funds | $ 20,348 | $ - |
| Capital Projects Fund | 89,900 | - |
| Med-Quest Special Revenue Fund | 10,500 | - |
| Debt Service Fund | - | 63 |
| | 120,748 | 63 |
| Capital Projects Fund: | | |
| General Fund | - | 89,900 |
| Special Revenue Funds | - | - |
| Proprietary Fund | 1,597 | - |
| | 1,597 | 89,900 |
| Med-Quest Special Revenue Fund — | | |
| General Fund | - | 10,500 |
| Nonmajor Governmental Funds: | | |
| General Fund | 63 | 20,348 |
| Capital Projects Fund | - | - |
| | 63 | 20,348 |
| Proprietary Fund — | | |
| Harbors | - | 1,597 |
| | $ 122,408 | $ 122,408 |

The due from Capital Projects Fund in the General Fund consists primarily of funds transferred prior to the issuance of bonds. Remaining interfund balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.

## 8. TRANSFERS

Transfers between funds occur when a fund receiving revenues, transfers resources to a fund where the resources are to be expended, or when nonrecurring or nonroutine transfers between funds occur. For the fiscal year ended June 30, 2013, transfers by fund were as follows (amounts expressed in thousands):

| | Transfers In | Transfers Out |
|---|---|---|
| Governmental Funds: | | |
| General Fund — Nonmajor Governmental Funds | $ 77,451 | $ 696,818 |
| Capital Projects Fund — Nonmajor Governmental Funds | 129,953 | 32,049 |
| Med-Quest Special Revenue Fund | | |
| General Fund | 3,556 | 28,396 |
| Nonmajor Governmental Funds | 4,800 | 3,365 |
| | 8,356 | 31,761 |
| Nonmajor Governmental Funds: | | |
| General Fund | 694,056 | 49,849 |
| Capital Projects Fund | 32,049 | 129,953 |
| Medquest Fund | 3,365 | 4,800 |
| Other Nonmajor Governmental Funds | 88,687 | 88,687 |
| | 818,157 | 273,289 |
| | $ 1,033,917 | $ 1,033,917 |

The General Fund transferred approximately $631,224,000 to the Nonmajor Governmental Funds for debt service payments and approximately $62,832,000 to subsidize various Special Revenue Funds programs. Approximately $129,953,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.

## 9. LEASES

### Lease Commitments

**Governmental Activities** — The State leases office facilities and equipment under various operating leases expiring through fiscal year 2038. Future minimum lease commitments for noncancelable operating leases as of June 30, 2013, were as follows (amounts expressed in thousands):

| Fiscal Year | |
|---|---|
| 2014 | $ 15,692 |
| 2015 | 12,808 |
| 2016 | 10,003 |
| 2017 | 6,873 |
| 2018 | 3,918 |
| 2019–2023 | 7,849 |
| 2024-2028 | 1,889 |
| 2029-2033 | 1,810 |
| 2034-2038 | 1,757 |
| Total future minimum lease payments | $ 62,599 |

Rent expenditures for operating leases for the fiscal year ended June 30, 2013, amounted to approximately $36,302,000.

On April 14, 2011, an equipment lease purchase agreement between the Department of Public Safety of the State of Hawaii and Capital One Public Funding, LLC was entered into, to fund the acquisition and installation of energy conservation equipment at the Halawa Correctional Facility and Oahu Community Correctional Center. An escrow agent to provide for future vendor payments as requested by the State deposited the proceeds of $25,512,000 in an escrow fund. Payments commenced on May 1, 2012 and continue through November 1, 2030 at an interest rate of 5.021%.

An equipment lease purchase agreement between the Department of Accounting and General Services of the State of Hawaii and Capital One Public Funding, LLC was entered into on September 3, 2009, to fund the acquisition and installation of energy conservation equipment at various State buildings in the downtown Honolulu district. The proceeds of $12,377,000 were deposited in an escrow fund by an escrow agent to provide for future vendor payments as requested by the State. Payments commenced on June 1, 2010 and continue through June 1, 2026 at an interest rate of 5.389%.

The State issued $41,120,000 in Certificates of Participation (“COPS” or “Certificates”) 2009 Series A, on November 5, 2009, to fully refund $47,185,000 of the 1998 Series A Certificates and the 2000 Series A Certificates which proceeds were used to purchase the Kapolei State Office Building and the Capitol District Building. The net proceeds of $43,490,000 (including a premium of $2,876,000 and after payment of $503,000 in underwriting fees) were deposited to the Depository Trust Company in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding COPs. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. Due to the advance refunding, the State reduced its total debt service payments over the next 10 years by $7,487,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $7,061,000. Payments commence on May 1, 2010, and continue through May 1, 2020 with interest rates ranging from 2.0%–5.0%. The 2009 Series A Certificates are subject to prepayment prior to their maturity dates in the event of a casualty loss or governmental taking of all or a portion of the premises subject to the Leases, but are not otherwise subject to prepayment prior to maturity.

In November 2006, the State issued $24,500,000 in COPS to finance the construction of the Kapolei Office and Conference Facility. The proceeds of the COPS were remitted to a trustee, who will then remit the amounts to the developer as construction progresses. The holders of the COPS are the current owners of the Kapolei Office and Conference Facility. Accordingly, the State's rental payments for the use of the Kapolei Office and Conference Facility are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2007, and continue through November 1, 2031, with interest rates ranging from 3.63% to 5.00%. Title to the Kapolei Office and Conference Facility will transfer to the State upon the payment of all required rents.

Future minimum lease payments for these capital leases are as follows (amounts expressed in thousands):

| Fiscal Year | |
|---|---|
| 2014 | $10,271 |
| 2015 | 10,563 |
| 2016 | 10,901 |
| 2017 | 11,032 |
| 2018 | 11,434 |
| 2019–2023 | 32,083 |
| 2024–2028 | 26,668 |
| 2029–2032 | 14,770 |
| Total future minimum lease payments | 127,722 |
| Less amount representing interest | (37,843) |
| Present value of net minimum lease payments | 89,879 |
| Less current portion | (6,092) |
| Noncurrent portion | $83,787 |

Capital assets acquired under these capital lease are as follows (amounts expressed in thousands):

| | |
|---|---|
| Asset type: | |
| Buildings and improvements | $ 64,385 |
| Equipment | 37,889 |
| Total assets | $ 102,274 |

**Lease Rentals**

*Airports — Airport-Airline Lease Agreement*

Airports and the airline companies serving the Airports system ("signatory airlines") operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992. Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the Airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the "lease extension agreement"). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement effective January 1, 2008.

Under the first amended lease extension agreement, the Airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airport system facilities from the signatory airlines that directly use them. The Airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an Airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

*Airports — Prepaid Airport Use Charge Fund*

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). Net excess payments for fiscal years 1996 through 2012 have been transferred to the PAUCF.

*Airports — Aviation Fuel Tax*

In May 1996, the Department of Taxation issued a tax information release, which stated that effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The aviation fuel tax amounted to approximately $4,674,000 for fiscal year 2013.

*Airports — System Rates and Charges*

Signatory and nonsignatory airlines were assessed the following rates and charges:

- Landing fees amounted to approximately $63,800,000 for fiscal year 2013. Airport landing fees are shown net of aviation fuel tax credits of $3,926,000 for fiscal year 2013, on the statement of revenues, expenses, and changes in net position, which resulted in net airport landing fees of $59,874,000 for fiscal year 2013. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports interisland landing fees for signatory airlines are set at 41.0% of the Airports landing fees for overseas flights for 2013 and are scheduled to increase 1.0% annually until it reaches 100%.

- Nonexclusive joint-use premise charges for terminal rentals amounted to approximately $54,838,000 for fiscal year 2013. Overseas and interisland joint-use premise charges were established to recover Airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates, and are recovered based on a computed rate per revenue passenger landing.

- Exclusive use premise charges amounted to approximately $48,521,000 for fiscal year 2013, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to approximately $29,323,000 for fiscal year 2013.

- Airports system support charges amounted to approximately $1,000 for fiscal year 2013. The charges were established to recover residual costs of the Airports system and are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports system interisland support charges for nonsignatory airlines are set at 32% of the Airports system support charges for overseas flights.

*Airports — Other Operating Leases*

Airports leases building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a basic minimum rent. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2013, was approximately $47,312,000.

In fiscal years 2006 and 2013, Airports converted certain past-due amounts from two lessees and a lessee, respectively, into promissory notes. The notes bear interest at rates ranging from 0.0% to 5.0%, and are due over periods ranging from zero to nine years. The balance of $206,000 at June 30, 2013, is due as follows: $128,000 in 2014, $37,000 in 2015, $32,000 in 2016, and $9,000 thereafter.

Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kahului retail concession, accounted for approximately 27% of total concession fees revenues for the fiscal year ended June 30, 2013.

DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007, and terminating on May 31, 2017. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended lease contract provides for a minimum annual guarantee rent, as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2011, the minimum annual guarantee rent is $38 million and the percentage rent is as follows: (1) for total concession receipts greater than $155 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2011 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period is calculated the same as during the first four years of the lease term.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on April 1, 2009, and terminating on March 14, 2014. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent (85% of the actual annual fee paid for the preceding year).

*Harbors — Aloha Tower Complex Development*

The Aloha Tower Development Corporation (ATDC) is a state agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex. The complex encompasses Piers 5 to 23 of Honolulu Harbor. In September 1993, Harbors entered into a lease with the ATDC transferring portions of the Aloha Tower complex to the ATDC. The ATDC is required annually to reimburse Harbors for any losses in revenues during the term of the lease caused by any action of the ATDC or the developer, and to provide replacement facilities for maritime activities at no cost to Harbors.

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer, and the developer and Harbors entered into a capital improvements, maintenance, operations, and securities agreement (“Operations Agreement”). The Operations Agreement allows Harbors to operate the harbor facilities at Piers 8, 9, and 10. The lease between the ATDC and the developer requires the developer to construct, at the developer’s cost, various facilities, including a marketplace.

The developer later went into bankruptcy. The subsequent operator of the marketplace assumed the obligations of the sublease and the Operations Agreement in March 1998. This replacement operator has also gone through a bankruptcy proceeding and there is a new operator who has assumed the same obligations. Although the marketplace construction was substantially completed, several items on Harbors’ construction punch list have yet to be completed and are being pursued with the new operator. A settlement has been reached with the new operator to satisfy the punchlist obligations which have a total value of $3.5 million, depending upon when actual payments are made by the operator within a six-year timeframe.

An amendment of the lease executed in fiscal year 2006 altered the obligations of the ATDC to reimburse Harbors on an annual basis. For the fiscal year commencing July 1, 2004, the amendment provides that the ATDC shall pay $225,000 as a minimum annual base payment. The amendment further provides that for the fiscal year commencing July 1, 2005, onward, for any year in which the ATDC shall pay for all or any portion of the cost of personnel and other expenses relating to the Hawaii Harbors Project, the parties agree that the minimum annual base payment shall be commensurately reduced by such payments.

In addition to the minimum annual base payment, the ATDC shall also pay an amount equal to 50% of the difference between the total revenues received by the ATDC for such fiscal year and the operating expenses of the ATDC for such fiscal year (equity participation payment) to reduce the amount owed to Harbors for losses in revenues by the ATDC prior to July 1, 2004. The amendment provides for an increase in the equity participation payment as the ATDC’s revenues increase. The balance owed to the Harbors Division by ATDC as of June 30, 2013 was approximately $4,148,000.

At its meeting on July 13, 2011, the ATDC Board approved the transfer of the leasehold interest for the Aloha Tower Marketplace to a private operator.

*Harbors — Leasing Operations*

Harbors leases land, wharf, and building spaces under month-to-month revocable permits and long-term leases. The long-term leases expire during various years through September 2058. Those leases generally call for rental increases every 5 to 10 years based on a step-up or independent appraisals of the fair rental value of the leased property.

Revenues for the fiscal year ended June 30, 2013, amounted to $27,922,000 and have been included in rental revenues.

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2013 (amounts expressed in thousands):

| | Proprietary Funds | | |
|---|---|---|---|
| **Fiscal Year** | **Airports** | **Harbors** | **Total** |
| 2014 | $ 116,025 | $ 9,425 | $ 125,450 |
| 2015 | 65,622 | 8,068 | 73,690 |
| 2016 | 53,048 | 7,829 | 60,877 |
| 2017 | 47,149 | 6,407 | 53,556 |
| 2018 | 14,519 | 6,119 | 20,638 |
| 2019–2023 | 38,514 | 27,906 | 66,420 |
| 2024–2028 | 12,282 | 25,886 | 38,168 |
| 2029–2033 | 3,414 | 22,159 | 25,573 |
| 2034–2038 | 1,661 | 15,129 | 16,790 |
| 2039–2043 | 697 | 11,061 | 11,758 |
| 2044–2048 | - | 6,050 | 6,050 |
| 2049–2053 | - | 2,617 | 2,617 |
| 2054–2058 | - | 2,388 | 2,388 |
| 2059 | - | 87 | 87 |
| | $ 352,931 | $ 151,131 | $ 504,062 |

*Net Investment in Direct Financing Leases*

Certain leases of state-owned special facilities to parties engaged in airline operations are accounted for as direct financing leases. At June 30, 2013, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

| | |
|---|---|
| Total minimum lease payments receivable | $ 46,898 |
| Less amount representing interest | (20,001) |
| | 26,897 |
| Cash with trustee and other | 3,405 |
| | $ 30,302 |

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2013, consisted of the following (amounts expressed in thousands):

| **Fiscal Year** | |
|---|---|
| 2014 | $ 2,778 |
| 2015 | 2,770 |
| 2016 | 2,778 |
| 2017 | 2,776 |
| 2018 | 2,788 |
| 2019–2023 | 9,207 |
| 2024-2028 | 27,224 |
| | $ 50,321 |

## 10. SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS

*Hawaii Housing Finance and Development Corporation*

Amounts payable from the State to the HHFDC include approximately $505,000 of miscellaneous advances previously made to other departments and approximately $11,991,000 of amounts due from DHHL related to a previous agreement to transfer certain land and development rights to the State. Pursuant to this agreement, the State was required to commence 15 annual payments of $2.2 million to the HHFDC in December 2004. Effective at that time, the HHFDC recorded the sale of the land and development rights and the net present value of the estimated future cash flows from the State using an imputed interest rate.

*Hawaii Health Systems Corporation*

In fiscal year 2003, HHSC received a $14,000,000 advance from the State to relieve its cash flow shortfall. At June 30, 2013, the full amount was not yet repaid to the State. HHSC also received $4,500,000 in advances from the State. $2,000,000 of the $4,500,000 in advances are to be repaid to the State in fiscal year 2014.

*Hawaii Tourism Authority*

During the period from October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State's full faith and credit. The debt service for the general obligation bonds is to be primarily funded by an allocated portion of the State's transient accommodations tax revenue and revenue generated from the operation of the Center. Through June 30, 2000 and from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by the CCA and Budget and Finance, respectively.

Effective July 1, 2002, the Convention Center Fund was established by Act 253, SLH of 2002. In accordance with Act 253, the Convention Center Fund was placed within HTA and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's Transient Accommodations Taxes (TAT). Act 253 further states that all funds collected by the

Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.

The creation of the Convention Center Fund provided HTA the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to HTA by the CCA. The terms of the payment plan require HTA to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6.0% through January 1, 2027. HTA's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund. At June 30, 2013, the outstanding principal and aggregate interest amounts required to be reimbursed by HTA were $234,260,000 and $135,746,000, respectively. The scheduled payments to maturity for each of the next five years and thereafter in five-year increments are as follows (amounts expressed in thousands):

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 13,135 | $ 13,294 | $ 26,429 |
| 2015 | 13,920 | 12,506 | 26,426 |
| 2016 | 14,755 | 11,671 | 26,426 |
| 2017 | 15,645 | 10,786 | 26,431 |
| 2018 | 16,580 | 9,847 | 26,427 |
| 2019–2023 | 99,080 | 33,063 | 132,143 |
| 2024–2028 | 61,145 | 44,579 | 105,724 |
| | $ 234,260 | $ 135,746 | $370,006 |

*Hawaii Hurricane Relief Fund*

On June 25, 2002, Act 179, SLH of 2002, was signed into law by the Governor. The law provides that all interest earned from the principal in the Hurricane Relief Fund be transferred and deposited into the State General Fund each year that the Hurricane Relief Fund remains in existence, beginning with fiscal year 2003. For the year ended June 30, 2013, interest earned and transferred into the State General Fund amounted to $319,000.

On May 26, 2011, Act 62, SLH of 2011, was signed into law by the Governor. This law appropriated $42 million from the HHRF into the General Fund to help balance the State's fiscal year 2011 budget. The law authorizes the Governor to appropriate additional monies from the Fund, as necessary, to balance the fiscal year 2011 State Budget. In that regard, the Fund pledged to transfer an additional $69 million to the General Fund as of June 30, 2011 and made the transfer in July 2011.

The transfers to the General Fund had reduced the balance of the Fund to levels below what would be adequate to buy reinsurance in the event of a hurricane. However, Act 62 established a mechanism to replenish the Fund from fiscal years 2014 and 2015 general excise tax revenues and authorizes the Fund to issue $75 million in revenue bonds through June 30, 2015. The Fund has not issued any revenue bonds as of June 30, 2013.

On July 3, 2013, Act 266, SLH of 2013, was signed into law by the Governor. This law appropriated $55.5 million from general excise tax revenues for fiscal years 2014 and 2015 to be deposited into the Fund. The fiscal year 2014 transfer was made in September 2013. Act 266 proposed to further accelerate recapitalization of fiscal reserves, by transferring an additional $50 million to the fund in fiscal year 2014.

## 11. RETIREMENT BENEFITS

### Employees' Retirement System

*Plan Description*

All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the ERS, a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2.0% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

*Funding Policy*

Most covered employees of the contributory plan are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. Most covered employees of the hybrid plan are required to contribute 6.0% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirements as of June 30, 2013, 2012, and 2011, were approximately $418,415,000, $396,380,000, and $388,242,000, respectively. The State contributed 84.7%, 108.6%, and 105.3% of its required contribution for those years, respectively. Covered payroll for the fiscal year ended June 30, 2013, was approximately $2,694,852,000.

**Post-Retirement Health Care and Life Insurance Benefits**

*Plan Descriptions*

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit 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. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

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

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those 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.

*Funding Policy and Annual OPEB Cost*

Effective July 1, 2006, the State implemented GASB Statement No. 43 ("GASB 43"), *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. GASB 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. GASB 43 requires defined benefit OPEB plans that are administered as trust or equivalent arrangements to prepare a statement of plan assets and a statement of changes in plan assets.

The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retiree healthcare benefits. Accordingly, the State reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended.

Effective July 1, 2007, the State implemented GASB Statement No. 45 ("GASB 45"), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires reporting the OPEB liability on an accrual basis. Because the Statement was implemented on a prospective basis, the OPEB liability at transition was zero.

The State is required by GASB 45 to obtain an actuarial valuation every other year. An actuarial valuation was performed as of July 1, 2011.

The State's base contribution levels to EUTF are established by statutes and the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The State's base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The State's annual OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters in GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the annual OPEB cost, contributions made, the net OPEB liability, and the funding status for the EUTF and UH for each of the plans for the fiscal year ended June 30, 2013 (amounts expressed in thousands):

| | EUTF | UH |
|---|---|---|
| Annual required contribution | $ 853,794 | $ 141,099 |
| Interest on net OPEB obligation | 111,586 | 16,538 |
| Adjustment to annual required contribution | (97,813) | (15,035) |
| Annual OPEB cost | 867,567 | 142,602 |
| Contributions made | (236,200) | (41,700) |
| Increase in net OPEB obligation | 631,367 | 100,902 |
| Net OPEB obligation — beginning of year | 2,789,487 | 413,462 |
| Net OPEB obligation — end of year | $ 3,420,854 | $ 514,364 |
| Actuarial accrued liability (AAL) July 1, 2011 | $ 11,706,157 | $ 1,965,769 |
| Funded OPEB plan assets | - | - |
| Unfunded actuarial accrued liability (UAAL) July 1, 2011 | $ 11,706,157 | $ 1,965,769 |
| Funded ratio | - % | - % |
| Covered payroll | $ 2,176,996 | $ 517,856 |
| UAAL as percentage of covered payroll | 537.7 % | 379.6 % |

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 and the two preceding years were as follows:

| | Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | NET OPEB Obligation |
|---|---|---|---|---|
| EUTF | June 30, 2013 | $ 867,567 | 27.2 % | $ 3,420,854 |
| | June 30, 2012 | 856,589 | 27.0 % | 2,789,487 |
| | June 30, 2011 | 906,117 | 25.3 % | 2,155,055 |
| UH | June 30, 2013 | $ 142,602 | 29.2 % | $ 514,364 |
| | June 30, 2012 | 136,078 | 30.0 % | 413,462 |
| | June 30, 2011 | 150,637 | 25.7 % | 318,143 |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

On July 3, 2013, the Governor signed into law Act 268, SLH of 2013. Act 268 requires the EUTF to establish and administer separate trust accounts for each public employer for the purpose of receiving irrevocable employer contributions to prefund post-employment health and other benefit costs for retirees and their beneficiaries. It establishes the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability and requires all public employers to make annual required public employer contributions effective fiscal year 2014. Commencing fiscal year 2019, the annual public employer contribution shall be equal to the annual required contribution, as determined by an actuary retained by the EUTF board. In any fiscal year, should an employer's contribution be less than the annual required public employer contribution, the difference shall be transferred to the appropriate trust account from a portion of all general excise tax revenues, for the State, or transient accommodations tax revenues, for the counties. The State has determined that this law did not affect the OPEB liability as of June 30, 2013.

*Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

| | **EUTF and UH** |
|---|---|
| Actuarial valuation date | July 1, 2011 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll |
| Remaining amortization period | 30 years (Open) |
| Asset valuation method | Fair value of assets, plus accrued contributions |
| Actuarial assumptions: | |
| Investment rate of return | 4.0 % |
| Projected salary increases | 3.5 % |
| Healthcare inflation rates: | |
| Medical & Rx Pre-65 (HMSA) | 7.5% initial, 5.0% ultimate reached in 2020 |
| Medical & Rx Pre-65 (HMSA & Kaiser-HSTA) | 8.0% initial, 5.0% ultimate reached in 2020 |
| Medical & Rx Post-65 (HMSA) | 8.0% initial, 5.0% ultimate reached in 2020 |
| Medical & Rx Post-65 (Kaiser) | 12.0% initial, 5.0% ultimate reached in 2020 |
| Dental | 4.0% initial and ultimate |
| Vision | 3.0% initial and ultimate |
| Medicare Part B | 5.0% initial and ultimate |

Effective July 1, 2013, the active contracts for medical, prescription drug, dental, vision, supplemental medical drug and life insurance were extended through June 30, 2014.

The 2013 legislature passed Act 226, SLH of 2013 that among other things, prohibited mandatory mail order. The EUTF voluntarily implemented Act 226 on October 1, 2013 for active employees and will implement Act 226 on January 1, 2014 for retirees.

## 12. COMMITMENTS AND CONTINGENCIES

### Commitments

**General Obligation Bonds** — The State has issued general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Special Revenue Funds with terms corresponding to that of the related general obligation bonds (see Note 4). At June 30, 2013, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

| | |
|---|---|
| Special Revenue Funds: | |
| Highways | $ 12,511 |
| Agriculture | 6,632 |
| Natural Resources | 2,687 |
| All Other | 196 |
| | $ 22,026 |

*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 ERS. At June 30, 2013, accumulated sick leave was approximately $1,052,971,000.

*Intergovernmental Expenditures* — In accordance with Act 250, SLH of 2002, 45% of revenues generated by the transient accommodations tax are to be distributed to the counties.

*Guarantees of Indebtedness* — The State is authorized to guarantee indebtedness of others at a maximum amount of approximately $233,500,000 for aquaculture/agriculture loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects, and rental assistance obligations of Component Units — HHFDC and HPHA. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2013.

### Proprietary Fund Type — Enterprise Funds

*Construction and Service Contracts*

At June 30, 2013, the Enterprise Funds had commitments of approximately $362,847,000 for construction and service contracts.

**Contingencies**

The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the fiscal years ended June 30, 2013, 2012, and 2011, approximated \$17,790,000, \$3,668,000, and \$4,130,000, respectively.

*Tobacco Settlement*

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately \$1.3 billion over a 25-year period. The State is to receive proceeds from this settlement in January and April of the subsequent year through 2004 and thereafter on April 15 of each subsequent year. The State has received approximately \$48,579,000 during the fiscal year ended June 30, 2013. As of June 30, 2013, the State expects to receive \$27,600,000 for the first six months of fiscal 2014.

*Office of Hawaiian Affairs and Ceded Lands*

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the "Ceded Lands") to the State to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. On November 7, 1978, the State Constitution was amended expressly to provide that the Ceded Lands, excluding any "available lands" as defined in the Hawaiian Homes Commission Act of 1920, as amended, were to be held as a public trust for native Hawaiians and the general public, and to establish OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands as provided by law, to better the conditions of native Hawaiians. In 1979, the Legislature adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of the funds derived by the State from the Ceded Lands for the betterment of native Hawaiians. Since then, the State's management of the Ceded Lands and its disposition of the proceeds and income from the Ceded Lands have been challenged by OHA, and individual native Hawaiians, Hawaiians and non-Hawaiians. Claims have been made under Article XII, Sections 4 and 6 of the Hawaii Constitution to the effect that the State has breached the public trust, and OHA has not received from the Ceded Lands all of the income and proceeds that it should be receiving. Except for the claims pending in the *OHA v. HHA* case discussed below, the Legislature, the State and federal courts, and the governor have acted to address the concerns raised. However, there can be no assurance that in the future there will not be new claims asserted against the State made under Article XII, Sections 4 and 6 of the Hawaii Constitution that the State has breached the public trust, or that OHA is not receiving from the Ceded Lands all of the income and proceeds that it should be receiving.

*In OHA v. HHA,* OHA filed suit on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) against the Hawaii Housing Authority (the "HHA," since succeeded by the Hawaii Public Housing Authority, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in *OHA, et al. v. State of Hawaii, et al.,* Civil No. 94-0205-01 (1st Cir.). The September 12, 2001 decision of the Hawaii Supreme Court (*OHA v. State of Hawaii,* 96 Haw. 399 (2001)) includes elements, with which OHA disagrees, that would require dismissal of OHA's claims in *OHA v. HHA,* and the case remains pending.

The Housing Finance and Development Corporation and the HHA were merged into the Housing and Community Development Corporation of Hawaii, after the above-described suits against them were filed. This corporation subsequently was bifurcated into the HHFDC and the HPHA.

The State intends to defend vigorously against OHA's claim in *OHA v. HHA.*

*Department of Hawaiian Home Lands*

In 1991, the Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 (the "HHCA") to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three step process which: (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the "Panel") to provide the Legislature with non-binding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate; and (3) allowed claimants to bring de novo civil actions by December 31, 1999 if they were not satisfied with the Panel's findings and advisory opinions, or the Legislature's response to the Panel's recommendations.

In 1997, the Legislature declared its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it. Legislation to allow the Panel and the Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the Legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunsetted on December 31, 1999.

On December 29, 1999, three claimants filed a class action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special and punitive damages for breach of trust or fiduciary duty under HRS Chapters 673 and 674, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661.

*Kalima et al. v. State of Hawaii et al.,* Civil No. 99-4771 12VSM (1st Cir.) ("*Kalima I*") - Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. The plaintiffs in these other actions stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Following the dismissal without prejudice of the actions of four of the five claimants, only one lawsuit, *Aguiar v. State of Hawaii, et al.,* Civil No. 99-612 (3rd Cir.) (*"Aguiar"),* is pending and stayed.

On March 30, 2000, the three named plaintiffs in *Kalima I* filed a second class action lawsuit in the state circuit court for declaratory and injunctive relief, and for damages under HRS Chapter 673, for the Panel's and Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674.

*Kalima et al. v. State of Hawaii, et al.*, Civil No. 00-1-1041-03 (1st Cir.) ("*Kalima II*") - All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II*. *Kalima I, Kalima II* and *Aguiar* are collectively referred to under this caption as the "Individual Claims Cases."

The plaintiffs in *Kalima I* filed a motion for partial summary judgment and asked the circuit court to declare that they were entitled to sue for breach of trust and recover damages under HRS Chapter 674. The State moved to dismiss the complaint and all claims in *Kalima I* for lack of subject matter jurisdiction. The circuit court granted the plaintiffs' motion and denied the State's motion. The State was permitted to take an interlocutory appeal. In an opinion issued June 30, 2006, the Hawaii Supreme Court affirmed the circuit court's determination that the plaintiffs were entitled to pursue their claims under HRS Chapter 674, but did not have a right to sue under HRS Chapter 661, and remanded the case back to the trial court for further proceedings.

The plaintiffs in *Kalima I* have since filed first and second amended complaints to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) allegedly waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly ultra vires rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) allegedly defectively constructed homes or infrastructure, (6) allegedly being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting list subclass' claims separately and first, and after a six week bifurcated trial to determine liability only, the circuit judge for *Kalima II* ruled on November 3, 2009 that the State committed three breaches of trust between 1959 and 1988, and further proceedings were necessary to determine the amount of out-of-pocket damages the waiting list subclass members sustained, if any, as a result of those breaches.

By orders entered on November 24, 2009 and June 6, 2011, respectively, the Waiting List Liability Subclass certified for purposes of determining liability was recertified for the purpose of establishing causation and the fact of damages (over the State's objection), and again as the Waiting List Damages Model Subclass for the purpose of devising a model for use on a class-wide basis to determine the amount of damages subclass members may be awarded. Notice to the putative members of the Waiting List Damages Model Subclass of the right to opt-out of the Waiting List Damages Model Subclass was mailed to all members of the Waiting List Liability Subclass on May 22, 2012, and published on the DHHL website, and in the DHHL and OHA newsletters.

Multiple motions to establish a damages model were filed and heard between March 2011 and August 31, 2012. Orders were entered on January 24, 2012, and February 4 and 14, 2013. A three day trial to establish fair market land rents to use in lieu of testimony or documents to establish each claimant's out of pocket loss, if any, for each year the claimant waited to be awarded or offered a residential homestead on Oahu was completed on October 3, 2013. However, to date, no proceeding or procedures have been scheduled or devised to apply the damages model to determine whether and how much each claimant would be awarded in damages. On January 13 and 14, 2014, the parties were scheduled to participate in a private mediation on the matters in controversy in the case, pursuant to the circuit court's order approving the parties' Stipulation in Participate in Private Mediation, etc., filed on September 13, 2013.

*Nelson* - In the First Amended Complaint filed on October 19, 2007 in *Nelson et al., v. Hawaiian Homes Commission, et al.*, Civil No. 07-1-1663-08 BIA (1st Cir.) ("*Nelson*"), the plaintiffs allege all defendants breached their duties under Article XII, Sections 1 and 2 of the Hawaii Constitution by not providing sufficient funds to DHHL to place as many beneficiaries on residential, agricultural and pastoral homesteads within a reasonable period of time, and provide a fully functioning farm, ranch and aquaculture support program to maximize utilization of the homestead lands. They also allege that the Hawaiian Homes Commission and its members are in breach of the Hawaiian Home Lands trust for failing to obtain sufficient funds from the Legislature, and otherwise enforcing the provisions of Article XII, Sections 1 and 2 of the Hawaii Constitution, including filing suit against the State. Further, they allege that DHHL and the Hawaiian Homes Commission and its members have violated the Hawaiian Homes Commission Act (the "HHC Act") by leasing Hawaiian home lands solely to generate revenue and for commercial developments that are unrelated to actual homesteading programs, and without adhering to the requirements of Section 207(a) of the HHC Act.

As beneficiaries of the Hawaiian Home Lands trust and the HHC Act, the *Nelson* plaintiffs asked the court to issue a mandatory injunction requiring DHHL and the Hawaiian Homes Commission and its members to seek, and the State to provide, sufficient funds for DHHL to place as many beneficiaries on the land within a reasonable period of time. On January 21, 2009, the court granted the defendants' motion for entry of summary judgment rejecting all claims that are based on the theory that the Hawaii State Legislature, the State of Hawaii, or any State agency or employee, is required to appropriate, request, or otherwise provide or secure particular amounts of money for DHHL and its programs now and in the future. The court concluded that the political question doctrine barred it from deciding those claims because initial policy determinations that the court lacked authority to make were needed to resolve the parties' dispute over the definition and determination of "sufficient sums" as that term is used in Article XII, Section 1 of the Hawaii Constitution.

A final judgment in favor of the State was filed on September 23, 2009, and the plaintiffs appealed. On January 12, 2011, the Intermediate Court of Appeals concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, and vacated the judgment and remanded the case to the circuit court for further proceedings. The State and Director of Finance filed an application for writ of certiorari in the Hawaii Supreme Court to reverse the Intermediate Court of Appeals' judgment on appeal, and affirm the circuit court's final judgment, on May 4, 2011. In the Hawaii Supreme Court, the DHHL, and the Hawaiian Homes Commission and its members changed their position, and no longer supported the political question doctrine defense.

On May 9, 2012, the Hawaii Supreme Court concluded that there are no judicially manageable standards for determining "sufficient sums" for purposes of (1) developing lots, (2) loans, and (3) rehabilitation projects, which are the first three items listed in Article XII, Section 1. The Hawaii Supreme Court thus held that plaintiffs' claims with respect to those items should have been rejected on political question grounds, and the Intermediate Court of Appeals erred in not so concluding. The Hawaii Supreme Court did, however, uphold the Intermediate Court of Appeals as to item (4) of Article XII, Section 1, concluding that there are judicially manageable standards to determine what constitutes sufficient sums for "administrative and operating expenses." Determination of this amount awaits further litigation in the circuit court on remand. Pursuant to the Judgment on Appeal issued on July 25, 2013, the case has been remanded to the circuit court for further proceedings.

The State intends to defend vigorously against the claims against the State in all of the remaining Individual Claims Cases and in *Nelson*. The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of the plaintiffs' claims in the Individual Claims Cases, and some of the plaintiffs' claims in *Nelson*, in the respective plaintiffs' favor, could have a material adverse effect on the State's financial condition.

*Employees' Retirement System*

In *Kaho'ohanohano, et al. v. State of Hawaii*, Civil No. 02-1-1001-04 (GWBC) (1st Cir.), the plaintiffs challenged certain legislation enacted by the State Legislature in 1999 ("Act 100"). Act 100 authorized the State to apply the ERS actuarial investment earnings in excess of 10% for fiscal years 1997 and 1998 toward the State and county employees' annual contributions to the pension accumulation of the ERS fund. The plaintiffs asked the court to declare Act 100 unconstitutional, to enjoin the State from taking future actions inconsistent with Article XVI, Section 2 of the Hawaii Constitution, and to require the State to pay damages to the ERS in the amount of $346.9 million plus lost earnings and pre- and post-judgment interest, costs, and attorneys' fees.

The plaintiffs were allowed to amend their complaint to add two state civil service employees as plaintiffs, and their motion to certify a class, consisting of all current and former public employees other than members of the legislature, judges and attorneys in the Department of the Attorney General, was granted. Motions made by the trustees of the ERS to intervene as plaintiffs and by the City and County of Honolulu to intervene as a defendant were granted. The Court made the counties of Hawaii, Maui, and Kauai intervenor defendants.

The plaintiffs filed two motions for partial summary judgment (as to liability only), and the State filed a motion to dismiss and a motion for summary judgment against the claims of the plaintiffs as well as the ERS' trustees. The State's motion to dismiss was denied in an order filed on May 16, 2003. An order granting summary judgment in favor of the State and against all of the claims of the plaintiffs and ERS trustees, and denying the plaintiffs' two motions, and a final judgment were entered on June 24, 2003. The county intervenor defendants filed a motion to alter or amend the order and judgment on June 27, 2003. By court rule, the motion was deemed denied on September 25, 2003, and notices of appeal from the June 24, 2003 order and judgment were filed by the plaintiffs and the ERS trustees on October 27, 2003. The State cross appealed the order denying its motion to dismiss on November 7, 2003. On December 10, 2003, the circuit court entered an order granting the county intervenor defendants motion to alter or amend the June 24, 2003 order and judgment, and filed an amended summary judgment order and an amended final judgment. The plaintiffs and the ERS trustees filed notices of appeal from the amended order and amended judgment on December 23, 2003. The appeals from the amended order and amended judgment were dismissed on April 30, 2004.

In a 3-2 decision filed on July 23, 2007, the Hawaii Supreme Court vacated the June 24, 2003 order and judgment, and remanded the case to the circuit court with instructions to (1) enter an order dismissing the plaintiffs' claims for lack of jurisdiction, (2) enter summary judgment against the State and in favor of the ERS' trustees on the trustees' declaratory judgment claim that Act 100 violated Article XVI, Section 2 of the Hawaii Constitution, and (3) dispose of the ERS' trustees' other claims for declaratory relief appropriately. In concluding that Act 100 was unconstitutional, the majority held that "necessarily implied in Article XVI, Section 2 [of the Hawaii Constitution] prohibiting impairment of accrued benefits is the protection of the sources of those benefits;…Act 100 retroactively divested the ERS of $346.9 million of employer contributions for 1997, 1998, and 1999, thereby eliminating the sources used to fund constitutionally protected 'accrued benefits'; and…Act 100 undermined the retirement systems' continuing security and integrity." "[U]nder the circumstances of th[e] case," the court declined to issue the prospective injunction the ERS' trustees sought. (In their prayer for relief, the ERS' trustees asked that "the State and its officers and agents [be enjoined] from any further skimming the ERS' investment earnings and from taking any other or further action that (a) will diminish, impair or otherwise obligate the ERS' actuarial investment earnings; or (b) will reduce the Employers' periodic contributions as determined by the Board's actuary in accordance with the Chapter 88 and sound actuarial practice; or (c) otherwise will impair the contractual rights of the members.") The case is again before the circuit court to fashion the order the Supreme Court directed the circuit court to enter, and, if necessary, to address the ERS' trustees' remaining declaratory judgment claims.

*Hawaii Employer-Union Health Benefits Trust Fund*

In June 2006, certain retired public employees ("Plaintiffs") filed a class action lawsuit in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the EUTF, and the EUTF Board of Trustees (collectively, the "Defendants"). See *Marion Everson, et al. v. State of Hawaii, et al.*, Civil No. 06-1-1141-06, First Circuit Court, State of Hawaii. In relevant part, Plaintiffs claimed that Defendants violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents.

Following a related proceeding that commenced in 2007, the Hawaii Supreme Court held that health benefits for retired state and county employees constitute "accrued benefits" pursuant to Article XVI, Section 2 of the Hawaii Constitution, but that HRS Chapter 87A (particularly HRS Section 87A-23) did not require that retiree health benefits reasonably approximate those provided to active employees. See *Everson v. State*, 122 Hawai'i 401, P.3d 282 (2010). The Hawaii Supreme Court did not decide when retiree health benefits "accrued" so as to be protected under Article XVI, Section 2 of the Hawaii Constitution nor did it decide whether the enactment of any part of HRS Chapter 87A violated Article XVI, Section 2 of the Hawaii Constitution.

In December 2010, Plaintiffs filed a Second Amended Complaint in Civil No. 06-1-1140-06 (nka *James Dannenberg, et al. v. State of Hawaii, et al.*) claiming that Defendants have violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapter 87 by failing to provide them and other State and county retirees with: (a) health care benefits that are equivalent to those provided to State and county active employees; and/or (b) health care benefits that are equivalent to benefits provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age. The Second Amended Complaint also claims that State and county employees who retired prior to July 1, 2001, are contractually entitled to have their employers pay for all their health plan premiums despite the contribution caps in Sections 87A-33 through 87A-36, HRS. The Second Amended Complaint also claims that the EUTF was negligent in failing to properly interpret constitutional, statutory, and contractual requirements when it created retiree health plans. Plaintiffs seek declaratory and injunctive relief and monetary damages. The monetary damages sought are: (1) the amount that retirees and their dependents have had to personally pay for health care because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; (2) damages for health care that retirees and their dependents have foregone because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; and (3) damages for pain and suffering. On August 29, 2013, the First Circuit Court entered an Order Granting Plaintiffs' Motion for

Class Action Certification. The class certified is all employees (and their dependent-beneficiaries) who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, before July 1, 2003, and who have accrued or will accrue a right to post-retirement health benefits as a retiree or dependent-beneficiary of such a retiree. This includes: (a) those who have not yet received any post-retirement health benefits from Defendants as a retiree or dependent-beneficiary of such a retiree; and (b) those who have received any post-retirement benefits from Defendants since July 1, 2003 as a retiree or dependent-beneficiary of such a retiree. For purposes of damages only, if any, the class shall also include the estates and heirs of any deceased retiree or deceased dependent-beneficiary of a retiree who is or was a member of the class. On December 10, 2012, Plaintiff filed Plaintiffs' Motion for Partial Summary Judgment seeking judgment in their favor and against Defendants on the liability issues in the lawsuit, i.e., that Plaintiffs be granted their requested declaratory and injunctive relief, and that Defendants be found liable for monetary damages in an amount to be determined later. On July 25, 2013, State Defendants filed State Defendants' Motion for Partial Summary Judgment seeking judgment in their favor and against Plaintiffs on all of Plaintiffs' claims that are based on the allegations that: (1) State Defendants have violated the constitutional, contractual, and statutory rights of Plaintiffs by not providing health care benefits for retirees and their dependents that are equivalent to those provided to active employees and their dependents; (2) State Defendants have violated the constitutional and contractual rights of Plaintiffs by not providing health care benefits to retirees and their dependents that are equivalent to those provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age; and (3) State Defendants were negligent in providing health benefits to retirees and their dependents. Both motions were scheduled to be heard by the First Circuit Court on October 30, 2013. The Court advised the parties that it would issue a decision after further review of the parties' memoranda, declarations, and exhibits. The parties are currently waiting for the Court's decision on the motions.

*Department of Education*

Consolidated class action cases have been brought against the State Department of Education (DOE) on behalf of substitute teachers alleging that the DOE has failed to pay substitute teachers in accordance with the rate provided in the Hawaii Revised Statutes from July 1, 1996 – June 30, 2005.

An adverse ruling against the State was made by the First Circuit Court on a motion for summary judgment regarding liability issues. The adverse ruling was the subject of an interlocutory appeal to the Intermediate Court of Appeals, which issued its ruling on October 30, 2009, affirming the adverse ruling. The Supreme Court denied certiorari on August 16, 2010 and the case was remanded to the Circuit Court for a determination of damages.

In November 2013, a partial settlement agreement was reached whereby the State agreed to pay $14,031,000 to resolve the claims for backpay (mandatory fringe benefits). The claims for pre-judgment interest and attorneys' fees remain to be determined. The partial settlement agreement amount was appropriated by the 2013 Legislature.

## 13. RISK MANAGEMENT

The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. 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 three fiscal years. A summary of the State's underwriting risks is as follows:

*Property Insurance*

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3.0% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is $225,000,000, except for flood and earthquake, which individually is a $225,000,000 aggregate loss and terrorism, which is $50,000,000 per occurrence and a $25,000 deductible.

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 not covered by insurance are paid from legislative appropriations of the State's General Fund.

*General Liability (Including Torts)*

Claims under $10,000 are handled by the DAGS 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, insurance policy in force with a $4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $15,000,000 and for crime loss, $10,000,000 with no aggregate limit.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

*Medical Insurance*

The State's community hospitals included in the HHSC are insured by a comprehensive hospital professional liability policy. The policy covers losses from personal injury, professional liability, patient property damage, and employee benefits. This policy covers losses up to a limit of $35,000,000 per occurrence and $39,000,000 in aggregate.

*Self-Insured Risks*

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses.

*Reserve for Losses and Loss Adjustment Costs*

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2013, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net position, as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs at June 30, 2013 (amounts expressed in thousands):

| | 2013 | 2012 |
|---|---|---|
| Unpaid losses and loss adjustment costs — beginning of the fiscal year | $ 169,900 | $ 153,520 |
| Incurred losses and loss adjustment costs: | | |
| Provision for insured events of current fiscal year | 26,270 | 43,517 |
| Decrease in provision for insured events of prior fiscal years | (1,159) | (487) |
| Total incurred losses and loss adjustment costs | 25,111 | 43,030 |
| Payments: | | |
| Losses and loss adjustment costs attributable to insured events of current fiscal year | (19,954) | (7,770) |
| Losses and loss adjustment costs attributable to insured events of prior fiscal years | (19,919) | (18,880) |
| Total payments | (39,873) | (26,650) |
| Unpaid losses and loss adjustment costs — end of the fiscal year | $ 155,138 | $ 169,900 |

## 14. BUSINESS INTERRUPTION INSURANCE RECOVERY

During the year ended June 30, 2013, the Airports Division received a business interruption insurance recovery relating to the events of September 11, 2001, amounting to $19,000,000. This amount is reflected on a separate line item between the caption total operating expenses and operating income in the accompanying Proprietary Fund statements of revenues, expenses, and changes in fund net position.

## 15. SUBSEQUENT EVENTS

*General Obligation Bonds*

On November 21, 2013, the State issued $171,060,000 million in Tax-Exempt Refunding Bonds of 2013 Series EI, EJ, EK and EL; $29,795,000 million in Taxable General Obligation Qualified School Construction Bonds of 2013 Series EN; and $660,000,000 million in Tax-Exempt General Obligation Bonds of 2013 Series EM and EH. Series EH, EM, and EN were issued for the purpose of financing, or reimbursing the State of Hawaii for, the Hawaiian Home Lands Settlement, and the costs of acquisition, construction, extension or improvement of various public improvement projects, among which are public buildings and facilities, elementary and secondary schools, community college and university facilities, senior housing facilities, public libraries and parks and for other public purposes. The Refunding Bond proceeds were used to advance refund outstanding General Obligation Bonds previously issued.

