



STATE OF HAWAI'I
DEPARTMENT OF BUDGET AND FINANCE
FINANCIAL ADMINISTRATION DIVISION

Count of Money and Securities in the State Treasury
June 30, 2016

STATE OF HAWAI'I
DEPARTMENT OF BUDGET AND FINANCE
FINANCIAL ADMINISTRATION DIVISION

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SECTION I

COMPTROLLER'S REPORT

DAVID Y. IGE
GOVERNOR



RODERICK K. BECKER
Comptroller

AUDREY HIDANO
Deputy Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

P.O. BOX 119, HONOLULU, HAWAII 96810-0119

December 29, 2016

The Honorable David Ige
Governor of Hawai'i
State Capitol
Honolulu, Hawai'i 96813

Dear Governor Ige:

The Department of Accounting and General Services (DAGS) counted the money and securities in the State Treasury as of June 30, 2016, in accordance with the provisions of Sections 40-7 and 40-8 of the Hawai'i Revised Statutes.

The statutes provide that the Comptroller shall count the money and securities in the State Treasury once in each fiscal year and prepare statements for filing with the Governor and the Director of Finance showing: (1) the amount of money actually in the treasury reconciled with the amount of money as shown by the Comptroller's records (unaudited); (2) the amount of securities owned by the State in the treasury reconciled with the amount of securities as shown by the Comptroller's records (unaudited); and (3) the amount of the depository securities actually in the treasury as compared with the amount of cash deposited in the respective banks (depositories) provided that the sufficiency of these deposits shall not be made a part of the examination.

DAGS planned and performed the count to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. DAGS believes the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

DAGS appreciates the courtesies extended to us by Administrator, Mr. Scott Kami, and the staff of the Financial Administration Division, Department of Budget and Finance. If you have any questions on the report, please call me at 586-0400.

Sincerely,

RODERICK K. BECKER
Comptroller

2016 COUNT OF MONEY AND SECURITIES IN THE STATE TREASURY

OBJECTIVES

The Department of Accounting and General Services, Audit Division, conducted a count of the money and securities in the treasury of the State of Hawai'i, Department of Budget and Finance, Financial Administration Division, as of June 30, 2016, in accordance with the provisions of Sections 40-7 and 40-8 of the Hawai'i Revised Statutes (HRS). The objectives were:

1. To count the money and securities in the State Treasury as of June 30, 2016.
2. To prepare statements showing:
 - a. The amount of money actually in the treasury reconciled with the amount of money as shown by the Comptroller's records (unaudited);
 - b. The amount of securities owned by the State in the treasury reconciled with the amount of securities as shown by the Comptroller's records (unaudited); and
 - c. The amount of the depository securities actually in the treasury as compared with the amount of cash deposited in the respective banks (depositories) provided that the sufficiency of these deposits shall not be made a part of the examination.

Authorization of the Count

Authority to conduct this count resides in Sections 40-7 and 40-8, HRS, which state that the Comptroller shall report annually to the Governor the amount of money and securities in the State Treasury. This count is part of the Audit Division's 2016-2017 Audit Plan.

SCOPE AND METHODOLOGY

The scope of the count was: (1) to count the money and securities in the State Treasury as of June 30, 2016 and (2) to prepare financial statements as of June 30, 2016, in accordance with the provisions of Sections 40-7 and 40-8, HRS. The money and securities in the State Treasury are presented in the following statements prepared from the Division's accounting records:

Statement of Cash Balances and Depository Securities
in the State Treasury

Statement of Reconciliation of Money and Securities in the
State Treasury with the Comptroller's Records (unaudited)

We planned and performed the count to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives.

2016 COUNT OF MONEY AND SECURITIES IN THE STATE TREASURY

The methodology was to gain an understanding of the cash and investments' year-end procedures and document the year-end procedures and internal controls related to the process. The Audit Division's staff familiarized themselves with the related State statutes, the Division's written cash and investment policies and procedures, interviewed appropriate personnel and documented their understanding of the established year-end accounting procedures and internal controls in place as of June 30, 2016 as a basis for designing procedures that were appropriate under the circumstances.

RESULTS

Below are the results of our audit:

Objective No. 1: Count the money and securities in the State Treasury as of June 30, 2016.

Results: The money and securities balances were confirmed with the respective depositories and reconciled with the Division's balances as of June 30, 2016.

Conclusion: The money and securities in the State Treasury as of June 30, 2016 were counted as required by statute.