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# REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

**REQUIRED SUPPLEMENTARY INFORMATION**
**OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS**
**(UNAUDITED)**

## STATE OF HAWAII

### GENERAL FUND
### SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
### FOR THE FISCAL YEAR ENDED JUNE 30, 2013
### (Amounts in thousands)

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance With Final Budget — Positive (Negative) |
|---|---|---|---|---|
| REVENUES: | | | | |
| Taxes: | | | | |
| General excise tax | $ 2,878,453 | $ 2,962,446 | $ 2,944,487 | $ (17,959) |
| Net income tax: | | | | |
| Corporations | 56,362 | 56,647 | 100,988 | 44,341 |
| Individuals | 1,540,136 | 1,612,070 | 1,735,520 | 123,450 |
| Inheritance and estate tax | 19,600 | 14,421 | 14,886 | 465 |
| Liquor permits and tax | 49,558 | 50,219 | 48,962 | (1,257) |
| Public service companies tax | 126,244 | 155,740 | 163,930 | 8,190 |
| Tobacco tax | 124,591 | 103,034 | 94,180 | (8,854) |
| Tax on premiums of insurance companies | 115,000 | 122,000 | 131,906 | 9,906 |
| Franchise tax (banks and other financial institutions) | 29,788 | 27,848 | 20,673 | (7,175) |
| Transient accommodations tax | 131,399 | 167,963 | 171,556 | 3,593 |
| Other taxes, primarily conveyances tax | 37,089 | 34,449 | 41,206 | 6,757 |
| Total taxes | 5,108,220 | 5,306,837 | 5,468,294 | 161,457 |
| Non-taxes: | | | | |
| Interest and investment income | 10,262 | 10,403 | 5,873 | (4,530) |
| Charges for current services | 251,431 | 252,568 | 252,967 | 399 |
| Intergovernmental | 4,577 | 12,918 | 13,708 | 790 |
| Rentals | 634 | 429 | 276 | (153) |
| Fines, forfeitures, and penalties | 24,293 | 23,556 | 22,343 | (1,213) |
| Licenses and fees | 5,820 | 6,012 | 6,465 | 453 |
| Revenues from private sources | 27,647 | 3,304 | 2,423 | (881) |
| Debt service requirements | 35,546 | 35,546 | 35,753 | 207 |
| Other | 177,709 | 270,354 | 381,189 | 110,835 |
| Total non-taxes | 537,919 | 615,090 | 720,997 | 105,907 |
| Total revenues | 5,646,139 | 5,921,927 | 6,189,291 | 267,364 |
| EXPENDITURES: | | | | |
| General government | 2,063,763 | 2,109,101 | 1,984,204 | 124,897 |
| Public safety | 238,681 | 244,315 | 241,689 | 2,626 |
| Conservation of natural resources | 26,238 | 26,995 | 22,358 | 4,637 |
| Health | 396,261 | 411,595 | 398,196 | 13,399 |
| Hospitals | 82,140 | 88,181 | 84,565 | 3,616 |
| Welfare | 1,050,638 | 1,052,251 | 1,038,220 | 14,031 |
| Lower education | 1,414,215 | 1,416,683 | 1,374,663 | 42,020 |
| Higher education | 377,460 | 378,385 | 375,132 | 3,253 |
| Other education | 5,509 | 5,509 | 5,117 | 392 |
| Culture and recreation | 37,490 | 37,654 | 35,519 | 2,135 |
| Economic development and assistance | 19,200 | 25,883 | 29,031 | (3,148) |
| Housing | 15,461 | 15,748 | 14,793 | 955 |
| Other | 874 | 30,097 | 14,613 | 15,484 |
| Total expenditures | 5,727,930 | 5,842,397 | 5,618,100 | 224,297 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (81,791) | 79,530 | 571,191 | 491,661 |
| OTHER FINANCING SOURCES — Transfers in | 17,004 | 41,825 | 45,149 | 3,324 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES | $ (64,787) | $ 121,355 | $ 616,340 | $ 494,985 |

## STATE OF HAWAII

### MED-QUEST SPECIAL REVENUE FUND
### SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
### FOR THE FISCAL YEAR ENDED JUNE 30, 2013
### (Amounts in thousands)

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance With Final Budget — Positive (Negative) |
|---|---|---|---|---|
| REVENUES: | | | | |
| Taxes: | | | | |
| Liquid fuel tax: | | | | |
| Highways | $ - | $ - | $ - | $ - |
| Boating | - | - | - | - |
| Airports | - | - | - | - |
| Vehicle registration fee tax | - | - | - | - |
| State vehicle weight tax | - | - | - | - |
| Rental/tour vehicle surcharge tax | - | - | - | - |
| Employment and training fund assessment | - | - | - | - |
| General excise tax | - | - | - | - |
| Tobacco tax | - | - | - | - |
| Conveyances tax | - | - | - | - |
| Environmental response tax | - | - | - | - |
| Hospital and nursing facility tax | - | - | - | - |
| Transient accommodations tax | - | - | - | - |
| Franchise tax | - | - | - | - |
| Tax on premiums of insurance companies | - | - | - | - |
| Total taxes | - | - | - | - |
| Non-taxes: | | | | |
| Interest and investment income | - | - | - | - |
| Charges for current services | - | - | - | - |
| Intergovernmental | 965,180 | 1,018,190 | 868,751 | (149,439) |
| Rentals | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | - | - |
| Licenses and fees | - | - | - | - |
| Revenues from private sources | - | - | 40,501 | 40,501 |
| Other | 32,000 | 50,005 | 77,459 | 27,454 |
| Total non-taxes | 997,180 | 1,068,195 | 986,711 | (81,484) |
| Total revenues | 997,180 | 1,068,195 | 986,711 | (81,484) |
| EXPENDITURES: | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Highways | - | - | - | - |
| Conservation of natural resources | - | - | - | - |
| Health | - | - | - | - |
| Hospitals | - | - | - | - |
| Welfare | 995,234 | 995,234 | 993,573 | 1,661 |
| Lower education | - | - | - | - |
| Higher education | - | - | - | - |
| Other education | - | - | - | - |
| Culture and recreation | - | - | - | - |
| Urban redevelopment and housing | - | - | - | - |
| Economic development and assistance | - | - | - | - |
| Airports | - | - | - | - |
| Water transportation and terminals | - | - | - | - |
| Housing | - | - | - | - |
| Other | - | - | - | - |
| Total expenditures | 995,234 | 995,234 | 993,573 | 1,661 |
| (DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES | $ 1,946 | $ 72,961 | $ (6,862) | $ (79,823) |

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION — BUDGETARY CONTROL FOR THE YEAR ENDED JUNE 30, 2013

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the General Fund Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) 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 2013 and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2011–2013 biennial budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund’s appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying General Fund Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) represents 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 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 detail level of control are maintained by and are available at DAGS. During the fiscal year ended June 30, 2013, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, the General Fund’s appropriations 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 the General Fund are presented in the General Fund Statement of Revenues and Expenditures — Budget and Actual (Budgetary Basis). The State’s annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase order and contract obligations (basis difference), which is a departure from GAAP.

## STATE OF HAWAII

### GENERAL FUND AND MED-QUEST SPECIAL REVENUE FUND
### RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
### JUNE 30, 2013
### (Amounts in thousands)

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2013, follows (amounts expressed in thousands):

| | General Fund | Med-Quest Special Revenue Fund |
|---|---|---|
| Excess of revenues and other sources over expenditures — actual (budgetary basis) | $ 616,340 | $ (6,862) |
| Transfers | - | (3,147) |
| Excess of revenues and over expenditures — actual (budgetary basis) | 616,340 | (10,009) |
| Reserve for encumbrances at fiscal year end * | 321,949 | 69,682 |
| Expenditures for liquidation of prior fiscal year encumbrances | (318,281) | (51,225) |
| Revenues and expenditures for unbudgeted programs and capital projects accounts — net | (1,273) | - |
| Tax refunds payable | (31,387) | - |
| Accrued liabilities | (36,481) | (116,197) |
| Accrued revenues | 66,968 | 105,196 |
| Net change in fund balance — GAAP basis | $ 617,835 | $ (2,553) |

* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

## SCHEDULES OF FUNDING PROGRESS
**(Amounts in millions)**

### PRIMARY GOVERNMENT:

#### EUTF

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| July 1, 2007 | $ - | $ 7,192 | $ 7,192 | - % | $ 1,782 | 403.6 % |
| July 1, 2009 | - | 11,523 | 11,523 | - | 1,432 | 804.7 |
| July 1, 2011 | - | 11,706 | 11,706 | - | 2,093 | 559.3 |

#### HSTA-VEBA

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| July 1, 2007 | $ - | $ 1,579 | $ 1,579 | - % | $ 680 | 232.2 % |
| July 1, 2009 | - | 2,484 | 2,484 | - | 683 | 363.7 |

#### UH

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| July 1, 2007 | $ - | $ 1,136 | $ 1,136 | - % | $ 477 | 238.2 % |
| July 1, 2009 | - | 1,850 | 1,850 | - | 495 | 373.7 |
| July 1, 2011 | - | 1,861 | 1,861 | - | 504 | 369.2 |

# SUPPLEMENTARY INFORMATION

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# NONMAJOR GOVERNMENTAL FUNDS

## Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. Certain Special Revenue Funds are presented separately in the accompanying combining financial statements, with the remainder grouped as a single entity. The Special Revenue Funds are as follows:

**Highways** — Accounts for programs related to maintaining and operating land transportation facilities.

**Natural Resources** — Accounts for programs related to the conservation, development, and utilization of agriculture, aquaculture, water, land, and other natural resources of the State.

**Health** — Accounts for programs related to mental health, nutrition services, communicable disease, and for other public health services.

**Human Services** — Accounts for social service programs, which include public welfare, eligibility and disability determination, and housing assistance.

**Education** — Accounts for programs related to instructional education, school food services, and student driver education.

**Economic Development** — Accounts for programs related to the development and promotion of industry and international commerce, energy development and management, economic research and analysis, and the utilization of resources.

**Employment** — Accounts for programs related to employment and training, disability compensation, placement services, and occupational safety and health.

**Regulatory** — Accounts for programs related to consumer protection, business registration, and cable television regulation.

**Hawaiian Programs** — Accounts for programs related to the betterment of the conditions of native Hawaiians.

**Administrative Support** — Accounts for programs of certain administrative agencies.

**All Other** — Accounts for programs related to water recreation, inmate stores, and driver training and education.

## Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation bonds serviced by the General Fund and general obligation bonds and revenue bonds serviced by the Special Revenue Funds.

# STATE OF HAWAII

## NONMAJOR GOVERNMENTAL FUNDS
## COMBINING BALANCE SHEET
## JUNE 30, 2013
## (Amounts in thousands)

| | Special Revenue Funds | | | | | | |
|---|---|---|---|---|---|---|---|
| | Highways | Natural Resources | Health | Human Services | Education | Economic Development | Employment |
| **ASSETS** | | | | | | | |
| CASH AND CASH EQUIVALENTS | $ 9,118 | $ 6,521 | $ 8,856 | $ 2,483 | $ 40,932 | $ 1,280 | $ 1,950 |
| RECEIVABLES: | | | | | | | |
| Notes and loans — net | - | 17,828 | - | - | - | 1,973 | - |
| Other | - | - | - | 16,700 | - | - | - |
| DUE FROM OTHER FUNDS | - | - | - | - | - | - | - |
| INVESTMENTS | 161,341 | 102,168 | 138,742 | 38,905 | 164,474 | 20,046 | 30,555 |
| TOTAL | $ 170,459 | $ 126,517 | $ 147,598 | $ 58,088 | $ 205,406 | $ 23,299 | $ 32,505 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | |
| LIABILITIES: | | | | | | | |
| Vouchers and contracts payable | $ 31,945 | $ 7,322 | $ 11,592 | $ 9,171 | $ 13,281 | $ 1,784 | $ 4,674 |
| Other accrued liabilities | 4,679 | 2,369 | 6,945 | 391 | 12,032 | 705 | 2,165 |
| Due to federal government | - | - | - | 37,145 | - | - | - |
| Due to other funds | - | 2,152 | - | 16,700 | - | - | - |
| Payable from restricted assets — matured bonds and interest payable | - | - | - | - | - | - | - |
| Total liabilities | 36,624 | 11,843 | 18,537 | 63,407 | 25,313 | 2,489 | 6,839 |
| FUND BALANCES: | | | | | | | |
| Restricted | - | - | - | 21,791 | - | - | - |
| Committed | - | 88,474 | 148,684 | 848 | - | 16,637 | 17,300 |
| Assigned | 133,835 | 26,200 | - | - | 180,093 | 4,173 | 8,366 |
| Unassigned | - | - | (19,623) | (27,958) | - | - | - |
| Total fund balances | 133,835 | 114,674 | 129,061 | (5,319) | 180,093 | 20,810 | 25,666 |
| TOTAL | $ 170,459 | $ 126,517 | $ 147,598 | $ 58,088 | $ 205,406 | $ 23,299 | $ 32,505 |

See accompanying notes to the basic financial statements

| Regulatory | Hawaiian Programs | Administrative Support | All Other | Total | Debt Service Fund | Total Nonmajor Governmental Funds |
|---|---|---|---|---|---|---|
| $ 3,141 | $ 16,785 | $ 15,407 | $ 2,798 | $ 109,271 | $ 235 | $ 109,506 |
| - | 54,502 | - | - | 74,303 | - | 74,303 |
| - | - | - | - | 16,700 | - | 16,700 |
| - | - | - | - | - | 63 | 63 |
| 49,206 | 215,479 | 94,927 | 43,856 | 1,059,699 | - | 1,059,699 |
| $ 52,347 | $ 286,766 | $ 110,334 | $ 46,654 | $ 1,259,973 | $ 298 | $ 1,260,271 |
| $ 641 | $ 9,298 | $ 2,774 | $ 1,177 | $ 93,659 | $ - | $ 93,659 |
| 1,504 | 454 | 2,610 | 2,635 | 36,489 | - | 36,489 |
| - | - | - | - | 37,145 | - | 37,145 |
| - | - | - | 1,496 | 20,348 | - | 20,348 |
| - | - | - | - | - | 235 | 235 |
| 2,145 | 9,752 | 5,384 | 5,308 | 187,641 | 235 | 187,876 |
| - | - | - | - | 21,791 | 63 | 21,854 |
| 39,428 | 120,585 | 54,284 | - | 486,240 | - | 486,240 |
| 10,774 | 156,429 | 50,666 | 41,346 | 611,882 | - | 611,882 |
| - | - | - | - | (47,581) | - | (47,581) |
| 50,202 | 277,014 | 104,950 | 41,346 | 1,072,332 | 63 | 1,072,395 |
| $ 52,347 | $ 286,766 | $ 110,334 | $ 46,654 | $ 1,259,973 | $ 298 | $ 1,260,271 |

(concluded)

# STATE OF HAWAII

## NONMAJOR GOVERNMENTAL FUNDS
## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
## FOR THE FISCAL YEAR ENDED JUNE 30, 2013
## (Amounts in thousands)

| | Special Revenue Funds | | | | | | |
|---|---|---|---|---|---|---|---|
| | Highways | Natural Resources | Health | Human Services | Education | Economic Development | Employment |
| REVENUES: | | | | | | | |
| Taxes: | | | | | | | |
| Franchise tax | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Other tax revenue | - | 23,029 | 1,295 | - | - | 3,884 | 300 |
| Transient accommodations tax | - | 1,000 | - | - | - | - | - |
| Tobacco and liquor taxes | - | - | 15,777 | - | - | - | - |
| Liquid fuel tax | 85,775 | 250 | - | - | - | - | - |
| Tax on premiums of insurance companies | - | - | - | - | - | - | - |
| Vehicle weight and registration tax | 116,194 | - | 5,411 | - | - | - | - |
| Rental motor/tour vehicle surcharge tax | 47,593 | - | - | - | - | - | - |
| Total taxes | 249,562 | 24,279 | 22,483 | - | - | 3,884 | 300 |
| Interest and investment income | 2,043 | 1,495 | 1,124 | 10 | 267 | 244 | 244 |
| Charges for current services | 3,163 | 28,802 | 53,847 | 646 | 41,911 | 5,411 | 15,958 |
| Intergovernmental | 159,257 | 22,903 | 125,209 | 675,402 | 318,482 | 13,930 | 47,012 |
| Rentals | 613 | 9,108 | - | - | 359 | 1,361 | - |
| Fines, forfeitures, and penalties | 2,012 | 59 | 2,047 | - | - | - | 1,231 |
| Licenses and fees | 2,035 | 549 | 1,069 | 169 | 695 | - | - |
| Revenues from private sources | - | 49 | 48,263 | 34 | 8,609 | - | - |
| Other | 9,451 | 7,707 | 779 | 443 | 19,019 | 231 | 2,831 |
| Total revenues | 428,136 | 94,951 | 254,821 | 676,704 | 389,342 | 25,061 | 67,576 |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| General government | - | 4,352 | 191 | - | - | - | - |
| Public safety | - | 5,388 | - | - | - | - | 1,913 |
| Conservation of natural resources | - | 59,609 | - | - | - | - | - |
| Health | - | - | 207,255 | - | - | - | - |
| Welfare | - | - | - | 652,811 | - | - | - |
| Lower education | - | - | - | - | 435,248 | - | - |
| Other education | - | - | - | 14,349 | - | - | - |
| Culture and recreation | - | 11,916 | - | - | 2,742 | - | - |
| Urban redevelopment and housing | - | - | - | 7,338 | - | - | - |
| Economic development and assistance | - | 2,740 | - | - | - | 26,339 | 62,974 |
| Other | - | 3,061 | - | - | - | - | - |
| Highways | 245,863 | 71 | - | - | - | - | - |
| Debt service | - | - | - | - | - | - | - |
| Total expenditures | 245,863 | 87,137 | 207,446 | 674,498 | 437,990 | 26,339 | 64,887 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 182,273 | 7,814 | 47,375 | 2,206 | (48,648) | (1,278) | 2,689 |
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Issuance of GO and refunding GO bonds - par | - | - | - | - | - | - | - |
| Issuance of GO and refunding GO bonds - premium | - | - | - | - | - | - | - |
| Payment to refunded bond escrow agent | - | - | - | - | - | - | - |
| Transfers in | 14,963 | 2,086 | 59 | 3,743 | 60,212 | 2,020 | 57 |
| Transfers out | (202,162) | (1,243) | (26,348) | (16,259) | - | - | (328) |
| Total other financing (uses) sources | (187,199) | 843 | (26,289) | (12,516) | 60,212 | 2,020 | (271) |
| NET CHANGE IN FUND BALANCES | (4,926) | 8,657 | 21,086 | (10,310) | 11,564 | 742 | 2,418 |
| FUND BALANCES — Beginning of year | 138,761 | 106,017 | 107,975 | 4,991 | 168,529 | 20,068 | 23,248 |
| FUND BALANCES — End of year | $ 133,835 | $ 114,674 | $ 129,061 | $ (5,319) | $ 180,093 | $ 20,810 | $ 25,666 |

| Special Revenue Funds | | | | | | Total |
|---|---|---|---|---|---|---|
| | Hawaiian | Administrative | All | | Debt Service | Nonmajor Governmental |
| Regulatory | Programs | Support | Other | Total | Fund | Funds |
| $ 2,000 | $ - | $ - | $ - | 2,000 | $ - | $ 2,000 |
| - | - | - | - | 28,508 | - | 28,508 |
| - | - | - | - | 1,000 | - | 1,000 |
| - | - | 2,148 | - | 17,925 | - | 17,925 |
| - | - | - | 1,620 | 87,645 | - | 87,645 |
| 1,679 | - | - | - | 1,679 | - | 1,679 |
| - | - | - | - | 121,605 | - | 121,605 |
| - | - | - | - | 47,593 | - | 47,593 |
| 3,679 | - | 2,148 | 1,620 | 307,955 | - | 307,955 |
| 411 | 6,528 | 533 | 179 | 13,078 | - | 13,078 |
| 18,503 | 4,559 | 52,339 | 21,878 | 247,017 | - | 247,017 |
| 4,605 | 3,218 | 19,645 | 54,462 | 1,444,125 | - | 1,444,125 |
| - | 12,707 | 960 | 3,249 | 28,357 | - | 28,357 |
| 6,351 | 57 | 233 | 2,469 | 14,459 | - | 14,459 |
| 15,237 | - | 20,197 | 423 | 40,374 | - | 40,374 |
| 1 | 3,000 | 1,757 | 33 | 61,746 | - | 61,746 |
| 67 | 11,611 | 2,991 | 4,271 | 59,401 | | 59,401 |
| 48,854 | 41,680 | 100,803 | 88,584 | 2,216,512 | - | 2,216,512 |
| - | - | 40,426 | 11,845 | 56,814 | - | 56,814 |
| 41,182 | - | 21,984 | 58,928 | 129,395 | - | 129,395 |
| - | - | 210 | - | 59,819 | - | 59,819 |
| - | - | 1 | - | 207,256 | - | 207,256 |
| - | - | 11,938 | 549 | 665,298 | - | 665,298 |
| - | - | 1,306 | - | 436,554 | - | 436,554 |
| - | - | - | - | 14,349 | - | 14,349 |
| - | - | 10,355 | 19,457 | 44,470 | - | 44,470 |
| - | 55,573 | - | - | 62,911 | - | 62,911 |
| 33 | - | 47 | - | 92,133 | - | 92,133 |
| - | - | 5,778 | 634 | 9,473 | - | 9,473 |
| - | 2,817 | 44 | - | 248,795 | - | 248,795 |
| - | - | - | - | - | 687,649 | 687,649 |
| 41,215 | 58,390 | 92,089 | 91,413 | 2,027,267 | 687,649 | 2,714,916 |
| 7,639 | (16,710) | 8,714 | (2,829) | 189,245 | (687,649) | (498,404) |
| - | - | - | - | - | 396,990 | 396,990 |
| - | - | - | - | - | 106,382 | 106,382 |
| - | - | - | - | - | (503,372) | (503,372) |
| 2,701 | 30,000 | 5,390 | 9,278 | 130,509 | 687,648 | 818,157 |
| (2,900) | (3,063) | (18,545) | (2,441) | (273,289) | - | (273,289) |
| (199) | 26,937 | (13,155) | 6,837 | (142,780) | 687,648 | 544,868 |
| 7,440 | 10,227 | (4,441) | 4,008 | 46,465 | (1) | 46,464 |
| 42,762 | 266,787 | 109,391 | 37,338 | 1,025,867 | 64 | 1,025,931 |
| $ 50,202 | $ 277,014 | $ 104,950 | $ 41,346 | $ 1,072,332 | $ 63 | $ 1,072,395 |

# STATE OF HAWAII

## NONMAJOR SPECIAL REVENUE FUNDS
## COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
## FOR THE FISCAL YEAR ENDED JUNE 30, 2013
## (Amounts in thousands)

| | Highways | | | Natural Resources | | |
|---|---|---|---|---|---|---|
| | Budget | Actual (Budgetary Basis) | Variance With Final Budget — Positive (Negative) | Budget | Actual (Budgetary Basis) | Variance With Final Budget — Positive (Negative) |
| REVENUES: | | | | | | |
| Taxes: | | | | | | |
| Unemployment compensation tax | $ - | $ - | $ - | $ - | $ - | $ - |
| Liquid fuel tax: | | | | | | |
| Highways | 91,371 | 85,775 | (5,596) | 230 | 250 | 20 |
| Boating | - | - | - | - | - | - |
| Vehicle registration fee tax | 41,683 | 42,291 | 608 | - | - | - |
| State vehicle weight tax | 66,846 | 73,902 | 7,056 | - | - | - |
| Rental/tour vehicle surcharge tax | 45,632 | 47,593 | 1,961 | - | - | - |
| Employment and training fund assessment | - | - | - | - | - | - |
| Tobacco tax | - | - | - | - | - | - |
| Conveyances tax | - | - | - | 14,775 | 19,144 | 4,369 |
| Environmental response tax | - | - | - | 3,400 | 3,884 | 484 |
| Transient accommodations tax | - | - | - | 1,000 | 1,000 | - |
| Franchise tax | - | - | - | - | - | - |
| Tax on premiums of insurance companies | - | - | - | - | - | - |
| Total taxes | 245,532 | 249,561 | 4,029 | 19,405 | 24,278 | 4,873 |
| Non-taxes: | | | | | | |
| Interest and investment income | 5,000 | 134 | (4,866) | 1,058 | 850 | (208) |
| Charges for current services | 79,506 | 3,163 | (76,343) | 24,974 | 28,730 | 3,756 |
| Intergovernmental | 30,893 | 63,074 | 32,181 | 12,773 | 22,898 | 10,125 |
| Rentals | - | 613 | 613 | 2,876 | 9,108 | 6,232 |
| Fines, forfeitures, and penalties | 1,725 | 2,012 | 287 | 37 | 59 | 22 |
| Licenses and fees | 1,935 | 2,035 | 100 | 495 | 549 | 54 |
| Revenues from private sources | - | - | - | - | 49 | 49 |
| Other | 37 | 50,672 | 50,635 | 3,208 | 7,093 | 3,885 |
| Total non-taxes | 119,096 | 121,703 | 2,607 | 45,421 | 69,336 | 23,915 |
| Total revenues | 364,628 | 371,264 | 6,636 | 64,826 | 93,614 | 28,788 |
| EXPENDITURES: | | | | | | |
| General government | - | - | - | 4,523 | 4,187 | 336 |
| Public safety | - | - | - | 7,864 | 2,306 | 5,558 |
| Highways | 336,974 | 273,345 | 63,629 | - | - | - |
| Conservation of natural resources | - | - | - | 101,351 | 64,140 | 37,211 |
| Health | - | - | - | - | - | - |
| Welfare | - | - | - | - | - | - |
| Lower education | - | - | - | - | - | - |
| Other education | - | - | - | - | - | - |
| Culture and recreation | - | - | - | 14,520 | 11,245 | 3,275 |
| Urban redevelopment and housing | - | - | - | - | - | - |
| Economic development and assistance | - | - | - | 6,789 | 2,799 | 3,990 |
| Other | 1,725 | 1,063 | 662 | - | - | - |
| Total expenditures | 338,699 | 274,408 | 64,291 | 135,047 | 84,677 | 50,370 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | $ 25,929 | $ 96,856 | $ 70,927 | $ (70,221) | $ 8,937 | $ 79,158 |

| Health | | | Human Services | | |
|---|---|---|---|---|---|
| Budget | Actual (Budgetary Basis) | Variance With Final Budget — Positive (Negative) | Budget | Actual (Budgetary Basis) | Variance With Final Budget — Positive (Negative) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 5,144 | 5,411 | 267 | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 17,587 | 15,777 | (1,810) | - | - | - |
| - | - | - | - | - | - |
| 1,340 | 1,295 | (45) | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 24,071 | 22,483 | (1,588) | - | - | - |
| 345 | 195 | (150) | - | 3 | 3 |
| 82,962 | 80,494 | (2,468) | - | 646 | 646 |
| 110,235 | 112,377 | 2,142 | 235,154 | 185,965 | (49,189) |
| - | - | - | - | - | - |
| 1,142 | 2,047 | 905 | - | - | - |
| 2,192 | 1,070 | (1,122) | 406 | 169 | (237) |
| 28,354 | 48,263 | 19,909 | - | 34 | 34 |
| 254 | 1,088 | 834 | - | 774 | 774 |
| 225,484 | 245,534 | 20,050 | 235,560 | 187,591 | (47,969) |
| 249,555 | 268,017 | 18,462 | 235,560 | 187,591 | (47,969) |
| 188 | 185 | 3 | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 349,712 | 283,387 | 66,325 | - | - | - |
| - | - | - | 269,872 | 166,487 | 103,385 |
| - | - | - | - | - | - |
| - | - | - | 22,953 | 14,053 | 8,900 |
| - | - | - | - | - | - |
| - | - | - | 4,201 | 4,077 | 124 |
| - | - | - | 36 | - | 36 |
| - | - | - | - | - | - |
| 349,900 | 283,572 | 66,328 | 297,062 | 184,617 | 112,445 |
| $ (100,345) | $ (15,555) | $ 84,790 | $ (61,502) | $ 2,974 | $ 64,476 |

(Continued)

## STATE OF HAWAII

### NONMAJOR SPECIAL REVENUE FUNDS
### COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
### FOR THE FISCAL YEAR ENDED JUNE 30, 2013
### (Amounts in thousands)

| | Education | | | Economic Development | | |
|---|---|---|---|---|---|---|
| | Budget | Actual (Budgetary Basis) | Variance With Final Budget — Positive (Negative) | Budget | Actual (Budgetary Basis) | Variance With Final Budget — Positive (Negative) |
| REVENUES: | | | | | | |
| Taxes: | | | | | | |
| Unemployment compensation tax | $ - | $ - | $ - | $ - | $ - | $ - |
| Liquid fuel tax: | | | | | | |
| Highways | - | - | - | - | - | - |
| Boating | - | - | - | - | - | - |
| Vehicle registration fee tax | - | - | - | - | - | - |
| State vehicle weight tax | - | - | - | - | - | - |
| Rental/tour vehicle surcharge tax | - | - | - | - | - | - |
| Employment and training fund assessment | - | - | - | - | - | - |
| Tobacco tax | - | - | - | - | - | - |
| Conveyances tax | - | - | - | - | - | - |
| Environmental response tax | - | - | - | 3,526 | 3,884 | 358 |
| Transient accommodations tax | - | - | - | - | - | - |
| Franchise tax | - | - | - | - | - | - |
| Tax on premiums of insurance companies | - | - | - | - | - | - |
| Total taxes | - | - | - | 3,526 | 3,884 | 358 |
| Non-taxes: | | | | | | |
| Interest and investment income | 217 | 66 | (151) | 122 | 52 | (70) |
| Charges for current services | 39,145 | 39,557 | 412 | 9,271 | 5,411 | (3,860) |
| Intergovernmental | 224,383 | 293,181 | 68,798 | 23,047 | 13,930 | (9,117) |
| Rentals | 40 | 359 | 319 | 2,610 | 1,361 | (1,249) |
| Fines, forfeitures, and penalties | - | - | - | - | - | - |
| Licenses and fees | 1,718 | 695 | (1,023) | - | - | - |
| Revenues from private sources | 370 | 187 | (183) | 250 | - | (250) |
| Other | 51,860 | 16,042 | (35,818) | 4 | 2,251 | 2,247 |
| Total non-taxes | 317,733 | 350,087 | 32,354 | 35,304 | 23,005 | (12,299) |
| Total revenues | 317,733 | 350,087 | 32,354 | 38,830 | 26,889 | (11,941) |
| EXPENDITURES: | | | | | | |
| General government | - | - | - | - | - | - |
| Public safety | - | - | - | 1,100 | - | 1,100 |
| Highways | - | - | - | - | - | - |
| Conservation of natural resources | - | - | - | - | - | - |
| Health | - | - | - | - | - | - |
| Welfare | - | - | - | - | - | - |
| Lower education | 570,592 | 334,885 | 235,707 | - | - | - |
| Other education | - | - | - | - | - | - |
| Culture and recreation | 5,044 | 3,429 | 1,615 | - | - | - |
| Urban redevelopment and housing | - | - | - | - | - | - |
| Economic development and assistance | - | - | - | 81,402 | 27,198 | 54,204 |
| Other | - | - | - | - | - | - |
| Total expenditures | 575,636 | 338,314 | 237,322 | 82,502 | 27,198 | 55,304 |
| (DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES | $ (257,903) | $ 11,773 | $ 269,676 | $ (43,672) | $ (309) | $ 43,363 |

| Employment | | | Regulatory | | |
|---|---|---|---|---|---|
| Budget | Actual (Budgetary Basis) | Variance With Final Budget — Positive (Negative) | Budget | Actual (Budgetary Basis) | Variance With Final Budget — Positive (Negative) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | 300 | 300 | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | 2,000 | 2,000 | |
| - | - | - | 1,500 | 1,679 | 179 |
| - | 300 | 300 | 3,500 | 3,679 | 179 |
| 160 | 71 | (89) | 538 | 124 | (414) |
| 18,500 | 15,958 | (2,542) | 18,856 | 18,503 | (353) |
| 40,392 | 47,013 | 6,621 | 10,000 | 4,606 | (5,394) |
| - | - | - | - | - | - |
| 200 | 1,231 | 1,031 | - | 6,351 | 6,351 |
| - | - | - | 15,766 | 15,237 | (529) |
| - | - | - | - | - | - |
| 6 | 3,474 | 3,468 | 3,004 | 2,769 | (235) |
| 59,258 | 67,747 | 8,489 | 48,164 | 47,590 | (574) |
| 59,258 | 68,047 | 8,789 | 51,664 | 51,269 | (395) |
| - | - | - | - | - | - |
| 4,472 | 1,913 | 2,559 | 73,366 | 44,143 | 29,223 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 130,298 | 63,195 | 67,103 | 59 | 33 | 26 |
| - | - | - | - | - | - |
| 134,770 | 65,108 | 69,662 | 73,425 | 44,176 | 29,249 |
| $ (75,512) | $ 2,939 | $ 78,451 | $ (21,761) | $ 7,093 | $ 28,854 |

(Continued)

# STATE OF HAWAII

## NONMAJOR SPECIAL REVENUE FUNDS
## COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
## FOR THE FISCAL YEAR ENDED JUNE 30, 2013
## (Amounts in thousands)

| | Hawaiian Programs | | | Administrative Support | | |
|---|---|---|---|---|---|---|
| | Budget | Actual (Budgetary Basis) | Variance With Final Budget — Positive (Negative) | Budget | Actual (Budgetary Basis) | Variance With Final Budget — Positive (Negative) |
| REVENUES: | | | | | | |
| Taxes: | | | | | | |
| Unemployment compensation tax | $ - | $ - | $ - | $ - | $ - | $ - |
| Liquid fuel tax: | | | | | | |
| Highways | - | - | - | - | - | - |
| Boating | - | - | - | - | - | - |
| Vehicle registration fee tax | - | - | - | - | - | - |
| State vehicle weight tax | - | - | - | - | - | - |
| Rental/tour vehicle surcharge tax | - | - | - | - | - | - |
| Employment and training fund assessment | - | - | - | - | - | - |
| Tobacco tax | - | - | - | 1,752 | 2,148 | 396 |
| Conveyances tax | - | - | - | - | - | - |
| Environmental response tax | - | - | - | - | - | - |
| Transient accommodations tax | - | - | - | - | - | - |
| Franchise tax | - | - | - | - | - | - |
| Tax on premiums of insurance companies | - | - | - | - | - | - |
| Total taxes | - | - | - | 1,752 | 2,148 | 396 |
| Non-taxes: | | | | | | |
| Interest and investment income | 710 | 310 | (400) | 808 | 89 | (719) |
| Charges for current services | 1 | 16 | 15 | 46,399 | 54,904 | 8,505 |
| Intergovernmental | 8,000 | 3,218 | (4,782) | 20,878 | 19,645 | (1,233) |
| Rentals | 9,537 | 12,350 | 2,813 | 6,235 | 6,460 | 225 |
| Fines, forfeitures, and penalties | - | 57 | 57 | 261 | 233 | (28) |
| Licenses and fees | - | - | - | 17,296 | 20,197 | 2,901 |
| Revenues from private sources | - | 3,000 | 3,000 | 1,940 | 1,757 | (183) |
| Other | 4,660 | 6,551 | 1,891 | 5,864 | 4,720 | (1,144) |
| Total non-taxes | 22,908 | 25,502 | 2,594 | 99,681 | 108,005 | 8,324 |
| Total revenues | 22,908 | 25,502 | 2,594 | 101,433 | 110,153 | 8,720 |
| EXPENDITURES: | | | | | | |
| General government | - | - | - | 86,710 | 52,090 | 34,620 |
| Public safety | - | - | - | 25,532 | 18,990 | 6,542 |
| Highways | - | - | - | 568 | 555 | 13 |
| Conservation of natural resources | - | - | - | 336 | 19 | 317 |
| Health | - | - | - | - | - | - |
| Welfare | - | - | - | 15,463 | 11,238 | 4,225 |
| Lower education | - | - | - | 1,500 | 1,307 | 193 |
| Other education | - | - | - | - | - | - |
| Culture and recreation | - | - | - | 14,473 | 11,055 | 3,418 |
| Urban redevelopment and housing | 43,532 | 21,787 | 21,745 | - | - | - |
| Economic development and assistance | - | - | - | 45 | 45 | - |
| Other | - | - | - | 22,507 | 5,785 | 16,722 |
| Total expenditures | 43,532 | 21,787 | 21,745 | 167,134 | 101,084 | 66,050 |
| (DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES | $ (20,624) | $ 3,715 | $ 24,339 | $ (65,701) | $ 9,069 | $ 74,770 |

| All Other | | | Total Special Revenue Funds | | |
|---|---|---|---|---|---|
| Budget | Actual (Budgetary Basis) | Variance With Final Budget — Positive (Negative) | Budget | Actual (Budgetary Basis) | Variance With Final Budget — Positive (Negative) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| - | - | - | 91,601 | 86,025 | (5,576) |
| 1,600 | 1,621 | 21 | 1,600 | 1,621 | 21 |
| - | - | - | 46,827 | 47,702 | 875 |
| - | - | - | 66,846 | 73,902 | 7,056 |
| - | - | - | 45,632 | 47,593 | 1,961 |
| - | - | - | - | 300 | 300 |
| - | - | - | 19,339 | 17,925 | (1,414) |
| - | - | - | 14,775 | 19,144 | 4,369 |
| - | - | - | 8,266 | 9,063 | 797 |
| - | - | - | 1,000 | 1,000 | - |
| - | - | - | 2,000 | 2,000 | - |
| - | - | - | 1,500 | 1,679 | 179 |
| 1,600 | 1,621 | 21 | 299,386 | 307,954 | 8,568 |
| 345 | 64 | (281) | 9,303 | 1,958 | (7,345) |
| 18,718 | 21,878 | 3,160 | 338,332 | 269,260 | (69,072) |
| 31,376 | 54,461 | 23,085 | 747,131 | 820,368 | 73,237 |
| 2,000 | 3,249 | 1,249 | 23,298 | 33,500 | 10,202 |
| 2,628 | 2,470 | (158) | 5,993 | 14,460 | 8,467 |
| 512 | 423 | (89) | 40,320 | 40,375 | 55 |
| 30 | 34 | 4 | 30,944 | 53,324 | 22,380 |
| 7,833 | 12,809 | 4,976 | 76,730 | 108,243 | 31,513 |
| 63,442 | 95,388 | 31,946 | 1,272,051 | 1,341,488 | 69,437 |
| 65,042 | 97,009 | 31,967 | 1,571,437 | 1,649,442 | 78,005 |
| 18,486 | 14,661 | 3,825 | 109,907 | 71,123 | 38,784 |
| 116,130 | 66,793 | 49,337 | 228,464 | 134,145 | 94,319 |
| - | - | - | 337,542 | 273,900 | 63,642 |
| - | - | - | 101,687 | 64,159 | 37,528 |
| - | - | - | 349,712 | 283,387 | 66,325 |
| 550 | 549 | 1 | 285,885 | 178,274 | 107,611 |
| - | - | - | 572,092 | 336,192 | 235,900 |
| - | - | - | 22,953 | 14,053 | 8,900 |
| 19,135 | 13,841 | 5,294 | 53,172 | 39,570 | 13,602 |
| - | - | - | 47,733 | 25,864 | 21,869 |
| - | - | - | 218,629 | 93,270 | 125,359 |
| - | - | - | 24,232 | 6,848 | 17,384 |
| 154,301 | 95,844 | 58,457 | 2,352,008 | 1,520,785 | 831,223 |
| $ (89,259) | $ 1,165 | $ 90,424 | $ (780,571) | $ 128,657 | $ 909,228 |

(Concluded)

# STATE OF HAWAII

**NONMAJOR SPECIAL REVENUE FUNDS**
**RECONCILIATION OF THE BUDGETARY TO GAAP BASIS**
**JUNE 30, 2013**
**(Amounts in thousands)**

| | | |
|---|---|---|
| EXCESS OF REVENUES OVER EXPENDITURES — Actual (budgetary basis) | $ | 128,657 |
| RESERVE FOR ENCUMBRANCES AT YEAR-END* | | 287,081 |
| EXPENDITURES FOR LIQUIDATION OF PRIOR FISCAL YEAR ENCUMBRANCES | | (372,032) |
| EXPENDITURES FOR UNBUDGETED PROGRAMS, PRINCIPALLY EXPENDITURES FOR CAPITAL PROJECTS ACCOUNTS AND REVOLVING FUNDS | | (46,440) |
| EXPENDITURES FOR DEBT SERVICE PAID OUT OF OTHER GOVERNMENTAL FUNDS | | (687,649) |
| TRANSFERS | | 170,418 |
| ACCRUED LIABILITIES | | (498,835) |
| ACCRUED REVENUES | | 520,396 |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES — GAAP basis | $ | (498,404) |

* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

# STATE OF HAWAII

## NONMAJOR PROPRIETARY FUNDS
## COMBINING STATEMENT OF FUND NET POSITION
## JUNE 30, 2013
## (Amounts in thousands)

| | Employer-Union Trust Fund | Water Pollution Control Revolving Fund | Drinking Water Treatment Revolving Fund | Total Nonmajor Proprietary Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | $ 12,669 | $ 148,844 | $ 64,924 | $ 226,437 |
| Receivables: | | | | |
| Accounts and accrued interest (net of allowance for doubtful accounts of $0) | 44 | 599 | 104 | 747 |
| Promissory note receivable (net of allowance for doubtful accounts of $0) | - | 26,199 | 4,364 | 30,563 |
| Federal government | | 102 | 492 | 594 |
| Premiums | 67,896 | - | - | 67,896 |
| Other | 2,849 | 281 | 629 | 3,759 |
| Prepaid expenses and other assets | 5,355 | - | - | 5,355 |
| Total current assets | 88,813 | 176,025 | 70,513 | 335,351 |
| CAPITAL ASSETS - Equipment | 9,956 | 78 | 1,237 | 11,271 |
| | 9,956 | 78 | 1,237 | 11,271 |
| Less accumulated depreciation | (5,149) | (51) | (1,052) | (6,252) |
| Net capital assets | 4,807 | 27 | 185 | 5,019 |
| Promissory note receivable | - | 279,296 | 56,973 | 336,269 |
| Other | - | 12,198 | - | 12,198 |
| Total noncurrent assets | 4,807 | 291,521 | 57,158 | 353,486 |
| TOTAL ASSETS | $ 93,620 | $ 467,546 | $ 127,671 | $ 688,837 |

(Continued)

# STATE OF HAWAII

## NONMAJOR PROPRIETARY FUNDS
## COMBINING STATEMENT OF FUND NET POSITION
## JUNE 30, 2013
## (Amounts in thousands)

| | Employer-Union Trust Fund | Water Pollution Control Revolving Fund | Drinking Water Treatment Revolving Fund | Total Nonmajor Proprietary Funds |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| CURRENT LIABILITIES: | | | | |
| Vouchers and contracts payable | $ 191 | $ 102 | $ 325 | $ 618 |
| Other accrued liabilities | 1,811 | - | - | 1,811 |
| Accrued vacation, current portion | 66 | 60 | 24 | 150 |
| Benefits claims payable | 2,665 | - | - | 2,665 |
| Premiums payable | 35,771 | - | - | 35,771 |
| Total current liabilities | 40,504 | 162 | 349 | 41,015 |
| NONCURRENT LIABILITIES: | | | | |
| Accrued vacation | 205 | 213 | 133 | 551 |
| Other postemployment benefit liability | 1,476 | 1,124 | 490 | 3,090 |
| TOTAL | 42,185 | 1,499 | 972 | 44,656 |
| **NET POSITION** | | | | |
| NET INVESTMENT IN CAPITAL ASSETS | 4,807 | 27 | 185 | 5,019 |
| RESTRICTED FOR BOND REQUIREMENTS AND OTHER | - | 466,020 | 126,514 | 592,534 |
| UNRESTRICTED | 46,628 | - | - | 46,628 |
| TOTAL NET POSITION | $ 51,435 | $ 466,047 | $ 126,699 | $ 644,181 |

See accompanying notes to the basic financial statements

(Concluded)

# STATE OF HAWAII

## NONMAJOR PROPRIETARY FUNDS
## COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
## FOR THE FISCAL YEAR ENDED JUNE 30, 2013
## (Amounts in thousands)

| | Employer Union Trust Fund | Water Pollution Control Revolving Fund | Drinking Water Treatment Revolving Fund | Total Nonmajor Proprietary Funds |
|---|---|---|---|---|
| OPERATING REVENUES: | | | | |
| Administrative fees | $ 5,821 | $ 1,838 | $ 2,228 | $ 9,887 |
| Premium revenue — self insurance | 50,843 | - | - | 50,843 |
| Increase in premium reserves | 39,540 | - | - | 39,540 |
| Other | 208 | 2,479 | 226 | 2,913 |
| Total operating revenues | 96,412 | 4,317 | 2,454 | 103,183 |
| OPERATING EXPENSES: | | | | |
| Personnel services | 2,741 | 1,743 | 1,053 | 5,537 |
| Depreciation | 1,375 | 10 | 84 | 1,469 |
| Repairs and maintenance | 9 | - | 70 | 79 |
| General administration | 2,403 | 161 | 1,384 | 3,948 |
| Claims | 46,819 | - | - | 46,819 |
| Other | 24 | 10 | 19 | 53 |
| Total operating expenses | 53,371 | 1,924 | 2,610 | 57,905 |
| Operating income (loss) | 43,041 | 2,393 | (156) | 45,278 |
| NONOPERATING REVENUES (EXPENSE): | | | | |
| Interest and investment income | 409 | 1,346 | 299 | 2,054 |
| Other | - | (1,000) | (7,214) | (8,214) |
| Total nonoperating revenues (expenses) | 409 | 346 | (6,915) | (6,160) |
| INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | 43,450 | 2,739 | (7,071) | 39,118 |
| CAPITAL CONTRIBUTIONS: | - | 22,114 | 7,465 | 29,579 |
| CHANGE IN NET POSITION | 43,450 | 24,853 | 394 | 68,697 |
| NET POSITION — Beginning of year | 7,985 | 441,194 | 126,305 | 575,484 |
| NET POSITION — End of year | $ 51,435 | $ 466,047 | $ 126,699 | $ 644,181 |

See accompanying notes to the basic financial statements

# STATE OF HAWAII

## NONMAJOR PROPRIETARY FUNDS
## COMBINING STATEMENT OF CASH FLOWS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2013
## (Amounts in thousands)

| | Employer Union Trust Fund | Water Pollution Control Revolving Fund | Drinking Water Treatment Revolving Fund | Total Nonmajor Proprietary Funds |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Cash received from employer and employee for premium and benefit payments | $ 487,681 | $ - | $ - | $ 487,681 |
| Cash paid to suppliers | (2,757) | (149) | (1,352) | (4,258) |
| Cash paid to employees | (2,282) | (1,466) | (863) | (4,611) |
| Cash paid for premiums and benefit payments | (486,285) | - | - | (486,285) |
| Reserves returned by insurance carriers | 15,914 | - | - | 15,914 |
| Interest income from notes receivable | - | 2,662 | 230 | 2,892 |
| Administrative loan fees | - | 1,962 | 2,283 | 4,245 |
| Principal repayments on notes receivable | - | 46,523 | 15,132 | 61,655 |
| Disbursement of notes receivable proceeds | - | (28,536) | (3,316) | (31,852) |
| Net cash provided by operating activities | 12,271 | 20,996 | 12,114 | 45,381 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | |
| State capital contributions | - | 3,157 | 2,715 | 5,872 |
| Proceeds from federal operating grants | - | 18,856 | 4,497 | 23,353 |
| Disbursement of federal operating grants | - | (2,581) | (368) | (2,949) |
| Net cash provided by noncapital financing activities | - | 19,432 | 6,844 | 26,276 |
| CASH FLOWS FROM INVESTING ACTIVITIES — Interest from and change in fair value of investments | 398 | 1,308 | 282 | 1,988 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 12,669 | 41,736 | 19,240 | 73,645 |
| CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year | - | 107,108 | 45,684 | 152,792 |
| CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year | $ 12,669 | $ 148,844 | $ 64,924 | $ 226,437 |

(Continued)

**COMBINING STATEMENT OF CASH FLOWS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**
**(Amounts in thousands)**

| | Employer Union Trust Fund | Water Pollution Control Revolving Fund | Drinking Water Treatment Revolving Fund | Total Nonmajor Proprietary Funds |
|---|---|---|---|---|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | | | |
| Operating income | $ 43,041 | $ 2,393 | $ (156) | $ 45,278 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 1,375 | 10 | 84 | 1,469 |
| Premium reserves held by insurance companies | (36,405) | - | - | (36,405) |
| Principal forgiveness of loan | - | (1,000) | - | (1,000) |
| Decrease (increase) in assets: | | | | |
| Receivables | 550 | 19,294 | 11,876 | 31,720 |
| Deposits | 11,456 | - | - | 11,456 |
| Prepaid expenses and other assets | (101) | - | - | (101) |
| Increase in liabilities: | | | | |
| Vouchers and contracts payable | (240) | 19 | 148 | (73) |
| Other accrued liabilities | (2,584) | 280 | 162 | (2,142) |
| Benefits claim payable | (4,821) | - | - | (4,821) |
| Net cash provided by operating activities | $ 12,271 | $ 20,996 | $ 12,114 | $ 45,381 |

(Concluded)

## STATE OF HAWAII

**FIDUCIARY FUNDS**
**COMBINING STATEMENT OF FIDUCIARY NET POSITION — AGENCY FUNDS**
**JUNE 30, 2013**
**(Amounts in thousands)**

| | Agency Funds | | | Total |
|---|---|---|---|---|
| | Tax Collections | Custodial | Other | Total Agency Funds |
| **ASSETS** | | | | |
| CASH AND CASH EQUIVALENTS | $ 2,137 | $ 208,917 | $ 5,629 | $ 216,683 |
| RECEIVABLES — taxes | - | - | 39,078 | 39,078 |
| INVESTMENTS | 33,479 | 279,636 | 82,856 | 395,971 |
| OTHER ASSETS — primarily due from individuals, businesses, and counties | (26,506) | 58,159 | - | 31,653 |
| TOTAL ASSETS | $ 9,110 | $ 546,712 | $ 127,563 | $ 683,385 |
| **LIABILITIES** | | | | |
| VOUCHERS PAYABLE | $ 9,110 | $ 7 | $ 597 | $ 9,714 |
| DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES | - | 546,705 | 126,966 | 673,671 |
| TOTAL LIABILITIES | $ 9,110 | $ 546,712 | $ 127,563 | $ 683,385 |

# STATE OF HAWAII

## FIDUCIARY FUNDS
## COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2013
## (Amounts in thousands)

| | Balance — July 1, 2012 | Additions | Deductions | Balance — June 30, 2013 |
|---|---|---|---|---|
| TAX COLLECTIONS: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | $ 5,541 | $ 7,551,805 | $ (7,555,209) | $ 2,137 |
| Due from individuals, businesses, and counties | 46,169 | 7,479,130 | (7,551,805) | (26,506) |
| Investments | 6,772 | 33,479 | (6,772) | 33,479 |
| Total assets | $ 58,482 | $ 15,064,414 | $ (15,113,786) | $ 9,110 |
| Liabilities: | | | | |
| Vouchers payable | $ 58,482 | $ 9,110 | $ (58,482) | $ 9,110 |
| Due to individuals, businesses, and counties | - | - | - | - |
| Total liabilities | $ 58,482 | $ 9,110 | $ (58,482) | $ 9,110 |
| CUSTODIAL: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | $ 443,341 | $ 4,622,936 | $ (4,857,360) | $ 208,917 |
| Due from individuals, businesses, and counties | 48,378 | 465,867 | (456,086) | 58,159 |
| Investments | 42,660 | 279,636 | (42,660) | 279,636 |
| Total assets | $ 534,379 | $ 5,368,439 | $ (5,356,106) | $ 546,712 |
| Liabilities: | | | | |
| Vouchers payable | $ 74 | $ 7 | $ (74) | $ 7 |
| Due to individuals, businesses, and counties | 534,305 | 4,385,782 | (4,373,382) | 546,705 |
| Total liabilities | $ 534,379 | $ 4,385,789 | $ (4,373,456) | $ 546,712 |
| OTHER: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | $ 29,582 | $ 42,516 | $ (66,469) | $ 5,629 |
| Receivables | 33,444 | 39,078 | (33,444) | 39,078 |
| Investments | 43,100 | 82,856 | (43,100) | 82,856 |
| Total assets | $ 106,126 | $ 164,450 | $ (143,013) | $ 127,563 |
| Liabilities: | | | | |
| Vouchers payable | $ 65 | $ 597 | $ (65) | $ 597 |
| Due to individuals, businesses, and counties | 106,061 | 48,150 | (27,245) | 126,966 |
| Total liabilities | $ 106,126 | $ 48,747 | $ (27,310) | $ 127,563 |
| TOTAL — All agency funds: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | $ 478,464 | $ 12,217,257 | $ (12,479,038) | $ 216,683 |
| Receivables | 33,444 | 39,078 | (33,444) | 39,078 |
| Due from individuals, businesses, and counties | 94,547 | 7,944,997 | (8,007,891) | 31,653 |
| Investments | 92,532 | 395,971 | (92,532) | 395,971 |
| Total assets | $ 698,987 | $ 20,597,303 | $ (20,612,905) | $ 683,385 |
| Liabilities: | | | | |
| Vouchers payable | $ 58,621 | $ 9,714 | $ (58,621) | $ 9,714 |
| Due to individuals, businesses, and counties | 640,366 | 4,433,932 | (4,400,627) | 673,671 |
| Total liabilities | $ 698,987 | $ 4,443,646 | $ (4,459,248) | $ 683,385 |

# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

# AND

# OMB CIRCULAR A-133 COMPLIANCE REPORTS

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the Auditor of
State of Hawaii:

We have audited 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State of Hawaii's basic financial statements, and have issued our report thereon dated January 27, 2014.

Our report includes a reference to other auditors who audited the financial statements of the Department of Transportation — Airports and Harbors Divisions, which are major enterprise funds; the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, which are nonmajor enterprise funds; and the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, which are discretely presented component units, as described in our report on the State of Hawaii's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### *Internal Control over Financial Reporting*

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2013-001 through 2013-004).

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the State of Hawaii's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

***State of Hawaii's Response to Findings***

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

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

Deloitte + Touche LLP

Honolulu, Hawaii
January 27, 2014

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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Independent Auditors' Report

To the Auditor of
State of Hawaii:

***Report on Compliance for Each Major Federal Program***

We have audited the State of Hawaii's Department of Accounting and General Services, Department of Agriculture, Department of Budget and Finance, Department of Business, Economic Development and Tourism, Department of Commerce and Consumer Affairs, Department of Defense, Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Land and Natural Resources, Department of Public Safety, Department of Taxation, and the Governor's Office (collectively, the "Departments"), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of these Departments' major federal programs for the year ended June 30, 2013. These Departments' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The State of Hawaii's basic financial statements include, among other departments and agencies, the operations of: Department of the Attorney General, Department of Education, Department of Hawaiian Home Lands, Department of Health, Department of Human Services, Department of Transportation, Drinking Water Treatment Revolving Loan Fund, Hawaii Community Development Authority, Hawaii Employer-Union Health Benefits Trust Fund, Hawaii Health Systems Corporation, Hawaii Housing Finance and Development Corporation, Hawaii Hurricane Relief Fund, Hawaii Public Housing Authority, Hawaii Tourism Authority, University of Hawaii, and the Water Pollution Control Revolving Fund. These entities expended $3,030,702,950 in federal awards, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2013. Our audit, described below, did not include the operations of the Department of Attorney General, Department of Education, Department of Hawaiian Home Lands, Department of Health, Department of Human Services, Department of Transportation, Drinking Water Treatment Revolving Loan Fund, Hawaii Community Development Authority, Hawaii Employer-Union Health Benefits Trust Fund, Hawaii Health Systems Corporation, Hawaii Housing Finance and Development Corporation, Hawaii Hurricane Relief Fund, Hawaii Public Housing Authority, Hawaii Tourism Authority, University of Hawaii, and the Water Pollution Control Revolving Fund, because these units engaged other auditors to perform audits in accordance with OMB Circular A-133 or did not require an audit in accordance with OMB Circular A-133.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Departments' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Government, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Departments' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Basis for Qualified Opinion on Major Federal Programs***

As described in the accompanying schedule of findings and questioned cost, the Departments did not comply with the requirements regarding cash management that are applicable to CFDA No. 12.401 and ARRA 12.401, *National Guard Military Operations and Maintenance Projects*, CFDA No. 12.800, *Air Force Defense Research Sciences Program,* CFDA No. 17.225 and ARRA 17.225, *Unemployment Insurance*, CFDA No. 81.041 and ARRA 81.041, *State Energy Program,* CFDA No. 93.525, *State Planning and Establishment Grants for the Affordable Care Act's Exchanges*, CFDA No. 97.056, *Port Security Grant Program,* and CFDA No. 97.067, *Homeland Security Grant Program* as described in finding numbers 2013-015, 2013-022, 2013-035, 2013-044, 2013-047, 2013-050 and 2013-053, respectively. Compliance with such requirements is necessary, in our opinion, for the Department's to comply with the requirements applicable to that programs.

***Qualified Opinion Major Federal Programs***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Departments' complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA No. 12.401 and ARRA 12.401, *National Guard Military Operations and Maintenance Projects*, CFDA No. 12.800, *Air Force Defense Research Sciences Program*, CFDA No. 17.225 and ARRA 17.225, *Unemployment Insurance*, CFDA No. 81.041 and ARRA 81.041, *State Energy Program*, CFDA No. 93.525, *State Planning and Establishment Grants for the Affordable Care Act's Exchanges,* CFDA No. 97.056, *Port Security Grant Program*, and CFDA No. 97.067, *Homeland Security Grant Program* for the year ended June 30, 2013.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the Departments' complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Departments' other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-005 through 2013-014, 2013-016 through 2013-021, 2013-023 through 2013-034, 2013-036 through 2013-043, 2013-045, 2013-046, 2013-048, 2013-049, 2013-051, 2013-052, and 2013-054 through 2013-057. Our opinion on each major federal program is not modified with respect to these matters.

The Departments' response to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The Departments' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Report on Internal Control over Compliance***

Management of the State of Hawaii is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Departments' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Departments' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-015, 2013-022, 2013-035, 2013-044, 2013-047, 2013-050 and 2013-053 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-005 through 2013-014, 2013-016 through 2013-021, 2013-023 through 2013-034, 2013-036 through 2013-043, 2013-045, 2013-046, 2013-048, 2013-049, 2013-051, 2013-052, and 2013-054 through 2013-057 to be significant deficiencies.

The Departments' response to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. The Departments' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

***Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133***

We have audited the financial statements of governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2013, and have issued our report thereon dated January 27, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte + Touche LLP

Honolulu, Hawaii
March 28, 2014

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## YEAR ENDED JUNE 30, 2013

| Federal Grantor/Pass-through Grantor and Program Title | Federal CFDA Number | Federal Expenditures | Amount Provided to Subrecipients |
|---|---|---|---|
| DEPARTMENT OF AGRICULTURE: | | | |
| U.S. Department of Agriculture Direct Programs: | | | |
| Plant and Animal Disease, Pest Control, and Animal Care | 10.025 | $ 526,636 | $ - |
| Voluntary Public Access and Habitat Incentive Program | 10.093 | 20,232 | |
| Inspection Grading and Standardization | 10.162 | 12,723 | |
| Market Protection and Promotion | 10.163 | 35,272 | |
| Specialty Crop Block Grant Program — Farm Bill | 10.170 | 420,368 | |
| Organic Certification Cost Share Programs | 10.171 | 46,066 | |
| Emergency Food Assistance Program (Administrative Costs) | 10.568 | 76,003 | 52,301 |
| Senior Farmers Market Nutrition Program | 10.576 | 486,817 | 466,107 |
| Emerging Markets Program | 10.603 | 575 | |
| Cooperative Forestry Assistance | 10.664 | 1,283,539 | 707,084 |
| Urban and Community Forestry Program | 10.675 | 438,322 | 56,186 |
| Forest Legacy Program | 10.676 | 42,556 | |
| Forest Stewardship Program | 10.678 | 298,490 | 108,080 |
| Forest Health Protection | 10.680 | 1,121,055 | |
| ARRA — Wildland Fire Management | ARRA 10.688 | 563,606 | |
| Watershed Protection and Flood Prevention | 10.904 | 214,293 | |
| Wildlife Habitat Incentive Program | 10.914 | 115,989 | |
| Total U.S. Department of Agriculture Direct Programs | | 5,702,542 | 1,389,758 |
| U.S. Department of Agriculture Pass-Through Program from: | | | |
| State Department of Human Services — State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | 134,792 | |
| Total U.S. Department of Agriculture | | 5,837,334 | 1,389,758 |
| DEPARTMENT OF COMMERCE: | | | |
| U.S. Department of Commerce Direct Programs: | | | |
| Economic Adjustment Assistance | 11.307 | 164,534 | |
| Interjurisdictional Fisheries Act of 1986 | 11.407 | 42,623 | |
| Fishery Products Inspection and Certification | 11.413 | 564 | |
| Coastal Zone Management Administration Awards | 11.419 | 1,984,537 | 1,086,440 |
| Financial Assistance for National Centers for Coastal Ocean Science | 11.426 | 40,567 | |
| Marine Sanctuary Program | 11.429 | 325,130 | |
| Pacific Fisheries Data Program | 11.437 | 392,479 | |
| Unallied Management Projects | 11.454 | 45,963 | |
| Habitat Conservation | 11.463 | 118,580 | |
| Meteorologic and Hydrologic Modernization Development | 11.467 | 522,079 | |
| Unallied Science Program | 11.472 | 235,508 | |
| Coastal Services Center | 11.473 | 192,969 | 74,859 |
| Center for Sponsored Coastal Ocean Research — Coastal Ocean Program | 11.478 | 31,411 | |
| Coral Reef Conservation Program | 11.482 | 305,969 | |
| ARRA — State Broadband Data and Development Grant Program | ARRA 11.558 | 432,587 | 432,587 |
| Manufacturing Extension Partnership | 11.611 | 404,944 | |
| National Oceanic and Atmosphere Administration — Management Support for Hawaiian Islands Humpback Whale, Joint Enforcement Agreement | 11.Unknown | 742,039 | |
| Total U.S. Department of Commerce | | 5,982,483 | 1,593,886 |

See accompanying notes to schedule of expenditures of federal awards.

(Continued)

# STATE OF HAWAII

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## YEAR ENDED JUNE 30, 2013

| Federal Grantor/Pass-through Grantor and Program Title | Federal CFDA Number | Federal Expenditures | Amount Provided to Subrecipients |
|---|---|---|---|
| DEPARTMENT OF DEFENSE: | | | |
| U.S. Department of Defense Direct Programs: | | | |
| National Guard Military Operations and Maintenance Projects | 12.401 | $ 21,001,492 | $ - |
| ARRA — National Guard Military Operations and Maintenance Projects | ARRA 12.401 | 261,890 | |
| National Guard ChalleNGe Program | 12.404 | 3,799,283 | |
| Basic, Applied, and Advanced Research in Science and Engineering | 12.630 | 81,820 | |
| Air Force Defense Research Sciences Program | 12.800 | 4,985,798 | |
| Research and Technology Development | 12.910 | 1,598,550 | |
| Total U.S. Department of Defense | | 31,728,833 | - |
| DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | | |
| U.S. Department of Housing and Urban Development Direct Program — | | | |
| Fair Housing Assistance Program — State and Local | 14.401 | 128,996 | |
| Total U.S. Department of Housing and Urban Development | | 128,996 | - |
| DEPARTMENT OF INTERIOR: | | | |
| U.S. Department of Interior Direct Programs: | | | |
| Fish and Wildlife Management Assistance | 15.608 | 504,404 | |
| Coastal Wetlands Planning, Protection and Restoration Act | 15.614 | 33,066 | |
| Cooperative Endangered Species Conservation Fund | 15.615 | 4,030,856 | 173,146 |
| Partners for Fish and Wildlife | 15.631 | 23,784 | |
| Landowner Incentive Program | 15.633 | 751,260 | |
| State Wildlife Grants | 15.634 | 673,000 | |
| Service Training and Technical Assistance (Generic Training) | 15.649 | 2,013 | |
| Endangered Species Conservation — Recovery Implementation Funds | 15.657 | 924,251 | |
| Fish and Wildlife Coordination and Assistance Programs | 15.664 | 17,175 | |
| Economic, Social, and Political Development of the Territories | 15.875 | 131,088 | |
| Historic Preservation Fund Grants-In-Aid | 15.904 | 106,096 | |
| Outdoor Recreation — Acquisition, Development and Planning | 15.916 | 873,336 | 787,805 |
| Natural Resource Stewardship | 15.944 | 463,716 | |
| Coral Reef Studies | 15.Unknown | 21,964 | |
| Total U.S. Department of Interior Direct Programs | | 8,556,009 | 960,951 |
| Fish and Wildlife Cluster: | | | |
| Sport Fish Restoration Program | 15.605 | 3,310,241 | |
| Wildlife Restoration and Basic Hunter Education | 15.611 | 1,817,168 | |
| Total Fish and Wildlife Cluster | | 5,127,409 | - |
| Total U.S. Department of Interior | | 13,683,418 | 960,951 |

See accompanying notes to schedule of expenditures of federal awards. (Continued)

# STATE OF HAWAII

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## YEAR ENDED JUNE 30, 2013

| Federal Grantor/Pass-through Grantor and Program Title | Federal CFDA Number | Federal Expenditures | Amount Provided to Subrecipients |
|---|---|---|---|
| DEPARTMENT OF JUSTICE: | | | |
| U.S. Department of Justice Direct Programs: | | | |
| Discretionary Grant Program | 16.203 | $ 70,348 | $ - |
| Crime Victim Compensation | 16.576 | 404,905 | |
| Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program | 16.580 | 128,503 | |
| Statewide Automated Victim Information Notification Program | 16.740 | 145,492 | |
| Criminal and Juvenile Justice and Mental Health Collaboration Program | 16.745 | 58,696 | |
| Second Chance Act Prisoner Reentry Initiative | 16.812 | 83,791 | |
| U.S. Drug Enforcement Agency | 16.Unknown | 149,206 | |
| Marijuana Eradication | 16.Unknown | 226,681 | |
| Total U.S. Department of Justice Direct Programs | | 1,267,622 | - |
| U.S. Department of Justice Pass-Through Programs from: | | | |
| State Department of the Attorney General: | | | |
| Residential Substance Abuse Treatment for State Prisoners | 16.593 | 82,426 | |
| Paul Coverdell Forensic Sciences Improvement Grant Program | 16.742 | 139,768 | |
| Total U.S. Department of Justice Pass-Through Programs | | 222,194 | - |
| State Department of the Attorney General: | | | |
| Justice Assistance Grant Program Cluster: | | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 117,315 | |
| ARRA — Edward Byrne Memorial Justice Assistance Grant Program/Grants to States and Territories | ARRA 16.803 | 104,283 | |
| Total Justice Assistance Grant Program Cluster | | 221,598 | - |
| Total U.S. Department of Justice | | 1,711,414 | - |
| DEPARTMENT OF LABOR: | | | |
| U.S. Department of Labor Direct Programs: | | | |
| Labor Force Statistics | 17.002 | 637,943 | |
| Compensation and Working Conditions | 17.005 | 73,345 | |
| Unemployment Insurance | 17.225 | 357,815,540 | |
| ARRA — Unemployment Insurance | ARRA 17.225 | 527,393 | |
| Senior Community Service Employment Program | 17.235 | 1,942,403 | 1,806,450 |
| Trade Adjustment Assistance | 17.245 | 41,565 | |
| ARRA — Workforce Investment Act Dislocated Workers | ARRA 17.260 | 123,551 | 63,732 |
| Workforce Investment Act Pilots, Demonstrations, and Research Projects | 17.261 | 974,772 | |
| Work Opportunity Tax Credit Program | 17.271 | 153,316 | |
| Temporary Labor Certification for Foreign Workers | 17.273 | 49,312 | |
| ARRA — Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors | ARRA 17.275 | 2,036,653 | 1,617,278 |
| Workforce Investment Act National Emergency Grants | 17.277 | 14,845 | |
| Occupational Safety and Health — State Program | 17.503 | 1,320,831 | |
| Consultation Agreements | 17.504 | 380,430 | |
| Total U.S. Department of Labor Direct Programs | | 366,091,899 | 3,487,460 |

See accompanying notes to schedule of expenditures of federal awards.

(Continued)

# STATE OF HAWAII

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## YEAR ENDED JUNE 30, 2013

| Federal Grantor/Pass-through Grantor and Program Title | Federal CFDA Number | Federal Expenditures | Amount Provided to Subrecipients |
|---|---|---|---|
| Employment Service Cluster: | | | |
| Employment Service/Wagner-Peyser Funded Activities | 17.207 | $ 3,036,278 | $ - |
| Disabled Veterans' Outreach Program | 17.801 | 350,901 | |
| Local Veterans' Employment Representative Program | 17.804 | 375,257 | |
| Total Employment Service Cluster | | 3,762,436 | - |
| Workforce Investment Act (WIA) Cluster: | | | |
| WIA Adult Program | 17.258 | 2,628,730 | 1,906,584 |
| WIA Youth Activities | 17.259 | 2,290,190 | 2,057,164 |
| WIA Dislocated Workers | 17.278 | 2,208,364 | 1,490,928 |
| Total Workforce Investment Cluster | | 7,127,284 | 5,454,676 |
| U.S. Department of Labor Pass-Through Program from — | | | |
| State of Hawaii Research Corporation of the University of Hawaii — | | | |
| Trade Adjustment Assistance Community College and Career Training Grants | 17.282 | 166,487 | |
| Total U.S. Department of Labor | | 377,148,106 | 8,942,136 |
| DEPARTMENT OF TRANSPORTATION: | | | |
| U.S. Department of Transportation Direct Programs: | | | |
| Recreational Trails Program | 20.219 | 602,160 | |
| Interagency Hazardous Materials Public Sector Training and Planning Grants | 20.703 | 110,600 | |
| Total U.S. Department of Transportation Direct Programs | | 712,760 | - |
| U.S. Department of Transportation Pass-Through Program — | | | |
| State Department of Transporation — Federal Transit — Capital Investment Grants | 20.500 | 6,560,648 | |
| Total U.S. Department of Transportation | | 7,273,408 | - |
| DEPARTMENT OF THE TREASURY: | | | |
| U.S. Department of Treasury Direct Program — | | | |
| State Small Business Credit Initiative | 21.Unknown | 315,000 | 315,000 |
| Total U.S. Department of the Treasury | | 315,000 | 315,000 |
| EQUAL EMPLOYMENT OPPORTUNITY COMMISSION: | | | |
| U.S. Equal Employment Opportunity Commission Direct Program — Employment Discrimination — State and Local Fair Employment Practices Agency Contracts | 30.002 | 189,408 | |
| Total Equal Employment Opportunity Commission | | 189,408 | - |
| GENERAL SERVICES ADMINISTRATION: | | | |
| U.S. General Services Administration Direct Programs: | | | |
| Donation of Federal Surplus Personal Property | 39.003 | 3,967,193 | |
| Help America Vote Act 2002, Title I, Section 101 | 39.011 | 290,945 | |
| Total U.S. General Services Administration | | 4,258,138 | - |

See accompanying notes to schedule of expenditures of federal awards. (Continued)

## STATE OF HAWAII

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
### YEAR ENDED JUNE 30, 2013

| Federal Grantor/Pass-through Grantor and Program Title | Federal CFDA Number | Federal Expenditures | Amount Provided to Subrecipients |
|---|---|---|---|
| NATIONAL ENDOWMENT FOR THE ARTS: | | | |
| U.S. National Endowment for the Arts Direct Program — | | | |
| Promotion of the Arts — Partnership Agreements | 45.025 | $ 749,931 | $ 286,578 |
| Total National Endowment for the Arts | | 749,931 | 286,578 |
| SMALL BUSINESS ADMINISTRATION: | | | |
| U.S. Small Business Administration Direct Program — | | | |
| State Trade and Export Promotion Pilot Grant Program | 59.061 | 497,634 | 251,563 |
| Total U.S. Small Business Administration | | 497,634 | 251,563 |
| ENVIRONMENTAL PROTECTION AGENCY: | | | |
| U.S. Environmental Protection Agency Direct Programs: | | | |
| Performance Partnership Grants | 66.605 | 227,281 | |
| Pollution Prevention Grants Program | 66.708 | 21,976 | |
| Total Environmental Protection Agency | | 249,257 | - |
| DEPARTMENT OF ENERGY: | | | |
| U.S. Department of Energy Direct Programs: | | | |
| State Energy Program | 81.041 | 100,233 | |
| ARRA — State Energy Program | ARRA 81.041 | 3,653,862 | 712,996 |
| Weatherization Assistance for Low-Income Persons | 81.042 | 88,908 | 74,538 |
| ARRA — Weatherization Assistance for Low-Income Persons | ARRA 81.042 | 46,514 | 40,082 |
| Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance | 81.117 | 212,990 | 212,990 |
| State Energy Program Special Projects | 81.119 | 981,947 | 910,000 |
| Electricity Delivery and Energy Reliability, Research, Development and Analysis | 81.122 | 20,751 | |
| ARRA — Electricity Delivery and Energy Reliability, Research, Development and Analysis | ARRA 81.122 | 197,008 | |
| ARRA — Energy Efficiency and Conservation Block Grant Program | ARRA 81.128 | 207,744 | 7,489 |
| Advanced Research Projects Agency — Energy | 81.135 | 6,357 | |
| Total U.S. Department of Energy Direct Programs | | 5,516,314 | 1,958,095 |
| U. S. Department of Energy Pass-Through Program — | | | |
| University of Hawaii — Conservation Research and Development | 81.086 | 4,227 | |
| Total U.S. Department of Energy | | 5,520,541 | 1,958,095 |
| DEPARTMENT OF EDUCATION: | | | |
| U.S. Department of Education Direct Program — Education Jobs Fund | 84.410A | 29,159 | 29,159 |
| U.S. Department of Education Pass-Through Programs from: | | | |
| State Department of Education — Title I State Agency Program for Neglected and Delinquent Children and Youth | 84.013A | 441,384 | |
| University of Hawaii — Career and Technical Education — Basic Grants to States | 84.048A | 47,236 | |
| Total U.S. Department of Education Pass-Through Programs from the State Department of Education and the University of Hawaii | | 488,620 | - |
| Total U.S. Department of Education | | 517,779 | 29,159 |

See accompanying notes to schedule of expenditures of federal awards.

(Continued)

# STATE OF HAWAII

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## YEAR ENDED JUNE 30, 2013

| Federal Grantor/Pass-through Grantor and Program Title | Federal CFDA Number | Federal Expenditures | Amount Provided to Subrecipients |
|---|---|---|---|
| DEPARTMENT OF HEALTH AND HUMAN SERVICES: | | | |
| U.S. Department of Health and Human Services Direct Programs: | | | |
| Affordable Care Act State Healthcare Workforce Development Grants | 93.509 | $ 12,530 | $ - |
| Affordable Care Act Grants to States for Health Insurance Premium Review | 93.511 | 137,074 | |
| State Planning and Establishment Grants for the Affordable Care Act's Exchanges | 93.525 | 4,224,886 | 4,224,886 |
| Refugee and Entrant Assistance — State Administered Programs | 93.566 | 106,061 | 90,210 |
| Community Services Block Grant | 93.569 | 3,929,765 | 3,793,718 |
| Affordable Care Act — State Innovation Models: Funding for Model Design and Model Testing Assistance | 93.624 | 188,828 | |
| ARRA — Strengthening Communities Fund | ARRA 93.711 | 65,361 | |
| Total U.S. Department of Health and Human Services Direct Programs | | 8,664,505 | 8,108,814 |
| U.S. Department of Health and Human Services Pass-Through Program from: | | | |
| State Department of Health — Substance Abuse and Mental Health Services — Projects of Regional and National Significance | 93.243 | 920 | |
| State Department of Human Services — Temporary Assistance for Needy Families | 93.558 | 269,949 | 150,000 |
| Total U.S. Department of Health and Human Services Pass-Through Programs from the State Department of Health and Human Services | | 270,869 | 150,000 |
| Total U.S. Department of Health and Human Services | | 8,935,374 | 8,258,814 |
| DEPARTMENT OF HOMELAND SECURITY: | | | |
| U.S. Department of Homeland Security Direct Programs: | | | |
| Non-Profit Security Program | 97.008 | 28,323 | 28,323 |
| Boating Safety Financial Assistance | 97.012 | 856,464 | |
| Community Assistance Program State Support Services Element | 97.023 | 58,171 | |
| Disaster Grants-Public Assistance (Presidentially Declared Disasters) | 97.036 | 1,905,220 | 1,904,751 |
| National Dam Safety Program | 97.041 | 75,721 | |
| Emergency Management Performance Grants | 97.042 | 2,962,322 | 2,962,306 |
| Cooperating Technical Partners | 97.045 | 127,235 | |
| Fire Management Assistance Grant | 97.046 | 265 | |
| Pre-Disaster Mitigation | 97.047 | 255,649 | 255,649 |
| Emergency Operations Center | 97.052 | 91,000 | |
| Interoperable Emergency Communications | 97.055 | 112,220 | 110,102 |
| Port Security Grant Program | 97.056 | 3,926,723 | 1,190,912 |
| Intercity Bus Security Grants | 97.057 | 195,469 | |
| Homeland Security Grant Program | 97.067 | 10,607,231 | 7,518,956 |
| Buffer Zone Protection Program | 97.078 | 639 | |
| Earthquake Consortium | 97.082 | 7,648 | 7,648 |
| Regional Catastrophic Preparedness Grant Program | 97.111 | 1,876,442 | 1,843,366 |
| Total U.S. Department of Homeland Security | | 23,086,742 | 15,822,013 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | $487,813,796 | $39,807,953 |

See accompanying notes to schedule of expenditures of federal awards.

(Concluded)

# STATE OF HAWAII

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**1. REPORTING ENTITY**

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the following State of Hawaii departments and agencies:

- Department of Accounting and General Services ("State DAGS")
- Department of Agriculture ("State DOA")
- Department of Budget and Finance ("State B&F")
- Department of Business, Economic Development and Tourism ("State DBEDT")
- Department of Commerce and Consumer Affairs ("State DCCA")
- Department of Defense ("State DOD")
- Department of Human Resources Development
- Department of Labor and Industrial Relations ("State DLIR")
- Department of Land and Natural Resources ("State DLNR")
- Department of Public Safety ("State DPS")
- Department of Taxation
- Governor's Office

Certain other departments and agencies within the State of Hawaii obtained separate audits performed in accordance with OMB Circular A-133, and accordingly, separate A-133 submissions have been made (see Note 2).

**2. OTHER STATE OF HAWAII DEPARTMENTS AND AGENCIES NOT INCLUDED IN THE ACCOMPANYING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The following is a summary of State of Hawaii departments and agencies that obtain separate OMB Circular A-133 audits or do not receive federal grants and, therefore, do not obtain an OMB Circular A-133 audit. Awards listed in these audit reports are not included in the accompanying SEFA.

- Department of the Attorney General
- Department of Education
- Department of Hawaiian Home Lands
- Department of Health
- Department of Human Services
- Department of Transportation
- Drinking Water Treatment Revolving Loan Fund
- Hawaii Community Development Authority
- Hawaii Employer-Union Health Benefits Trust Fund
- Hawaii Health Systems Corporation
- Hawaii Housing Finance and Development Corporation
- Hawaii Hurricane Relief Fund
- Hawaii Public Housing Authority
- Hawaii Tourism Authority
- University of Hawaii
- Water Pollution Control Revolving Fund

## 3. BASIS OF ACCOUNTING

The basic financial statements of the State of Hawaii have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

## 4. BASIS OF PRESENTATION

The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Expenditures reported in the schedule are reported on the cash basis of accounting.

## 5. NONMONETARY ASSISTANCE

The SEFA contains values for a nonmonetary assistance program. As provided by program regulations, property received under the Donation of Federal Surplus Personal Property program (CFDA No. 39.003) is presented at the federal government's historical cost.

## 6. UNEMPLOYMENT INSURANCE

State unemployment tax revenues and government contributions are used to pay benefits under federally approved State unemployment law. Of the $358,342,933 reported as expenditures for the unemployment insurance program (CFDA No. 17.225), $224,122,313 represented expenditures of State of Hawaii funds.

## 7. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

The regulations and guidelines governing the preparation of Federal and state financial reports vary by state and Federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the Federal and state financial reports do not necessarily agree with the amounts reported in the accompanying SEFA which is prepared as explained in Notes 3 and 4 above.

## 8. RESEARCH AND DEVELOPMENT EXPENDITURES

The SEFA includes the following Research and Development amounts:

| Federal Grantor/Pass-through Grantor/Program or Cluster Title | Federal CFDA Number | Federal Expenditures |
|---|---|---|
| U.S. Department of Agriculture Direct Programs: | | |
| Urban and Community Forestry Program | 10.675 | $ 438,322 |
| Forest Stewardship Program | 10.678 | 298,490 |
| Forest Health Protection | 10.680 | 1,121,055 |
| Total U.S Department of Agriculture | | 1,857,867 |
| U.S. Department of Commerce Direct Programs: | | |
| Coastal Zone Management Administration Awards | 11.419 | 1,984,537 |
| Financial Assistance for National Centers for Coastal Ocean Science | 11.426 | 40,567 |
| Center for Sponsored Coastal Ocean Research — Coastal Ocean Program | 11.478 | 31,411 |
| Coral Reef Conservation Program | 11.482 | 305,969 |
| Total U.S Department of Commerce | | 2,362,484 |
| U.S. Department of Defense Direct Programs: | | |
| Basic, Applied, and Advanced Research in Science and Engineering | 12.630 | 81,820 |
| Air Force Defense Research Sciences Program | 12.800 | 4,985,798 |
| Research and Technology Development | 12.910 | 1,598,550 |
| Total U.S Department of Defense | | 6,666,168 |
| U.S. Department of Interior Direct Programs: | | |
| Sport Fish Restoration Program | 15.605 | 3,310,241 |
| Fish and Wildlife Management Assistance | 15.608 | 504,404 |
| Wildlife Restoration and Basic Hunter Education | 15.611 | 1,817,168 |
| Cooperative Endangered Species Conservation Fund | 15.615 | 4,030,856 |
| State Wildlife Grants | 15.634 | 673,000 |
| Endangered Species Conservation — Recovery Implementation Funds | 15.657 | 924,251 |
| Economic, Social, and Political Development of the Territories | 15.875 | 131,088 |
| Natural Resource Stewardship | 15.944 | 463,716 |
| Total U.S Department of Interior | | 11,854,724 |
| U.S. Department of Energy Pass-Through Program From — | | |
| University of Hawaii — Conservation Research and Development | 81.086 | 4,227 |
| Total Research and Development Cluster | | $ 22,745,470 |

* * * * * *

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## SECTION I — SUMMARY OF AUDITOR'S RESULTS

### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _______ yes ___X___ no
- Significant deficiency(ies) identified? ___X___ yes _______ none reported

Noncompliance material to consolidated financial statements noted? _______ yes ___X___ no

### Federal Awards

Internal control over major programs:

Material weakness(es) identified? ___X___ yes _______ no

Significant deficiency(ies) identified? ___X___ yes _______ none reported

Type of auditor's report issued on compliance for major programs:

> An unmodified opinion was issued on the State of Hawaii's compliance with its major federal programs for the year ended June 30, 2013, except for the requirements regarding cash management that are applicable to CFDA No. 12.401 and ARRA 12.401, *National Guard Military Operations and Maintenance Projects*, CFDA No. 12.800, *Air Force Defense Research Sciences Program*, CFDA No. 17.225 and ARRA 17.225, *Unemployment Insurance*, CFDA No. 81.041 and ARRA 81.041, *State Energy Program*, CFDA No. 93.525, *State Planning and Establishment Grants for the Affordable Care Act's Exchanges*, CFDA No. 97.056, *Port Security Grant Program*, and CFDA No. 97.067, *Homeland Security Grant Program*, for which the opinion on compliance was qualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ___X___ yes _______ no

Identification of major programs:

| Federal CFDA Number | Name of Federal Program or Cluster |
|---|---|
| ARRA 10.688 | ARRA — Wildland Fire Management |
| ARRA 11.558 | ARRA — State Broadband Data and Development Grant Program |
| 12.401 | National Guard Military Operations and Maintenance Projects |
| ARRA 12.401 | ARRA — National Guard Military Operations and Maintenance Projects |
| 12.404 | National Guard ChalleNGe Program |
| 17.225 | Unemployment Insurance |
| ARRA 17.225 | ARRA —Unemployment Insurance |
| ARRA 17.275 | ARRA — Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors |
| Employment Service Cluster: | |
| 17.207 | Employment Service/Wagner-Peyser Funded Activities |
| 17.801 | Disabled Veterans' Outreach Program |
| 17.804 | Local Veterans' Employment Representative Program |
| 39.003 | Donation of Federal Surplus Personal Property |
| 81.041 | State Energy Program |
| ARRA 81.041 | ARRA — State Energy Program |
| 93.525 | State Planning and Establishment Grants for the Affordable Care Act's Exchanges |
| 93.569 | Community Services Block Grant |
| 97.042 | Emergency Management Performance Grants |
| 97.056 | Port Security Grant Program |
| 97.067 | Homeland Security Grant Program |
| Research and Development Cluster: | |
| 10.675 | Urban and Community Forestry Program |
| 10.678 | Forest Stewardship Program |
| 10.680 | Forest Health Protection |
| 11.419 | Coastal Zone Management Administration Awards |
| 11.426 | Financial Assistance for National Centers for Coastal Ocean Science |
| 11.478 | Center for Sponsored Coastal Ocean Research — Coastal Ocean Program |
| 11.482 | Coral Reef Conservation Program |
| 12.630 | Basic, Applied, and Advanced Research in Science and Engineering |
| 12.800 | Air Force Defense Research Sciences Program |
| 12.910 | Research and Technology Development |
| 15.605 | Sport Fish Restoration Program |
| 15.608 | Fish and Wildlife Management Assistance |
| 15.611 | Wildlife Restoration and Basic Hunter Education |
| 15.615 | Cooperative Endangered Species Conservation Fund |
| 15.634 | State Wildlife Grants |
| 15.657 | Endangered Species Conservation — Recovery Implementation Funds |
| 15.875 | Economic, Social, and Political Development of the Territories |
| 15.944 | Natural Resource Stewardship |
| 81.086 | Conservation Research and Development |

Dollar threshold used to distinguish between type A and type B programs: $3,000,000

Auditee qualified as low-risk auditee? _______ yes ___X___ no

## SECTION II — FINANCIAL STATEMENT FINDINGS

## SECTION II — FINANCIAL STATEMENT FINDINGS

## REFERENCE: 2013-001

### Internal Control over Financial Reporting (Significant Deficiency)

### State Department of Accounting and General Services

***Criteria*** — Management is responsible for establishing and maintaining internal control over financial reporting, the objectives of which are to provide management with reasonable, but not absolute assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). The State Department of Accounting and General Services (State DAGS) Accounting Division is responsible for preparing the State's Comprehensive Annual Financial Report (CAFR) in accordance with GAAP.

***Condition*** — The State's internal control over financial reporting could be improved. During the June 30, 2013 audit, we identified multiple deficiencies, that, when considered in the aggregate, indicated a significant deficiency in the State's internal control over financial reporting.

The process used by the State DAGS Accounting Division to consolidate required information from State departments and agencies to create the CAFR (e.g., preparing Governmental Fund financial statements on a modified accrual basis and the Government-Wide financial statements on an accrual basis) is inefficient, time consuming, and causes delays in statewide financial reporting. Delays caused by State departments and agencies do not provide adequate time for State DAGS management to perform necessary year-end closing review and reconciliation procedures.

Information necessary to prepare such accounting entries must be obtained from the State departments and agencies. In fiscal year 2013, State DAGS requested formal reporting information packages to obtain the financial information from State departments but did not receive adequate responses from some of the departments.

In addition, there is a lack of adequate review of appropriation warrants created at State DAGS for the purpose of creating appropriations for various departments and divisions. Further, the reviews of treasury deposit receipts and journal voucher forms by departments are inadequate. The review of post-closing journal entries to convert the cash basis financial statements to the modified accrual basis was also not performed adequately to detect misstatement.

A similar finding was included in the prior year's single audit report. Refer to page 263 (Reference: 2012-01).

***Cause*** — Due to inefficiencies of the financial statement preparation process, the lack of timeliness of information received from various departments, and the lack of review at the departments and at State DAGS, adjustments were needed to compile the Government-Wide financial statements and footnote disclosures.

***Effect*** — Due to the information not being submitted to State DAGS timely and the review of journal entries by the departments and State DAGS not being adequate, the following audit adjustments were identified and were made to the financial statements:

- Correction of the following misstatements:
    - $106 million financial statement reclassification between revenue, other financing sources, and expenses
    - $40 million financial statement reclassification between intergovernmental revenues and revenues from private sources
    - $40 million financial statement reclassification between revenues and expenses related to Medquest but recorded by the State Department of Human Services
    - $40 million financial statement reclassification of cash to investments
- The following misstatements that were not recorded in the financial statements:
    - $3 million in assets not recorded, $11 million in expenses not recorded, and $14 million of liabilities not recorded in the Special Revenue Fund for the effect of Charter School transactions related to Department of Education Charter Schools.

***Recommendation*** — DAGS should continue to develop well-defined, systematic, efficient, and orderly processes for financial reporting that include a comprehensive set of policies and procedures necessary to establish internal control over financial reporting. The process and its key attributes (e.g., overall timing, methodology, format, and frequency of analyses) should be formally documented, approved, communicated to other departments and agencies, and monitored on a regular basis.

Appropriation warrants for new bills that pass during the year should be reviewed to ensure that the appropriation is coded to the proper department or division to which the legislation relates. Further, individuals who perform reviews of journal entries at the departments should be adequately trained to review for proper source codes, appropriations, and object codes being used. Departments should also perform a thorough review of post-closing journal entries to ensure all items from various schedules are reflected in the post-closing journal entries and all journal entries properly reflect what is shown on the schedules.

Adherence to these policies and procedures will facilitate the processing of complete, accurate, and timely financial information.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-002

### Schedule of Expenditures of Federal Awards (SEFA) (Significant Deficiency)

### State Department of Accounting and General Services

***Criteria* —** The Federal Office of Management and Budget (OMB) issued OMB Circular A-133 pursuant to the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. OMB Circular A-133 requires non-Federal entities that expend $500,000 or more in a year of Federal awards to have a Single Audit conducted on its financial statements and SEFA.

OMB Circular A-133 established the following responsibilities for the State's management:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- Prepare appropriate financial statements, including the SEFA.
- Ensure that the audits required by this circular are properly performed and submitted within nine months after the end of the fiscal year end.

***Condition*** — The State's current accounting process does not track Federal funds individually within the general ledger system. Instead, one appropriation account is often created and assigned to the respective department and many Federal grants expended by the department are grouped within the one appropriation account. For a department that receives and expends multiple Federal funds, it must prepare and maintain separate accounting records outside of the Financial Accounting and Management Information System (FAMIS), the State's general ledger system, to be able to segregate the cash balances, receipts, and expenditures by each grant that it receives. These separate accounting records are maintained by multiple accountants in the larger departments and are not combined and reconciled into FAMIS periodically.

A similar finding was included in the prior year's single audit report. Refer to page 264 (Reference: 2012-02).

***Cause*** — A thorough review of each Department's reconciliation of its separate accounting records that track Federal fund expenditures to FAMIS was not performed by someone knowledgeable to ensure that the expenditure amounts and CFDA information were accurate.