Objective No. 2: Prepare statements as of June 30, 2016 showing: (1) the amount of money actually in the treasury, reconciled with the amount of money as shown by the Comptroller's records (unaudited); (2) the amount of securities owned by the State, in the treasury, reconciled with the amount of securities as shown by the Comptroller's records (unaudited); and (3) the amount of the depository securities actually in the treasury as compared with the amount of cash deposited in the respective banks (depositories) provided that the sufficiency of these deposits shall not be made a part of the examination.

Results: The following statements were prepared.

- The Statement of Cash Balances and Depository Securities in the State Treasury was prepared to report the cash balances in the Division's records.
- The Statement of Reconciliation of Money and Securities in the State Treasury with the Comptroller's Records (unaudited) was prepared.

Conclusion:

- The cash balances and par value of depository securities in the State Treasury reported in the Statement of Cash Balances and Depository Securities in the State Treasury are fairly stated in accordance with the accounting policies of the Division.
- The Statement of Reconciliation of Money and Securities in the State Treasury with the Comptroller's Records (unaudited) was prepared to report the amount of money in

2016 COUNT OF MONEY AND SECURITIES IN THE STATE TREASURY

the treasury, reconciled with the amount of money as shown in the unaudited Comptroller's records. The reconciling items have been identified and recognized as proper reconciling items.

SECTION II
DETAILED FINDINGS AND
RECOMMENDATIONS

DETAILED FINDINGS AND RECOMMENDATIONS

2016-01 – INCORRECTLY PREPARED COLLATERAL REPORTS

Condition

The Division's "Report of Collateral Securities Pledged by Banks Pursuant to Section 38-3 of the Hawaii Revised Statutes" (Report OEH8C01R) from January 29, 2016 to June 30, 2016 used incorrect par value percentages, resulting in incorrect minimum collateral and excess collateral calculations. There were no instances where collateral values were below the amount of deposits as a result of these errors.

Cause

A possible cause for the error, as disclosed to us by Division personnel, was a computer system upgrade in January, 2016. Enterprise Technology Services and the Division made corrections on September 19, 2016. Based on our samples, there were no instances of errors noted after September 19, 2016.

Recommendation

We recommend that the preparer and the reviewer of the report review the calculations used in the preparation of future reports after software upgrades are implemented.

2016-02 – BANK WAS NOT REQUIRED TO PROVIDE COLLATERAL SECURITIES

Condition

Wells Fargo Bank (WFB) did not provide collateral securities during the fiscal year ended June 30, 2016, as required by Section 38-3, HRS. For ten months during the fiscal year ended June 30, 2016, total month-end bank balances exceeded the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. These excess balances were at risk.

Cause

Due to a failure to comply with established internal control procedures, there was no collateral agreement in place during the fiscal year ended June 30, 2016. The Division executed a Depository Pledge Agreement on July 26, 2016.

Recommendation

We recommend that the Division require a collateral agreement to be in place at the time of opening of any new bank account for which collateral is required by statute.

2016-03 – NO MONTHLY BANK RECONCILIATIONS

Condition

From July, 2015 through May, 2016, the Division did not prepare monthly bank reconciliations for the four bank accounts with WFB.

Cause

The Division did not prepare monthly bank reconciliations because these lock box accounts were monitored daily. Three of the WFB bank accounts' balances were transferred daily to the main State checking account. The fourth WFB bank account was monitored in the same manner except transfers were done weekly.

Recommendation

We recommend that the Division document its monitoring activities by preparing monthly bank reconciliations for all bank accounts.

STATUS OF PRIOR YEAR'S FINDING

2015-01 – UNRECORDED DEPOSITS

Condition

As of June 30, 2015, unrecorded deposits totaling \$141.7 million resulted from TDRs being prepared, processed and recorded within 30 to 60 days after the deposits had been made. As a result, deposits were made to the local banks but the Division did not record the cash into its cash book until it received the related TDR.

Status

The comment is no longer applicable. See current treatment under Significant Accounting Policies.

SECTION III
STATEMENTS

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
FINANCIAL ADMINISTRATION DIVISION

Statement of Cash Balances and Depository Securities in the State Treasury
June 30, 2016

	<u>Cash with Local Depositories</u>	<u>Securities</u>	<u>Others</u>	<u>Total</u>	<u>Depository Securities</u>
Balance per Division, June 30, 2016	\$186,625,765	5,941,505,354	501,475,325	6,629,606,444	2,556,027,181
Transactions subsequently processed by State departments and agencies	<u>27,172,285</u>	<u>-</u>	<u>3,250,329</u>	<u>30,422,614</u>	<u>-</u>
Balance per Division, as adjusted, June 30, 2016	<u>\$213,798,050</u>	<u>5,941,505,354</u>	<u>504,725,654</u>	<u>6,660,029,058</u>	<u>2,556,027,181</u>

Transactions subsequently processed by State departments and agencies are detailed below:

Net unrecorded transactions of \$27,172,285, which were composed of deposits totaling \$123,155,030 offset by disbursements and debit memos totaling \$88,314,317 and \$7,668,428, were recorded by local depositories as of June 30, 2016 but were recorded by the Division after June 30, 2016.