***Effect*** — Due to the deficiencies in internal control over the SEFA preparation noted above, material misstatements occurred in the SEFA that were not detected by management's internal controls and were subsequently corrected through audit adjustments. Accordingly, we believe the above collectively represent a significant deficiency in internal control over financial reporting. The effects of the errors are:

- Federal expenditure amounts for the following programs were inaccurate:
    - CFDA No. 10.561, *State Administrative Matching Grants for the Supplemental Nutrition Assistance Program,* was overstated by $79,885
    - CFDA No. 12.401, *National Guard Military Operations and Maintenance Projects*, was overstated by $271,137
    - CFDA No. 12.404, *National Guard ChalleNGe Program*, was understated by $271,137
    - CFDA No. 81.041, *State Energy Program*, was overstated by $154,434
    - CFDA No. ARRA 81.041, *ARRA – State Energy Program*, was overstated by $103,794
    - CFDA No. 93.558, *Temporary Assistance for Needy Families*, was overstated by $387,364
- Amounts reported as provided to subrecipients for the following programs were inaccurate:
    - CFDA No. 93.525, *State Planning and Establishment Grants for the Affordable Care Act's Exchanges*, expenditures disclosed as being passed through to subrecipients were understated by $4,224,886
- The CFDA number for the following program was inaccurate:
    - CFDA No. 93.624, *Affordable Care Act – State Innovation Models: Funding for Model Design and Model Testing Assistance*, for $188,828 was erroneously coded to a nonexistent CFDA number.
- The expenditures in the SEFA are reported on the cash basis of accounting. For the year ended June 30, 2013, the net effect of expenditures paid during the period July 1, 2013 through July 8, 2013 included in the SEFA was $581,277.

***Recommendation*** — State DAGS should develop a well-defined process for Federal financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control over preparing the SEFA.

Training and instructions should be communicated to affected State departmental personnel to aid in fiscal management's preparation of the SEFA.

Additionally, an independent review of departmental SEFA should be performed by appropriately trained personnel to ensure completeness, consistency, and compliance with reporting requirements, and State accounting and disclosure policies.

***Views of Responsible Officials*** — See Corrective Action Plan.

## SECTION II — FINANCIAL STATEMENT FINDINGS (continued)

## REFERENCE: 2013-003

### Accounting for Component Units and Proprietary Funds (Significant Deficiency)

### State Department of Accounting and General Services

***Criteria*** — Component Units (CU) are legally separate organizations that the State must include as part of its financial reporting entity for fair presentation in conformity with GAAP. CUs have unique accounting and reporting requirements as established by GASB Statement 61, *The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34.* The GASB accounting standards provide defined criteria for determining whether a particular legally separate entity is a CU of the State.

Similarly, Enterprise Funds that meet the definition of major funds established by GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus — an amendment of GASB Statements No. 21 and No. 34,* should be reported separately within the Proprietary Fund (PF) financial statements.

***Condition*** — During fiscal year 2008, State DAGS implemented a financial statement policy on reporting material CUs and PFs, which indicated that only material CUs and PFs would be disclosed as discretely presented CUs and major PFs in the CAFR. Materiality was determined based on certain quantitative criteria determined by State DAGS. During the year ended June 30, 2013, State DAGS revised its financial reporting policy to comply with updated provisions from GASB Statement No. 61.

As a result, State DAGS determined that the Stadium Authority, Hawaii Strategic Development Corporation, Hawaii Technology Development Corporation, Natural Energy Laboratory of Hawaii, and Agribusiness Development Corporation, met the definition of discretely presented CUs as defined in GASB Statement No. 61, but did not meet the materiality thresholds under the State's policy, and thus were not disclosed as discretely presented in the June 30, 2013 CAFR. Instead, the Stadium Authority, Hawaii Strategic Development Corporation, Hawaii Technology Development Corporation, Natural Energy Laboratory of Hawaii, and Agribusiness Development Corporation were reported as part of the Governmental Funds to which these entities were administratively attached.

State DAGS also determined that the Department of Labor and Industrial Relations – Disability Compensation Fund, the Public Safety Department – Correctional Industries Fund, the Accounting and General Services – State Parking Revolving Fund, and the Accounting and General Services – Motor Pool Fund met the definition of PFs as defined in GASB Statement No. 37, but did not meet the materiality threshold under the State's financial reporting policy, and thus were not disclosed as PFs in the June 30, 2013 CAFR. Instead, the Department of Labor and Industrial Relations – Disability Compensation Fund, the Public Safety Department – Correctional Industries Fund, the Accounting and General Services – State Parking Revolving Fund, and the Accounting and General Services – Motor Pool Fund were reported as part of the Governmental Funds to which these entities were administratively attached.

A similar finding was included in the prior year's single audit report. Refer to page 264 (Reference: 2012-03).

***Cause*** — In determining which CUs and PFs should be presented as discretely presented CUs and nonmajor PFs in the CAFR, management did not adopt the guidelines described in GASB Statement No. 61 and GASB Statement No. 37, respectively. State DAGS also determined that some of the potential CUs and PFs are unable to close their accounting records and to complete audits in a timely manner, such that audited financial statements would not be available for the preparation of the CAFR. Therefore, implementation of GASB Statement No. 61 and GASB Statement No. 37 would require time and resources to complete and would likely further delay the completion of the CAFR.

***Effect*** — In accordance with the State's policy, these entities and funds were incorrectly included in the Governmental Funds' activities of the CAFR and were not reported as discretely presented CUs or major PFs, despite meeting the CU and PF criteria under GAAP. A summary of account balances and funds that were incorrectly classified by State management (in millions) is presented below:

| | Revenues | Expenditures | Assets |
|---|---|---|---|
| Discretely presented component units: | | | |
| Stadium Authority | $6.8 | $13.8 | $87.4 |
| Natural Energy Laboratory of Hawaii Authority | 5.6 | 8.1 | 20.1 |
| High Technology Development Corporation | 6.6 | 7.5 | 12.4 |
| Hawaii Strategic Development Corporation | 2.0 | 4.0 | 5.5 |
| Agribusiness Development Corporation | 3.0 | 15.6 | 28.9 |
| Nonmajor proprietary funds: | | | |
| Department of Land and Industrial Relations – Disability Compensation Fund | 16.0 | 16.1 | 15.3 |
| Public Safety Department – Correctional Industries Fund | 3.9 | 4.2 | 4.4 |
| Accounting and General Services – State Parking Revolving Fund | 3.7 | 3.8 | 23.5 |
| Accounting and General Services – Motor Pool Fund | 2.5 | 2.5 | 4.0 |

We believe that this situation results in a significant deficiency in internal control over financial reporting.

***Recommendation*** — State DAGS should consider changing the CAFR accounting and reporting policy to conform to the provisions of GASB Statement Nos. 37 and 61.

***Views of Responsible Officials*** — See Corrective Action Plan.

**REFERENCE: 2013-004**

## Accounting for Cash Receipts at the Department of Taxation (Significant Deficiency)

### State Department of Taxation

***Criteria*** — A best practice for effective internal controls is the reconciliation of revenues to cash receipts. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 Internal Control Integrated Framework, Chapter 7, a reconciliation compares two or more data elements, and, if differences are identified, action is taken to bring the data into agreement. According to the COSO framework, a reconciliation is an example of a transaction-type control that can address the completeness and or accuracy of transactions. Payments submitted by taxpayers and deposited into the State's bank accounts should be reconciled to every individual taxpayer record within the State Department of Taxation's (DOTAX) accounting records.

***Condition*** — Taxpayers have the option to submit tax payments through the State of Hawaii's eHawaii.gov website. DOTAX refers to tax payments collected through online submissions as electronic fund deposits. Taxpayers who use the eHawaii.gov website to submit tax payments are able to select from two methods of payment: 1) credit card payments or 2) an Automated Clearing House (ACH) transfer (a method of transferring funds directly from the taxpayer's bank account to the State of Hawaii's bank account).

- Credit Card Payments – Payments processed through credit cards are first received by the Hawaii Information Consortium (HIC), a third party service provider contracted by DOTAX. HIC receives monies into HIC's bank account, aggregates the taxpayer data and cash collected, then deposits the cash into the State's treasury bank account.

- ACH Transfer – ACH transfers are transferred directly from the taxpayer's bank account to the State's treasury bank account. The bank maintaining the State treasury's account does not send a detailed listing of deposits, instead it sends a daily confirmation to DOTAX, indicating only the grand total deposits received by the bank via ACH transactions for the day.

Cash received in the State's bank accounts, whether transferred from HIC via credit card payments or directly from the taxpayer via ACH transfers, should be reconciled to tax returns submitted by the individual taxpayer each accounting period.

***Cause*** — DOTAX does not receive details of tax payments from the State treasury's bank to be able to effectively reconcile individual cash receipts to tax returns. While the State treasury's bank provides DOTAX with confirmation of amounts received on a daily basis, the confirmation lacks sufficient taxpayer detail to enable DOTAX to identify specific taxpayers.

***Effect*** — At June 30, 2013, the State's accounting records contained an unreconciled difference between cash received in the State treasury and eHawaii.gov online tax submissions of approximately $6 million. DOTAX was unable to determine which specific taxpayer(s) caused the unreconciled difference.

***Recommendation*** — DOTAX should improve its procedures to account for online tax payments. Detailed cash receipts by individual taxpayer should be reconciled to detailed taxpayer records. Differences should be identified, investigated, and reported to appropriate personnel for further actions at each accounting period close.

Also, since the State relies on the successful operating effectiveness of internal controls at a third-party service provider for complete and accurate recordkeeping and cash collections, the State should consider obtaining additional assurance over the operating environment of the service provider. A possible procedure would be to require the service provider to obtain a service auditor's report that provides management with disclosures about the service provider's internal control design and effectiveness.

***Views of Responsible Officials*** — See Corrective Action Plan.

## SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

## SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

## REFERENCE: 2013-005

### Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds State Department of Land and Natural Resources

**CFDA No. 10.680: Research and Development Cluster – Forest Health Protection**
Direct Award from the U.S. Department of Agriculture (Award 10-DG-11052021-036)

***Criteria* —** U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition* —** During our audit, we examined 17 selections of Federal cash draws and identified one instance in which the number of days elapsed between the receipt of the Federal cash advance and the State's disbursement of the funds exceeded 30 days (43 days). As a result, the State may be accountable for interest earned on the advance when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

***Questioned Costs* —** The amount of potential interest due cannot be determined.

***Cause* –** The lag in disbursing the funds was due to the lack of resources and internal controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect* —** As a result of the deficiency in internal controls over compliance with cash management requirements, we noted one out of 17 instances totaling $46,001 where Federal funds were disbursed after 30 days from being received from the Federal government.

***Recommendation* —** The communications process over Federal grant compliance should be improved. The State DLNR should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-006

### Reporting (Significant Deficiency)

### Untimely Submission of Reports
### State Department of Land and Natural Resources

**CFDA No. 10.680: Research and Development Cluster – Forest Health Protection**
Direct Award from the U.S. Department of Agriculture (Award 10-DG-11052021-036)

***Criteria*** — The State DLNR receives funds from the U.S. Department of Agriculture for the Forest Health Protection program which requires semi-annual progress reports to be filed one month following each semi-annual period.

***Condition*** — During our audit, we examined the two semi-annual progress reports as of the six-month periods ended December 31, 2012, and June 30, 2013. The progress report for period ended June 30, 2013 was submitted on August 23, 2013, which was 23 days past the due date of July 30, 2013.

***Questioned Costs*** — None.

***Cause*** — The individuals responsible for preparing the reports did not properly monitor the required deadline to submit the progress report.

***Effect*** **—** The filing of the progress report after the required deadline results in noncompliance with the program requirement.

***Recommendation*** — Controls related to the preparation and review of the reports should be improved in order to ensure that required reports are submitted on a timely basis. The State DLNR should consider implementing a tracking system of the required reports to remind the preparers of the due dates. In addition, the reviewers of the reports should monitor the timeliness of the report preparation and submission.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-007

### Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds
### State Department of Land and Natural Resources

**CFDA No. ARRA 10.688: ARRA — Wildland Fire Management**
Direct Award from the U.S. Department of Agriculture (Award 09-DG-11059702-022)

***Criteria*** — U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition*** — During our audit, we examined 40 selections of Federal cash draws and identified 15 instances in which the number of days elapsed between the receipt of the Federal cash advances and the State's disbursement of the funds exceeded 30 days (range of 32 to 78 days). As a result, the State may be accountable for interest earned on advances when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

A similar finding was included in the prior year's single audit report. Refer to page 271 (Reference: 2012-07).

***Questioned Costs*** — The amount of potential interest due cannot be determined.

***Cause*** — The lag in disbursing the funds was due to the lack of resources and internal controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect*** — As a result of the deficiency in internal controls over compliance with cash management requirements, we noted 15 out of 40 instances totaling $189,962 where Federal funds were disbursed after 30 days from being received from the Federal government.

***Recommendation*** — The communications process over Federal grant compliance should be improved. The State DLNR should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-008

### Period of Availability (Significant Deficiency)

### Expenditures Paid Subsequent to Liquidation Period
### State Department of Land and Natural Resources

**CFDA No. ARRA 10.688: ARRA — Wildland Fire Management**
Direct Award from the U.S. Department of Agriculture (Award 09-DG-11059702-022 and 10-DG-11059702-082)

***Criteria*** — According to OMB Circular No. A-102 Common Rule and OMB Circular No. A-110 (2 CFR Section 215.71), Federal awards may specify a time period during which the nonfederal entity may use the Federal funds. Where a funding period is specified, a nonfederal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

According to the grant agreement, all obligations associated with the grant should be paid within 90 days of the grant ending date (October 31, 2012).

***Condition*** — During our audit, we examined 25 selections for compliance with period of availability requirements and noted one instance of noncompliance. According to the grant agreement, the program ended on October 31, 2012, and the State DLNR obtained an extension for an additional 180 days (through April 29, 2013) to pay and liquidate all grant obligations. However, we noted one expenditure totaling $12,476 that was processed for payment on May 31, 2013, which was subsequent to the deadline to pay all grant obligations.

***Questioned Costs*** — $12,476

***Cause*** — The invoice was not received from the vendor timely.

***Effect*** — $12,476 of expenditures paid after the liquidation period were improperly paid by Federal funds.

***Recommendation*** — The communications process over Federal grant compliance with the period of availability should be improved. The State DLNR should improve the design and implementation of internal controls to communicate the period of availability of funds to ensure proper cutoff of expenditures at the end of a grant.

***Views of Responsible Officials*** — See Corrective Action Plan.

**REFERENCE: 2013-009**

## Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds
### State Department of Business, Economic Development and Tourism

**CFDA No. 11.419: Research and Development Cluster – Coastal Zone Management Administration Awards**
Direct Award from U.S. Department of Commerce (Award NA11NOS4190095)

***Criteria*** — U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition*** — During our audit, we examined four selections of Federal cash draws and identified one instance in which the number of days elapsed between the receipt of the Federal cash advance and State's disbursement of the funds exceeded 30 days (38 days). As a result, the State may be accountable for interest earned on the advance when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

***Questioned Costs*** — The amount of potential interest due cannot be determined.

***Cause*** — The lag in disbursing the funds was due to the lack of resources and internal controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect*** — As a result of the deficiency in internal controls over compliance with cash management requirements, we noted one out of four instances totaling $268,450 where Federal funds were disbursed after 30 days from being received from the Federal government.

***Recommendation*** — The communications process over Federal grant compliance should be improved. The State DBEDT should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** – See Corrective Action Plan.

**REFERENCE: 2013-010**

## Reporting (Significant Deficiency)

### Transparency Act Reports Not Filed
### State Department of Business, Economic Development and Tourism

**CFDA No. 11.419: Research and Development Cluster – Coastal Zone Management Administration Awards**
Direct Award from U.S. Department of Commerce (Award NA11NOS4190095 and NA12NOS4190097)

***Criteria* —** The Federal Funding Accountability and Transparency Act (FFATA) requires prime awardees to file a FFATA sub-award report by the end of the month following the month in which it awards any sub-grant greater than or equal to $25,000.

***Condition* —** The Coastal Zone Management Administration Awards grant is subject to the FFATA requirements. During the course of our audit, we noted that the State DBEDT did not file FFATA sub-award reports for the NA11 & NA12 grants in accordance with the FFATA requirements.

***Questioned Costs* —** None.

***Cause* —** Responsible personnel did not appropriately evaluate its sub-awards for FFATA requirements.

***Effect* —** Failure to fulfill the FFATA reporting requirements results in non-compliance with Federal grant requirements.

***Recommendation* —** The communications process over Federal grant compliance should be improved. The State DBEDT should consider improving the design and implementation of reporting controls, to properly report subawards for FFATA requirements.

***Views of Responsible Officials* —** See Corrective Action Plan.

## REFERENCE: 2013-011

### Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds
### State Department of Land and Natural Resources

**CFDA No. 11.482: Research and Development Cluster – Coral Reef Conservation Program**
Direct Award from U.S. Department of Commerce (Award NA11NOS4820006)

***Criteria*** — U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition*** — During our audit, we examined one selection of Federal cash draws and noted that the number of days elapsed between the receipt of the Federal cash advance and the State's disbursement of the funds exceeded 30 days (56 days). As a result, the State may be accountable for interest earned on the advance when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

***Questioned Costs*** — The amount of potential interest due cannot be determined.

***Cause*** — The lag in disbursing the funds was due to the lack of resources and internal controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect*** — As a result of the deficiency in internal controls over compliance with cash management requirements, we noted one instance of $8,468 where Federal funds were disbursed after 30 days from being received from the Federal government.

***Recommendation*** — The communications process over Federal grant compliance should be improved. The State DLNR should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** — See Corrective Action Plan.

**REFERENCE: 2013-012**

## Equipment and Real Property Management (Significant Deficiency)

### Unrecorded Property Acquisitions
### State Department of Land and Natural Resources

**CFDA No. 11.482: Research and Development Cluster – Coral Reef Conservation Program**
Direct Award from U.S. Department of Commerce (Award NA11NOS4820006)

***Criteria*** — According to the OMB Circular A-133 Compliance Supplement, Section F. Equipment and Real Property Management, Suggested Audit Procedures – Compliance, "Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment."

According to the State's Inventory System User Manual, "Newly acquired property shall be recorded in the Fixed Asset Inventory System (FAIS) in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility for maintaining the property. This applies to new purchases, capital lease, and donated or transferred property."

New property acquisitions should be recorded in the FAIS if the item meets the inventory-reporting threshold, is theft sensitive, or if the designated property custodian determines it as a controlled item. Upon notification of receipt, property management personnel will inspect the item, record the item's physical condition and other characteristics, and tag the item with a unique inventory decal number. All property inventory information is recorded on the Detail Inventory of Property AGS Form 17A and is forwarded through the Department's fiscal or administrative office to the State DAGS, State Procurement Office (SPO), and the Inventory Management Office for review and subsequent entry into the FAIS.

***Condition*** — During our audit, we examined one equipment purchase, noting that the purchase was not reported in the FAIS, and no Form 17A was completed.

***Questioned Costs*** — None.

***Cause*** — There was a lack of monitoring to ensure that the newly acquired property was entered into the FAIS or that newly acquired property was entered into FAIS timely.

***Effect*** — Failure to maintain accurate inventory of equipment could result in unknown differences of actual and recorded equipment inventory.

***Recommendation*** — The State DLNR should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for management and disposition of equipment. The State DLNR should consider establishing a monitoring process in order to ensure that newly acquired property is entered into the FAIS on a timely basis.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-013

### Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds State Department of Commerce and Consumer Affairs

**CFDA No. ARRA 11.558: ARRA — State Broadband Data and Development Grant Program**
Direct Award from the U.S. Department of Commerce (Award 15-50-M09057)

***Criteria*** — U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition*** — During our audit, we examined two selections of Federal cash draws and identified one instance in which the number of days elapsed between the receipt of the Federal cash advance and the State's disbursement of the funds exceeded 30 days (35 days). As a result, the State may be accountable for interest earned on the advance when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

***Questioned Costs*** — The amount of potential interest due cannot be determined.

***Cause*** — The lag in disbursing the funds was due to the lack of resources and internal controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect*** — As a result of the deficiency in internal controls over compliance with cash management requirements, we noted one out of two instances totaling $203,270 where Federal funds were disbursed 35 days after being received from the Federal government.

***Recommendation*** — The communications process over Federal grant compliance should be improved. The State DCCA should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-014

### Allowable Costs/Cost Principles (Significant Deficiency)

### Payroll Certifications Not Completed
### State Department of Defense

**CFDA No. 12.401: National Guard Military Operations and Maintenance Projects**
Direct Award from the U.S. Department of Defense (Award W912J6-13-2-1001)

***Criteria*** — According to the OMB Circular A-87 Attachment B Item 8(h): "(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee."

***Condition*** — We noted that payroll certifications were not completed for employees who solely worked on a single Federal award. During our audit, we selected eight employees who were required to complete a payroll certification and noted that there were seven employees without payroll certifications.

A similar finding was included in the prior year's single audit report. Refer to page 272 (Reference: 2012-11).

***Questioned Costs*** — Cannot be determined.

***Cause*** — Supervisory personnel were not aware of the requirement to prepare payroll certifications for employees who solely work on a single Federal award

***Effect*** — Without the completion of the required payroll certifications, there is a possibility that employees may be working on unauthorized or unallowable activities while being paid from a specific grant program funding.

***Recommendation*** — The State DOD should consider improving the design and implementation of internal controls over payroll certifications, to ensure that semiannual payroll certifications are prepared for employees who solely work on a single Federal award, as required by OMB Circular A-87.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-015

### Cash Management (Material Weakness)

### No Treasury-State Agreement
### State Department of Defense

**CFDA No. 12.401 and ARRA 12.401: National Guard Military Operations and Maintenance Projects**
Direct Award from the U.S. Department of Defense (Award W912J6-13-2-1002 and W912J6-09-2-9030)

***Criteria*** — According to OMB A-133 Circular Compliance Supplement under Cash Management: "For programs tested as a major, verify which of those programs are covered by the Treasury-State Agreement in accordance with the materiality thresholds in 31 CFR section 205.5, Table A. For those programs, determine the funding techniques used for those programs. For those funding techniques that require clearance patterns to schedule the transfer of funds to the State, review documentation supporting the clearance pattern and verify that the clearance pattern conforms to the requirements for developing and maintaining clearance patterns as specified in the Treasury-State Agreement (31 CFR sections 205.12, 205.20, and 205.22)."

***Condition*** — We obtained the Cash Management Improvement Act Agreement ("Treasury-State Agreement") between the State and the U.S. Department of the Treasury and noted that the latest executed agreement was effective through June 30, 2011. The Treasury-State Agreement is required to be amended at least annually to incorporate new programs that qualify as major Federal assistance programs or remove programs that no longer qualify as major Federal assistance programs. Further, the Treasury-State Agreement stipulates that the State must notify the U.S. Department of the Treasury within 30 days should there be any changes in funding techniques and/or clearance patterns. The notification must include a proposed amendment for review by the U.S. Department of the Treasury. As the most recent executed version of the Treasury-State Agreement ended on June 30, 2011, there was no Treasury-State Agreement in effect for the year ended June 30, 2013.

***Questioned Costs*** — Cannot be determined.

***Cause*** — The original delay in the execution of the agreement was due to lack of resources. However, the position has been filled and the State B&F recently completed the execution of the Treasury-State Agreement for the year ended June 30, 2012 and is currently working on the Treasury-State Agreement for the year ended June 30, 2013.

***Effect*** —Existing major programs would not be updated for changes to their funding techniques and/or clearance patterns. New major programs that would normally fall under the scope of the Treasury-State Agreement would not be identified and appropriately covered under the agreement.

***Recommendation*** — The State should implement procedures to ensure that the Treasury-State Agreement is executed in a timely manner, and the State should continue open communications with the U.S. Department of the Treasury in bringing the Treasury-State Agreement current.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-016

### Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds
### State Department of Defense

**CFDA No. 12.401: National Guard Military Operations and Maintenance Projects**
Direct Award from the U.S. Department of Defense (Award W912J6-13-2-1002)

***Criteria*** — U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government). Further, in accordance with National Guard Regulations 5-1, Chapter 11-5: Advance Payment Method, the grantee is required to minimize the time elapsing between the transfer of funds from the Federal government and its disbursement to no more than 45 days.

***Condition*** — During our audit, we examined 40 selections of Federal cash draws and identified one instance in which the number of days elapsed between the receipt of the Federal cash advance and the State's disbursement of the funds was 104 days, and was not covered by an Unliquidated Obligations Memo. As a result, the State may be accountable for interest earned on advances when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

A similar finding was included in the prior year's single audit report. Refer to page 273 (Reference: 2012-12).

***Questioned Costs*** — The amount of potential interest cannot be determined.

***Cause*** — The lag in disbursing the funds was due to the lack of resources and controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect*** — As a result of the deficiency on internal controls over compliance with cash management requirements, there was one out of 40 instances for $1,281 where Federal funds were disbursed 104 days after being received from the Federal government.

***Recommendation*** — The communications process over Federal grant compliance should be improved. The State DOD should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Sections 205.33.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-017

### Matching, Level of Effort, Earmarking (Significant Deficiency)

### Incorrect Matching Percentage
### State Department of Defense

**CFDA No. 12.401: National Guard Military Operations and Maintenance Projects**
Direct Award from the U.S. Department of Defense (Award W912J6-13-2-1001)

***Criteria*** — The National Guard Military Operations and Maintenance Project grant has a matching requirement whereby the National Guard Bureau (NGB) share of employee, repair, supply, equipment, utility, and other costs directly and exclusively associated with a facility is 75 percent. NGB participation in costs that are generated for facilities that are authorized at several different support levels will be at a rate that reflects the actual level of effort but not to exceed 25 percent of such costs (NG Pamphlet 420-10, Chapter 2).

***Condition*** — During our audit, we examined 32 selections of journal vouchers and voucher payables and identified two instances in which the project numbers were incorrect. In addition, the errors were not detected during the review process. As a result, these incorrectly coded projects should have been 75% federally funded rather than 100% federally funded.

***Questioned Costs*** — $1,143

***Cause* —** The individuals did not correctly prepare and review the reports prior to submitting to the U.S. Property and Fiscal Office.

***Effect*** — As a result of the deficiency in internal controls over compliance with the matching requirements, we noted two out of 32 instances where the project number were incorrectly coded which resulted in the State DOD receiving additional funds of $1,143.

***Recommendation*** — The communications and review process over the correct coding of project numbers should be improved. The State DOD should consider improving the design and implementation of matching internal controls to ensure project numbers are accurately coded.

***Views of Responsible Officials*** — See Corrective Action Plan.

**REFERENCE: 2013-018**

## Reporting (Significant Deficiency)

### Lack of Evidence of Review of ARRA Reports
### State Department of Defense

**CFDA No. ARRA 12.401: ARRA – National Guard Military Operations and Maintenance Projects**
Direct Award from the U.S. Department of Defense (Award W912J6-09-2-9030)

***Criteria*** — According to ARRA requirements, " This award requires the recipient to complete projects or activities which are funded under the American Recovery and Reinvestment Act of 2009 ("Recovery Act") and to report on use of Recovery Act funds provided through this award information from these reports will be made available to the public." The State DOD is required to prepare and submit these ARRA reports quarterly, and has designed and implemented internal control procedures whereby the Program Manager is required to review the ARRA reports prepared by the Fiscal department.

***Condition*** — During our audit, we examined two quarterly ARRA reports and noted that there was no evidence that the two reports were reviewed by responsible individuals prior to submission to the Recovery Act website.

***Questioned Costs*** — None.

***Cause*** **—** The individuals responsible for reviewing the ARRA reports did not demonstrate evidence of the review performed.

***Effect*** — Without proper evidence of the review performed by responsible individuals, we are unable to verify the implementation and assess the propriety of the State DOD's internal control. Further, the lack of a proper review by responsible individuals can lead to inaccurate expenditures being reported.

***Recommendation*** — The State DOD should consider improving the design and implementation of internal controls over ARRA reports, in order to maintain proper evidence of the review performed by responsible individuals.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-019

### Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds<br>State Department of Defense

**CFDA No. 12.404: National Guard ChalleNGe Program**
Direct Award from the U.S. Department of Defense (Award W912J6-11-2-4002 and W912J6-11-2-400K)

***Criteria*** — U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government). Further, in accordance with National Guard Regulations 5-1, Chapter 11-5: Advance Payment Method, the grantee is required to minimize the time elapsing between the transfer of funds from the Federal government and its disbursement to no more than 45 days.

***Condition*** — During our audit, we examined 60 selections of Federal cash draws and identified four instances in which the number of days elapsed between the Federal cash advances and the State's disbursement of the funds ranged between 65 and 129 days. As a result, the State may be accountable for interest earned on advances when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

A similar finding was included in the prior year's single audit report. Refer to page 274 (Reference: 2012-14).

***Questioned Costs*** — The amount of potential interest cannot be determined.

***Cause*** — The lag in disbursing the funds was due to the lack of resources and controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect*** — As a result of the deficiency on internal controls over compliance with cash management requirements, there were four out of 60 instances totaling $57,112 where Federal funds were disbursed between 65 and 129 days from being received from the Federal government.

***Recommendation*** — The communications process over Federal grant compliance should be improved. The State DOD should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Sections 205.33.

***Views of Responsible Officials*** — See Corrective Action Plan.

## SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

## REFERENCE: 2013-020

### Eligibility (Significant Deficiency)

### Lack of Evidence of Eligibility Verification
### State Department of Defense

**CFDA No. 12.404: National Guard ChalleNGe Program**
Direct Award from the U.S. Department of Defense (Award W912J6-12-2-400K, W912J6-12-2-4002, and F7CH002319M001)

***Criteria*** — The Master Youth Program Cooperative Agreement (MYPCA) contains eligibility participant requirements. Two of the requirements of the MYPCA are 1) that the participant must be a high school dropout and 2) not currently on parole or probation for other than juvenile status offenses, not awaiting sentencing, and not under indictment, charged, or convicted of a crime that is considered a felony when charged as an adult.

***Condition*** — During the course of our audit, we selected 40 participants to test the eligibility requirement under the MYPCA. For one participant, there was no available evidence to verify that the participant was a high school dropout. For five participants, there were no evidence to verify that the participants were not currently on parole or probation for other than juvenile status offenses, not awaiting sentencing, and not under indictment, charged, or convicted of a crime that is considered a felony when charged as an adult.

A similar finding was included in the prior year's single audit report. Refer to page 274 (Reference: 2012-15).

***Questioned Costs*** — Cannot be determined.

***Cause*** — Program management experienced turnover in personnel, and eligibility documents were not obtained.

***Effect*** — As a result of the deficiency, there was no supporting evidence to verify eligibility of the participants.

***Recommendation*** — The application review process and eligibility requirements should be communicated timely to every program employee and new program employees. In addition, evidence of eligibility verification should be properly obtained and maintained.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-021

### Period of Availability (Significant Deficiency)

### Expenditure Incurred Prior to Funding Period
### State Department of Defense

**CFDA No. 12.404: National Guard ChalleNGe Program**
Direct Award from the U.S. Department of Defense (Award F7CH002319M001)

***Criteria*** — According to OMB Circular No. A-102 Common Rule and OMB Circular No. A-110 (2 CFR Section 215.71), Federal awards may specify a time period during which the nonfederal entity may use the Federal funds. Where a funding period is specified, a nonfederal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

***Condition*** — During our audit, we examined 25 selections and noted one transaction that was not incurred within the period that the funds were authorized. The grant funding document indicated that the 2013 funding year was for the period October 1, 2012 through September 30, 2013. We identified an expenditure that was incurred in July 2012 for $1,010 that was paid from the 2013 funding award. Such expenditure should have been paid from the 2012 funding award as the expenditure was incurred during the 2012 funding period, and not the 2013 funding period.

***Questioned Costs*** — $1,010

***Cause*** — There was a change in personnel within the fiscal office, which caused a lack of proper training and guidance related to the program.

***Effect*** — The 2013 grant expenditures included $1,010 in expenditures that should have been paid from the 2012 funding amount.

***Recommendation*** — The State DOD should improve the design and implementation of internal controls to communicate the period of availability of funds in order to ensure compliance with grant period of availability requirements.

***Views of Responsible Officials*** — See Corrective Action Plan.

## SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

## REFERENCE: 2013-022

### Cash Management (Material Weakness)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds
### State Department of Business, Economic Development and Tourism

**CFDA No. 12.800: Research and Development Cluster – Air Force Defense Research Sciences Program**
Direct Award from U.S. Department of Defense (Award FA8650-11-2-5605)

***Criteria*** — U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition*** — During our audit, we examined 20 selections of Federal cash draws and identified 16 instances in which the number of days elapsed between the receipt of the Federal cash advances and the State's disbursement of the funds exceeded 30 days (range of 37 to 316 days). As the State DBEDT held the Federal funds beyond an administratively feasible period, the State DBEDT remitted estimated interest to the Federal government.

A similar finding was included in the prior year's single audit report. Refer to page 274 (Reference: 2012-16).

***Questioned Costs*** — The amount of potential interest cannot be determined.

***Cause*** — The lag in disbursing the funds was due to the lack of resources and controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect*** — As a result of the deficiency in internal controls over compliance with cash management requirements, we noted 16 out of 20 instances totaling $1,629,264 where Federal funds were disbursed after 30 days from being received from the Federal government. Although estimated interest earned was remitted to the Federal government, the State DBEDT is still responsible for minimizing the time elapsing between the receipt and disbursement of Federal funds.

***Recommendation*** — The communications process over Federal grant compliance should be improved. The State DBEDT should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-023

### Equipment and Real Property Management (Significant Deficiency)

### Untimely Recording of Property Acquisitions
### State Department of Business, Economic Development and Tourism

**CFDA No. 12.800: Research and Development Cluster – Air Force Defense Research Sciences Program**
Direct Award from U.S. Department of Defense (Award FA8650-11-2-5605)

***Criteria*** — According to the OMB Circular A-133 Compliance Supplement, Section F. Equipment and Real Property Management, Suggested Audit Procedures – Compliance, "Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment."

According to the State's Inventory System User Manual, "Newly acquired property shall be recorded in the FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility for maintaining the property. This applies to new purchases, capital lease, and donated or transferred property."

New property acquisitions should be recorded in the FAIS if the item meets the inventory-reporting threshold, is theft sensitive, or if the designated property custodian determines it as a controlled item. Upon notification of receipt, property management personnel will inspect the item, record the item's physical condition and other characteristics, and tag the item with a unique inventory decal number. All property inventory information is recorded on the Detail Inventory of Property AGS Form 17A and is forwarded through the Department's fiscal or administrative office to the State DAGS, SPO, and the Inventory Management Office for review and subsequent entry into the FAIS."

***Condition*** — During our audit, we examined three equipment purchases, noting that all three purchases were not reported in the FAIS in the quarter they were received. We noted that the equipment was purchased in the first and third quarters; however, they were not recorded until the last quarter of the fiscal year.

A similar finding was included in the prior year's single audit report. Refer to page 275 (Reference: 2012-17).

***Questioned Costs*** — None.

***Cause*** — The untimely recording was due to the reassignment of the staff members responsible for the filing of the Form 17A, which resulted in a lack of internal communication, monitoring, and understanding of the requirements.

***Effect*** — Failure to maintain accurate inventory of equipment could result in unknown differences of actual and recorded equipment inventory.

***Recommendation*** — The State DBEDT should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for management and disposition of equipment. The State DBEDT should consider establishing a monitoring process in order to ensure that newly acquired property is entered into the FAIS on a timely basis.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-024

### Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds
### State Department of Business, Economic Development and Tourism

**CFDA No. 12.910: Research and Development Cluster – Research and Technology Development**
Direct Award from U.S. Department of Defense (Award HR0011-07-2-0005)

***Criteria*** — U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition*** — During our audit, we examined seven selections of Federal cash draws and identified four instances in which the number of days elapsed between the receipt of the Federal cash advances and the State's disbursement of the funds exceeded 30 days (range of 33 to 501 days). As the State DBEDT held the Federal funds beyond an administratively feasible period, the State DBEDT remitted estimated interest to the Federal government.

A similar finding was included in the prior year's single audit report. Refer to page 276 (Reference: 2012-20).

***Questioned Costs*** — The amount of potential interest cannot be determined.

***Cause*** — The lag in disbursing the funds was due to the lack of resources and controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect*** — As a result of the deficiency in internal controls over compliance with cash management requirements, we noted four out of seven instances totaling $399,079 where Federal funds were disbursed after 30 days from being received from the Federal government. Although estimated interest earned was remitted to the Federal government, the State DBEDT is still responsible for minimizing the time elapsing between the receipt of funds from the Federal government and the disbursement.

***Recommendation*** — The communications process over Federal grant compliance should be improved. The DBEDT should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-025

### Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds State Department of Land and Natural Resources

**CFDA No. 15.605: Research and Development Cluster – Sport Fish Restoration Program**
Direct Award from U.S. Department of Interior (Award F12AF00301)

***Criteria*** — U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition*** — During our audit, we examined 25 selections of Federal cash draws and identified one instance in which the number of days elapsed between the receipt of the Federal cash advance and the State's disbursement of the funds exceeded 30 days (63 days). As a result, the State may be accountable for interest earned on the advance when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

A similar finding was included in the prior year's single audit report. Refer to page 277 (Reference: 2012-23).

***Questioned Costs*** — The amount of potential interest due cannot be determined.

***Cause*** — The lag in disbursing the funds was due to the lack of resources and controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect*** — As a result of the deficiency in internal controls over compliance with cash management requirements, we noted one out of 25 instances totaling $69,923 where Federal funds were disbursed after 30 days from being received from the Federal government.

***Recommendation*** — The communications process over Federal grant compliance should be improved. The State DLNR should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** — See Corrective Action Plan.

**REFERENCE: 2013-026**

## Equipment and Real Property Management (Significant Deficiency)

### Unrecorded and Untimely Recorded Property Acquisitions
### State Department of Land and Natural Resources

**CFDA No. 15.605: Research and Development Cluster – Sport Fish Restoration Program**
Direct Award from U.S. Department of Interior (Award F12AF01319)

***Criteria*** — According to the OMB Circular A-133 Compliance Supplement, Section F. Equipment and Real Property Management, Suggested Audit Procedures – Compliance, "Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment."

According to the State's Inventory System User Manual, "Newly acquired property shall be recorded in the FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility for maintaining the property. This applies to new purchases, capital lease, and donated or transferred property."

New property acquisitions should be recorded in the FAIS if the item meets the inventory reporting threshold, is theft sensitive, or if the designated property custodian determines it as a controlled item. Upon notification of receipt, property management personnel will inspect the item, record the item's physical condition and other characteristics, and tag the item with a unique inventory decal number. All property inventory information is recorded on the Detail Inventory of Property AGS Form 17A and is forwarded through the Department's fiscal or administrative office to the State DAGS, SPO, and the Inventory Management Office for review and subsequent entry into the FAIS.

***Condition*** — During our audit, we examined one equipment purchase for $1,849, noting that the purchase was not reported in the FAIS, and no Form 17A was completed. In addition, we noted three equipment purchases that were not reported in the FAIS in the quarter they were received. The purchases were recorded one or two quarters later.

***Questioned Costs*** — None.

***Cause*** — There was a lack of monitoring to ensure that the newly acquired property was entered into the FAIS or that newly acquired property was entered into the FAIS timely.

***Effect*** — Failure to maintain accurate inventory of equipment could result in unknown differences of actual and recorded equipment inventory.

***Recommendation*** — The State DLNR should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for management and disposition of equipment. The State DLNR should establish a monitoring process in order to ensure that newly acquired property is entered into the FAIS on a timely basis.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-027

### Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds
### State Department of Land and Natural Resources

**CFDA No. 15.608: Research and Development Cluster – Fish and Wildlife Management Assistance**
Direct Award from the U.S. Department of Interior (Award F08AP00001)

***Criteria* –** U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition* –** During our audit, we examined six selections of Federal cash draws and identified one instance in which the number of days elapsed between the receipt of the Federal cash advances and the State's disbursement of the funds exceeded 30 days (32 days). As a result, the State may be accountable for interest earned on the advance when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

***Questioned Costs* –** The amount of potential interest due cannot be determined.

***Cause* –** The lag in disbursing the funds was due to the lack of resources and internal controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect* –** As a result of the deficiency in internal controls over compliance with cash management requirements, we noted one out of six instances totaling $252,263 where Federal funds were disbursed after 30 days from being received from the Federal government.

***Recommendation* –** The communications process over Federal grant compliance should be improved. The State DLNR should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** – See Corrective Action Plan.

## REFERENCE: 2013-028

### Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds State Department of Land and Natural Resources

**CFDA No. 15.611: Research and Development Cluster – Wildlife Restoration and Basic Hunter Education**
Direct Award from U.S. Department of Interior (Award F11AF00146)

***Criteria*** — U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition*** — During our audit, we examined seven selections of Federal cash draws and identified one instance in which the number of days elapsed the receipt of the Federal cash advance and the State's disbursement of the funds exceeded 30 days (37 days). As a result, the State may be accountable for interest earned on the advance when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

***Questioned Costs*** — The amount of potential interest due cannot be determined.

***Cause*** — The lag in disbursing the funds was due to the lack of resources and internal controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect*** — As a result of the deficiency in internal controls over compliance with cash management requirements, we noted one out of seven instances totaling $27,567 where Federal funds were disbursed after 30 days from being received from the Federal government.

***Recommendation*** — The communications process over Federal grant compliance should be improved. The State DLNR should consider improving the design and implementation of cash management internal controls to minimize the time lag between receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-029

### Equipment and Real Property Management (Significant Deficiency)

### Unrecorded and Untimely Recorded Property Acquisitions
### State Department of Land and Natural Resources

**CFDA No. 15.611: Research and Development Cluster – Wildlife Restoration and Basic Hunter Education**
Direct Award from U.S. Department of Interior (Award F11AF00146 and F12AF01043)

***Criteria*** — According to the OMB Circular A-133 Compliance Supplement, Section F. Equipment and Real Property Management, Suggested Audit Procedures – Compliance, "Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment."

According to the State's Inventory System User Manual, "Newly acquired property shall be recorded in the FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility for maintaining the property. This applies to new purchases, capital lease, and donated or transferred property."

New property acquisitions should be recorded in the FAIS if the item meets the inventory reporting threshold, is theft sensitive, or if the designated property custodian determines it as a controlled item. Upon notification of receipt, property management personnel will inspect the item, record the item's physical condition and other characteristics, and tag the item with a unique inventory decal number. All property inventory information is recorded on the Detail Inventory of Property AGS Form 17A and is forwarded through the Department's fiscal or administrative office to the State DAGS, SPO, and the Inventory Management Office for review and subsequent entry into the FAIS.

***Condition*** — During our audit, we examined two equipment purchases totaling $15,662, noting that both purchases were not reported in the FAIS, and no Form 17A was completed. In addition, we noted three equipment purchases that were not reported in the FAIS in the quarter they were received. The purchases were recorded one quarter later.

***Questioned Costs*** — None.

***Cause*** — There was a lack of monitoring to ensure that the newly acquired property was entered into the FAIS or that newly acquired property was entered into the FAIS timely.

***Effect*** — Failure to maintain accurate inventory of equipment could result in unknown differences of actual and recorded equipment inventory.

***Recommendation*** — The State DLNR should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for management and disposition of equipment. The State DLNR should consider establishing a monitoring process in order to ensure that newly acquired property is entered into the FAIS on a timely basis.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-030

### Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds
### State Department of Land and Natural Resources

**CFDA No. 15.615: Research and Development Cluster – Cooperative Endangered Species Conservation Fund**
Direct Award from the U.S. Department of Interior (Award F07AC00013, F09AP00163, F11AP00435, F11AP00436 and F12AP00807)

***Criteria*** — U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition*** — During our audit, we examined 25 selections of Federal cash draws and identified six instances in which the number of days elapsed between the receipt of the Federal cash advances and the State's disbursement of the funds exceeded 30 days (range of 34 to 65 days). As a result, the State may be accountable for interest earned on advances when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

***Questioned Costs*** — The amount of potential interest due cannot be determined.

***Cause*** — The lag in disbursing the funds was due to the lack of resources and internal controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect*** — As a result of the deficiency in internal controls over compliance with cash management requirements, we noted six out of 25 instances totaling $299,127 where Federal funds were disbursed after 30 days from being received from the Federal government.

***Recommendation*** — The communications process over Federal grant compliance should be improved. The State DLNR should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-031

### Equipment and Real Property Management (Significant Deficiency)

### Unrecorded and Untimely Recorded Property Acquisitions
### State Department of Land and Natural Resources

**CFDA No. 15.615: Research and Development Cluster – Cooperative Endangered Species Conservation Fund**
Direct Award from U.S. Department of Interior (Award F12AP00808 and F08AP00102)

***Criteria*** — According to the OMB Circular A-133 Compliance Supplement, Section F. Equipment and Real Property Management, Suggested Audit Procedures — Compliance, "Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment."

According to the State's Inventory System User Manual, "Newly acquired property shall be recorded in the FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility for maintaining the property. This applies to new purchases, capital lease, and donated or transferred property."

New property acquisitions should be recorded in the FAIS if the item meets the inventory-reporting threshold, is theft sensitive, or if the designated property custodian determines it as a controlled item. Upon notification of receipt, property management personnel will inspect the item, record the item's physical condition and other characteristics, and tag the item with a unique inventory decal number. All property inventory information is recorded on the Detail Inventory of Property AGS Form 17A and is forwarded through the Department's fiscal or administrative office to the State DAGS, SPO, and the Inventory Management Office for review and subsequent entry into the FAIS.

***Condition*** — During our audit, we examined two purchases, noting that one purchase for $7,389 was not reported in the FAIS, and no Form 17A was completed. For another purchase for $720,000, we noted that it was not timely recorded in the FAIS in the quarter that it was received. The item was purchased in the second quarter; however, it was not recorded until the third quarter of the fiscal year.

***Questioned Costs*** — None.

***Cause*** — There was a lack of monitoring to ensure that the newly acquired property was entered into the FAIS or that newly acquired property was entered into FAIS timely.

***Effect*** — Failure to maintain accurate inventory of equipment could result in unknown differences of actual and recorded equipment inventory.

***Recommendation*** — The State DLNR should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for management and disposition of equipment. The State DLNR should consider establishing a monitoring process in order to ensure that newly acquired property is entered into the FAIS on a timely basis.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-032

### Equipment and Real Property Management (Significant Deficiency)

### Untimely Recorded Property Acquisitions
### State Department of Land and Natural Resources

**CFDA No. 15.634: Research and Development Cluster – State Wildlife Grants**
Direct Award from U.S. Department of Interior (Award F12AF01391)

***Criteria*** — According to the OMB Circular A-133 Compliance Supplement, Section F. Equipment and Real Property Management, Suggested Audit Procedures – Compliance, "Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment."

According to the State's Inventory System User Manual, "Newly acquired property shall be recorded in the FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility for maintaining the property. This applies to new purchases, capital lease, and donated or transferred property."

New property acquisitions should be recorded in the FAIS if the item meets the inventory reporting threshold, is theft sensitive, or if the designated property custodian determines it as a controlled item. Upon notification of receipt, property management personnel will inspect the item, record the item's physical condition and other characteristics, and tag the item with a unique inventory decal number. All property inventory information is recorded on the Detail Inventory of Property AGS Form 17A and is forwarded through the Department's fiscal or administrative office to the State DAGS, SPO, and the Inventory Management Office for review and subsequent entry into the FAIS.

***Condition*** — During our audit, we examined one equipment purchase, noting that the purchase was not reported in the FAIS in the quarter that it was received. We noted that it was acquired in the second quarter; however, it was not recorded until the third quarter of the fiscal year.

***Questioned Costs*** — None.

***Cause*** — The Form 17A was not submitted to the Property Accountant timely. In addition, there was a lack of monitoring to ensure that all property acquisitions were recorded into the FAIS on a timely basis.

***Effect*** — Failure to maintain accurate inventory of equipment could result in unknown differences of actual and recorded equipment inventory.

***Recommendation*** — The State DLNR should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for management and disposition of equipment. The State DLNR should consider establishing a monitoring process in order to ensure that newly acquired property is entered into the FAIS on a timely basis.

***Views of Responsible Officials*** — See Corrective Action Plan.

**REFERENCE: 2013-033**

## Reporting (Significant Deficiency)

### Untimely Submission of Report
### State Department of Land and Natural Resources

**CFDA No. 15.634: Research and Development Cluster – State Wildlife Grants**
Direct Award from U.S. Department of Interior (Award F09AP00158)

***Criteria*** — The State DLNR receives funds from U.S. Department of Interior to fund development and implementation of projects for the benefit of fish and wildlife and their habitats, including species that are not hunted or fished. Priority is placed on projects that benefit species of greatest conservation concern. In accordance with the grant agreement, final reports including both financial reports and performance reports will be due 90 days from the end date of the grant.

***Condition*** — During our audit, we examined the final performance report as of June 30, 2013. The report was due after 90 days of the grant end date (September 28, 2013). However, it was submitted on October 21, 2013, 23 days beyond the required deadline.

***Questioned Costs*** — None.

***Cause*** — The Program Manager needed additional time to compile the comprehensive reports.

***Effect*** — The filing of the final performance report after the required deadline results in noncompliance with the program requirement.

***Recommendation*** — Internal controls related to the preparation and review of financial and program reports should be improved in order to ensure that required reports are submitted on a timely basis. The State DLNR should implement a tracking system of the required reports to remind preparers of due dates, and reviewers of the reports should monitor the timeliness of report preparation and submission.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-034

### Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds
### State Department of Land and Natural Resources

**CFDA No. 15.657: Research and Development Cluster – Endangered Species Conservation — Recovery Implementation Funds**
Direct Award from the U.S. Department of Interior (Award F11AP00021)

***Criteria* –** U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition* –** During our audit, we examined five selections of Federal cash draws and identified two instances in which the number of days elapsed between the receipt of the Federal cash advances and State's disbursement of the funds exceeded 30 days (53 and 68 days). As a result, the State may be accountable for interest earned on advances when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

***Questioned Costs* –** The amount of potential interest due cannot be determined.

***Cause* –** The lag in disbursing the funds was due to the lack of resources and internal controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect* –** As a result of the deficiency in internal controls over compliance with cash management requirements, we noted two out of five instances totaling $672,700 where Federal funds were disbursed after 30 days from being received from the Federal government.

***Recommendation* –** The communications process over Federal grant compliance should be improved. The State DLNR should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** – See Corrective Action Plan.

**REFERENCE: 2013-035**

## Cash Management (Material Weakness)

### No Treasury-State Agreement
### State Department of Labor and Industrial Relations

**CFDA No. 17.225 and ARRA 17.225: Unemployment Insurance**
Direct Award from the U.S. Department of Labor (Award UI-23887-13-55-A-15)

***Criteria*** — According to OMB A-133 Circular Compliance Supplement under Cash Management: "For programs tested as a major, verify which of those programs are covered by the Treasury-State Agreement in accordance with the materiality thresholds in 31 CFR section 205.5, Table A. For those programs, determine the funding techniques used for those programs. For those funding techniques that require clearance patterns to schedule the transfer of funds to the State, review documentation supporting the clearance pattern and verify that the clearance pattern conforms to the requirements for developing and maintaining clearance patterns as specified in the Treasury-State Agreement (31 CFR sections 205.12, 205.20, and 205.22)."

***Condition*** — We obtained the Cash Management Improvement Act Agreement ("Treasury-State Agreement") between the State and the U.S. Department of the Treasury and noted that the latest executed agreement was effective through June 30, 2011. The Treasury-State Agreement is required to be amended at least annually to incorporate new programs that qualify as major Federal assistance programs or remove programs that no longer qualify as major Federal assistance programs. Further, the Treasury-State Agreement stipulates that the State must notify the U.S. Department of the Treasury within 30 days should there be any changes in funding techniques and/or clearance patterns. The notification must include a proposed amendment for review by the U.S. Department of the Treasury. As the most recent executed version of the Treasury-State Agreement ended on June 30, 2011, there was no Treasury-State Agreement in effect for the year ended June 30, 2013.

A similar finding was included in the prior year's single audit report. Refer to page 279 (Reference: 2012-26).

***Questioned Costs*** — Cannot be determined.

***Cause*** — The original delay in the execution of the agreement is due to lack of resources. However, the position has been filled and the State B&F recently completed the execution of the Treasury-State Agreement for the year ended June 30, 2012 and is currently working on the Treasury-State Agreement for the year ended June 30, 2013.

***Effect*** —Existing major programs would not be updated for changes to their funding techniques and/or clearance patterns. New major programs that would normally fall under the scope of the Treasury-State Agreement would not be identified and appropriately covered under the agreement.

***Recommendation*** — The State should implement procedures to ensure that the Treasury-State Agreement is executed in a timely manner, and the State should continue open communications with the U.S. Department of the Treasury in bringing the Treasury-State Agreement current.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-036

### Equipment and Real Property Management (Significant Deficiency)

### Untimely Recording of Property Acquisitions and Dispositions
### State Department of Labor and Industrial Relations

**CFDA No. 17.225: Unemployment Insurance**
Direct Award from the U.S. Department of Labor (Award UI-23887-13-55-A-15)

***Criteria*** — According to the OMB Circular A-133 Compliance Supplement, Section F. Equipment and Real Property Management, Suggested Audit Procedures – Compliance, "Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment.

According to the State's Inventory System User Manual, "Newly acquired property shall be recorded in the FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility for maintaining the property. This applies to new purchases, capital lease, and donated or transferred property."

New property acquisitions should be recorded in the FAIS if the item meets the inventory-reporting threshold, is theft sensitive, or if the designated property custodian determines it as a controlled item. Upon notification of receipt, property management personnel will inspect the item, record the item's physical condition and other characteristics, and tag the item with a unique inventory decal number. All property inventory information is recorded on the Detail Inventory of Property AGS Form 17A and is forwarded through the Department's fiscal or administrative office to the State DAGS, SPO, and the Inventory Management Office for review and subsequent entry into the FAIS."

***Condition*** — During our audit, we examined four property acquisitions and four property dispositions. Of the four acquisitions, two acquisitions were not recorded timely. The property acquisitions were required to be recorded as of the quarter acquired; however, the two acquisitions were not recorded until one or two quarters later. Additionally, of the four property disposition selections, three were not recorded timely. The property dispositions were required to be recorded as of the quarter disposed; however, they were not recorded until one or two quarters later.

***Questioned Costs*** — None.

***Cause*** — There was a lack of monitoring to ensure that all property acquisitions and dispositions were recorded into the FAIS on a timely basis.

***Effect*** — Failure to maintain accurate inventory of equipment could result in unknown differences of actual and recorded equipment inventory.

***Recommendation*** — The State DLIR should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for management and disposition of equipment. The State DLIR should consider establishing a monitoring process in order to ensure that newly acquired property and disposals are entered into the FAIS on a timely basis.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-037

### Reporting (Significant Deficiency)

### Untimely Submission of Reports
### State Department of Labor and Industrial Relations

**CFDA No. 17.225: Unemployment Insurance**
Direct Award from the U.S. Department of Labor (Award UI-23887-13-55-A-15)

***Criteria*** — The Employment and Training Administration (ETA) 191, *Financial Status of Unemployment Compensation for Federal Employees (UCFE)/Unemployment Compensation for Ex-Service Members (UCX)* report is required to be submitted within 25 days after the end of each quarter.

***Condition*** — During the course of our audit, we examined two ETA 191, *Financial Status of UCFE/UCX* reports and noted that the report for the quarter ended December 31, 2012 was submitted on January 28, 2013, which was three days beyond the required deadline.

***Questioned Costs*** — None.

***Cause*** — Individuals responsible for preparing the report did not properly monitor the deadline to submit the report.

***Effect*** — The late filing results in a noncompliance with the program requirement.

***Recommendation*** — Internal controls related to the preparation and review of the reports should be improved in order to ensure that required reports are submitted on a timely basis. The State DLIR should implement a tracking system of required reports to remind preparers of due dates, and reviewers should monitor the timeliness of report preparation and submission.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-038

### Special Tests and Provisions (Significant Deficiency)

### Timeliness of Unemployment Insurance Claim Reviews
### State Department of Labor and Industrial Relations

**CFDA No. 17.225: Unemployment Insurance**
Direct Award from the U.S. Department of Labor (Award UI-23887-13-55-A-15)

***Criteria*** — The U.S. Department of Labor has instituted an Unemployment Insurance (UI) Benefit Accuracy Measurement (BAM) System that provides the basis for assessing the accuracy of UI payments. Under the system, representative samples of UI payments and disqualifying ineligibility determinations are drawn and examined to determine whether they were properly administered to claimants and whether these payments were accurately calculated, or were appropriately denied. Based on the errors identified and information gathered, each State must develop plans and implement corrective actions to ensure accurate administration of state law, rules, and procedures.

The BAM system requires the State to complete a minimum number of UI cases timely in order to maintain a current database. The required number of cases and the timeliness percentages for completing paid and denied claims are as follows:

Paid Claims:
1. Minimum cases: 360 paid cases
2. Timeliness percentages: Complete 70% within 60 days, 95% within 90 days, and 98% within 120 days

Denied Claims:
1. Minimum cases: 450 denied cases (150 cases for each category: monetary, separations, and nonseparations)
2. Timeliness percentages: Complete 60% within 60 days, 85% within 90 days, and 98% within 120 days

***Condition*** — During the course of our audit, we obtained and examined the State BAM unit's *Time Lapse Report* for the period July 1, 2012 through June 30, 2013 to determine whether the State achieved the completion of the minimum required cases in accordance with the stipulated timeframe for the following categories: (1) paid claims, (2a) denied claims — monetary based, (2b) denied claims — separation based, and (2c) denied claims — non-separation based. We noted that the State BAM unit did not meet the timeliness requirement for the following categories:

- Paid Claims: 61-90 days – 88.61% reviewed (minimum required 95%)
- Paid Claims: 91-120 days – 94.17% reviewed (minimum required 98%)
- Denied Claims (separation): 91-120 days – 95.33% reviewed (minimum required 98%)

A similar finding was included in the prior year's single audit report. Refer to page 280 (Reference: 2012-28).

***Questioned Costs*** — None.

***Cause*** — The delay in the processing of claims is due to a shortage of investigators. In addition, any findings identified by investigators require additional time for the investigators to conclude on their reviews.

***Effect*** — A continued failure to meet the percentage-of-completion requirements for paid or denied claims may cause the State BAM unit's database to contain outdated data, which may result in erroneous conclusions to be drawn about the effectiveness of the State's UI system.

***Recommendation*** — An analysis should be undertaken to determine the cost-benefit relationship of changing personnel's duties to put more emphasis on processing UI claims in accordance with the BAM requirements.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-039

### Reporting (Significant Deficiency)

### Untimely Submission of Reports
### State Department of Labor and Industrial Relations

**CFDA No. 17.207, 17.801, and 17.804: Employment Service Cluster**
Direct Award from the U.S. Department of Labor (Award ES229921255A15)

***Criteria*** — The ETA 9130, *Financial Report (OMB No. 1205-0461)* is required to be submitted within 45 days after the end of the quarter.

***Condition*** — During the course of our audit, we examined two ETA 9130, *Financial Report (OMB No. 1205-0461)* reports and noted that the report for the quarter ended December 31, 2012 was submitted on March 8, 2013, which was 22 days beyond the required deadline.

***Questioned Costs*** — None.

***Cause*** — Individuals responsible for preparing the report did not properly monitor the deadline to submit the report.

***Effect*** — The late filing results in a noncompliance with the program requirement.

***Recommendation*** — Controls related to the preparation and review of the reports should be improved in order to ensure that required reports are submitted on a timely basis. The State DLIR should consider implementing a tracking system of the required reports to remind the preparers of the due dates, and the reviewers of the reports should monitor the timeliness of their preparation and submission.

***Views of Responsible Officials*** **—** See Corrective Action Plan.

## REFERENCE: 2013-040

### Special Tests and Provisions (Significant Deficiency)

### Eligibility Files Not Updated
### State Department of Accounting and General Services

**CFDA No. 39.003: Donation of Federal Surplus Personal Property**
Direct Award from the U.S. General Services Administration (Award: N/A)

***Criteria*** — Based on the State Plan of Operation for the Federal Surplus Property Donation Program ("State Plan"), donee Eligibility Files are to be "reviewed to renew or update the contents at least once every three years, and continuing in three-year intervals from the date of the first updating". Further noted that the State Plan defines a public agency as "any State; political subdivision thereof, including any unit of local government or economic development district; or any department, agency, instrumentality thereof, including instrumentalities created by compact or other agreement between State or political subdivisions, multijurisdictional substate districts established by or pursuant to State law, or any Indian tribe, band, group, pueblo, or community located on a State reservation".

***Condition*** — During our audit, we examined six transaction selections for timely review and update of donee files, and identified one donee file that was not updated within the past three years.

A similar finding was included in the prior year's single audit report. Refer to page 282 (Reference: 2012-33).

***Questioned Costs*** — None.

***Cause*** — The cause of the non-compliance above is due to a misinterpretation of the State Plan. The responsible official performed the review and update only for donees that are not State or other government agencies.

***Effect*** — Failure to review and update donee files at least once every three years could result in the Surplus Property Office providing services to donees that are not eligible under the provisions of the State Plan of Operation for the Federal Surplus Property Donation Program.

***Recommendation*** — The Surplus Property Office should ensure that responsible officials have the proper knowledge of the State's policies and procedures for reviewing and updating donee files. The Surplus Property Office should also establish a timetable to ensure that all donee files are reviewed and updated at least once every three years.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-041

### Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds State Department of Business, Economic Development and Tourism

**CFDA No. ARRA 81.041: ARRA – State Energy Program**
Direct Award from the U.S. Department of Energy (Award DE-EE0000216)

***Criteria*** — U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition*** — During our audit, we examined 40 selections of Federal cash draws and identified one instance in which the number of days elapsed between the receipt of the Federal cash advance and the State's disbursement of the funds exceeded 30 days (41 days). As a result, the State may be accountable for interest earned on the advance when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

A similar finding was included in the prior year's single audit report. Refer to page 283 (Reference: 2012-35).

***Questioned Costs*** — The amount of potential interest due cannot be determined.

***Cause*** — The lag in disbursing the funds was due to the lack of resources and controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect*** — As a result of the deficiency in internal controls over compliance with cash management requirements, we noted one out of 40 instances totaling $27,600 where Federal funds were disbursed after 30 days from being received from the Federal government.

***Recommendation*** — The communications process over Federal grant compliance should be improved. The State DBEDT should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-042

### Equipment and Real Property Management (Significant Deficiency)

### Untimely Recording of Property Acquisitions
### State Department of Business, and Economic Development and Tourism

**CFDA No. ARRA 81.041: ARRA – State Energy Program**
Direct Award from the U.S. Department of Energy (Award DE-EE0000216)

***Criteria*** — According to the OMB Circular A-133 Compliance Supplement, Section F. Equipment and Real Property Management, Suggested Audit Procedures – Compliance, "Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment."

According to the State's Inventory System User Manual, "Newly acquired property shall be recorded in the FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility for maintaining the property. This applies to new purchases, capital lease, and donated or transferred property.

New property acquisitions should be recorded in the FAIS if the item meets the inventory-reporting threshold, is theft sensitive, or if the designated property custodian determines it as a controlled item. Upon notification of receipt, property management personnel will inspect the item, record the item's physical condition and other characteristics, and tag the item with a unique inventory decal number. All property inventory information is recorded on the Detail Inventory of Property AGS Form 17A and is forwarded through the Department's fiscal or administrative office to the State DAGS, SPO, and Inventory Management Office for review and subsequent entry into the FAIS.

***Condition*** — During our audit, we examined four equipment purchases and noted that three purchases totaling $4,984 were not reported in the FAIS timely. The property acquisitions were required to be recorded as of the quarter acquired, however in one instance, the equipment was recorded one quarter later. In the other two instances, the equipment items were recorded in the incorrect fiscal year (2012 rather than 2013).

A similar finding was included in the prior year's single audit report. Refer to page 283 (Reference: 2012-36).

***Questioned Costs*** — None.

***Cause*** — There was a lack of monitoring to ensure that the newly acquired property was entered into the FAIS or that newly acquired property was entered into FAIS timely.

***Effect*** — Failure to maintain accurate inventory of equipment could result in unknown differences of actual and recorded equipment inventory.

***Recommendation*** — The State DBEDT should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for management and disposition of equipment. The State DBEDT should consider establishing a monitoring process in order to ensure that newly acquired property is entered into the FAIS on a timely basis.

***Views of Responsible Officials*** — See Corrective Action Plan.

## SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

## REFERENCE: 2013-043

### Procurement and Suspension and Debarment (Significant Deficiency)

### Posting of Contract Award Notification
### State Department of Business, Economic Development and Tourism

**CFDA No. 81.041: State Energy Program**
Direct Award from the U.S. Department of Energy (Award DE-EE0003928)

***Criteria*** — The State is required to follow its established procurement policies and procedures for both Federal and non-Federal procured items. Section 103D-304(i) of the Hawaii Revised Statues on State procurement policies requires that contracts awarded under Section 103D-304 for $5,000 or more shall be posted electronically within seven days of the contract award.

***Condition*** — During our audit, we examined a contract awarded during fiscal year 2013 and noted that the award notification was not posted electronically within seven days of the contract award, as required by the State's procurement policies. The posting was made ten days after the contract award (three days beyond the procurement deadline).

***Questioned Costs*** — None.

***Cause*** — There was a lack of monitoring to ensure that the newly procured contract was properly posted to notify the public of the contract awardee in a timely manner.

***Effect*** — Contract bidders and the general public would not be made aware of the contract award.

***Recommendation*** — The State DBEDT should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for procurement of contracts and posting the relevant details related to new contract procurements.

***Views of Responsible Officials*** — See Corrective Action Plan.

**REFERENCE: 2013-044**

## Cash Management (Material Weakness)

### Review of Federal Cash Draws
### State Department of Business, Economic Development and Tourism

**CFDA No. 81.041 and ARRA 81.041: State Energy Program**
Direct Award from the U.S. Department of Energy (Award DE-EE0003928 and DE-EE0000216)

***Criteria*** — In connection with the funding of the State Energy Program, the Department utilizes the U.S. Department of the Treasury's Automated Standard Application Payments (ASAP) system to request Federal cash draws. The ASAP is an on-line system that allows Federal award recipients to draw from accounts pre-authorized by the respective Federal funding agency. Cash draws are requested based on unique Account ID numbers, which correspond to a specific Federal award.

***Condition*** — During the audit, we compared the total fiscal year expenditures reported in the SF-425 reports and the Quarterly Progress reports to the total expenditures reported in the schedule of expenditures of federal awards (SEFA). We noted that the SEFA was higher by $154,434. Upon investigation, it was determined that the $154,434 was a repayment to the Federal funding agency made in August 2012 for an erroneous Federal cash draw made in April 2012. The Federal cash draw was intended to be drawn under a different Federal award. In the preparation of the preliminary 2013 SEFA, the repayment was erroneously considered an expenditure. Also, since the amount related to a Federal cash draw and not an expenditure, there is no effect on the 2012 SEFA.

The erroneous Federal cash draw was made on April 5, 2012. However, it was not detected until June 2012, during a review of the account settlement report from the ASAP system. At that time, the Federal funding agency was informed of the matter and repayment was made on August 7, 2012. Based on the timing, the State DBEDT held the funds for 124 days, before repaying the amount.

***Questioned Costs*** — The amount of potential interest due cannot be determined.

***Cause*** — The incorrect account ID was selected in the ASAP system, resulting in the funds erroneously being drawn from award DE-EE0003928, rather than award DE-EE0000216.

***Effect*** — The erroneous Federal cash draw was not detected for a two-month period, with the State DBEDT having the funds for a total of 124 days.

***Recommendation*** — Internal controls related to the request of Federal cash draws should be improved. The State DBEDT should design and implement controls to ensure that Federal cash draws are requested for the proper Federal award.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-045

### Reporting (Significant Deficiency)

### Federal Reporting Accuracy
### State Department of Business, Economic Development and Tourism

**CFDA No. ARRA 81.041: ARRA – State Energy Program**
Direct Award from the U.S. Department of Energy (Award DE-EE0000216)

***Criteria*** — Under the State Energy Program, the State DBEDT is required to file the Federal Financial Report (SF-425), Quarterly Progress Reports, and Section 1512 ARRA Reports in accordance with instructions.

***Condition*** — During our audit, we examined four Federal financial reports for the quarters ended September 2012, December 2012, March 2013, and June 2013. We noted that Form SF-425, Federal Financial Report for the quarter ended September 2012 did not agree to the supporting records due to the improper cut-off of expenditures.

As a result, Form SF-425 for the quarter ended September 2012 was understated by $583, and conversely, Form SF-425 for the quarter ended December 2012 was overstated by $583. There was a corresponding effect in the program's quarterly progress reports and Section 1512 ARRA reports.

A similar finding was included in the prior year's single audit report. Refer to page 284 (Reference: 2012-38).

***Questioned Costs*** — None.

***Cause*** — Individuals responsible for preparing the reports did not properly monitor the appropriate cut-off period for reporting expenditures within the appropriate quarter.

***Effect*** — The filing of the SF-425 reports, quarterly progress reports, and Section 1512 ARRA reports were inaccurate.

***Recommendation*** — Controls related to the preparation and review of the reports should be improved in order to ensure that required reports are submitted accurately.

***Views of Responsible Officials*** — See Corrective Action Plan.

## SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

## REFERENCE: 2013-046

### Subrecipient Monitoring (Significant Deficiency)

### OMB Circular A-133 Audit Report Not Received from Subrecipient
### State Department of Business, Economic Development and Tourism

**CFDA No. ARRA 81.041: ARRA – State Energy Program**
Direct Award from the U.S. Department of Energy (Award DE-EE0000216)

***Criteria*** — OMB Circular A-133 requires a pass-through entity to be responsible for the following:

- Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements and that the required audits are completed within nine months of the end of the subrecipient's fiscal year end.
- Issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report.
- Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

The pass-through entity is also required to monitor the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

***Condition*** — During our audit, we noted that the State DBEDT did not ensure that subrecipients expending $500,000 or more in Federal awards obtained the required OMB Circular A-133 audit. We examined two subrecipients and noted that one expended more than $500,000 in Federal awards in its fiscal year. However, the subrecipient did not obtain the required OMB Circular A-133 audit.

A similar finding was included in the prior year's single audit report. Refer to page 285 (Reference: 2012-40).

***Questioned Costs*** — Cannot be determined.

***Cause*** — The responsible individual was not aware of the State DBEDT's responsibility as the pass-through entity to ensure that subrecipients obtain the required OMB Circular A-133 audit.

***Effect*** — Without the subrecipient's OMB Circular A-133 audit report, the State DBEDT does not have reasonable assurance that the subrecipient administered the Federal awards in compliance with OMB Circular A-133 and the grant provisions.

***Recommendation*** — The State DBEDT should ensure that responsible individuals have the proper knowledge of the pass-through entity's responsibilities for subrecipient monitoring. The State DBEDT should also design and implement internal controls to ensure that subrecipients expending $500,000 or more in Federal awards appropriately obtain the required OMB Circular A-133 audit.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-047

### Cash Management (Material Weakness)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds State Department of Commerce and Consumer Affairs

**CFDA No. 93.525: State Planning and Establishment Grants for the Affordable Care Act's Exchanges**
Direct Award from the U.S. Department of Health and Human Services (Award 6 HBEIE100012-01-02)

***Criteria*** — The U.S. Department of the Treasury regulations at 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as is administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition*** — During our audit, we examined seven selections of Federal cash draws and identified three instances where the number of days elapsed between the receipt of the Federal cash advances and State's disbursement of the funds exceeded 30 days (range of 33 to 143 days). As a result, the State may be accountable for interest earned on advances when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

***Questioned Costs*** **—** The amount of potential interest due cannot be determined.

***Cause*** — The lag in disbursing the funds timely was due to the lack of resources and controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect*** — As a result of the deficiency in internal controls over compliance with cash management requirements, we noted three out of seven instances totaling $1,487,749 where Federal funds were disbursed after 30 days from being received from the Federal government.

***Recommendation*** — The communications process over Federal grant compliance should be improved. The State DCCA should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** — See Corrective Action Plan.

**REFERENCE: 2013-048**

## Reporting (Significant Deficiency)

### Untimely Submission Transparency Act Reports
### State Department of Labor and Industrial Relations

**CFDA No. 93.569: Community Services Block Grant**
Direct Award from the U.S. Department of Health and Human Services (Award G-13B1HICOSR)

***Criteria*** — The FFATA requires prime awardees to file a FFATA sub-award report by the end of the month following the month in which it awards any subgrant greater than or equal to $25,000.

***Condition*** — The Community Services Block Grant is subject to the FFATA requirements. During the audit, we tested all four of the required FFATA reports noting that none were filed timely. The reports had the same due date of November 30, 2012. However, they were submitted on December 19, 2012, which was 19 days beyond the required deadline.

A similar finding was included in the prior year's single audit report. Refer to page 293 (Reference: 2012-58).

***Questioned Costs*** — None.

***Cause*** — Individuals responsible for preparing the report did not properly monitor the deadline to submit the report.

***Effect*** — Failure to fulfill the FFATA reporting requirements results in non-compliance with Federal grant requirements.

***Recommendation*** — Controls related to the preparation and review of the reports should be improved in order to ensure that required reports are submitted on a timely basis. While the State DLIR has implemented a tracking system of the required reports, reviewers of the reports should monitor the timeliness of their preparation and submission.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-049

### Cash Management (Significant Deficiency)

### Timing Not Minimized Between the Receipt and Disbursement of Federal Funds
### State Department of Defense

**CFDA No. 97.042: Emergency Management Performance Grants**
Direct Award from the U.S. Department of Homeland Security (Awards 2010-EP-E0-0042, EMW-2011-EP-00072-S01 and EMW-2012-EP-00012)

***Criteria*** — U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition*** — During our audit, we examined 25 selections of Federal cash draws and identified two instances in which the number of days elapsed between the receipt of the Federal cash advances and the State's disbursement of the funds exceeded 30 days (31 and 36 days). As a result, the State may be accountable for interest earned on advances when the State does not minimize the time elapsed between the receipt of the funds from the Federal government and the disbursement.

***Questioned Costs*** — The amount of potential interest due cannot be determined.

***Cause*** — The lag in disbursing the funds was due to the lack of resources and controls to ensure that the Federal funds were disbursed on a timely basis.

***Effect*** — As a result of the deficiency in internal controls over compliance with cash management requirements, we noted two out of 25 instances totaling $59 where Federal funds were disbursed after 30 days from being received from the Federal government.

***Recommendation*** — The communications process over Federal grant compliance should be improved. The State DOD should consider improving the design and implementation of cash management internal controls to minimize the time lag between the receipt and disbursement of Federal funds in accordance with 31 CFR Section 205.33.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-050

### Cash Management (Material Weakness)

### Reimbursement Requests
### State Department of Defense

**CFDA No. 97.056: Port Security Grant Program**
Direct Award from the U.S. Department of Homeland Security (Award EMW-2011-PU-K0004 and EMW-2012-PU-K00002)

***Criteria* –** The OMB Circular A-133 requires that when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal government.

***Condition* –** During the audit, we noted that the State DOD requests reimbursement from the Federal government after the program costs have been incurred, and in some instances, prior to the actual payment of the expenditures.

***Questioned Costs* –** Cannot be determined.

***Cause* –** The State DOD does not have the necessary General Fund allotment available to cover expenditures before seeking reimbursement from the Federal government.

***Effect* –** As a result of the deficiency in compliance with cash management requirements, reimbursements for program costs were requested prior to actual payment of the expenditures for grants under the reimbursement method.

***Recommendation* –** Compliance with Federal regulations governing the cash management process should be improved. The State DOD should establish procedures or seek additional funding to ensure that expenditures related to reimbursement grants are paid prior to requesting reimbursement from the Federal government.

***Views of Responsible Officials* –** See Corrective Action Plan.

## REFERENCE: 2013-051

### Cash Management (Significant Deficiency)

### Reconciliation of Federal Cash Draws
### State Department of Defense

**CFDA No. 97.056: Port Security Grant Program**
Direct Award from the U.S. Department of Homeland Security (2008GBT8K069)

***Criteria*** — U.S. Department of the Treasury Regulations 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the receipt of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State has determined 30 days to be a reasonable period to disburse cash for direct program costs (from the date of receipt of cash from the Federal government) unless the grant agreement explicitly allows a different time period.

***Condition*** — During our audit, we examined 25 selections and identified one instance for $180 in which the Fiscal Office personnel was unable to trace the expenditure into a Federal cash draw. While the expenditure was an allowable cost under the grant, program management was not able to determine whether a reimbursement of the expenditure was requested.

***Questioned Costs*** — None.

***Cause*** — The transactions of multiple grants are recorded into a single appropriation code. Therefore, it was not possible to identify the specific Federal cash draw request that related to the selected transaction.

***Effect*** — As a result of the deficiency in internal controls over cash management, we identified one instance that could not be traced to a Federal cash drawdown request.

***Recommendation*** — The State DOD should design and implement internal controls over cash management to reconcile Federal expenditures to the related Federal cash drawdowns and to investigate any differences.

***Views of Responsible Officials*** — See Corrective Action Plan.

**REFERENCE: 2013-052**

## Reporting (Significant Deficiency)

### Transparency Act Reports Not Filed
### State Department of Defense

**CFDA No. 97.056: Port Security Grant Program**
Direct Award from the U.S. Department of Homeland Security (Award EMW-2011-PU-K0004 and EMW-2012-PU-K00002)

***Criteria*** — The FFATA requires prime awardees to file a FFATA sub-award report by the end of the month following the month in which it awards any subgrant greater than or equal to $25,000.

***Condition*** — The Port Security Grant Program for the 2011 and 2012 awards are subject to the FFATA requirements. During the audit, we noted that the State DOD attempted to file the required reports. However, due to limited access to the electronic reporting template from the U.S. Department of Homeland Security and lack of communication for the responsibility of submitting the reports, the required reports were not submitted.

***Questioned Costs*** — None.

***Cause*** — The State DOD personnel did not have access to the respective Port Security Grant Program electronic reporting template and therefore were unable to submit the reports. Further, the responsibility of preparing the report is not assigned to a specific individual.

***Effect*** — Failure to fulfill the FFATA reporting requirements results in non-compliance with Federal grant requirements.

***Recommendation*** — Access to the electronic reporting template should be granted to the State DOD personnel administering the Port Security Grant Program. In addition, the responsibility of preparing and submitting the FFATA reports should be assigned to a specific individual.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-053

### Cash Management (Material Weakness)

### Reimbursement Requests
### State Department of Defense

**CFDA No. 97.067: Homeland Security Grant Program**
Direct Award from the U.S. Department of Defense (Award EMW-2011-SS-00129-S01 and EMW-2012-SS-00009-S01)

***Criteria* –** The OMB Circular A-133 requires that when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal government.

***Condition* –** During the audit, we noted that the State DOD requests reimbursement from the Federal government after the program costs have been incurred, and in some instances, prior to the actual payment of the expenditures.

***Questioned Costs* –** Cannot be determined.

***Cause* –** The State DOD does not have the necessary General Fund allotment available to cover expenditures before seeking reimbursement from the Federal government.

***Effect* –** As a result of the deficiency in compliance with cash management requirements, reimbursements for program costs were requested prior to actual payment of the expenditures for grants under the reimbursement method.

***Recommendation* –** Compliance with Federal regulations governing the cash management process should be improved. The State DOD should establish procedures or seek additional funding to ensure that expenditures related to reimbursement grants are paid prior to requesting reimbursement from the Federal government.

***Views of Responsible Officials*** – See Corrective Action Plan.

## REFERENCE: 2013-054

### Equipment and Real Property Management (Significant Deficiency)

### Unrecorded and Untagged Property Acquisitions
### State Department of Defense

**CFDA No. 97.067: Homeland Security Grant Program**
Direct Award from the U.S. Department of Homeland Security (Award 2008-GE-T8-0022 and 2009-SS-T9-0006)

***Criteria*** — According to OMB Circular A-133 Compliance Supplement, Section F. Equipment and Real Property Management, Suggested Audit Procedures – Compliance, "Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment."

According to the State's Inventory System User Manual, "Newly acquired property shall be recorded in the FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility for maintaining the property."

New property acquisitions should be recorded in the FAIS if the item meets the inventory-reporting threshold, is theft sensitive, or if the designated property custodian determines it as a controlled item. Upon notification of receipt, property management personnel will inspect the item, record the item's physical condition and other characteristics, and tag the item with a unique inventory decal number. All property inventory information is recorded on the Detail Inventory of Property AGS Form 17A and is forwarded through the Department's fiscal or administrative office to the State DAGS, SPO, and Inventory Management Office for review and subsequent entry into the FAIS.

***Condition*** — During our audit, we tested four equipment purchases and noted that two equipment purchases totaling $65,616 were not properly tagged or entered into the State's FAIS. Further, we were unable to verify the existence of these purchases with the property custodian.

A similar finding was included in the prior year's single audit report. Refer to page 298 (Reference: 2012-70).

***Questioned Costs*** — Cannot be determined.

***Cause*** — Due to personnel changes, the State DOD was unable to record and tag the equipment purchased under the grant on a timely basis. In addition, the equipment sites are located large distances apart and in remote locations which made it difficult for State DOD personnel to verify that each equipment was properly recorded, tagged and safeguarded.

***Effect*** — Failure to maintain accurate inventory of equipment could result in unknown differences of actual and recorded equipment inventory.

***Recommendation*** — The State DOD should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for management of equipment. The State DOD should also design and implement internal controls to ensure that property acquisitions are entered into FAIS on a timely basis.

***Views of Responsible Officials*** — See Corrective Action Plan.

**REFERENCE: 2013-055**

## Reporting (Significant Deficiency)

### Untimely Submission of Transparency Act Reports
### State Department of Defense

**CFDA No. 97.067: Homeland Security Grant Program**
Direct Award from the U.S. Department of Homeland Security (Award EMW-2011-SS-00129-S01 and EMW-2012-SS-00009-S01)

***Criteria*** — The FFATA requires prime awardees to file a FFATA sub-award report by the end of the month following the month in which it awards any subgrant greater than or equal to $25,000.

***Condition*** — The Homeland Security Grant Program is subject to the FFATA requirement. During the audit, we noted that 2011 and 2012 FFATA reports were submitted in 2013, which was significantly beyond the reporting deadline.

A similar finding was included in the prior year's single audit report. Refer to page 299 (Reference: 2012-73).

***Questioned Costs*** — None.

***Cause*** — Although management made an effort to access the FFATA reporting website, they were not successful in submitting the reports timely.

***Effect*** — Failure to fulfill the FFATA reporting requirements results in being non-compliance with Federal grant requirements.

***Recommendation*** — There should be clear procedures in place to ensure that the required FFATA requirements are met.

***Views of Responsible Officials*** — See Corrective Action Plan.

**REFERENCE: 2013-056**

## Reporting (Significant Deficiency)

### Untimely Submission of Reports
### State Department of Defense

**CFDA No. 97.067: Homeland Security Grant Program**
Direct Award from U.S. Department of Homeland Security (Award 2008-GE-T8-0022 and EMW-2012-SS-00009)

***Criteria*** — The Homeland Security Grant Program requires the final Federal Financial Report (SF-425) and the final SF-PPR report to be submitted within 90 days after the end date of the performance period for each award. In addition, the State's Initial Strategy Implementation Plan (ISIP) is due within 45 days of receipt of the Federal award.

***Condition*** — During the audit, we examined the final SF-425 and final SF-PPR reports for Award 2008-GE-T8-0022 with a performance end date of December 31, 2012. The final SF-425 report was submitted on April 28, 2013, which was 28 days beyond the required deadline.

We also examined the ISIP for Award EMW-2012-SS-00009, and noted the report was submitted four days beyond the required deadline.

A similar finding was included in the prior year's single audit report. Refer to page 299 (Reference: 2012-72).

***Questioned Costs*** — None.

***Cause*** — The untimely submission of the SF-425 report was due to the delayed receipt of reported expenditures from the subrecipients. Although the subrecipients were notified in advance and received periodic reminders, the information necessary to complete the final SF-425 reports were not received on a timely basis.

For the ISIP, the due date is triggered by the date of the Annual Award Letter. Typically, the State DOD is sent an electronic notification of the award grant in addition to the Annual Award Letter. This year, the electronic notification was not received and the State DOD was not promptly notified of the award grant, which resulted in the untimely submission of the ISIP.

***Effect*** — The late filings of the reports resulted in noncompliance with the grant requirements.

***Recommendation*** —Responsible individuals should establish procedures to ensure that the necessary information is received from its subrecipients on a timely basis to ensure that the State DOD is able to complete the final SF-425 reports by the required deadline.

As the date of receipt of the Annual Award Letter for the ISIP is not consistent from year to year, the responsible individual should follow up with the awarding agency regarding the receipt of the award. This will allow the responsible individual to be notified of the receipt of the award and the Annual Award Letter as soon as possible.

***Views of Responsible Officials*** — See Corrective Action Plan.

## REFERENCE: 2013-057

### Reporting (Significant Deficiency)

### Federal Reporting Accuracy
### State Department of Defense

**CFDA No. 97.067: Homeland Security Grant Program**
Direct Award from U.S. Department of Homeland Security (Award 2009-SS-T9-0006 and 2010-SS-T0-0006)

***Criteria*** — The State DOD received multiple awards relating to the Homeland Security Grant Program. Each award is identified by unique award numbers, and certain reports require expenditure and obligation amounts to be reported for each specific grant award.

***Condition*** — During our audit, we examined 25 selections and identified one instance totaling $3,000 in which the expenditure was reported under the incorrect grant award. While the expenditure was an allowable cost under the grant, the expenditure was incorrectly reported under award number 2009-SS-T9-0006, rather than award number 2010-SS-T0-0006.

***Questioned Costs*** — None.

***Cause*** — A precise review of the reports was not performed, which resulted in the inaccurate reporting of expenditures.

***Effect*** — Expenditures reported for the two specific awards were inaccurate.

***Recommendation*** — The State DOD should improve the design and implementation of its reporting internal controls, to ensure that the expenditure amounts are reported accurately.

***Views of Responsible Officials*** — See Corrective Action Plan.

# CORRECTIVE ACTION PLAN

NEIL ABERCROMBIE
GOVERNOR

Dean H. Seki
Comptroller

Maria E. Zielinski
Deputy Comptroller

**STATE OF HAWAII**
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**
P.O. BOX 119, HONOLULU, HAWAII 96810-0119

AUD 14.0043

March 28, 2014

Deloitte & Touche LLP
999 Bishop Street, Suite 2700
Honolulu, HI 96813-2870

Dear Sir:

Thank you for the opportunity to provide comments on the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance with *Government Auditing Standards* and on the Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 issued in connection with the financial audit of the State's financial statements included in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. We have also attached our comments on the status of prior audit findings.

We commend Deloitte & Touche LLP's staff for the cooperative and professional manner in which they conducted themselves during this audit.

If you have any questions, please call me at 586-0400, or Wayne M. Horie, Accounting Division at 586-0600.

Sincerely,

DEAN H. SEKI
Comptroller

## SECTION II – FINANCIAL STATEMENT FINDINGS

### 2013-001 - Internal Control Over Financial Reporting (Significant Deficiency) (Page 149)

Corrective Action Plan

Concur. The Department of Accounting and General Services (DAGS) will continue to modify its process to develop a well-defined, systematic, efficient, and orderly process for financial reporting that will include: 1) a comprehensive set of policies and procedures necessary to establish internal control over financial reporting; 2) overall timing; 3) methodology; 4) format; 5) frequency; and 6) analysis. The process will be documented, approved by DAGS Accounting Division, and communicated to other departments and agencies.

The 2012 Legislature approved $15 million to fund a planning and requirements gathering effort to support the acquisition of a modern financial management system. DAGS looks forward to the acquisition of a modern financial system, to commence in calendar year 2014, and its implementation, which is projected for 2016-2017.

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| Person Responsible | Wayne Horie, Administrator<br>DAGS Accounting Division |
| Anticipated Completion Date | June 30, 2017 |

### 2013-002 - Schedule of Expenditures of Federal Awards (Significant Deficiency) (Page 151)

Corrective Action Plan

Concur. DAGS' management has developed a well-defined process for federal financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control over preparing the SEFA.

Training and instruction materials have been developed to assist department fiscal and grant program staff in the preparation of the departments' SEFA information for inclusion in the State's SEFA. Training is planned for May 2014 in preparation of the 2014 State single audit.

An independent review of submitted departmental SEFA information shall be performed by appropriately trained personnel to ensure completeness, consistency, and compliance with federal reporting requirements.

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| Person Responsible | Wayne Horie, Administrator<br>DAGS Accounting Division |
| Anticipated Completion Date | August 31, 2014 |

**2013-003 - Accounting For Component Units and Proprietary Funds (Significant Deficiency)** (Page 153)

Corrective Action Plan

Concur. Currently, nine State agencies meet the GASB requirement for inclusion in the Comprehensive Annual Financial Report (CAFR) as component units (CU) and proprietary funds (PF), but do not meet the State's policy. Funds are not available to conduct audited financial statements of these State agencies. Until funds are made available, DAGS will continue to review the State's policy regarding the reporting of discretely presented CUs and major PFs as compared with GASB Statement Nos. 14, 34, and 39 when preparing the CAFR. The review will take into consideration the resources needed to comply with GASB Statement Nos. 14, 34, 39 and 61.

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| Person Responsible | Wayne Horie, Administrator<br>DAGS Accounting Division |
| Anticipated Completion Date | August 31, 2014 |

**2013-004 – Accounting For Cash Receipts at the Department of Taxation (Significant Deficiency)** (Page 155)

Corrective Action Plan

Concur. The Department of Taxation (DOTAX) has initiated steps to modify and improve its procedures to account for on-line tax payments received by a third-party service provider (Provider). The Provider submits to DOTAX a daily report by taxpayer of ACH transactions used to reconcile against consolidated deposits (e-check payments and e-filing payments) made by the Provider to the State's bank account. The report provides detailed payment records by individual tax payers which can be cross-checked against DOTAX's tax payer records. A similar report detailing credit card payments is being developed to cross-check against DOTAX's tax payer records.

DOTAX continues to work with the State's bank and the Provider to reconcile fiscal year 2013 transactions. The reconciliation process of identifying tax payer on-line payments received by the Provider with the deposits made to the State's bank account began July 2013. Differences noted are researched and corrections are made as needed. A second reconciliation process between the ACH report (on-line payments) and the Provider's files used to upload into DOTAX's tax payer records continues to be refined.

DOTAX's ultimate goal is to ensure that tax payer on-line payments are properly recorded to its tax payer records and deposited into the State's bank account.

As recommended by the Auditor, DOTAX will require a service auditor's report from the Provider. The report will provide DOTAX with disclosures about the Provider's internal control design and effectiveness.

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| Person Responsible | Annette Yamanuha, Acting Administrator<br>Tax Services & Processing Division |
| Anticipated Completion Date | June 30, 2014 |

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**2013-005 – Cash Management - Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 159)
**State Department of Land and Natural Resources**

CFDA No. 10.680: Forest Health Protection
Direct Award from the U.S. Department of Agriculture (Award 10-DG-11052021-036)

Corrective Action Plan

Concur. The State Department of Land and Natural Resources' (DLNR) agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will receive additional training in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Lisa J. Hadway, Administrator<br>Division of Forestry and Wildlife |
| Anticipated Completion Date | June 30, 2014 |

**2013-006 – Reporting - Untimely Submission of Reports (Significant Deficiency)** (Page 160)
**State Department of Land and Natural Resources**

CFDA No. 10.680: Forest Health Protection
Direct Award from U.S. Department of Agriculture (Award 10-DG-11052021-036)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded that the U.S. Department of Agriculture's semi-annual progress reports shall be submitted by the required due date.

The agency will develop a tracking system of required reports to remind the preparers of the report due dates and the reviewers as to the reports to be monitored for timeliness of their preparation and submission. Once implemented, the tracking system will be maintained and updated by an individual of the agency. The tracking system shall be reviewed by the individual's supervisor on a monthly basis.

The agency will strengthen its internal controls regarding its federal grant reporting process. The agency's individuals, supervisors, and administrator responsible to prepare, review, and monitor Federal reports will receive additional training in the preparation and submitting of the reports. Written instructions on preparing and submitting the reports will be available as a reference. The Federal reports will be reviewed by the individual's supervisor before the report is submitted. The agency's administrator will monitor the report preparation, review and submitting process to ensure that the Federal reports are complete, accurate, and submitted by the required due date.

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| Person Responsible | Lisa J. Hadway, Administrator<br>Division of Forestry and Wildlife |
| Anticipated Completion Date | June 30, 2014 |

**2013-007 - Cash Management – Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 161)
**State Department of Land and Natural Resources**

CFDA No. ARRA 10.688: ARRA - Wildland Fire Management
Direct Award from the U.S. Department of Agriculture (Award 09-DG-11059702-022)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will receive additional training in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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|---|---|
| Person Responsible | Lisa J. Hadway, Administrator<br>Division of Forestry and Wildlife |
| Anticipated Completion Date | June 30, 2014 |

**2013-008 – Period of Availability – Expenditures Paid Subsequent to Liquidation Period (Significant Deficiency)** (Page 162)
**State Department of Land and Natural Resources**

CFDA No. ARRA 10.688: ARRA – Wildland Fire Management
Direct Award from the U.S. Department of Agriculture (Award 09-DG-11059702-022, 10-DG-11059702-082)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded that Federal awards may specify a time period during which the agency may use the Federal funds. Where a funding period is specified, the agency may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

The agency will strengthen its internal controls regarding its payment of expenditures within the period of availability. The agency's individuals, supervisors, and administrator responsible for the program's expenditure payment process will receive additional training. Written instructions will be available as a reference. The program's purchases will be reviewed by the individual's supervisor before it is submitted for payment. The agency's administrator will monitor the overall purchases and payment process to ensure compliance with the Federal requirements.

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| Person Responsible | Lisa J. Hadway, Administrator<br>Division of Forestry and Wildlife |
| Anticipated Completion Date | June 30, 2014 |

**2013-009 – Cash Management - Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 163)
**State Department of Business, Economic Development and Tourism**

CFDA No. 11.419: Coastal Zone Management Administration Awards
Direct Award from the U.S. Department of Commerce (Award NA11NOS4190095)

Corrective Action Plan

Concur. The State Department of Business, Economic Development and Tourism's (DBEDT) agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

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|---|---|
| Person Responsible | Leo Asuncion, Manager<br>Coastal Zone Management Program |
| Anticipated Completion Date | June 30, 2014 |

**2013-010 – Reporting – Transparency Act Reports Not Filed (Significant Deficiency)** (Page 164)
**State Department of Business, Economic Development and Tourism**

CFDA No. 11.419: Coastal Zone Management Administration Awards
Direct Award from the U.S. Department of Commerce (Award NA11NOS4190095 and NA12NOS4190097)

Corrective Action Plan

Concur. The State DBEDT's agency will be reminded that the Federal Funding Accountability and Transparency Act (FFATA) requires prime awardees to file a FFATA sub-award report by the end of the month following the month in which the prime recipient awards any sub-grant greater than or equal to $25,000. The DBEDT agency's grant is subject to the FFATA requirements. The agency did not appropriately report its sub-awards for two grants as required by FFATA requirements.

The agency will develop a tracking system of required reports to remind the preparers as to the report due dates and the reviewers as to the reports to be monitored for timeliness of their preparation and submission. Once implemented the tracking system will be maintained and updated by an individual of the agency. The tracking system shall be reviewed by the individual's supervisor on a monthly basis.

The agency will strengthen its internal controls regarding its federal grant reporting process. The agency's individuals, supervisors, and administrator responsible to prepare, review, and monitor Federal reports will receive additional training in the preparation and submitting of the reports. Written instructions on preparing and submitting the reports will be available as a reference. The Federal reports will be reviewed by the individual's supervisor before the report is submitted. The agency's administrator will monitor the report preparation, review and submitting process to ensure that the Federal reports are complete, accurate, and submitted by the required due date.

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| Person Responsible | Leo Asuncion, Manager<br>Coastal Zone Management Program |
| Anticipated Completion Date | June 30, 2014 |

**2013-011 - Cash Management - Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 165)
**State Department of Land and Natural Resources**

CFDA No. 11.482: Coastal Reef Conservation Program
Direct Award from the U.S. Department of Commerce (Award NA11NOS4820006)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will receive additional training in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Frazar McGilvray, Administrator<br>Division of Aquatic Resources |
| Anticipated Completion Date | June 30, 2014 |

**2013-012 – Equipment and Real Property Management – Unrecorded Property Acquisitions (Significant Deficiency)** (Page 166)
**State Department of Land and Natural Resources**

CFDA No. 11.482: Coastal Reef Conservation Program
Direct Award from the U.S. Department of Commerce (Award NA11NOS4820006)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded that equipment purchases will be recorded to the State's Fixed Asset Inventory System (FAIS) in the calendar quarter that the equipment was received. The finding noted will be corrected and the fixed asset recorded to the FAIS.

The State's FAIS instruction manual has defined policies and procedures regarding the recording of equipment and real property management. State agencies are required to prepare and submit a State Form 17a for equipment purchases at the same time the equipment purchases are paid.

The State agency will strengthen its internal control over compliance with regard to recording equipment purchases to the State's FAIS. The agency will provide training to its individuals, supervisors, and administrator responsible for its procurement and payment process. Written instructions will be available as a reference. The procurement, payment, and State Form 17a process will be reviewed by the individual's supervisor for each equipment purchase. The agency's administrator will monitor the overall procurement and payment process to ensure compliance with the Federal requirements.

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| Person Responsible | Frazar McGilvray, Administrator<br>Division of Aquatic Resources |
| Anticipated Completion Date | June 30, 2014 |

**2013-013 – Cash Management – Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 167)
**State Department of Commerce and Consumer Affairs**

CFDA No. ARRA 11.558: ARRA – State Broadband Data and Development Grant Program
Manufacturing Extension Partnership
Direct Award from the U.S. Department of Commerce (Award 15-50-M09057)

Corrective Action Plan

Concur. The State Department of Commerce and Consumer Affairs' (DCCA) agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will be trained in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Meoh-Leng Silliman, Business Management Officer<br>Administrative Services Office |
| Anticipated Completion Date | June 30, 2014 |

**2013-014 – Allowable Costs/Cost Principles – Payroll Certifications Not Completed (Significant Deficiency)** (Page 168)
**State Department of Defense**

CFDA No. 12.401: National Guard Military Operations and Maintenance Projects
Direct Award from the U.S. Department of Defense (Award W912J6-13-2-1001)

Corrective Action Plan

Concur. The State Department of Defense's (DOD) agency will be reminded that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. The errors noted in the audit finding will be corrected.

The agency will strengthen its internal controls regarding payroll certifications. The agency's individuals, supervisors, and administrator responsible for grant management will receive additional training. Written instructions will be available as a reference. The payroll certifications will be reviewed by the individual's supervisor before the certification is filed. The agency's administrator will monitor the overall grant management process to ensure compliance with Federal requirements.

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| Person Responsible | Thomas T. Moriyasu, Business Management Officer<br>Administrative Services Office |
| Anticipated Completion Date | June 30, 2014 |

**2013-015 - Cash Management – No Treasury - State Agreement** (Page 169)
**(Material Weakness)**
**State Department of Defense**

CFDA No. 12.401 and ARRA 12.401: National Guard Military Operations and Maintenance Projects
Direct Award from U.S. Department of Defense (Award W912J6-13-2-1002)

Corrective Action Plan

Concur. The State DOD's agency will be reminded to comply with OMB A-133 Circular Compliance Supplement under Cash Management regarding major programs. In order to determine the program's compliance with this section, the State's current fully executed Treasury-State Agreement is required. The State does not have a current 2013 Treasury-State Agreement. The Department has been informed by the Department of Budget and Finance that it is communicating with the U.S. Department of the Treasury to bring the Treasury-State Agreement current.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will receive additional training in the cash management requirements. Included in the training will be the requirements of OMB A-133 Circular Compliance Supplement under Cash Management regarding major programs.

Training will include identifying major programs, verifying which of those programs are covered by the Treasury-State Agreement in accordance with the materiality thresholds, and determining the funding techniques used by these programs. In addition, the training will include an understanding of the necessary documentation supporting the clearance patterns and verify that the clearance patterns conform to the requirements for developing and maintaining clearance patterns as specified in the Treasury-State Agreement.

Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Thomas T. Moriyasu, Business Management Officer<br>Administrative Services Office |
| Anticipated Completion Date | August 31, 2014 |

**2013-016 - Cash Management - Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 170)
**State Department of Defense**

CFDA No. 12.401: National Guard Military Operations and Maintenance Projects
Direct Award from U.S. Department of Defense (Award W912J6-13-2-1002)

Corrective Action Plan

Concur. The State DOD's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will strengthen its internal controls regarding its cash management process. The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will receive additional training in the cash management requirements. Written instructions will be available as reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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|---|---|
| Person Responsible | Thomas T. Moriyasu, Business Management Officer<br>Administrative Services Office |

Anticipated Completion Date June 30, 2014

**2013-017 – Matching, Level of Effort, Earmarking – Incorrect Matching Percentage (Significant Deficiency)** (Page 171)

**State Department of Defense**

CFDA No. 12.401: National Guard Military Operations and Maintenance Projects
Direct Award from U.S. Department of Defense (Award W912J6-13-2-1001)

Corrective Action Plan

Concur. The State DOD's agency will be reminded to use the correct matching percentage as listed in the Funding Limitation section of each Master Cooperative Agreement Appendix for its request for Federal funds.

The agency will strengthen its internal control over compliance with regard to the project numbers used for matching purposes as a part of its request for Federal funds. The agency will provide training to its individuals, supervisors, and administrator responsible for determining the matching percentage used in its request for Federal funds. Written instructions will be available as a reference. Each request for Federal funds will be reviewed by the individual's supervisor to ensure that the proper matching project number is used. The agency's administrator will monitor the overall request for Federal funds process to ensure compliance with the Federal requirements.

Person Responsible Thomas T. Moriyasu, Business Management Officer
Administrative Services Office

Anticipated Completion Date June 30, 2014

**2013-018 – Reporting – Lack of Evidence of Review of ARRA Reports (Significant Deficiency)** (Page 172)
**State Department of Defense**

CFDA No. ARRA 12.401: ARRA-National Guard Military Operations and Maintenance Projects
Direct Award from U.S. Department of Defense (Award W912J6-09-2-9030)

Corrective Action Plan

Concur. The State DOD's agency will be reminded to prepare and submit ARRA reports quarterly. State DOD implemented an internal control that the Program Manager review the ARRA reports prepared by the Fiscal Office before it is submitted. However, the Program Manager does not provide written evidence of the review.

The agency will strengthen its internal controls regarding its ARRA reporting process. The Program Manager will provide written evidence of the review of the quarterly ARRA reports. This written evidence will be filed with the quarterly ARRA reports.

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| Person Responsible | Thomas T. Moriyasu, Business Management Officer<br>Administrative Services Office |
| Anticipated Completion Date | June 30, 2014 |

**2013-019 - Cash Management – Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 173)
**State Department of Defense**

CFDA No. 12.404: National Guard ChalleNGe Program
Direct Award from the U.S. Department of Defense (Award W912J6-11-2-4002, W912J6-11-2-400K)

Corrective Action Plan

Concur. The State DOD's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. A schedule will be established to identify types of outstanding encumbrances. The agency will monitor the payments made and encumbrances with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will receive additional training in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Juan D. Williams, Acting Director<br>Youth Challenge Academy |

Anticipated Completion Date June 30, 2014

**2013-020 – Eligibility – Lack of Evidence of Eligibility Verification (Significant Deficiency)** (Page 174)
**State Department of Defense**

CFDA No. 12.404: National Guard ChalleNGe Program
Direct Award from the U.S. Department of Defense (Award W912J6-12-2-400K, W912J6-12-2-4002, and F7CH002319M001)

Corrective Action Plan

Concur. The State DOD's agency will be reminded that the Master Youth Program Cooperative Agreement (MYPCA) contains eligibility participant requirements. One requirement of the MYPCA is that the participant must be 16-18 years of age at the time of entry into the program.
The audit finding disclosed that written documentation of eligibility was not available for four participants.

The agency will strengthen its internal controls regarding the eligibility requirement. The agency's individuals, supervisors, and administrator responsible for the program's participant eligibility will receive additional training. Written instructions will be available as a reference. Recruitment and admission sections will implement a procedure to standardize all documents and create a mandatory checklist for the orientation process of applicants. The Program Coordinator will make a final review and verification on all required documents before the letters of invitation to the Program are sent out to the applicants.

Person Responsible Juan D. Williams, Acting Director
Youth Challenge Academy

Anticipated Completion Date June 30, 2014

**2013-021 – Period of Availability – Expenditure Incurred Prior to Funding Period (Significant Deficiency)** (Page 175)
**State Department of Defense**

CFDA No. 12.404: National Guard ChalleNGe Program
Direct Award from the U.S. Department of Defense (Award F7CH002319M001)

Corrective Action Plan

Concur. The State DOD's agency will be reminded that where a funding period is specified, the agency may charge to the award only costs resulting from obligations incurred during the funding period and any preaward costs authorized by the federal awarding agency. The audit finding disclosed a grant expenditure outside the funding period and not an authorized preaward cost.

The agency will strengthen its internal control over compliance with regard to the funding period. The agency will provide training to its individuals, supervisors, and administrator responsible for its procurement and payment process. Only obligations incurred during the funding period or authorized preaward cost will be paid from the award. Written instructions will be available as a reference. The procurement and payment process will be reviewed by the individual's supervisor for each procurement purchase. The agency's administrator will monitor the overall procurement and payment process to ensure compliance with the Federal requirements.

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| Person Responsible | Todd N. Friel, Director<br>StarBase |
| Anticipated Completion Date | June 30, 2014 |

**2013-022 - Cash Management - Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Material Weakness)** (Page 176)
**State Department of Business, Economic Development and Tourism**

CFDA No. 12.800: Air Force Defense Research Sciences Program
Direct Award from the U.S. Department of Defense (Award FA8650-11-2-5605)

Corrective Action Plan

Concur. The State DBEDT's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will be trained in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Stanley Osserman Jr., Manager<br>Hawaii Center for Advanced Transportation Technologies Program |
| Anticipated Completion Date | June 30, 2014 |

**2013-023 - Equipment and Real Property Management – Untimely Recording of Property Acquisitions (Significant Deficiency)** (Page 177)
**State Department of Business, Economic Development and Tourism**

CFDA No. 12.800: Air Force Defense Research Sciences Program
Direct Award from the U.S. Department of Defense (Award FA8650-11-2-5605)

Corrective Action Plan

Concur. The State DBEDT's agency will be reminded that equipment purchases will be recorded to the State's FAIS in the calendar quarter that the equipment was received.

The State's FAIS instruction manual has defined policies and procedures regarding the recording of equipment and real property management. State agencies are required to prepare and submit a State Form 17a for equipment purchases at the same time the equipment purchases are paid.

The State DBEDT's agency will strengthen its internal control over compliance with regard to recording equipment purchases to the State's FAIS. The agency will provide training to its individuals, supervisors, and administrator responsible for its procurement and payment process. Written instructions will be available as a reference. The procurement, payment, and State Form 17a process will be reviewed by the individual's supervisor for each equipment purchase. The agency's administrator will monitor the overall procurement and payment process to ensure compliance with the Federal requirements.

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| Person Responsible | Steve Sakuda, Accountant<br>High Technology Development Corporation |
| Anticipated Completion Date | June 30, 2014 |

**2013-024 – Cash Management - Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 178)
**State Department of Business, Economic Development and Tourism**

CFDA No. 12.910: Research and Technology Development
Direct Award from the U.S. Department of Defense (Award HR0011-07-2-0005)

Corrective Action Plan

Concur. The State DBEDT's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The grant terminated and the program closed as of October 31, 2012, including the dismissal of program staff. The State DBEDT does not plan to receive future grants for this program.

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| Person Responsible | Gregory Barbour, Executive Director<br>Natural Energy Laboratory of Hawaii Authority |
| Anticipated Completion Date | Not Applicable |

**2013-025 - Cash Management – Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 179)
**State Department of Land and Natural Resources**

CFDA No. 15.605: Sport Fish Restoration Program
Direct Award from the U.S. Department of Interior (Award F12AF00301)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will receive additional training in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Edward R. Underwood, Administrator<br>Division of Boating & Ocean Recreation |
| Anticipated Completion Date | June 30, 2014 |

**2013-026 – Equipment and Real Property Management – Unrecorded and Untimely Recorded Property Acquisitions (Significant Deficiency) State Department of Land and Natural Resources** (Page 180)

CFDA No. 15.605: Sport Fish Restoration Program
Direct Award from the U.S. Department of Interior (Award F12AF01319)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded that equipment purchases will be recorded to the State's FAIS in the calendar quarter that the equipment was received. The finding noted will be corrected and the fixed asset recorded to the FAIS.

The State's FAIS instruction manual has defined policies and procedures regarding the recording of equipment and real property management. State agencies are required to prepare and submit a State Form 17a for equipment purchases at the same time the equipment purchases are paid.

The State agency will strengthen its internal control over compliance with regard to recording equipment purchases to the State's FAIS. The agency will provide training to its individuals, supervisors, and administrator responsible for its procurement and payment process. Written instructions will be available as a reference. The procurement, payment, and State Form 17a process will be reviewed by the individual's supervisor for each equipment purchase. The agency's administrator will monitor the overall procurement and payment process to ensure compliance with the Federal requirements.

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| Person Responsible | Frazar McGilvray, Administrator<br>Division of Aquatic Resources |
| Anticipated Completion Date | June 30, 2014 |

**2013-027 – Cash Management – Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 181)
**State Department of Land and Natural Resources**

CFDA No. 15.608: Fish and Wildlife Management Assistance
Direct Award from the U.S. Department of Interior (Award F08AP00001)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will receive additional training in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Lisa J. Hadway, Administrator<br>Division of Forestry and Wildlife |
| Anticipated Completion Date | June 30, 2014 |

**2013-028 – Cash Management – Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 182)
**State Department of Land and Natural Resources**

CFDA No. 15.611: Wildlife Restoration and Basic Hunter Education
Direct Award from the U.S. Department of Interior (Award F11AF00146)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will receive additional training in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Lisa J. Hadway, Administrator<br>Division of Forestry and Wildlife |
| Anticipated Completion Date | June 30, 2014 |

**2013-029 – Equipment and Real Property Management - Unrecorded and Untimely Recorded Property Acquisitions (Significant Deficiency)** (Page 183)
**State Department of Land and Natural Resources**

CFDA No. 15.611: Wildlife Restoration and Basic Hunter Education
Direct Program from the U.S. Department of Interior (Award F11AF00146 and F12AF01043)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded that equipment purchases will be recorded to the State's FAIS in the calendar quarter that the equipment was received. The finding noted will be corrected and the fixed asset recorded to the FAIS.

The State's FAIS instruction manual has defined policies and procedures regarding the recording of equipment and real property management. State agencies are required to prepare and submit a State Form 17a for equipment purchases at the same time the equipment purchases are paid.

The State agency will strengthen its internal control over compliance with regard to recording equipment purchases to the State's FAIS. The agency will provide training to its individuals, supervisors, and administrator responsible for its procurement and payment process. Written instructions will be available as a reference. The procurement, payment, and State Form 17a process will be reviewed by the individual's supervisor for each equipment purchase. The agency's administrator will monitor the overall procurement and payment process to ensure compliance with the Federal requirements.

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| Persons Responsible | Randy K. Awo, Enforcement Chief<br>Division of Conservation and Resources |
| | Lisa J. Hadway, Administrator<br>Division of Forestry and Wildlife |
| Anticipated Completion Date | June 30, 2014 |

**2013-030 – Cash Management – Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 184)
**State Department of Land and Natural Resources**

CFDA No. 15.615: Cooperative Endangered Species Conservation Fund
Direct Award from the U.S. Department of Interior (Award F07AC00013, F09AP00163, F11AP00435, F11AP00436 and F12AP00807)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will receive additional training in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Lisa J. Hadway, Administrator<br>Division of Forestry and Wildlife |
| Anticipated Completion Date | June 30, 2014 |

**2013-031 – Equipment and Real Property Management - Unrecorded and Untimely Recorded Property Acquisitions (Significant Deficiency) State Department of Land and Natural Resources** (Page 185)

CFDA No. 15.615: Cooperative Endangered Species Conservation Fund
Direct Award from the U.S. Department of Interior (Award F12AP00808 and F08AP00102)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded that equipment purchases will be recorded to the State's FAIS in the calendar quarter that the equipment was received through a completed State Form 17a. The finding noted will be corrected and the fixed asset recorded to the FAIS.

The State's FAIS instruction manual has defined policies and procedures regarding the recording of equipment and real property management. State agencies are required to prepare and submit a State Form 17a for equipment purchases at the same time the equipment purchases are paid.

The State agency will strengthen its internal control over compliance with regard to recording equipment purchases to the State's FAIS. The agency will provide training to its individuals, supervisors, and administrator responsible for its procurement and payment process. Written instructions will be available as a reference. The procurement, payment, and State Form 17a process will be reviewed by the individual's supervisor for each equipment purchase. The agency's administrator will monitor the overall procurement and payment process to ensure compliance with the Federal requirements.

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| Person Responsible | Lisa J. Hadway, Administrator<br>Division of Forestry and Wildlife |
| Anticipated Completion Date | June 30, 2014 |

**2013-032 – Equipment and Real Property Management - Untimely Recorded Property Acquisitions (Significant Deficiency) State Department of Land and Natural Resources** (Page 186)

CFDA No. 15.634: State Wildlife Grants
Direct Award from the U.S. Department of Interior (Award F12AF01391)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded that equipment purchases will be recorded to the State's FAIS in the calendar quarter that the equipment was received.

The State's FAIS instruction manual has defined policies and procedures regarding the recording of equipment and real property management. State agencies are required to prepare and submit a State Form 17a for equipment purchases at the same time the equipment purchases are paid.

The State agency will strengthen its internal control over compliance with regard to recording equipment purchases to the State's FAIS. The agency will provide training to its individuals, supervisors, and administrator responsible for its procurement and payment process. Written instructions will be available as a reference. The procurement, payment, and State Form 17a process will be reviewed by the individual's supervisor for each equipment purchase. The agency's administrator will monitor the overall procurement and payment process to ensure compliance with the Federal requirements.

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| Person Responsible | Lisa J. Hadway, Administrator<br>Division of Forestry and Wildlife |
| Anticipated Completion Date | June 30, 2014 |

**2013-033 – Reporting – Untimely Submission of Report** (Page 187)
**(Significant Deficiency)**
**State Department of Land and Natural Resources**

CFDA No. 15.634: State Wildlife Grants
Direct Award from the U.S. Department of Interior (Award F09AP00158)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded that the final performance report shall be submitted by the required due date.

The agency will develop a tracking system of required reports to remind the preparers of the report due dates and the reviewers as to the reports to be monitored for timeliness of their preparation and submission. Once implemented the tracking system will be maintained and updated by an individual of the agency. The tracking system shall be reviewed by the individual's supervisor on a monthly basis.

The agency will strengthen its internal controls regarding its federal grant reporting process. The agency's individuals, supervisors, and administrator responsible to prepare, review, and monitor Federal reports will receive additional training in the preparation and submitting of the reports. Written instructions on preparing and submitting the reports will be available as a reference. The Federal reports will be reviewed by the individual's supervisor before the report is submitted. The agency's administrator will monitor the report preparation, review and submitting process to ensure that the Federal reports are complete, accurate, and submitted by the required due date.

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| Person Responsible | Lisa J. Hadway, Administrator<br>Division of Forestry and Wildlife |
| Anticipated Completion Date | June 30, 2014 |

**2013-034 – Cash Management – Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 188)
**State Department of Land and Natural Resources**

CFDA No. 15.657: Endangered Species Conservation – Recovery Implementation Funds
Direct Award from the U.S. Department of Interior (Award F11AP00021)

Corrective Action Plan

Concur. The State DLNR's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will receive additional training in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Lisa J. Hadway, Administrator<br>Division of Forestry and Wildlife |
| Anticipated Completion Date | June 30, 2014 |

**2013-035 – Cash Management – No Treasury - State Agreement (Material Weakness)** (Page 189)
**State Department of Labor and Industrial Relations**

CFDA No. 17.225 and ARRA 17.225: Unemployment Insurance
Direct Award from the U.S. Department of Labor (Award UI-23887-13-55-A-15)

Corrective Action Plan

Concur. The State Department of Labor and Industrial Relations' (DLIR) agency will be reminded to comply with OMB A-133 Circular Compliance Supplement under Cash Management regarding major programs. In order to determine the program's compliance with this section, the State's current fully executed Treasury-State Agreement is required. The State does not have a current 2013 Treasury-State Agreement. The Department has been informed by the Department of Budget and Finance that it is communicating with the U.S. Department of the Treasury to bring the Treasury-State Agreement current.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will receive additional training in the cash management requirements. Included in the training will be the requirements of OMB A-133 Circular Compliance Supplement under Cash Management regarding major programs.

Training will include identifying major programs, verifying which of those programs are covered by the Treasury-State Agreement in accordance with the materiality thresholds, and determining the funding techniques used by these programs. In addition, the training will include an understanding of the necessary documentation supporting the clearance patterns and verify that the clearance patterns conforms to the requirements for developing and maintaining clearance patterns as specified in the Treasury-State Agreement.

Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Norman Ahu, Business Management Officer<br>Administrative Services Office |
| Anticipated Completion Date | August 31, 2014 |

**2013-036 – Equipment and Real Property Management – Untimely Recording of Property Acquisitions and Dispositions (Significant Deficiency)** (Page 190)
**State Department of Labor and Industrial Relations**

CFDA No. 17.225: Unemployment Insurance
Direct Award from the U.S. Department of Labor (Award UI-23887-13-55-A-15)

Corrective Action Plan

Concur. The State DLIR's agency will be reminded to record equipment purchases and disposals in the calendar quarter that it was received.

The State's FAIS instruction manual has defined policies and procedures regarding the recording of equipment and real property management. State agencies should prepare and submit a State Form 17a for equipment purchases at the same time the equipment purchases are paid or disposal forms are approved in order to record the equipment in the State's FAIS in the correct fiscal quarter.

The State DLIR's agency will strengthen its internal control over compliance with regard to recording equipment purchases and disposals to the State's FAIS. The agency will provide training to its individuals, supervisors, and administrator responsible for its procurement and payment process. Written instructions will be available as a reference. The procurement, payment, disposal forms, and State Form 17a process will be reviewed by the individual's supervisor for each equipment purchase or disposal. The agency's administrator will monitor the overall procurement, payment or disposal process to ensure compliance with the Federal requirements.

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| Person Responsible | Norman Ahu, Business Management Officer<br>Administrative Services Office |
| Anticipated Completion Date | June 30, 2014 |

**2013-037 - Reporting – Untimely Submission of Reports** (Page 191)
**(Significant Deficiency)**
**State Department of Labor and Industrial Relations**

CFDA No. 17.225: Unemployment Insurance
Direct Award from the U.S. Department of Labor (Award UI-23887-13-55-A-15)

Corrective Action Plan

Concur. The State DLIR's agency will be reminded that quarterly ETA 191, Financial Status of UCFE/UCX reports shall be submitted by the required due date.

The agency will develop a tracking system of the required reports to remind the preparers of the report due dates and the reviewers as to the reports to be monitored for timeliness of their preparation and submission. Once implemented the tracking system will be maintained and updated by an individual of the agency. The tracking system shall be reviewed by the individual's supervisor on a monthly basis.

The agency will strengthen its internal controls regarding its Federal reporting process. The agency's individuals, supervisors, and administrator responsible to prepare, review, and monitor Federal reports will be trained in the preparation and submitting of the reports. Written instructions on preparing and submitting the reports will be available as a reference. The Federal reports will be reviewed by the individual's supervisor before the report is submitted. The agency's administrator will monitor the report preparation, review and submitting process to ensure that the Federal reports are complete, accurate, and submitted by the required due date.

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| Person Responsible | Norman Ahu, Business Management Officer<br>Administrative Services Office |
| Anticipated Completion Date | June 30, 2014 |

**2013-038 – Special Tests and Provisions – Timeliness of Unemployment Insurance Claim Reviews (Significant Deficiency)** (Page 192)
**State Department of Labor and Industrial Relations**

CFDA No. 17.225: Unemployment Insurance
Direct Award from the U.S. Department of Labor (Award UI-23887-13-55-A-15)

Corrective Action Plan

Concur. The State DLIR' agency will be reminded that it needs to complete a minimum number of Unemployment Insurance (UI) cases timely in order to provide the basis for assessing the accuracy of UI payments and to ensure accurate administration of State law, rules, and procedures. Policies and procedures in conducting investigations will be revised in order to meet the agency's minimum number of UI cases.

The agency will strengthen its internal controls regarding its UI Benefit Accuracy Measurement (BAM) System. The agency's individuals, supervisors, and administrator responsible to complete representative samples of UI payments and disqualifying ineligibility determinations will be trained. Written instructions will be available as a reference. The required completed UI cases will be reviewed by the individual's supervisor. The agency's administrator will monitor the overall UI BAM system to ensure compliance with Federal requirements.

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| Person Responsible | Anne Eustaquio-Perreira, Program Development Officer<br>Unemployment Insurance Division |
| Anticipated Completion Date | June 30, 2014 |

**2013-039 – Reporting - Untimely Submission of Reports (Significant Deficiency)** (Page 194)
**State Department of Labor and Industrial Relations**

CFDA No. 17.207, 17.801, 17.804: Employment Service Cluster
Direct Award from the U.S. Department of Labor (Award ES229921255A15)

Corrective Action Plan

Concur. The State DLIR's agency will be reminded that Federal report ETA 9130 shall be submitted by the required due date.

The agency will develop a tracking system of required reports to remind the preparers of the report due dates and the reviewers as to the reports to be monitored for timeliness of their preparation and submission. Once implemented the tracking system will be maintained and updated by an individual of the agency. The tracking system shall be reviewed by the individual's supervisor on a monthly basis.

The agency will strengthen its internal controls regarding its Federal reporting process. The agency's individuals, supervisors, and administrator responsible to prepare, review, and monitor Federal reports will be trained in the preparation and submitting of the reports. Written instructions on preparing and submitting the reports will be available as a reference. The Federal reports will be reviewed by the individual's supervisor before the report is submitted. The agency's administrator will monitor the report preparation, review and submitting process to ensure that the Federal reports are complete, accurate, and submitted by the required due date.

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| Person Responsible | Norman Ahu, Business Management Officer<br>Administrative Services Office |
| Anticipated Completion Date | June 30, 2014 |

**2013-040 – Special Tests and Provisions – Eligibility Files Not Updated (Significant Deficiency)** (Page 195)
**State Department of Accounting and General Services**

CFDA No. 39.003: Donation of Federal Surplus Personal Property
Direct Award from the U.S. General Services Administration (Award: N/A)

Corrective Action Plan

Concur. The State Procurement Office, Surplus Property Branch (Branch) will be reminded of its responsibility regarding the administration of the Federal Surplus Property Donation Program, which includes the State Plan's policies and procedures for reviewing and updating donee files at least once every three years. The error noted in the audit finding has been corrected.

The Branch will develop a tracking system of the donee eligibility files. The donee eligibility files will include all donees, including State or other government agencies. Reviews and updating donee files will be completed at least once every three years for all donees.

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| Person Responsible | Craig Kuraoka, Branch Chief<br>Surplus Property Branch |
| Anticipated Completion Date | June 30, 2014 |

**2013-041 – Cash Management – Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 196)
**State Department of Business, Economic Development and Tourism**

CFDA No. ARRA 81.041: ARRA – State Energy Program
Direct Award from the U.S. Department of Energy (Awards DE-EE0000216)

Corrective Action Plan

Concur. The State DBEDT's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will be trained in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Denise Fenn, Accounting Specialist<br>Strategic Industries Division |
| Anticipated Completion Date | June 30, 2014 |

**2013-042 – Equipment and Real Property Management — Untimely Recording of Property Acquisitions (Significant Deficiency)** (Page 197)
**State Department of Business, Economic Development and Tourism**

CFDA No. ARRA 81.041: ARRA - State Energy Program
Direct Award from the U.S. Department of Energy (Awards DE - EE0000216)

Corrective Action Plan

Concur. The State DBEDT's agency will be reminded to record equipment in the fiscal quarter that it was received.

The State's FAIS instruction manual has policies and procedures regarding the recording of equipment and real property management. State agencies should prepare and submit a State Form 17a for equipment purchases at the same time the equipment purchases are paid to record the equipment in the State's FAIS in the correct fiscal quarter.

The State DBEDT's agency will strengthen its internal control over compliance with regard to recording equipment purchases to the State's FAIS. The agency will provide training to its individuals, supervisors, and administrator responsible for its procurement and payment process. Written instructions will be available as a reference. The procurement, payment, and State Form 17a process will be reviewed by the individual's supervisor for each equipment purchase. The agency's administrator will monitor the overall procurement and payment process to ensure compliance with the Federal requirements.

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| Person Responsible | Denise Fenn, Accounting Specialist<br>Strategic Industries Division |
| Anticipated Completion Date | June 30, 2014 |

**2013-043 – Procurement and Suspension and Debarment - Posting of Contract Award Notification (Significant Deficiency) State Department of Business, Economic Development and Tourism** (Page 198)

CFDA No. 81.041: State Energy Program
Direct Award from the U.S. Department of Energy (Awards DE-EE0003928)

Corrective Action Plan

Concur. The State DBEDT's agency will be reminded that per State Procurement Office's (SPO) procedures all contracts awarded under Section 103D-304 for $5,000 or more shall be posted electronically to the SPO's web site within seven days of the contract award.

The agency will strengthen its internal controls regarding its procurement procedures by using a procurement checklist which includes all the procedures required under the procurement methods. The electronic posting to the SPO web site requirement will be listed on the checklist. The checklist will be used to document the completion of the different stages of the procurement process. The checklist will be filed in the procurement folder to document compliance with the procurement method.

The agency's individuals, supervisors, and administrator responsible to procure, supervise, and review procurement purchases will receive a training update of the procurement methods. Upon completion of the training, authority to procure will be delegated to them. Written instructions on the procurement methods will be available as a reference. Procurement purchases will be reviewed by the individual's supervisor as to completeness and compliance. The agency's administrator will monitor and review the procurement process to ensure that the procurement purchases are complete and accurate.

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| Person Responsible | Susan Gray-Ellis, Contracting Specialist<br>Strategic Industries Division |
| Anticipated Completion Date | June 30, 2014 |

**2013-044 – Cash Management — Review of Federal Cash Draws (Material Weakness)** (Page 199)
**State Department of Business, Economic Development and Tourism**

CFDA No. 81.041 and ARRA 81.041: State Energy Program
Direct Award from the U.S. Department of Energy (Award DE-EE0003928)

Corrective Action Plan

Concur. The State DBEDT's agency will be reminded to be more careful regarding its Federal cash draw procedures. Special care should be given in selecting the proper account ID in the ASAP system. Errors of incorrect cash drawdowns result in potential interest due until the error is corrected with a repayment of the cash draw amount.

The agency will strengthen its internal controls regarding the Federal cash draw procedures. The agency's employees, supervisors, and administrator responsible for Federal cash draws will receive additional training. Written instructions on Federal cash draws will be available as a reference. The Federal cash draw procedures and results will be reviewed by the employee's supervisor and compared to the payments to be made. This will ensure that the payments are made from the correct Federal grant. The agency's administrator will monitor the Federal cash draw process to ensure that established internal control procedures are functioning as designed.

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| Person Responsible | Dona Mau, Federal Grants & Fiscal Officer<br>Strategic Industries Division |
| Anticipated Completion Date | June 30, 2014 |

**2013-045 – Reporting – Federal Reporting Accuracy (Significant Deficiency)** (Page 200)
**State Department of Business, Economic Development and Tourism**

CFDA No. ARRA 81.041: ARRA – State Energy Program
Direct Award from the U.S. Department of Energy (Award DE-EE0000216)

Corrective Action Plan

Concur. The State DBEDT' agency will be reminded that Federal Form SF-425 and ARRA Section 1512 reports shall be complete, accurate, and submitted by the required due date.

The agency will strengthen its internal controls regarding its Federal reporting process. The agency's individuals, supervisors, and administrator responsible to prepare, review, and monitor Federal reports will receive additional training in the preparation and submitting of the reports. Written instructions on preparing and submitting the reports will be available as a reference. The Federal reports will be reviewed by the individual's supervisor and compared to the State's general ledger before the report is submitted. The agency's administrator will monitor the report preparation, review and submitting process to ensure that the Federal reports are complete, accurate, and submitted by the required due date.

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| Person Responsible | Donna Mau, Federal Grants and Fiscal Officer<br>Strategic Industries Division |
| Anticipated Completion Date | June 30, 2014 |

**2013-046 – Subrecipient Monitoring – OMB Circular A-133 Audit Report Not Received from Subrecipient (Significant Deficiency) State Department of Business, Economic Development and Tourism** (Page 201)

CFDA No. ARRA 81.041: ARRA – State Energy Program
Direct Award from the U.S. Department of Energy (Award DE-EE0000216)

Corrective Action Plan

Concur. The State DBEDT's agency will be reminded to conduct its subrecipient monitoring responsibilities for subrecipient grants. The error noted in the audit finding was not corrected.

The agency will strengthen its internal controls regarding its subrecipient monitoring process. At the beginning for the fiscal year, subrecipients anticipated to expend more than $500,000 will be identified. These subrecipients will be reminded of the single audit report requirement should their expenditures exceed $500,000. After each fiscal year end, the agency will compile a list of subrecipients and identify subrecipients that expended in excess of $500,000. A single audit report will be requested of these subrecipients. Upon receipt of the report, the agency will review the findings and the subrecipient's corrective action plan. The agency will monitor the subrecipient's implementation of its corrective action plan. The agency will evaluate the impact of the subrecipient's noncompliance.

For future subrecipient grants, the agency will include in its subrecipient agreements the: (1) Federal award information; (2) grant compliance requirements; (3) subrecipient activities will be monitored; (4) subrecipient findings will be resolved; (5) impact of subrecipient noncompliance will be evaluated; and (6) subrecipient grants with annual expenditures in excess of $500,000, a single audit will be requested in compliance with OMB Circular A-133.

The agency will develop a check list of subrecipient monitoring requirements with written detailed instructions on accomplishing each requirement. The individuals assigned to perform the subrecipient monitoring, supervisors, and the agency's administrator will receive additional training to accomplish the monitoring requirements. The subrecipient monitoring activity will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall subrecipient monitoring activities to ensure compliance with the Federal requirements.

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| Person Responsible | Donna Mau, Federal Grants and Fiscal Officer<br>Strategic Industries Division |
| Anticipated Completion Date | June 30, 2014 |

**2013-047 - Cash Management - Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Material Weakness)** (Page 202)
**State Department of Commerce and Consumer Affairs**

CFDA No. 93.525: State Planning and Establishment Grants for the Affordable Care Act's Exchanges
Direct Award from the U.S. Department of Health and Human Services (Award 6 HBEIE100012-01-02)

Corrective Action Plan

Concur. The State DCCA's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will be trained in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Meoh-Leng Silliman, Business Management Officer<br>Administrative Services Office |
| Anticipated Completion Date | June 30, 2014 |

**2013-048 – Reporting – Untimely Submission of Transparency Act Reports (Significant Deficiency)** (Page 203)
**State Department of Labor and Industrial Relations**

CFDA No. 93.569: Community Services Block Grant
Direct Award from the U.S. Department of Health and Human Services (Award G-13B1H1COSR)

Corrective Action Plan

Concur. The State DLIR's agency will be reminded that the Federal Funding Accountability and Transparency Act subaward report for the Community Services Black Grant is subject to the Transparency Act requirement and should be submitted timely.

The agency will develop a tracking system of the required reports to remind the preparers of the report due dates and the reviewers as to the reports to be monitored for timeliness of their preparation and submission. Once implemented the tracking system will be maintained and updated by staff of the agency. The tracking system shall be reviewed by the Program's Executive Director on a periodic basis.

The agency will strengthen its internal controls regarding its Federal reporting process. The responsibility to prepare, review and submit the transparency Act reports has been identified and assigned. Additional training will be provided as needed. Written instructions will be available as a reference. The Federal reports will be reviewed by the preparer's supervisor before the report is submitted. The agency's administrator will monitor the overall Federal reporting process to ensure compliance with the Transparency Act.

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| Person Responsible | Mila Kaahanui, Executive Director<br>Office of Community Services |
| Anticipated Completion Date | June 30, 2014 |

**2013-049 – Cash Management - Timing Not Minimized Between the Receipt and Disbursement of Federal Funds (Significant Deficiency)** (Page 204)
**State Department of Defense**

CFDA No. 97.042: Emergency Management Performance Grants
Direct Award from the U.S. Department of Homeland Security (Award 2010-EP-EO-0042, EMW-2011-EP-00072-S01 and EMW-2012-EP-00012)

Corrective Action Plan

Concur. The State DOD's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will receive additional training in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Thomas T. Moriyasu, Business Management Officer<br>Administrative Services Office |
| Anticipated Completion Date | June 30, 2014 |

**2013-050 – Cash Management – Reimbursement Requests** (Page 205)
**(Material Weakness)**
**State Department of Defense**

CFDA No. 97.056: Port Security Grant Program
Direct Award from the U.S. Department of Homeland Security (Award EMW-2011-PU-K0004 and EMW-2012-PU-K00002)

Corrective Action Plan

Concur. The State DOD's agency will be reminded that expenditures related to reimbursement grants are paid prior to requesting reimbursement from the Federal government.

In order to ensure compliance, the agency will be required to identify the Federal grants funded on a reimbursement basis. The agency will estimate the required average monthly amount to make grant payments.  The agency will make a loan request to the Department of Budget and Finance (B&F) in the amount of the monthly requirement.  Replenishment of the loan amount would be through federal reimbursements.  The loan would be repaid to B&F at the end of the grant period.

The agency will strengthen its internal controls over the cash management process.  Program managers who submit vendor invoices for payment and fiscal staff that process the request for payment will receive additional training regarding reimbursement grants.  Written instructions regarding reimbursement grants will be available as a reference.  The agency will maintain a list of reimbursement Federal grant awards as a control.  Supervisors will provide review on a cyclical basis.  The agency's administrator will monitor the cash management process to ensure that expenditures related to reimbursable grants are paid prior to requesting reimbursement from the Federal government.

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| Person Responsible | Thomas T. Moriyasu, Business Management Officer<br>Administrative Services Office |
| Anticipated Completion Date | June 30, 2014 |

**2013-051 – Cash Management – Reconciliation of Federal Cash Draws (Significant Deficiency)** (Page 206)
**State Department of Defense**

CFDA No. 97.056: Port Security Grant Program
Direct Award from the U.S. Department of Homeland Security (Award 2008GBT8K069)

Corrective Action Plan

Concur. The State DOD's agency will be reminded to use the most effective prescribed method of drawing down Federal funds to minimize the time between the drawdown of Federal funds from the Federal government and the agency's disbursement of the funds for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to the agency's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The agency will evaluate its method of drawing down Federal funds. The types of payments (vendor invoices, contracts, reimbursements, payroll, e.g.) will be identified. A time table will be established based on the frequency of these different payment types. On a monthly basis, payments will be placed into a payment schedule. The frequency of the drawdowns will be based on this payment schedule. The agency will monitor the payments made with regard to the drawdowns to ensure that the drawdown is made as administratively feasible to the agency's actual cash outlay.

Each individual, supervisor, and administrator responsible for the agency's Federal grant payments will receive additional training in the cash management requirements. Written instructions will be available as a reference. The drawdown/payment process will be reviewed by the individual's supervisor on a periodic basis. The agency's administrator will monitor the overall cash management activities to ensure compliance with the Federal requirements.

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| Person Responsible | Thomas T. Moriyasu, Business Management Officer<br>Administrative Services Office |
| Anticipated Completion Date | June 30, 2014 |

**2013-052 – Reporting – Transparency Act Reports Not Filed** (Page 207)
**(Significant Deficiency)**
**State Department of Defense**

CFDA No. 97.056: Port Security Grant Program
Direct Award from the U.S. Department of Homeland Security (Award EMW-2011-PU-K0004 and EMW-2012-PU-K00002)

Corrective Action Plan

Concur. The State DOD's agency will be reminded that the program year 2011/2012 award for the Homeland Security Grant is subject to the Transparency Act requirement and should be submitted timely.

The agency will strengthen its internal controls regarding its Federal reporting process. The responsibility to prepare, review and submit the transparency Act reports has been identified and assigned. Problems experienced in program year 2011/2012 with access to the Port Security Grant Program electronic reporting template have been resolved.

Additional training will be provided as needed. Written instructions will be available as a reference. The Federal reports will be reviewed by the individual's supervisor before the report is submitted. The agency's administrator will monitor the overall Federal reporting process to ensure compliance with the Transparency Act.

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| Person Responsible | Thomas T. Moriyasu, Business Management Officer<br>Administrative Services Office |
| Anticipated Completion Date | June 30, 2014 |

**2013-053 – Cash Management – Reimbursement Requests** (Page 208)
**(Material Weakness)**
**State Department of Defense**

CFDA No. 97.067: Homeland Security Grant Program
Direct Award from the U.S. Department of Defense (Award EMW-2011-SS-00129-S01 and EMW-2012-SS-00009-S0)

Corrective Action Plan

Concur. The State DOD's agency will be reminded that expenditures related to reimbursement grants are paid prior to requesting reimbursement from the Federal government.

In order to ensure compliance, the agency will be required to identify the Federal grants funded on a reimbursement basis. The agency will estimate the required average monthly amount to make grant payments. The agency will make a loan request to the Department of Budget and Finance

(B&F) in the amount of the monthly requirement. Replenishment of the loan amount would be through federal reimbursements. The loan would be repaid to B&F at the end of the grant period.

The agency will strengthen its internal controls over the cash management process. Program managers who submit vendor invoices for payment and fiscal staff that process the request for payment will receive additional training regarding reimbursement grants. Written instructions regarding reimbursement grants will be available as a reference. The agency will maintain a list of reimbursement Federal grant awards as a control. Supervisors will provide review on a cyclical basis. The agency's administrator will monitor the cash management process to ensure that expenditures related to reimbursable grants are paid prior to requesting reimbursement from the Federal government.

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| Person Responsible | Thomas T. Moriyasu, Business Management Officer<br>Administrative Services Office |
| Anticipated Completion Date | June 30, 2014 |

**2013-054 – Equipment and Real Property Management – Unrecorded and Untagged Property Acquisitions (Significant Deficiency)** (Page 209)
**State Department of Defense**

CFDA No. 97.067: Homeland Security Grant Program
Direct Award from the U.S. Department of Homeland Security (Award 2008-GE-T8-0022 and 2009-SS-T9-0006)

Corrective Action Plan

Concur. The State DOD's agency will be reminded to record equipment purchases in the calendar quarter that it was received. The agency will prepare and submit State Form 17a for the unrecorded equipment purchases noted in the finding.

The State's FAIS instruction manual has defined policies and procedures regarding the recording of equipment and real property management. State agencies are required to prepare and submit a State Form 17a for equipment purchases at the same time the equipment purchases are paid.

The agency will strengthen its internal control over compliance with regard to recording equipment purchases to the State's FAIS. The agency will provide training to its individuals, supervisors, and administrator responsible for its procurement and payment process. Written instructions will be available as a reference. The procurement, payment, and State Form 17a process will be reviewed by the individual's supervisor for each equipment purchase. The agency's administrator will monitor the overall procurement and payment process to ensure compliance with the Federal requirements.

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|---|---|
| Person Responsible | Dolores Cook, Grant Management Officer<br>Office of Homeland Security |

Anticipated Completion Date June 30, 2014

**2013-055 – Reporting – Untimely Submission of Transparency Act Reports (Significant Deficiency)** (Page 210)
**State Department of Defense**

CFDA No. 96.067: Homeland Security Grant Program
Direct Award from the U.S. Department of Homeland Security (Award EMW-2011-SS-00129-S01 and EMW-2012-SS-00009-S01)

Corrective Action Plan

Concur. The State DOD's agency will be reminded that the program year 2011 and 2012 award for the Homeland Security Grant is subject to the Transparency Act requirement and should be submitted timely. The agency's Grant Management did submit the transparency act reports subsequent to year end, but was not able to submit the reports during FY 2013.

The agency will strengthen its internal controls regarding its Federal reporting process. The responsibility to prepare, review, and submit the transparency act reports has been identified, assigned and is functioning as designed. The agency's individuals, supervisors, and administrator responsible to prepare, review, and monitor Federal reports will receive training in the preparation and submitting of the reports. Written instructions will be available as a reference. The Federal reports will be reviewed by the individual's supervisor before the report is submitted. The agency's administrator will monitor the overall Federal reporting process to ensure compliance with the Transparency Act.

Person Responsible Thomas T. Moriyasu, Business Management Officer
Administrative Services Office

Anticipated Completion Date June 30, 2014

**2013-056 – Reporting – Untimely Submission of Reports** (Page 211)
**(Significant Deficiency)**
**State Department of Defense**

CFDA No. 96.067: Homeland Security Grant Program
Direct Award from the U.S. Department of Homeland Security (Award 2008GET80022 and EMW2012SS00009)

Corrective Action Plan

Concur. The State DOD's agency will be reminded that the State's Initial Strategy Implementation Plan and the final Biannual Strategy Implementation Report must be submitted by the respective due dates.

The agency will develop a tracking system of the required reports to remind the preparers of the report due dates and the reviewers as to the reports to be monitored for timeliness of their preparation and submission. Once implemented the tracking system will be maintained and updated by an individual of the agency. The tracking system shall be reviewed by the individual's supervisor on a monthly basis.

The agency will strengthen its internal controls regarding its Federal reporting process. The agency's individuals, supervisors, and administrator responsible to prepare, review, and monitor Federal reports will receive training. Training will include methods to encourage timely receipt of required information from its subrecipients or subawardees. Written instructions will be available as a reference. The Federal reports will be reviewed by the individual's supervisor before the report is submitted. The agency's administrator will monitor the report preparation, review and submitting process to ensure that the Federal reports are complete, accurate, and submitted by the required due date.

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|---|---|
| Person Responsible | Dolores Cook, Grants Management Officer<br>Office of Homeland Security |
| Anticipated Completion Date | June 30, 2014 |

**2013-057 – Reporting – Federal Reporting Accuracy (Significant Deficiency)** (Page 212)
**State Department of Defense**

CFDA No. 97.067: Homeland Security Grant Program
Direct Award from the U.S. Department of Homeland Security (Award 2009SST90006 and 2010SST00006)

Corrective Action Plan

Concur. The State DOD's agency will be reminded that Federal grant reporting shall be complete, accurate, and submitted by the required due date. The errors noted in the audit finding will be corrected and the FY2014 Federal grant reporting will be reviewed and corrected, if applicable, for similar errors.

The agency will strengthen its internal controls regarding its Federal grant reporting process. Records will be checked twice. Quarterly reconciliations will be instituted to prevent misclassification of expenditures. The agency's individuals, supervisors, and administrator responsible to prepare, review, and monitor Federal grant reporting will receive additional training in the preparation and submitting of the reports. Written instructions on preparing and submitting the reports will be available as a reference. The Federal reports will be reviewed and compared to supporting accounting records before the report is submitted. The agency's administrator will monitor the report preparation, review and submitting process to ensure that the Federal reports are complete, accurate, and submitted by the required due date.

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|---|---|
| Person Responsible | Dolores Cook, Grant Management Officer<br>Office of Homeland Security |
| Anticipated Completion Date | June 30, 2014 |

## STATUS OF PRIOR YEAR SINGLE AUDIT FINDINGS

## SECTION II — FINANCIAL STATEMENT FINDINGS

### 2012-01 — Internal Control over Financial Reporting (Material Weakness)

**Condition** — The State's internal control over financial reporting could be improved. During the June 30, 2012 audit, we identified multiple deficiencies that, when considered in the aggregate, indicated a material weakness in the internal control over financial reporting.

The process used by the DAGS Accounting Division to consolidate required information from State departments and agencies to create the CAFR (e.g., preparing Governmental Fund financial statements on a modified accrual basis and the Government-Wide financial statements on an accrual basis) is inefficient, time consuming, and causes delays in statewide financial reporting. Furthermore, financial reporting consolidation timetables are not well-defined or monitored which creates confusion, miscommunication, and prevents DAGS from receiving accurate and complete information on a timely basis. Delays caused by State departments and agencies do not provide adequate time for DAGS management to perform necessary year-end closing review and reconciliation procedures.

Information necessary to prepare such accounting entries must be obtained from the State departments and agencies. In fiscal year 2012, DAGS requested formal reporting information packages to obtain the financial information from State departments but did not receive adequate responses from the departments, and thus had to revert to the use of informal emails, telephone calls, and spreadsheets. As a result, the information received often was neither uniform, nor in a format that could easily be used. The departments and agencies were often late in submitting the required information, which caused DAGS to estimate the amounts to be used in the accruals when preparing the financial statements. Numerous post-closing adjustments were required to correct accounting and reporting errors in addition to the entries needed to convert the financial statements from cash basis to the modified accrual basis of accounting.

**Cause** — Due to inefficiencies of the financial statement preparation process, and due to the lack of timeliness of information received from various departments, DAGS was unable to properly review the accounting records, reconciliations, and adjustments that were used to compile the Government-Wide financial statements and footnote disclosures.

**Recommendation** — DAGS should continue to develop well-defined, systematic, efficient, and orderly processes for financial reporting that include a comprehensive set of policies and procedures necessary to establish internal control over financial reporting. The process and its key attributes (e.g., overall timing, methodology, format, and frequency of analyses) should be formally documented, approved, communicated to other departments and agencies, and monitored on a regular basis.

Required analyses (including the format, timeline, preparers, and reviewers) should be prepared, updated, and distributed on a regular basis. DAGS should have processes in place at the end of each accounting period to ensure that all reconciliations are appropriately performed and independently reviewed. Subsidiary records should be reconciled to the general ledger on a regular basis, and all reconciling items should be identified, investigated, and resolved on a timely basis.

DAGS should have a process in place to ensure that the trial balances used to prepare the financial statements are final, contain all valid journal entries, and include the results of all departments and agencies for which consolidation is appropriate, and that accounting periods in the accounting system are closed to prevent subsequent posting of transactions.

An independent review of the financial statements and all related disclosures using a GAAP financial statement presentation checklist should be performed by DAGS personnel to ensure completeness, consistency across accounting periods, and compliance with GAAP and the State's accounting and disclosure policies.

Adherence to these policies and procedures will facilitate the processing of complete, accurate, and timely financial information.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-001.

## 2012-02 — Schedule of Expenditures of Federal Awards (SEFA) (Material Weakness)

**Condition** — The State's current accounting process does not track federal funds individually within the general ledger system. Instead, one appropriation account is often created and assigned to the respective department and many federal grants expended by the department are grouped within the one appropriation account. For a department that receives and expends multiple federal funds, it must prepare and maintain separate accounting records outside of the Financial Accounting and Management Information Systems (FAMIS), the State's general ledger system, to be able to segregate the cash balances, receipts, and expenditures by each grant that it receives. These separate accounting records are maintained by multiple accountants in the larger departments and are not combined and reconciled to FAMIS periodically.

In addition, a thorough review of the SEFA information was not performed to ensure that the expenditure amounts and CFDA information were accurate.

**Cause** — A thorough review of each Department's reconciliation of its separate accounting records that track federal fund expenditures to FAMIS was not performed by someone knowledgeable to ensure that the expenditure amounts and CFDA information were accurate.

**Recommendation** — DAGS should develop a well-defined process for federal financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control over preparing the SEFA.

Training and instructions should be communicated to affected State departmental personnel to aid in fiscal management's preparation of the SEFA.

Additionally, an independent review of departmental SEFA should be performed by appropriately trained personnel to ensure completeness, consistency, and compliance with reporting requirements, and State accounting and disclosure policies.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-002.

## 2012-03 — Accounting for Component Units and Proprietary Funds (Significant Deficiency)

**Condition** — During fiscal year 2008, DAGS implemented a policy on reporting "material" CUs and PFs, which stated that only material CUs and PFs would be disclosed as discretely presented CUs and major PFs in the CAFR. Materiality was determined based on certain quantitative criteria determined by DAGS considering the requirements in GASB Statement Nos. 14 and 39 for CUs and GASB Statement No. 34 for PFs.

As a result of implementing the policy, DAGS noted that the Stadium Authority, Hawaii Strategic Development Corp., High Technology Development Corporation, and the Natural Energy Laboratory of Hawaii Authority met the definition of discretely presented CUs as defined in GASB Statement Nos. 14 and 39, but did not meet the materiality thresholds under the State's policy, and thus, were not disclosed as discretely presented CUs in the June 30, 2012 CAFR. Instead, they were reported as part of the Governmental Funds to which these entities were administratively attached.

DAGS also noted that the Department of Labor and Industrial Relations — Disability Compensation Fund, the Public Safety Department — Correctional Industries Fund, the Accounting and General Services — State Parking Revolving Fund, and the Accounting and General Services — Motor Pool Fund met the definition of PFs as defined in GASB Statement No. 34, but did not meet the materiality threshold under the State's policy, and thus were not disclosed as PFs in the June 30, 2012 CAFR. Instead, they were reported as part of the Governmental Funds to which these entities were administratively attached.

**Cause** — In determining which CUs should be presented as discretely presented CUs and which PFs should be presented as major PFs in the CAFR, management did not follow the guidelines included in GASB Statement Nos. 14, 34, and 39. DAGS also noted that some of the CUs and PFs mentioned above have historically not been able to close their books and to complete their audits in a timely manner, such that the audited financial statements would not be available for the preparation of the CAFR. In addition to management's policy that the CUs and PFs under this policy are immaterial to the financial statements taken as a whole, DAGS also determined that auditing the state agencies, which are not disclosed as discretely presented CUs and major PFs in the CAFR, would require time and resources to complete and would likely further delay the completion of the CAFR.

**Recommendation** — DAGS should consider changing the accounting policy to conform to the provisions of GASB Statement Nos. 14, 34, and 39 when preparing the CAFR.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-003.

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## 2012-04 — Accounting for Capital Assets (Significant Deficiency)

**Condition** — As noted in prior audits, the State does not have a single comprehensive capital assets system to identify and monitor all capital assets used in governmental activities. Instead, DAGS utilizes various sources of capital asset financial information in preparing the CAFR.

Land, land improvements, buildings, building improvements, equipment, and accumulated depreciation for all governmental activity departments, except for the Department of Education, are accounted for by utilizing the Fixed Asset Inventory Management System (FAIS), which is maintained by the Inventory Management Branch ("Inventory Management") of the State Procurement Office (SPO) within DAGS. According to the FAIS user manual, each State department is responsible for ensuring that newly acquired property is recorded in FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility to maintain the property.

Infrastructure and related accumulated depreciation are maintained on electronic spreadsheets by the Department of Hawaiian Homelands (DHHL) and the Department of Transportation — Highways Division (Highways) and are provided to DAGS annually for inclusion in the CAFR. Capital asset information for the DOE is maintained by the DOE and is provided to DAGS annually for inclusion in the CAFR.

With the exception of the DOE, the State's construction in progress account balances are maintained by the Public Works division of DAGS (the "Public Works Division"). Financial information from the Public Works Division is provided to DAGS annually for inclusion in the CAFR.

**Cause** — DAGS lacks a formal, organized process to consolidate and maintain capital asset financial information. Additionally, DAGS lacks a process to ensure that any material omissions from FAIS are detected in a timely manner.

**Recommendation** — DAGS should establish formal, methodical, and systematic policies and business processes to ensure that information is processed by the State's various capital asset ledgers and systems in an accurate and timely manner. DAGS should also implement periodic consolidation and review procedures, which require capital asset information to be provided, consolidated, and reviewed for errors by qualified employees on a periodic basis. The consolidation process and review of information should be communicated to all users of the various capital asset information systems and enforced.

**Current Status of Corrective Action Plan** — Corrected.

## 2012-05 — Mainframe Access Security Controls (Significant Deficiency)

**Condition** — During the course of our audit, we noted the following deficiencies related to mainframe information security at the DAGS — Information and Communication Services Division (ICSD):

- For 1 of 9 terminated employees selected for testing during the period of review, D&T was not able to obtain evidence that termination notifications were sent to IT Operations. In addition, the employee, who was terminated December 31, 2011, still had an active mainframe account in the system at the time of our testing.
- For 3 of 20 accounts selected for testing during the period of review, D&T noted shared, non-unique accounts being used by the Control Clerk group and the Payroll Project team. Noted that users must first log into their personal unique account before logging into the shared account and that access to the shared accounts are restricted to approved individuals.
- Password settings were not configured according to State policy.
- The Local Area Network (LAN) and Virtual Private Network (VPN) provide another barrier of security a user must log into before being able to access the mainframe applications. They are important, as they are the mechanisms that govern the State's security. While logging is enabled for the LAN, there is no active monitoring of ICSD Network logs. In addition, The VPN Security logs are not being monitored on a regular basis to detect unauthorized or inappropriate activity.
- A user access review was not performed for VPN Software. VPN Software allows users outside the ICSD network a means to connect to Mainframe applications. Once users connect VPN to the ICSD network, they are forced into a login screen on the mainframe using their unique ID and password (either in Natural or RACF security).
- For 1 of 5 selections, we identified a terminated employee, who still had an active Natural Security account and an active VPN user account. In addition, for 2 of 5 selections, noted access was not removed within five business days of termination as required by policy.
- The following systems had exceptions related to password configurations during the testing period:
  - Natural: Password complexity and change interval is not enforced, and minimum length is not in accordance to the Information Security Policy ("Natural" is the mainframe security specific to unemployment and DLIR).
  - VPN: Password length, change interval, complexity, and lockout for unsuccessful attempts were not being enforced.

- The Natural Security logs are not being monitored on a regular basis to detect unauthorized or inappropriate activity. In addition, VPN Security logs are not being monitored on a regular basis to detect unauthorized or inappropriate activity.

**Cause** — The following were identified as causes of the deficiencies:

- The employee responsible for the notification of termination was the employee who left the Payroll department. There is no centralized process when employees have terminated employment with DAGS that initiates the notification to system administrators. The process currently relies on the department manager to send the notification.
- Shared user accounts are still used within certain groups on the mainframe.
- The current mainframe version does not support all the password settings required by the policy.
- There is no defined procedure for the periodic review of network or VPN logs.
- There is no formal process in place to periodically perform a user access review for the VPN.
- Natural does not support password configurations required in DAGS security policy.
- VPN has not been configured according to the DAGS security policy.
- Regular periodic reviews (weekly/daily/monthly) are not being performed for the Natural and VPN security logs.

**Recommendation** — DAGS and ICSD should consider implementing the following:

- Ensure that managers and departments communicate terminated employees to ICSD administrators. In addition, backup contacts should be established in the event the department manager terminates employment from DAGS. Finally, ICSD and DAGS should consider implementing a process for the centralized notification of terminations to system administrators.
- All user accounts should be assigned to individual users to establish accountability.
- Management should configure password settings according to DAGS security policy.
- A periodic (daily, weekly, or monthly) review of network and VPN security logs should be performed. Security incidents identified should be classified, escalated, and resolved according to an established procedure.
- A periodic (quarterly or annual) review of VPN users should be performed to confirm VPN access is required for job functionality and free of terminated users.
- Natural and VPN passwords should be configured according to DAGS security policy.
- A periodic review of security logs should be performed for Natural and VPN security logs.

**Current Status of Corrective Action Plan** — Corrected.

## 2012-06 — Great Plains Access Security Controls (Significant Deficiency)

**Condition** — During the course of our audit, we noted the following exceptions related to Great Plains information security:

- User access reviews for the Great Plains (application and database) and Active Directory which supports Great Plains are not documented.
- For a selected user termination, there was no documentation that Active Directory or Great Plains access was removed within 5 business days of termination.
- There was no documented authorization for a new hire granting access as a user of Great Plains.
- There is no monitoring of logs for Great Plains Application or supporting systems.

**Cause** — The following were identified as causes of the deficiencies:

- There is no formal process in place for the periodic review of user access permissions.
- There is no formal process for the communication of terminations or documentation of the removal of users from Great Plains and supporting systems.
- Documentation was not retained for the authorization of a selected new hire added to Great Plains during the period of examination.
- There is no process requiring the periodic review of logs for the Great Plains and supporting system (database, operating system, and network) logs.

**Recommendation** — Management should consider implementing the following:

- Perform periodic access reviews for Great Plains and supporting systems.
- A formal process for the documentation of notification of terminated employees and the removal of system access for these employees should be created. Management should consider using a standard form or email template to communicate all terminations to affected parties, such as administrators.
- A formal process for the documentation of authorization of new user accounts or permissions within Great Plains and supporting systems (database, operating systems, and network) should be created. Management should consider using a standard form or email template to communicate all new user access requests to supervisors and require authorization prior to administrators providing user access.
- A periodic review of security logs or events should be performed for the Great Plains and supporting systems (database, operating system, and network).

**Current Status of Corrective Action Plan** — Corrected.

## Financial Statement Findings — State Department of Public Safety

### <u>09-01 Improve Controls over Inmate Agency Accounts (Material Weakness)</u>

**Condition/Cause** — We noted the following conditions regarding the inmate trust accounts for the fiscal year ended June 30, 2009:

- We were unable to reconcile the inmate trust account balance, which provides detail on the balance of each inmate, per the Inmate Trust Accounting System's printed trial balance report to the reconciled cash balance as of June 30, 2009.
- The Women's Community Correctional Center (WCCC) did not prepare bank reconciliations during the current fiscal year. The WCCC has not performed monthly bank reconciliations since May 31, 1996.
- Inactive inmate accounts remained on the PSD's financial records.

As noted in prior years, the controls over the inmate agency fund accounts need improvement. We realize that the PSD is aware of the needed improvements and efforts have been made to rectify the problems. The prior-year's corrective action plan by the PSD was to explore the possibility of contracting with a vendor who could assist the facilities with the reconciliation process and complete a review of each inactive inmate account to the point where the PSD could properly escheat these funds to the State. From our discussion with management, management concluded that hiring a consultant is not feasible based on the current situation due to a lack of funding.

This finding has been occurring for many years despite the efforts of the PSD to make certain changes, such as the installation of software to maintain the trust accounts, regular monitoring of the progress of the finding, and even the establishment of a working group to address the many problems each facility encounters with reconciling the inmate trust accounts.

**Recommendation** — During our audit, we noted that the reconciling differences from prior year have changed. This is an indication that the current reconciling process is creating additional items to consider. In order to stabilize this situation, the PSD needs to assess its current processes to isolate and address any current year "reconciling" items. Once the unreconciled differences are identified, the PSD can start with a static balance and move forward. In consideration of this, we believe that the PSD should take the following steps toward reconciling its inmate trust accounts and prevent future differences. The process can be summarized as follows:

- Restructure and centralize the process
- Standardize reconciliations
- Performance of reconciliations
- Monitoring and process reengineering

*Restructure/Centralize the Process* — Currently, each facility is responsible for its own reconciliation process. Ultimately, each facility reports to the Deputy Director of Corrections. The PSD should consider whether there is any need for reorganization of roles and responsibilities to ensure that there is adequate oversight over the reconciliation process. Options that the PSD may consider is having staff with available time and the accounting background to identify and fix problems in the reconciliation process that currently exist or occur in the future.

In addition, the PSD should consider centralizing the reconciliation function regardless of which Division has governance over the process (i.e., Administration or Corrections). Despite the progress made by each facility, transfers of inmates between facilities cause timing differences that make the reconciliation process more difficult. The centralization of the reconciliation process would eliminate the timing differences caused by inmate transfers.

*Standardize Reconciliations* — The ITA working group has taken steps towards the standardization of the reconciliation process. However, there are facilities that continue to prepare the reconciliations differently. The PSD should continue to develop a standard reconciliation form that lists all potential reconciling items to help ensure that all reconciling items are identified. The centralization of the process as mentioned above will aid in the implementation of a standard form.

*Performance of Reconciliations* — The performance of accurate and timely reconciliations for the facilities is a key part of the process. The PSD should see increased accuracy and more timely reconciliations as a result of the previous steps. Any unreconcilable differences should be reported for monitoring purposes as discussed below.

*Monitoring and Process Reengineering* — Under the governance established under the restructuring of the process, those charged with monitoring the reconciliation should ensure that reconciliations are performed accurately and timely. Any unreconcilable difference should also be investigated and the reconciliation process should be modified accordingly.

This process will eventually identify all reconciling items such that the unreconciled difference remains the same from period to period. Once the difference has not changed for a defined period (e.g., six months to one year) the PSD should write-off or escheat, as applicable, the unreconciled difference. The PSD should consult with the State of Hawaii Attorney General's office for the appropriate disposition of the unreconciled difference.

The aforementioned process is based on our high-level understanding of the process and further analysis is necessary to effectively implement the above process. Our consideration of the Department's internal control and processes over financial reporting of the inmate liability accounts was primarily to determine our auditing procedures. A detailed study of the process was not performed. Consequently we recommend that the PSD consider hiring an outside consultant for further assistance.

**Current Status of Corrective Action Plan** — Not corrected. Implementation of the corrective action plan is anticipated to be complete in December 2015.

## 09-02 Strengthen Controls over Compensated Leaves of Absence (Deficiency)

**Condition/Cause** — The following conditions were noted during our review of leave records for the fiscal year ended June 30, 2009:

- In 10 instances, the Excel spreadsheet, which supports the accrued vacation balance on the financial statements, did not contain the correct pay rates.
- In eight instances, the Excel spreadsheet, which supports the accrued vacation balance of the financial statements and represent data from the DPS-7 reports contained key-punching errors.
- In 11 instances, the DPS-7 report, which is used to track an individual employee's accrued vacation, contained mathematical errors.
- The PSD has implemented a control to prevent the overpayment of salaries. The control is that the time and attendance clerk will utilize the sign-in and sign-out sheets as a record of the overtime worked by each employee rather than wait for the employee to turn in their respective timesheets. We noted that during 2009, HCF and WCCC have not implemented this control due to staff shortages.

The PSD acknowledges a need to strengthen the controls over the compensated leave of absence process. The corrective action plan for the prior-year's findings was to conduct periodic audits of leave records maintained by program units in order to promote accurate and timely recordation of leaves and to conduct scheduled training sessions on the leave records' maintenance procedures for all programs. As of June 30, 2009, the audit of four programs had been completed. There has been no training provided on the maintenance procedures to properly complete the leave records.

**Recommendation** — The PSD should strengthen controls over compensated leaves of absence by performing the following procedures:

- Continue collection efforts in the repayment of salary overpayments.
- Ensure that leave information for financial statement reporting purposes is accurately prepared, reviewed, and corrected, if necessary, by responsible personnel prior to submission to the PSD Fiscal Office.
- To ensure that each program is completing the leave information accurately and correctly, training should be provided to all personnel with this responsibility.
- Require HCF and WCCC to comply with preventive control to continue minimizing risks related to untimely submitted timesheets.

**Current Status of Corrective Action Plan** — Not corrected. Implementation of the corrective action plan is anticipated to be complete in December 2015.

## SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### 2012-07 — Cash Management (Significant Deficiency)
### State Department of Land and Natural Resources

CFDA No. ARRA 10.688, ARRA — Wildland Fire Management, Direct Program from the U.S. Department of Agriculture (Award 2007-GS-H7-0005)

**Condition** — During our audit, we examined 25 selections of cash advances and identified 13 instances where the number of days elapsed between the Federal cash advances and Federal fund expenditures exceeded 30 days (range of 31 to 48 days). As a result, the State may also be accountable for interest earned on advances when the State does not minimize the time elapsed between the transfer of the funds from the U.S. Department of the Treasury and the disbursement.

**Cause** — The lag in disbursing the funds timely was due to the lack of resources and controls to ensure that Federal funds were disbursed on a timely basis.

**Recommendation** — The communications process over Federal grant compliance should be improved. The Department should consider improving the design and implementation of cash management internal controls, to minimize the time lag between Federal fund drawdown and disbursement in accordance with 31 CFR Section 205.33.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-007.

### 2012-08 — Subrecipient Monitoring (Significant Deficiency)
### State Department of Business, Economic Development and Tourism

CFDA No. 11.419, Coastal Zone Management Administration Awards
Direct Program from U.S. Department of Commerce (Awards NA08NOS4190421, NA09NOS4190120, NA10NOS4190180, and NA11NOS4190095)

**Condition** — During the course of our audit, we noted that there were 17 subaward contracts to 10 unique subrecipients that were active during the year ended June 30, 2012, for which a DUNS number was not obtained from the subrecipient prior to issuing the subaward, the contract did not include the award information (i.e., CFDA title and number, award name and number, if the award is R&D, and name of Federal awarding agency) and the subawards were not evaluated for the Federal Funding Accountability and Transparency Act requirements.

**Cause** — Program personnel were unaware of these compliance requirements to obtain a DUNS number from a subrecipient for subawards made on or after October 1, 2010, and to communicate all of the required information to the subrecipients.

**Recommendation** — A procedure should be established to ensure that a DUNS number is obtained from subrecipients before a subaward is granted. Also, the State awarding entity should prepare a standard document that details relevant information related to the award, which the subrecipient would be contracted under. The standard document should be included in the contract to ensure that the subrecipient receives the information.

**Current Status of Corrective Action Plan** — Corrected.

**2012-09 — Cash Management (Significant Deficiency)**
**State Department of Defense**

CFDA No. 11.555, Public Safety Interoperable Communications Grant Program
Direct Program from the U.S. Department of Commerce (Award 2007-GS-T7-0005)

**Condition** — During our audit, we examined nine selections of cash advances and identified one instance where the number of days elapsed between the Federal cash advances and Federal fund expenditures exceeded 30 days (as specified in the program agreement). As a result, the State may also be accountable for interest earned on advances when the State does not minimize the time elapsed between the transfer of the funds from the U.S. Department of the Treasury and the disbursement.

**Cause** — State DOD fiscal personnel believed that the commencement of the 30-day period was at the time that the cash was actually recorded into the State account through the Financial Accounting Management Information System (FAMIS) rather than on the date the cash was made available to the State and, therefore, was untimely.

**Recommendation** — The communications process over Federal grant compliance should be improved. The Department should consider improving the design and implementation of cash management internal controls, to minimize the time lag between Federal fund drawdown and disbursement in accordance with 31 CFR Section 205.33.

**Current Status of Corrective Action Plan** — Not repeated. The program ended during fiscal year 2012.

**2012-10 — Reporting — Federal Transparency Act (Material Weakness)**
**State Department of Defense**

CFDA No. 11.555, Public Safety Interoperable Communications Grant Program
Direct Program from the U.S. Department of Commerce (Award 2007-GS-T7-0005)

**Condition** — The Public Safety Interoperable Communications Grant Program is subject to the Transparency Act requirement. During the course of our audit, we noted no action or procedures were taken to comply with the Transparency Act requirement during fiscal year 2012.

**Cause** — State DOD management did not register in the FFATA Subaward Reporting System (FSRS) in order to report applicable subaward spending in accordance with the Transparency Act.

**Recommendation** — Establish an account within the FSRS and submit the reports as required. In addition, the State DOD should design and implement policies and procedures to ensure that the required Transparency Act requirements are met.

**Current Status of Corrective Action Plan** — Not repeated. The program ended during fiscal year 2012.

**2012-11 — Allowable Costs — Payroll Certifications (Significant Deficiency)**
**State Department of Defense**

CFDA No. 12.401 and ARRA 12.401, National Guard Military Operations and Maintenance Projects
Direct Program from the U.S. Department of Defense (Awards ESS W912J6-10-2-1004,
FOMA W912J6-11-2-1021, and AGSG W912J6-11-2-1023)

**Condition** — We noted that payroll certifications were not completed for employees who solely worked on a single Federal award. During our testing procedures, we selected eight employees who were required to complete a payroll certification. We noted that the required certifications were not completed for seven of the eight employees tested.

**Cause** — Supervisory personnel were not aware of the requirement to prepare payroll certifications for employees working solely on a single Federal award.

**Recommendation** — The State DOD should create semiannual payroll certifications for employees who work solely on one award, as required by OMB Circular A-87.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-014.

## 2012-12 — Cash Management (Significant Deficiency)
## State Department of Defense

CFDA No. 12.401 and ARRA 12.401, National Guard Military Operations and Maintenance Projects
Direct Program from the U.S. Department of Defense (FOMA W912J6-12-2-1001)

**Condition** — During our audit, we examined 40 selections of cash advances and identified three instances where the number of days elapsed between the Federal cash advances and Federal fund expenditures exceeded 45 days (as specified in the program agreement). As a result, the State may also be accountable for interest earned on advances when the State does not minimize the time elapsed between the transfer of the funds from the U.S. Department of the Treasury and the disbursement.

**Cause** — There was a lack of monitoring to ensure this requirement was met.

**Recommendation** — The State should improve the controls over monitoring grant requirements to ensure all expenses related to advance funding are made within 45 days. For obligated but undisbursed funding, a monthly report should be communicated to explain that certain expenditures have been obligated, but not yet paid.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-016.

## 2012-13 — Allowable Costs — Payroll Certifications (Significant Deficiency)
## State Department of Defense

CFDA No. 12.404, National Guard Challenge Program
Direct Program from the U.S. Department of Defense (Awards W912J6-11-2-4002, W912J6-11-2-400K, and F7CH002020MD01)

**Condition** — We noted that payroll certifications were not completed for employees who solely worked on a single Federal award. During our testing procedures, we selected eight employees who were required to complete a payroll certification. We noted that the required certifications were not completed for five of the eight employees tested.

**Cause** — The employees did not place a priority on preparing the required certifications and their supervisors did not adequately monitor their compliance with this requirement.

**Recommendation** — The State DOD should create semiannual payroll certifications for employees who work solely on one award, as required by OMB Circular A-87.

**Current Status of Corrective Action Plan** — Corrected.

**<u>2012-14 — Cash Management (Significant Deficiency)</u>**
**State Department of Defense**

CFDA No. 12.404, National Guard Challenge Program
Direct Program from the U.S. Department of Defense (Awards W912J6-11-2-4002, W912J6-11-2-400K, and F7CH002020MD01)

**Condition** — During our audit, we examined 60 selections of cash advances and identified two instances where the number of days elapsed between the Federal cash advances and Federal fund expenditures exceeded 45 days (as specified in the program agreement). As a result, the State may also be accountable for interest earned on advances when the State does not minimize the time elapsed between the transfer of the funds from the U.S. Department of the Treasury and the disbursement.

**Cause** — The exceptions relate to the last drawdown of the State fiscal year. As the State needed to close its books by June 30, 2012, the funds were drawn down earlier than when funds were needed.

**Recommendation** — The communications process over Federal grant compliance should be improved. The Department should consider improving the design and implementation of cash management internal controls, to minimize the time lag between Federal fund drawdown and disbursement in accordance with 31 CFR Section 205.33.

**Current Status of Corrective Action Plan** — Repeated.  Refer to current year finding at 2013-019.

**<u>2012-15 — Eligibility (Significant Deficiency)</u>**
**State Department of Defense**

CFDA No. 12.404, National Guard Challenge Program
Direct Program from the U.S. Department of Defense (Award W912J6-11-2-400K)

**Condition** — During the course of our audit, we tested the expenditures made for the Master Youth Program and selected 25 participants to test the eligibility requirement. We noted that one selection out of the 25 selections was not within the qualified age range requirement.

**Cause** — Program management experienced turnover during the audit period and, as a result, proper eligibility clearance was computed incorrectly.

**Recommendation** — The application review process and eligibility requirements should be communicated timely to every employee and new employees.

**Current Status of Corrective Action Plan** — Repeated.  Refer to current year finding at 2013-020.

**<u>2012-16 — Cash Management (Significant Deficiency)</u>**
**State Department of Business, Economic Development and Tourism**

CFDA No. 12.800, Air Force Defense Research Sciences Program
Direct Program from U.S. Department of Defense (Award FA8650-11-2-5605)

**Condition** — During our audit, we examined three selections of cash advances and identified one instance where the number of days elapsed between the Federal cash advances and Federal fund expenditures exceeded 30 days. As a result, the State may also be accountable for interest earned on advances when the State does not minimize the time elapsed between the transfer of the funds from the U.S. Department of the Treasury and the disbursement.

**Cause** — The cause for the condition described above is due to lack of proper planning by the Program Manager to minimize the amount of time elapsed between the advancement of Federal funding and the payment of expenditures incurred by the agreement. Additionally, noted that Federal funds are requested via Form SF-270, *Request for Advance or Reimbursement*, which generally has a 30-day turnaround between the date funds are requested and received.

**Recommendation** — The communications process over Federal grant compliance should be improved. The Department should consider improving the design and implementation of cash management internal controls, to minimize the time lag between Federal fund drawdown and disbursement in accordance with 31 CFR Section 205.33. Additionally, the Department should develop procedures to properly monitor interest income earned on Federal funds drawn and remit interest earned to the HHS annually.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-022.

### 2012-17 — Equipment and Real Property Management — Acquisitions Not Recorded in FAIS (Significant Deficiency)
### State Department of Business, Economic Development and Tourism

CFDA No. 12.800, Air Force Defense Research Sciences Program
Direct Program from U.S. Department of Defense (Award FA8650-11-2-5605)

**Condition** — During our audit, we examined two equipment purchases, noting that one of the two equipment purchases was not reported in the calendar quarter that the equipment was received. We noted three computers were purchased, none of which were reported in FAIS in the quarter received. The Department completed Form 17A, but did not properly monitor the status of the newly acquired property to ensure that it is entered into the FAIS in the quarter received.

**Cause** — Responsible individuals did not properly monitor newly acquired property to ensure that it is entered into the FAIS on a timely basis.

**Recommendation** — The Department should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for management and disposition of equipment. The Department should consider establishing a monitoring process in order to ensure that newly acquired property is entered into the FAIS on a timely basis.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-023.

### 2012-18 — Reporting — Federal Reporting Accuracy (Significant Deficiency)
### State Department of Business, Economic Development and Tourism

CFDA No. 12.800, Air Force Defense Research Sciences Program
Direct Program from U.S. Department of Defense (Award FA8650-11-2-5605)

**Condition** — During our audit, we tested Federal Form SF-425 for two quarters in fiscal year 2012. We noted that the Department's accounting records did not agree to the cumulative expenditures reported per Federal Form SF-425 for the quarter ended June 30, 2012. Quarterly expenditures reported per Form SF-425 were understated by $37,400 for the quarter ended June 30, 2012. In addition, we noted that the Department's accounting records did not agree to the program income reported per Federal Form SF-425 as of both quarter-ends. Program income was understated by $8,300 for the quarter ended March 31, 2012, and understated by $17,600 for the quarter ended June 30, 2012.

**Cause** — The Department did not perform adequate supervisory review over the preparation of the Federal Form SF-425, which allowed errors to be made in reporting of financial information.

**Recommendation** — Controls related to the preparation and review of the reports should be improved in order to ensure that financial information reported to the awarding agency is accurate and complete.

**Current Status of Corrective Action Plan** — Corrected.

### 2012-19 — Reporting — Submission of Reports (Significant Deficiency)
### State Department of Business, Economic Development and Tourism

CFDA No. 12.800, Air Force Defense Research Sciences Program
Direct Program from U.S. Department of Defense (Award FA8650-11-2-5605)

**Condition** — During our audit, we examined the Program Management Plan and noted that we were unable to obtain supporting documentation to verify when the Program Management Plan was submitted to the Federal program manager.

**Cause** — Individuals responsible for preparing the reports did not appropriately retain supporting documentation to verify the timeliness of the report submission.

**Recommendation** — Controls related to the submission and retention of the reports should be improved in order to ensure that the required reports and related supporting documentation are retained and can be easily located. The Department should consider establishing standard procedures to prepare and retain supporting documentation for the evidence of timeliness of report submission.

**Current Status of Corrective Action Plan** — Corrected.

### 2012-20 — Cash Management (Significant Deficiency)
### State Department of Business, Economic Development and Tourism

CFDA No. 12.910, Research and Technology Development
Direct Program from the U.S. Department of Defense (Award HR0011-07-2-0005)

**Condition** — During our audit, we examined 17 selections of cash advances and identified eight instances in which the number of days elapsed between the Federal cash advances and Federal fund expenditures exceeded 30 days. As a result, the State may also be accountable for interest earned on advances when the State does not minimize the time elapsed between the transfer of the funds from the U.S. Department of the Treasury and the disbursement.

**Cause** — There was a lack of monitoring to ensure that Federal funds are disbursed on a timely basis.

**Recommendation** — The communications process over Federal grant compliance should be improved. The Department should consider improving the design and implementation of cash management internal controls, to minimize the time lag between Federal fund drawdown and disbursement in accordance with 31 CFR Section 205.33.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-024.

## 2012-21 — Reporting — Federal Reporting Accuracy (Significant Deficiency)
## State Department of Business, Economic Development and Tourism

CFDA No. 12.910, Research and Technology Development
Direct Program from the U.S. Department of Defense (Award HR0011-07-2-0005)

**Condition** — During our audit, we tested Federal Form SF-425 for two quarters in fiscal year 2012. We noted that the Department's accounting records did not agree to the cumulative expenditures reported per Federal Form SF-425 as of each quarter-end. Quarterly expenditures reported per Form SF-425 were understated by $1,521 for the quarter ended December 31, 2011, and overstated by $69,988 for the quarter ended March 31, 2012.

**Cause** — The Department did not perform adequate supervisory review over the preparation of the Federal Form SF-425, which allowed errors to be made in reporting of financial information.

**Recommendation** — Controls related to the preparation and review of the reports should be improved in order to ensure that financial information reported to the awarding agency is accurate and complete.

**Current Status of Corrective Action Plan** — Corrected.

## 2012-22 — Reporting — Submission of Reports (Significant Deficiency)
## State Department of Business, Economic Development and Tourism

CFDA No. 12.910, Research and Technology Development
Direct Program from the U.S. Department of Defense (Award HR0011-07-2-0005)

**Condition** — During our audit, we examined two quarterly Technical Status Reports and noted that we were unable to obtain supporting documentation to verify when the quarterly Technical Report for the quarter ended December 31, 2011, was submitted. Also, we were unable to obtain supporting documentation to verify if or when the Department submitted the Annual Program Plan for fiscal year 2012.

**Cause** — Individuals responsible for preparing the reports did not appropriately retain supporting documentation to verify the timeliness of submissions of the quarterly Technical Status Reports and did not retain supporting documentation to determine whether the Annual Program Plan was submitted or, if submitted, the timeliness of such submission.

**Recommendation** — Controls related to the submission and retention of the reports should be improved in order to ensure that required reports are retained and can be easily located. The Department should consider establishing standard program closeout procedures to ensure that related documents can be located with ease subsequent to the conclusion of the program.

**Current Status of Corrective Action Plan** — Corrected.

## 2012-23 — Cash Management (Significant Deficiency)
## State Department of Land and Natural Resources

CFDA No. 15.605, Sport Fish Restoration Program
Direct Program from the U.S. Department of Interior (Awards F-17-R-36, F-19-B-40, F-19-B-42, F-12-D-36, and F-18-AE-25)

**Condition** — During our audit, we examined five selections of cash advances and identified two instances in which the number of days elapsed between the Federal cash advances and Federal fund expenditures exceeded 30 days (range of 41 to 48 days). As a result, the State may also be accountable for interest earned on advances when the State does not minimize the time elapsed between the transfer of the funds from the U.S. Department of the Treasury and the disbursement.

**Cause** — The lag in disbursing the funds timely was due to the lack of resources and controls to ensure that Federal funds are disbursed on a timely basis.

**Recommendation** — The communications process over Federal grant compliance should be improved. The Department should consider improving the design and implementation of cash management internal controls, to minimize the time lag between Federal fund drawdown and disbursement in accordance with 31 CFR Section 205.33.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-025.

## 2012-24 — Equipment and Real Property Management — Equipment Inventory (Significant Deficiency)
## State Department of Public Safety

CFDA No. ARRA 16.803, ARRA — Edward Byrne Memorial Justice Assistance Grant Program/Grants to States and Territories
Pass-Through Program from the U.S. Department of Justice/State Department of the Attorney General (Award 09-SU-06)

**Condition** — During our audit, we inquired about each latest annual physical inventory location of the four programs being tested. We verified that no physical inventory was performed for one of the four programs, the Hawaii County Re-entry Program for Co-Occurring Disorders.

**Cause** — The State DPS did not set a timetable of when a physical inventory of equipment needed to be taken and, thus, failed to realize that the two-year date had passed.

**Recommendation** — The State DPS should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for management and disposition of equipment. The State DPS should consider establishing a timetable to ensure that a physical inventory of equipment is taken at least once every two years.

**Current Status of Corrective Action Plan** — Corrected.

## 2012-25 — Equipment and Real Property Management — Acquisitions Not Recorded in FAIS (Significant Deficiency)
## State Department of Public Safety

CFDA No. ARRA 16.803, ARRA — Edward Byrne Memorial Justice Assistance Grant Program/Grants to States and Territories
Pass-Through Program from the U.S. Department of Justice/State Department of the Attorney General (Award 09-SU-06, 09-SU-16, 09-SU-22, and 09-SU-23)

**Condition** — During our audit, we examined five equipment purchases, noting that five of the five equipment purchases were not reported in the FAIS, and no Form 17A was completed.

**Cause** — There was a lack of monitoring to ensure that the newly acquired property was entered into the FAIS.

**Recommendation** — The Department should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for management and disposition of equipment. The Department should consider establishing a monitoring process in order to ensure that newly acquired property is entered into the FAIS on a timely basis.

**Current Status of Corrective Action Plan** — Not corrected.

## 2012-26 — Cash Management — Treasury-State Agreement (Material Weakness)
## State Department of Labor and Industrial Relations

CFDA No. 17.225 and ARRA 17.225, Unemployment Insurance
Direct Program from the U.S. Department of Labor (Award UI-22272-12-55-A-15)

**Condition** — During the course of the audit, we obtained the Treasury-State Agreement between the State and the U.S. Department of the Treasury and noted that it was valid through June 30, 2011. The Treasury-State Agreement states that it shall be amended at least annually to incorporate new programs that qualify as major Federal assistance programs or remove programs that no longer qualify as major Federal assistance programs. Further, the Treasury-State Agreement states that the State must notify the U.S. Department of the Treasury within 30 days should there be any changes in funding techniques and/or clearance patterns. The notification must include a proposed amendment for review by the U.S. Department of the Treasury. As the most recent version of the Treasury-State Agreement covered the period from July 1, 2010 to June 30, 2011, there was no Treasury-State Agreement that covered the State's fiscal year 2012.

**Cause** — The job position responsible for updating the Treasury-State Agreement was vacant for approximately two years due to a restriction on filling the vacant Accountant IV position, and the responsibility for the Treasury-State Agreement was assigned to personnel who worked within the Treasury Branch during the vacancy period. The vacant Accountant IV position was filled in September 2011, but no priority was made to ensure that the Treasury-State Agreement was updated or put into place in a timely manner.

**Recommendation** — As the Accountant IV position has been filled, the State should implement procedures to ensure that the Treasury-State Agreement is executed in a timely manner, and the State should continue open communications with the U.S. Department of the Treasury in bringing the Treasury-State Agreement current.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-035.

## 2012-27 — Procurement — Statement of Completed Travel (Significant Deficiency)
## State Department of Labor and Industrial Relations

CFDA No. 17.225, Unemployment Insurance
Direct Program from the U.S. Department of Labor (Award UI-22272-12-55-A-15)

**Condition** — We tested five selections in which one selection was a travel reimbursement. We noted that the "Statement of Completed Travel" and supporting documents/receipts for the selection were not submitted within the 10-day deadline. The documents were submitted 13 days past the required deadline.

**Cause** — The lack of adequate monitoring of travel reports and follow-up on delinquent/missing reports.

**Recommendation** — Employees should be reminded of the SPO's Travel Policy at the time an employee's request for travel is approved, and the traveler's supervisor should follow up on all delinquent reports.

**Current Status of Corrective Action Plan** — Corrected.

**2012-28 — Special Tests and Provisions — Timeliness of Unemployment Insurance Claims Reviews (Significant Deficiency)**
**State Department of Labor and Industrial Relations**

CFDA No. 17.225 and ARRA 17.225, Unemployment Insurance
Direct Program from the U.S. Department of Labor (Awards UI-18016-09-55-A-15, UI-19578-10-55-A-15, and UI-21095-11-A-15)

**Condition** — During the course of our audit, we obtained and examined the State BAM unit's *Time Lapse Report* for the period between January 2011 to December 2011 and the Hawaii Regional Review Memo, which detail a summary of the BAM unit review by the UI of the Regional Office, to determine whether the State achieved the completion of the minimum required cases in accordance with the stipulated percentages for the following categories: (1) paid claims, (2a) denied claims — monetary based, (2b) denied claims — separation based, and (2c) denied claims — nonseparation based. We noted that the State BAM unit did not meet the required timeliness completion percentages for denied claims for the following categories: 61–90 days, 91–120 days, and greater than 120 days.

**Cause** — According to information provided by the State BAM unit, due to retirements and turnover of staff personnel, there is a shortage of employees, such that all of the UI claims paid or denied cannot be processed within the time frame required by the Federal government.

**Recommendation** — An analysis should be undertaken to determine the cost-benefit relationship of changing personnel's duties to put more emphasis on processing UI claims in accordance with the BAM requirements.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-038

**2012-29 — Cash Management (Significant Deficiency)**
**State Department of Labor and Industrial Relations**

CFDA No. ARRA 17.275, ARRA — Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors
Direct Program from the U.S. Department of Labor (Award GJ-19909-10-60-A-15)

**Condition** — During our audit, we examined 17 selections of cash advances and identified two instances in which the number of days elapsed between the Federal cash advances and Federal fund expenditures exceeded 30 days. (One expenditure was paid out after 32 days, and another was paid out after 95 days.) As a result, the State may also be accountable for interest earned on advances when the State does not minimize the time elapsed between the transfer of the funds from the U.S. Department of the Treasury and the disbursement.

**Cause** — The lag in disbursing the funds timely was due to the lack of resources and controls to ensure that federal funds are disbursed on a timely basis.

**Recommendation** — The communications process over Federal grant compliance should be improved. The Department should consider improving the design and implementation of cash management internal controls, to minimize the time lag between Federal fund drawdown and disbursement in accordance with 31 CFR Section 205.33.

**Current Status of Corrective Action Plan** — Corrected.

**2012-30 — Reporting — Untimely Submission of Reports (Significant Deficiency)**
**State Department of Labor and Industrial Relations**

CFDA No. ARRA 17.275, ARRA — Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors
Direct Program from the U.S. Department of Labor (Award GJ-19811-10-60-A-15 and Award GJ-19811-5-R-0)

**Condition** — During the course of our audit, we examined two ETA 9130 reports and noted that the report for the quarter ended September 30, 2011, was not filed before the deadline. The form was filed on November 18, 2012, which was four days past the deadline.

**Cause** — The lack of adequate supervisory review over the preparation of the required reports allowed the report to be filed late.

**Recommendation** — Controls related to the preparation and the supervisory review of the forms should be improved. A tracking system of the reporting requirements should be developed to remind the preparers of the due dates, and the reviewers of the forms should monitor the timeliness of their preparation and submission.

**Current Status of Corrective Action Plan** — Corrected.

**2012-31 — Reporting — Untimely Submission of Reports (Significant Deficiency)**
**State Department of Labor and Industrial Relations**

CFDA No. ARRA 17.277, ARRA — Workforce Investment Act National Emergency Grants
Direct Program from the U.S. Department of Labor (Award EM-20486-10-60-A-15)

**Condition** — During the course of our audit, we examined two ETA 9104 reports and two ETA 9090 reports, noting that the ETA 9104 report for the quarter ended June 30, 2012, was not filed before the deadline. The report was filed on August 20, 2012, which was six days past the deadline.

In addition, we noted that the ETA 9090 report for the quarter ended December 31, 2011, was not filed before the deadline. The report was filed on February 16, 2012, which was two days past the deadline.

**Cause** — Because amendments to the previous quarters' reports were required, the computer system prevented the State DLIR to enter and submit the next quarters' reports into the system.

**Recommendation** — Controls related to the preparation and the supervisory review of the forms should be improved. A tracking system of the reporting requirements should be developed to remind the preparers of the due dates, and the reviewers of the forms should monitor the timeliness of their preparation and submission.

**Current Status of Corrective Action Plan** — Not repeated. The program ended in fiscal year 2013.

**2012-32 — Subrecipient Monitoring — On-Site Reviews (Significant Deficiency)**
**State Department of Labor and Industrial Relations**

CFDA No. ARRA 17.277, ARRA — Workforce Investment Act National Emergency Grants
Direct Program from the U.S. Department of Labor (Award EM-20486-10-60-A-15)

**Condition** — We noted that while the State DLIR performed its first on-site monitoring visit for the program's subrecipient in April 2012, an on-site monitoring visit was not performed during the first award period, which ran from January 2011 through January 2012.

**Cause** — The on-site reviews were not performed due to the lack of personnel and resources to perform the on-site/fiscal monitoring process.

**Recommendation** — Personnel who are responsible for the on-site monitoring should make a greater effort in ensuring that the on-site reviews of all subrecipients are performed at least once a year in accordance with the program proposal.

**Current Status of Corrective Action Plan** — Not repeated. The program ended in fiscal year 2013.

**2012-33 — Special Tests and Provisions — Eligibility Files (Significant Deficiency)**
**State Department of Accounting and General Services**

CFDA No. 39.003, Donation of Federal Surplus Personal Property
Direct Program from the U.S. General Services Administration (Award: N/A)

**Condition** — During our audit, we examined 11 expenditure selections for timely review and update of donee Eligibility Files, and noted that three donee Eligibility Files were not updated at least once every three years.

**Cause** — The cause of the noncompliance above is due to a misinterpretation of the guidance per the State Plan of Operation for the Federal Surplus Property Donation Program. Responsible individual performed a review and update of donee Eligibility Files only for donees that are not State or other government agencies.

**Recommendation** — The Department should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for reviewing and updating donee Eligibility Files. The Department should consider establishing a timetable to ensure that donee Eligibility Files are reviewed and updated at least once every three years.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-40.

**2012-34 — Special Tests and Provisions — Audit Requirement (Significant Deficiency)**
**State Department of Accounting and General Services**

CFDA No. 39.003, Donation of Federal Surplus Personal Property
Direct Program from the U.S. General Services Administration (Award: N/A)

**Condition** — We noted that the last external audit of the program (which included a review of conformance with the requirements of 41 CFR 101-44) was performed for the year ended June 30, 2009. Although an external audit was performed for the year ended June 30, 2012, more than two years have lapsed since the 2009 external audit. Also, an internal audit of the program by the Statewide Internal Audit Agency has not been performed.

**Cause** — There was a misinterpretation of the external audit requirement. For 2010 and 2011, the Single Audit report for the entire State of Hawaii was submitted to the Federal agency (although CFDA No. 39.003 was not tested as a major program in 2010 or 2011 and therefore conformance with the requirements of 41 CFR 101-44 was not tested.)

**Recommendation** — Obtain an external audit of the program at least every two years in accordance with the State Plan of Operation for the Federal Surplus Property Donation Program, and obtain an internal audit by the Statewide Internal Audit Agency on a periodic basis as required.

**Current Status of Corrective Action Plan** — Corrected.

**2012-35 — Cash Management (Significant Deficiency)**
**State Department of Business, Economic Development and Tourism**

CFDA No. ARRA 81.041, ARRA – State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

**Condition** — During our audit, we examined 25 selections of cash advances and identified one instance in which the number of days elapsed between the Federal fund advances and Federal fund expenditures exceeded 30 days. As a result, the State may also be accountable for interest earned on advances when the State does not minimize the time elapsed between the transfer of the funds from the U.S. Department of the Treasury and the disbursement.

**Cause** — There was a lack of monitoring to ensure that Federal funds are disbursed on a timely basis.

**Recommendation** — The communications process over Federal grant compliance should be improved. The Department should consider improving the design and implementation of cash management internal controls, to minimize the time lag between Federal fund drawdown and disbursement in accordance with 31 CFR Section 205.33.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding 2013-041.

**2012-36 — Equipment and Real Property Management — Acquisitions Not Recorded in FAIS (Significant Deficiency)**
**State Department of Business, Economic Development and Tourism**

CFDA No. ARRA 81.041, ARRA – State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

**Condition** — During our audit, we examined three equipment purchases, noting that two of the three equipment purchases were not reported in the calendar quarter that the equipment was received. In the first instance, we noted 16 computers were purchased, of which none were reported in FAIS, and six out of the 16 computers had a completed Form 17A. In the second instance, we noted that two monitors were purchased, of which none were reported in FAIS, and no Form 17A was completed.

**Cause** — Responsible individuals were not aware of the requirement to record newly acquired property in FAIS in the quarter of the fiscal year when received or responsibility for maintaining the property is assumed. Further, there was a lack of monitoring to ensure that newly acquired property is entered into the FAIS on a timely basis.

**Recommendation** — The Department should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for management and disposition of equipment. The Department should consider establishing a monitoring process in order to ensure that newly acquired property is entered into the FAIS on a timely basis.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding 2013-042.

**2012-37 — Reporting — Untimely Submission of Reports (Significant Deficiency)**
**State Department of Business, Economic Development and Tourism**

CFDA No. ARRA 81.041, ARRA – State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

**Condition** — During our audit, we examined four quarterly Performance Reports and noted that one of the Performance Reports was not submitted to PAGE by the 30th day of the month following the end of the reporting period. The Performance Report for the quarter ended September 30, 2011, was submitted on November 17, 2011, which was 18 days past the due date.

**Cause** — Individuals responsible for preparing the reports did not properly monitor the required deadlines to submit the Performance Reports.

**Recommendation** — Controls related to the preparation and review of the reports should be improved in order to ensure that required reports are submitted on a timely basis. The Department should consider implementing a tracking system of the required reports to remind the preparers of the due dates, and the reviewers of the reports should monitor the timeliness of their preparation and submission.

**Current Status of Corrective Action Plan** — Corrected.

**2012-38 — Reporting — Federal Reporting Accuracy (Significant Deficiency)**
**State Department of Business, Economic Development and Tourism**

CFDA No. ARRA 81.041, ARRA — State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

**Condition** — During our audit, we tested Federal Form SF-425 for all four quarters in fiscal year 2012. We noted that the Department's accounting records did not agree to the cumulative expenditures reported per Federal Form SF-425 as of each quarter-end. Quarterly expenditures reported per Form SF-425 were overstated by $5,111 for the quarter ended September 30, 2011, overstated by $961,351 for the quarter ended December 31, 2011, understated by $954,575 for the quarter ended March 31, 2012, and understated by $11,887 for the quarter ended June 30, 2012.

**Cause** — The Department was unable to perform adequate supervisory review over the preparation of Federal Form SF-425 due to lack of personnel, which allowed errors to be made in reporting of financial information.

**Recommendation** — Controls related to the preparation and review of the reports should be improved in order to ensure that financial information reported to the awarding agency is accurate and complete.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-045.

**2012-39 — Reporting — Inappropriate Accounting Basis Reported (Significant Deficiency)**
**State Department of Business, Economic Development and Tourism**

CFDA No. ARRA 81.041, ARRA — State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

**Condition** — During our audit, we examined four quarterly Form SF-425 reports and noted that two out of four reports inappropriately identified the "Basis of Accounting" as "Accrual." The financial information included in the quarterly Form SF-425 reports is reported on a "Cash" basis.

**Cause** — Individuals responsible for preparing and reviewing the reports did not have the appropriate understanding of the accounting basis used by the Department for reporting purposes.

**Recommendation** — Responsible individuals should be appropriately trained to prepare the required reports. Controls related to the preparation and review of the reports should be improved in order to ensure the accuracy of the financial information reported to the awarding agency.

**Current Status of Corrective Action Plan** — Corrected.

### 2012-40 — Subrecipient Monitoring (Significant Deficiency)
### State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.041, ARRA — State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

**Condition** — We noted the Department did not actively monitor and ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year obtained the required audits. During our audit, we examined four subrecipients and noted that one subrecipient (Better Place, Inc.) expended more than $500,000 in the fiscal year, and did not obtain the required single audit.

**Cause** — The responsible individual was not aware of the Department's responsibility as the pass-through entity to ensure that subrecipients obtain a single audit if the requirement is met.

**Recommendation** — The Department should ensure that responsible individuals have the proper knowledge of the pass-through entity's responsibilities for subrecipient monitoring, in accordance with OMB Circular A-133. The Department should also consider establishing policies and procedures to ensure that responsible individuals communicate the single audit requirement to the Department's subrecipients, and obtain and review the single audit reports for those subrecipients receiving in excess of $500,000 in federal funding to appropriately monitor subrecipients' compliance with audit requirements.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-046.

### 2012-41 — Procurement — Statement of Completed Travel (Significant Deficiency)
### State Department of Labor and Industrial Relations

CFDA No. 81.042 and ARRA 81.042, Weatherization Assistance for Low-Income Persons
Direct Program from the U.S. Department of Energy (Awards EE0000176 and EE0000183)

**Condition** — We tested various selections in which two selections were travel reimbursements. We noted that the "Statement of Completed Travel" and supporting documents/receipts for both selections were not submitted within the 10-day deadline. The documents were submitted two and eight days past the 10-day deadline.

**Cause** — The lack of adequate monitoring of travel reports and follow-up on delinquent/missing reports.

**Recommendation** — Employees should be reminded of the SPO's Travel Policy at the time an employee's request for travel is approved, and the traveler's supervisor should follow up on all delinquent reports.

**Current Status of Corrective Action Plan** — Corrected.

**<u>2012-42 — Procurement — Competitive Purchases of Services (Significant Deficiency)</u>**
**State Department of Labor and Industrial Relations**

CFDA No. 81.042 and ARRA 81.042, Weatherization Assistance for Low-Income Persons
Direct Program from the U.S. Department of Energy (Awards EE0000176 and EE0000183)

**Condition** — During the course of our audit, we were unable to ascertain whether the five proposals received by the State DLIR were submitted before the specific deadline as the method of submission for each proposal was not noted.

**Cause** — The State DLIR maintains a log with the date the proposals were received; however, information relating to the submission method of each proposal was not maintained.

**Recommendation** — The internal controls over the maintenance of files and documents should be improved to strengthen controls over compliance with procurement policies.

**Current Status of Corrective Action Plan** — Corrected.

**<u>2012-43 — Reporting — Federal Reporting Accuracy (Significant Deficiency)</u>**
**State Department of Labor and Industrial Relations**

CFDA No. 81.042 and ARRA 81.042, Weatherization Assistance for Low-Income Persons
Direct Program from the U.S. Department of Energy (Awards EE0000176 and EE0000183)

**Condition** — During the course of our audit, we selected the Federal Form SF-425 for both non-ARRA and ARRA. In the course of performing our testing, we were unable to reconcile the reports to the Department's accounting records for the fiscal year.

We also tested two ARRA Section 1512 reports and noted that the report for the quarter ended June 30, 2012, contained an error relating to the reporting of total federal amount received/invoiced. The Department's accounting records and the Federal Ledger Sheets indicated total federal amount of ARRA funds received of $3,988,381, but $3,998,381 was reported on the ARRA 1512 report, resulting in an overstatement of $10,000 reported for the quarter ended June 30, 2012.

**Cause** — The lack of adequate supervisory review over the preparation of Federal Form SF-425 and ARRA Section 1512 reports resulted in errors being made in the preparation of reports.

**Recommendation** — Controls related to the supervisory review of reports should be improved. The Department should consider improving the design and implementation of reporting internal controls to ensure accuracy and completeness of data and information included in reports submitted to the Federal awarding agency.

**Current Status of Corrective Action Plan** — Corrected.

**<u>2012-44 — Subrecipient Monitoring — On-Site Reviews (Significant Deficiency)</u>**
**State Department of Labor and Industrial Relations**

CFDA No. 81.042 and ARRA 81.042, Weatherization Assistance for Low-Income Persons
Direct Program from the U.S. Department of Energy (Award EE0000176)

**Condition** — During the course of our audit, we noted that while the State DLIR performed on-site reviews of subrecipients for program performance, the required on-site fiscal reviews were not performed for three of the four programs' subrecipients. Also, for one of the program reviews, although the on-site review was performed, the report documenting the on-site program review could not be located. In addition, for another on-site program review, the State DLIR identified and issued a list of findings. However, the subrecipient did not submit a corrective action plan in response to the findings.

**Cause** — The on-site fiscal reviews were not performed mainly due to the lack of personnel and resources to perform the on-site program and fiscal monitoring processes.

**Recommendation** — Personnel who are responsible for the on-site monitoring should make a greater effort in ensuring that the on-site program and fiscal reviews of all subrecipients are performed at least once every year in accordance with the program proposal.

**Current Status of Corrective Action Plan** — Not corrected. On-site fiscal reviews were not completed for two subrecipients during fiscal year 2013.

### 2012-45 — Reporting — Federal Reporting Accuracy (Significant Deficiency)
### State Department of Budget and Finance

CFDA No. ARRA 81.122, ARRA — Electricity Delivery and Energy Reliability, Research, Development, and Analysis
Direct Program from the U.S. Department of Energy (Award DE-OE00000172)

**Condition** — During our audit, we tested Federal Form SF-425 for two quarters in fiscal year 2012. We noted that the Department's accounting records did not agree to the cumulative expenditures reported per Federal Form SF-425, as of each quarter-end. Quarterly expenditures reported per Form SF-425 were overstated by $53,707 for the quarter ended March 31, 2012, and understated by $1,923 for the quarter ended June 30, 2012. Also, during our audit, we tested ARRA Section 1512 reports for two quarters in fiscal year 2012. We noted that the Department's accounting records did not agree to the cumulative expenditures reported per ARRA Section 1512 reports. Quarterly expenditures reported per ARRA Section 1512 report were overstated by $53,707 for the quarter ended March 31, 2012, and overstated by $1,903 for the quarter ended June 30, 2012.

**Cause** — The Department did not perform adequate supervisory review over the preparation of the Federal Form SF-425 and the ARRA Section 1512 reports, which allowed errors to be made in reporting of financial information.

**Recommendation** — Controls related to the preparation and review of the reports should be improved in order to ensure that financial information reported to the awarding agency is accurate and complete.

**Current Status of Corrective Action Plan** — Not repeated. The program ended in 2013.

### 2012-46 — Reporting — Untimely Submission of Reports (Significant Deficiency)
### State Department of Budget and Finance

CFDA No. 81.122, Electricity Delivery and Energy Reliability, Research, Development, and Analysis
Direct Program from the U.S. Department of Energy (Award DE-OE00000523)

**Condition** — During our audit, we examined the Task Summary Document, which was submitted after 12 months of the award date. The Task Summary Document was submitted on October 21, 2011, which was 20 days past the due date.

**Cause** — Individuals responsible for preparing the reports did not properly monitor the required deadline to submit the Task Summary Document.

**Recommendation** — Controls related to the preparation and review of the reports should be improved in order to ensure that required reports are submitted on a timely basis. The Department should consider implementing a tracking system of the required reports to remind the preparers of the due dates, and the reviewers of the reports should monitor the timeliness of their preparation and submission.

**Current Status of Corrective Action Plan** — Not repeated. The program ended in 2013.

**2012-47 — Cash Management (Significant Deficiency)**
**State Department of Business, Economic Development and Tourism**

CFDA No. ARRA 81.128, ARRA – Energy Efficiency and Conservation Block Grant Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000811)

**Condition** — During our audit, we examined 10 selections of cash advances and identified two instances in which the number of days elapsed between the Federal fund advances and Federal fund expenditures exceeded 30 days. As a result, the State may also be accountable for interest earned on advances when the State does not minimize the time elapsed between the transfer of the funds from the U.S. Department of the Treasury and the disbursement.

**Cause** — There was a lack of monitoring to ensure that Federal funds are disbursed on a timely basis.

**Recommendation** — The communications process over Federal grant compliance should be improved. The Department should consider improving the design and implementation of cash management internal controls, to minimize the time lag between Federal fund drawdown and disbursement in accordance with 31 CFR Section 205.33.

**Current Status of Corrective Action Plan** — Corrected.

**2012-48 — Equipment and Real Property Management — Acquisitions Not Recorded in FAIS (Significant Deficiency)**
**State Department of Business, Economic Development and Tourism**

CFDA No. ARRA 81.128, ARRA — Energy Efficiency and Conservation Block Grant Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000811)

**Condition** — During our audit, we examined two equipment purchases, noting that one of the two equipment purchases was not reported in the calendar quarter that the equipment was received. We noted that two desktop computers, two monitors, two APC backups, and a laptop carrying case were purchased, of which none were reported in FAIS, and no Form 17A was completed.

**Cause** — There was a lack of monitoring to ensure that newly acquired property is entered into the FAIS.

**Recommendation** — The Department should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for management and disposition of equipment. The Department should consider establishing a monitoring process in order to ensure that newly acquired property is entered into the FAIS on a timely basis.

**Current Status of Corrective Action Plan** — Not corrected.

**<u>2012-49 — Reporting — Federal Reporting Accuracy (Significant Deficiency)</u>**
**State Department of Business, Economic Development and Tourism**

CFDA No. ARRA 81.128, ARRA — Energy Efficiency and Conservation Block Grant Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000811)

**Condition** — During our audit, we tested ARRA Section 1512 reports for all four quarters in fiscal year 2012. We noted that the Department's accounting records did not agree to the cumulative expenditures reported per ARRA Section 1512 report for the quarter ended December 31, 2011. Quarterly expenditures reported per ARRA Section 1512 report were overstated by $7,550 for the quarter ended December 31, 2011.

**Cause** — The Department did not perform adequate supervisory review over the preparation of ARRA Section 1512 reports due to lack of personnel, which allowed errors to be made in reporting of financial information.

**Recommendation** — Controls related to the preparation and review of the reports should be improved in order to ensure that financial information reported to the awarding agency is accurate and complete.

**Current Status of Corrective Action Plan** — Not corrected.

**<u>2012-50 — Reporting — Inappropriate Accounting Basis Reported (Significant Deficiency)</u>**
**State Department of Business, Economic Development and Tourism**

CFDA No. ARRA 81.128, ARRA — Energy Efficiency and Conservation Block Grant Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000811)

**Condition** — During our audit, we examined four quarterly Form SF-425 reports and noted that one out of four reports inappropriately identified the "Basis of Accounting" as "Accrual." The financial information included in the quarterly Form SF-425 reports is reported on a "Cash" basis.

**Cause** — Individuals responsible for preparing and reviewing the reports did not have the appropriate understanding of the accounting basis used by the Department for reporting purposes.

**Recommendation** — Responsible individuals should be appropriately trained to prepare the required reports. Controls related to the preparation and review of the reports should be improved in order to ensure the accuracy of the financial information reported to the awarding agency.

**Current Status of Corrective Action Plan** — Corrected.

**<u>2012-51 — Allowable Costs (Significant Deficiency)</u>**
**State Department of Defense**

CFDA No. ARRA 84.397A, ARRA — State Fiscal Stabilization Fund – Government Services
Direct Program from the U.S. Department of Education (Award S397A090012)

**Condition** — We tested a total of eight expenditure selections and noted that one of the eight selections in the amount of $2,937 did not have sufficient supporting documentation provided to support the expenditure.

**Cause** — Responsible employees did not maintain proper supporting documentation for the expenditure.

**Recommendation** — DOD should improve the procedures surrounding recording and maintaining backup documents in order to keep complete and proper supporting documentation for all expenditures.

**Current Status of Corrective Action Plan** — Not repeated. The program ended in fiscal year 2012.

## 2012-52 — Reporting — Inaccurate Total Expenditures in Final Report (Significant Deficiency)
**State Department of Defense**

CFDA No. ARRA 84.397A, ARRA — State Fiscal Stabilization Fund — Government Services
Direct Program from the U.S. Department of Education (Award S397A090012)

**Condition** — During our testing of the reporting requirements, we noted the entity submitted one report on September 30, 2011, summarizing the expenditures of SFSF Part B funds, its objectives, goals attained, and student participation data to satisfy both the September 30, 2011 and March 31, 2012, reporting requirements for the STEM program.

Although the qualitative aspects of the report relating to program achievements, student data, and goals achieved were reported accurately and completely as of the end of the STEM program, the total expenditures reported were not the final amounts per the amounts reported in the FAMIS detail of expenditures. As such, the report submitted met the requirements of the September 30, 2011, reporting requirement, but did not meet all of the criteria specified in the MOA for the March 31, 2012, final reporting requirement, as it did not accurately summarize total expenditures for the program.

**Cause** — Personnel responsible for the program believed that the submission of the September 30, 2011, status report was sufficient to meet the requirements of the March 31, 2012, final report requirements as they did not receive any communications to the contrary.

**Recommendation** — The State DOD should implement procedures to ensure that requirements detailed within the MOA are strictly adhered to.

**Current Status of Corrective Action Plan** — Not repeated. The program ended in fiscal year 2012.

## 2012-53 — Cash Management — Treasury-State Agreement (Material Weakness)
**Governor's Office**

CFDA No. ARRA 84.410A, ARRA — Education Jobs Fund
Direct Program from the U.S. Department of Education (Award S410A100012)

**Condition** — During the course of the audit, we obtained the Treasury-State Agreement between the State and the U.S. Department of the Treasury and noted that it was valid through June 30, 2011. The Treasury-State Agreement states that it shall be amended at least annually to incorporate new programs that qualify as major Federal assistance programs or remove programs that no longer qualify as major Federal assistance programs. Further, the Treasury-State Agreement indicates that the State must notify the U.S. Department of the Treasury within 30 days should there be any changes in funding techniques and/or clearance patterns. The notification must include a proposed amendment for review by the U.S. Department of Treasury. As the most recent version of the Treasury-State Agreement covered the period from July 1, 2010 to June 30, 2011, there was no Treasury-State Agreement that covered the State's fiscal year 2012.

**Cause** — The job position responsible for updating the Treasury-State Agreement was vacant for approximately two years due to a restriction on filling the vacant Accountant IV position, and the responsibility for the Treasury-State Agreement was assigned to personnel who worked within the Treasury Branch during the vacancy period. The Accountant IV position was filled in September 2011, but no priority was made to ensure that the Treasury-State Agreement was updated or put into place in a timely manner.

**Recommendation** — As the Accountant IV position has been filled, the State should implement procedures to ensure that the Treasury-State Agreement is executed in a timely manner, and the State should continue open communications with the U.S. Department of the Treasury in bringing the Treasury-State Agreement current.

**Current Status of Corrective Action Plan** — Not repeated for CFDA No. ARRA 84.410A, *ARRA — Education Jobs Fund*, as it did not meet the threshold to be covered under Treasury-State Agreement for 2013. However, there continues to be no Treasury-State Agreement in effect for fiscal year 2013. Refer to current year findings at 2013-015 and 2013-035 for other awards meeting the 2013 Treasury-State Agreement threshold.

## 2012-54 — Allowable Costs — Payroll Certifications (Significant Deficiency)
## State Department of Defense

CFDA No. 93.558, Temporary Assistance for Needy Families
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125 SA 1)

**Condition** — We noted that payroll certifications were not completed for employees who solely worked on a single Federal award. During our testing procedures, we selected one employee who was required to complete a payroll certification. We noted that the required certification was not completed for the one employee tested.

**Cause** — The employees did not place a priority on preparing the required certifications and their supervisors did not adequately monitor their compliance with this requirement.

**Recommendation** — The State DOD should create semiannual payroll certifications for employees who work solely on one award, as required by OMB Circular A-87.

**Current Status of Corrective Action Plan** — Not repeated. The program ended in fiscal year 2012.

## 2012-55 — Cash Management (Material Weakness)
## State Department of Defense

CFDA No. 93.558, Temporary Assistance for Needy Families
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125 SA 1)

**Condition** — During our audit, we examined 19 selections of cash advances/reimbursements and were unable to attain internal monitoring support for the details of the transfer of money from the State Department of Health Services (DHS) to the State DOD. We, therefore, were unable to determine if the cash advance from the State DHS was within 30 days of the cash outlays, to determine whether the cash was disbursed in a timely manner. As a result, the State may also be accountable for interest earned on advances when the State does not minimize the time elapsed between the transfer of the funds from the U.S. Department of the Treasury and the disbursement.

**Cause** — State DOD fiscal and program personnel did not track cash advances to monitor cash management requirements.

**Recommendation** — The State DOD should correctly track cash advances in order to properly monitor compliance with cash management requirements. The State DOD should consider improving the design and implementation of cash management internal controls in order to minimize the time lag between federal fund drawdown and disbursement in accordance with 31 CFR Section 205.33.

**Current Status of Corrective Action Plan** — Not repeated. The program ended in fiscal year 2012.

### 2012-56 — Period of Availability (Significant Deficiency)
### State Department of Defense

CFDA No. 93.558, Temporary Assistance for Needy Families
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125 SA 1)

**Condition** — During our audit, we examined 19 selections for compliance with period of availability requirements and noted two instances of noncompliance. According to the grant documentation, contracts for all TANF programs were terminated as of June 30, 2011. However, we noted that these two expenditures totaling $10,371 related to the period after June 30, 2011, which was outside the period of availability.

**Cause** — The State used TANF funds to pay for the expenditures not within the period of availability instead of using State funding.

**Recommendation** — The communications process over Federal grant compliance with the period of availability should be improved. The State DOD should improve the design and implementation to communicate the period of availability of funds in order to ensure proper cutoff of expenditures at the end of a grant.

**Current Status of Corrective Action Plan** — Not repeated. The program ended in fiscal year 2012.

### 2012-57 — Cash Management (Significant Deficiency)
### State Department of Labor and Industrial Relations

CFDA No. 93.569, Community Services Block Grant
Direct Program from the U.S. Department of Health and Human Services (Award G12B1HICOSR)

**Condition** — During our audit, we examined 25 selections of cash advances and identified one instance in which the number of days elapsed between the federal cash advances and federal fund expenditures date exceeded 30 days (the expenditure was paid out after 31 days). As a result, the State may also be accountable for interest earned on advances when the State does not minimize the time elapsed between the transfer of the funds from the U.S. Department of the Treasury and the disbursement.

**Cause** — The lag in disbursing the funds timely was due to the lack of resources and controls to ensure that federal funds are disbursed in a timely basis.

**Recommendation** — The communications process over federal grant compliance should be improved. The Department should consider improving the design and implementation of cash management internal controls to minimize the time lag between federal fund drawdown and disbursement in accordance with 31 CFR Section 205.33.

**Current Status of Corrective Action Plan** — Corrected.

## 2012-58 — Reporting — Untimely Submission of Reports (Significant Deficiency)
## State Department of Labor and Industrial Relations

CFDA No. 93.569, Community Services Block Grant
Direct Program from the U.S. Department of Health and Human Services (Award G12B1HICOSR)

**Condition** — During the course of our audit, we examined the annual financial status report for the year ended September 30, 2011, and noted that the report was not filed before the deadline. The form was filed on January 31, 2012, which was one day past the deadline.

**Cause** — A misunderstanding of the deadline resulted in the untimely submission. The report was believed to be due by the end of the month (of January). However, the deadline was one day earlier than the end of the month (due on the 30th rather than the 31st).

**Recommendation** — Controls related to the preparation and the supervisory review of the forms should be improved. A tracking system of the reporting requirements should be developed to remind the preparers of the due dates and the reviewers of the forms should monitor the timeliness of their preparation and submission.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-048.

## 2012-59 — Reporting — Expenditure Reporting Form (Significant Deficiency)
## State Department of Labor and Industrial Relations

CFDA No. 93.569, Community Services Block Grant
Direct Program from the U.S. Department of Health and Human Services (Award G12B1HICOSR)

**Condition** — During the course of our audit, we examined the program's annual report for the year ended September 30, 2012. We noted the expenditures for the period were reported on the Form SF-269, rather than the Form SF-425. In addition, no waiver for the Department's use of Form SF-269 was obtained.

**Cause** — Program management was told that the use of Form SF-269 was still acceptable and was still being accepted by the U.S. Department of Health and Human Services.

**Recommendation** — Utilize Form SF-425 for future expenditure reporting.

**Current Status of Corrective Action Plan** — Corrected.

## 2012-60 — Subrecipient Monitoring — On-Site Reviews (Significant Deficiency)
## State Department of Labor and Industrial Relations

CFDA No. 93.569, Community Services Block Grant
Direct Program from the U.S. Department of Health and Human Services (Award G12B1HICOSR)

**Condition** — We noted that while the State DLIR monitored the subrecipients by communicating via telephone and e-mail frequently, a physical on-site review was not performed for a particular subrecipient within the past three years as required by the program proposal. The last on-site review for this subrecipient was in April 2009; therefore, another on-site review should have been performed by April 2012. However, an on-site review has not yet taken place.

**Cause** — The on-site reviews were mainly due to the lack of personnel and resources to perform the on-site/fiscal monitoring process.

**Recommendation** — Personnel who are responsible for the on-site monitoring should make a greater effort in ensuring that the on-site reviews of all subrecipients are performed at least once every three years in accordance with the program proposal.

**Current Status of Corrective Action Plan** — Corrected.

### 2012-61 — Subrecipient Monitoring — Management Decision (Significant Deficiency)
### State Department of Labor and Industrial Relations

CFDA No. 93.569, Community Services Block Grant
Direct Program from the U.S. Department of HHS (Award G12B1HICOSR)

**Condition** — We examined the single audit report as of September 30, 2011, for one of the Department's subrecipients. The single audit report included the following findings: (1) there was a material weakness in the accounting for Federal awards whereby a schedule of Federal awards was not prepared by management, (2) there was a material weakness relating to the lack of management oversight of grant accounting, and (3) there existed noncompliance with Federal grant reporting requirements. The single audit report was not filed by the required deadline.

As mentioned above, the Department is required to issue a management decision on the subrecipient's audit findings within six months after the receipt of the audit report. However, the Department has not yet issued any management decision on the above findings.

**Cause** — The program specialist indicated that no management decision was issued on the subrecipient's 2011 single audit report findings because the subrecipient has not yet corrected its 2009 single audit findings. Because some of the 2009 findings were carried over to 2010 and 2011, management did not believe it was cost effective to issue a management decision on the same situation.

**Recommendation** — The Department should comply with the requirements of OMB Circular A-133 and issue a management decision on the subrecipient's 2011 single audit report findings.

**Current Status of Corrective Action Plan** — Corrected.

### 2012-62 — Allowable Costs — Payroll Certifications (Significant Deficiency)
### State Department of Defense

CFDA No. 97.036, Disaster Grants — Public Assistance (Presidentially Declared Disasters)
Direct Program from the U.S. Department of Homeland Security (Awards FEMA-1664-DR-HI, FEMA-1814-DR-HI, FEMA-1967-DR-HI, and FEMA-1147-DR-HI)

**Condition** — We noted that payroll certifications were not completed for employees who solely worked on a single Federal award. During our testing procedures, we selected eight employees who were required to complete a payroll certification. We noted that the required certifications were not completed for eight of the eight employees tested.

**Cause** — The employees did not place a priority on preparing the required certifications and their supervisors did not adequately monitor their compliance with this requirement.

**Recommendation** — The State DOD should create semiannual payroll certifications for employees who work solely on one award, as required by OMB Circular A-87.

**Current Status of Corrective Action Plan** — Corrected.

**2012-63 — Cash Management (Significant Deficiency)**
**State Department of Defense**

CFDA No. 97.036, Disaster Grants — Public Assistance (Presidentially Declared Disasters)
Direct Program from the U.S. Department of Homeland Security (Award FEMA-1147-DR-HI)

**Condition** — During our audit, we examined nine selections of cash advances and identified one instance where the number of days elapsed between the Federal cash advances and the Federal fund expenditures date exceeded 30 days. As a result, the State may also be accountable for interest earned on advances when the State does not minimize the time elapsed between the transfer of the funds from the U.S. Department of the Treasury and the disbursement.

**Cause** — State personnel were unaware of the cash management requirement dates and, therefore, were untimely.

**Recommendation** — The communications process over Federal grant compliance should be improved. The Department should consider improving the design and implementation of cash management internal controls to minimize the time lag between Federal fund drawdown and disbursement in accordance with 31 CFR Section 205.33.

**Current Status of Corrective Action Plan** — Corrected.

**2012-64 — Subrecipient Monitoring (Significant Deficiency)**
**State Department of Defense**

CFDA No. 97.036, Disaster Grants — Public Assistance (Presidentially Declared Disasters)
Direct Program from the U.S. Department of Homeland Security (Awards FEMA-1743-DR-HI, FEMA-1664-DR-HI, FEMA-1640-DR-HI, FEMA-1814-DR-HI, FEMA-1575-DR-HI, FEMA-1967-DR-HI, FEMA-1147-DR-HI, and FEMA-4062-DR-HI)

**Condition** — During the course of our audit, we noted that no one within the State DOD actively monitors or reviews the subrecipient compliance reports.

**Cause** — The State DOD lacks personnel to monitor compliance with this requirement. The State Civil Defense office assumed reports were reviewed by the DOD fiscal office, which did not have the personnel resources to monitor this compliance requirement.

**Recommendation** — The State DOD should obtain and review the subrecipient single audit reports on a timely basis for those subrecipients receiving in excess of $500,000 in federal funding to appropriately monitor subrecipients' compliance with audit requirements.

**Current Status of Corrective Action Plan** — Corrected.

**2012-65 — Allowable Costs — Payroll Certifications (Significant Deficiency)**
**State Department of Defense**

CFDA No. 97.042, Emergency Management Performance Grants
Direct Program from the U.S. Department of Homeland Security (Awards 2009-EP-T9-0032, 2010-EP-E0-0042, and EMW-2011-EP-00072-S01)

**Condition** — We noted that payroll certifications were not completed for employees who solely worked on a single Federal award for the period from July 1, 2011 through December 31, 2011. During our testing procedures, we selected eight employees who were required to complete a payroll certification. We noted that the required certifications were not completed for five of the eight employees tested during the period noted above.

**Cause** — Supervisory personnel were not aware of the requirement to prepare payroll certifications for employees working solely on a single federal award.

**Recommendation** — The State DOD should create semiannual payroll certifications for employees who work solely on one award, as required by OMB Circular A-87.

**Current Status of Corrective Action Plan** — Corrected.

**2012-66 — Allowable Cost (Significant Deficiency)**
**State Department of Defense**

CFDA No. 97.042, Emergency Management Performance Grants
Direct Program from the U.S. Department of Homeland Security (Awards 2009-EP-T9-0032, 2010-EP-E0-0042, and EMW-2011-EP-00072-S01)

**Condition** — While performing the reconciliation between the State's SEFA and the State DOD FAMIS details, we noted that an expenditure in the amount of $343 related to the Interoperable Communications Grant Program (CFDA No. 97.055) was inappropriately paid with funding from CFDA No. 97.042 (Emergency Management Performance Grants) program. The expenditure should have been paid with the Interoperable Communications Grant Program funding (CFDA No. 97.055).

**Cause** — Fiscal accountants responsible for recording the cash disbursement incorrectly charged the wrong program for the expenditure.

**Recommendation** — The State DOD should implement a process that involves a more thorough review of expenditure drawdowns to ensure that the correct Federal program is paying for the appropriate expenditures.

**Current Status of Corrective Action Plan** — Corrected.

**2012-67 — Reporting — Incorrect Format for Quarterly Progress Reports (Significant Deficiency)**
**State Department of Defense**

CFDA No. 97.042, Emergency Management Performance Grants
Direct Program from the U.S. Department of Homeland Security (Awards 2009-EP-T9-0032, 2010-EP-E0-0042, and EMW-2011-EP-00072-S01)

**Condition** — The State submitted the "Hawaii State Civil Defense Strategic Plan" to satisfy the requirement of quarterly progress reports under the EMPG program, but the quarterly progress reports were not submitted in the appropriate format per the grant guidance for fiscal year 2012.

**Cause** — In the prior years, the "Hawaii State Civil Defense Strategic Plan," a report that encompasses a number of programs at DOD, including EMPG, was submitted to and accepted by FEMA to satisfy the quarterly progress report requirement and was never penalized by FEMA.

**Recommendation** — DOD should submit quarterly progress reports in the required format per the grant guidance using Form SF-PPR.

**Current Status of Corrective Action Plan** — Corrected.

**2012-68 — Allowable Costs — Payroll Funded by an Incorrect Grant (Significant Deficiency)**
**State Department of Defense**

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2008GET8002)

**Condition** — During the period from January 2012 to May 2012, one employee who worked on the Public Assistance Disasters Program (CFDA No. 97.036) was 100% funded by the Homeland Security Grant Program (CFDA No. 97.067). As such, $25,153 was inappropriately funded by the Homeland Security Grant Program.

**Cause** — The State had a sudden change in administration and did not update the employee status on a timely basis.

**Recommendation** — The State should ensure that payroll changes are made on a timely basis by monitoring and reviewing the payroll periodically.

**Current Status of Corrective Action Plan** — Corrected.

**2012-69 — Allowable Costs — Payroll Certifications (Significant Deficiency)**
**State Department of Defense**

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2008GET80022)

**Condition** — We noted that payroll certifications were not completed for employees who worked on multiple programs throughout the fiscal year. During our testing procedures, we selected four employees who were required to complete a payroll certification. We noted that the required monthly certifications were not completed for four of the four employees tested.

**Cause** — Supervisory personnel were not clear of the requirement to prepare personnel activity reports for employees working on multiple activities. The State Civil Defense office submits an application to the FEMA for reimbursement of projects related to the Homeland Security Grants, which details days and hours worked, salary paid, and fringe benefit rates of employees whose labor contributed to the projects. However, there is no monthly certified statement by a supervisory employee to assert that the employee's time was spent accordingly.

**Recommendation** — The State DOD should create monthly payroll certifications for employees who work on multiple awards, as required by OMB Circular A-87.

**Current Status of Corrective Action Plan** — Corrected.

## 2012-70 — Equipment and Real Property Management (Significant Deficiency)
## State Department of Defense

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2008GET80022)

**Condition** — We tested four of 10 equipment purchases funded by the grant during the year and noted that one of the additions was not recorded in the calendar quarter that the equipment was received, but it was recorded in the subsequent quarter.

**Cause** — Due to personnel changes, the department was unable to record the equipment purchased under the grant on a timely basis.

**Recommendation** — Personnel who are responsible for the equipment records should make a greater effort in ensuring that the records are adequately maintained and updated on a timely basis.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-054.

## 2012-71 — Procurement — Statement of Completed Travel (Significant Deficiency)
## State Department of Defense

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2008GET80022)

**Condition** — During the course of the audit, we tested disbursements throughout fiscal year 2012 for compliance with the State's Procurement Policy, including travel reimbursements. We noted an instance of a violation for an E-ticket purchased in which a receipt was issued on January 10, 2012, but the travel approval form was authorized subsequent to the purchase on January 11, 2012.

We also noted an instance where a trip was taken on May 23, 2011. The traveler submitted a receipt for the purchase of the airline ticket in the amount of $194. The related statement of completed travel was submitted within the 10-day requirement, however the boarding pass was not submitted with the documentation. Without a boarding pass, there is no proof that the traveler actually traveled on the airline and flight number indicated on the itinerary.

**Cause** — There was a lack of adequate supervisory review of the required documentation accompanying travel reimbursement.

**Recommendation** — State travel procedures should be properly communicated to travelers to ensure that the State procurement travel policies are followed when making travel arrangements. Internal controls over the review of travel reimbursements should be improved to ensure that only authorized travel expenditures are approved. If a boarding pass is misplaced, the individual should be asked to submit in its place a certified statement that they did board the plane prior to the approval of the reimbursement.

**Current Status of Corrective Action Plan** — Corrected.

## 2012-72 — Reporting — Untimely Submission of Reports (Significant Deficiency)
## State Department of Defense

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Awards 2011-SS-10129-S01 and 2007GET70015)

**Condition** — During the course of our audit, we examined the ISIP submittal confirmation for the program year 2011 award and noted that the ISIP was not submitted within 45 days of the receipt of funds. The award date was October 7, 2011, and the ISIP was filed 314 days past the deadline. We examined the final BSIR submittal confirmation for the program year 2007 award and noted that the BSIR was not submitted within 90 days after the grant closed. The award end date was December 31, 2011, and the BSIR was filed 257 days past the deadline.

**Cause** — After funds are obligated to each subrecipient through MOAs, an initial attempt to submit the ISIP for the program year 2011 award was done, but was not submitted accurately due to a limitation of the number of investments able to be submitted when loading the investment justification package. Only 15 investments are allowed, but 17 investments were submitted. Management was not aware that the ISIP was not properly submitted. The final BSIR for the program year 2007 award was late due to a system problem where it required the urban area strategy, which was deactivated since the City and County of Honolulu was no longer considered as an Urban Areas Security Initiative. DHS intervention was required to correct the problem in order to submit and approve the BSIR.

**Recommendation** — Responsible individuals should have the proper knowledge of the system used to upload the required reports and a review process should be established to ensure the proper submission of reports on a timely basis.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-056.

## 2012-73 — Reporting — Federal Transparency Act (Material Weakness)
## State Department of Defense

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2011-SS-10129-S01)

**Condition** — The Homeland Security Grant is subject to the Transparency Act requirement. During the course of our audit, we noted that no action or procedures were taken to comply with the Transparency Act requirement during fiscal year 2012.

**Cause** — Management did not make any effort to meet the requirements of the Transparency Act during fiscal year 2012.

**Recommendation** — There should be clear procedures in place to ensure that the required Transparency Act requirements are met.

**Current Status of Corrective Action Plan** — Repeated. Refer to current year finding at 2013-055.

**2012-74 — Subrecipient Monitoring (Significant Deficiency)**
**State Department of Defense**

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Awards 2010SST0006 and 2011-SS-10129-S01)

**Condition** — We noted one subaward was made on October 26, 2011, for which a DUNS number was not obtained from the subrecipient prior to issuing the subaward.

**Cause** — Program personnel were unaware of this compliance requirement to obtain a DUNS number from a subrecipient for subawards made on or after October 1, 2010.

**Recommendation** — A procedure should be established to ensure that a DUNS number is obtained from subrecipients before a subaward is granted.

**Current Status of Corrective Action Plan** — Corrected.

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