Net unrecorded transactions of \$3,250,329 were composed of deposits recorded by mainland depositories and the Secretary of the Treasury, U.S.A. as of June 30, 2016 but recorded by the Division after June 30, 2016.

The accompanying significant accounting policies are an integral part of this statement.

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
FINANCIAL ADMINISTRATION DIVISION

Statement of Reconciliation of Money and Securities in the State Treasury
with the Comptroller's Records
June 30, 2016

	Cash with Local Depositories	Securities	Others	Total
Amount in State Treasury as adjusted	\$ 213,798,050	5,941,505,354	504,725,654	6,660,029,058
Deposits in the State Treasury (as adjusted) not reported to Comptroller for recordation as of June 30, 2016	(123,155,030)	-	(464,809)	(123,619,839)
Deposits in the U.S. Treasury (as adjusted) not reported to Comptroller for recordation as of June 30, 2016	-	-	(2,785,520)	(2,785,520)
Deposits recorded by the Comptroller not recorded by the State Treasury as of June 30, 2016	<u>109,790,552</u>	<u>-</u>	<u>-</u>	<u>109,790,552</u>
Carried forward	<u>\$ 200,433,572</u>	<u>5,941,505,354</u>	<u>501,475,325</u>	<u>6,643,414,251</u>

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
FINANCIAL ADMINISTRATION DIVISION

Statement of Reconciliation of Money and Securities in the State Treasury
with the Comptroller's Records, Continued

	Cash with Local Depositories	Securities	Others	Total
Brought forward	\$ <u>200,433,572</u>	<u>5,941,505,354</u>	<u>501,475,325</u>	<u>6,643,414,251</u>
Disbursements and adjustments recorded by the State Treasury not recorded by the Comptroller as of June 30, 2016	1,137,485	-	-	1,137,485
Disbursements recorded by the State Treasury (as adjusted) not reported to the Comptroller for recording as of June 30, 2016	88,314,317	-	-	88,314,317
Disbursements and adjustments recorded by the Comptroller not recorded by the State Treasury as of June 30, 2016	(<u>66,738</u>)	-	-	(<u>66,738</u>)
Carried forward	\$ <u>289,818,636</u>	<u>5,941,505,354</u>	<u>501,475,325</u>	<u>6,732,799,315</u>

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
FINANCIAL ADMINISTRATION DIVISION

Statement of Reconciliation of Money and Securities in the State Treasury
with the Comptroller's Records, Continued

	Cash with Local <u>Depositories</u>	<u>Securities</u>	<u>Others</u>	<u>Total</u>
Brought forward	\$ <u>289,818,636</u>	<u>5,941,505,354</u>	<u>501,475,325</u>	<u>6,732,799,315</u>
Bank debits recorded by the State Treasury (as adjusted) not reported to the Comptroller for recordation as of June 30, 2016	7,668,428	-	-	7,668,428
Other adjustments and reclassifications as of June 30, 2016	<u>38,807</u>	-	-	<u>38,807</u>
Amount per Comptroller's Records - Unaudited	\$ <u>297,525,871</u>	<u>5,941,505,354</u>	<u>501,475,325</u>	<u>6,740,506,550</u>

The accompanying significant accounting policies are an integral part of this statement.

2016 COUNT OF MONEY AND SECURITIES IN THE STATE TREASURY

Significant Accounting Policies

The accompanying statements are presented on the cash basis of accounting. Under the cash basis of accounting, deposits and credits are recognized when received, disbursements and debits are recognized when paid or debited.

The accompanying financial statements present the amount of money and securities, except for those securities held in safekeeping for the County of Kauai and other government agencies, in the State Treasury of the State of Hawai'i, Department of Budget and Finance, Financial Administration Division (the Division), as of June 30, 2016, in accordance with the provisions of Sections 40-7 and 40-8, Hawai'i Revised Statutes (HRS).

Securities deposited by local depositories as protection for funds on deposit with them as required by Section 38-3, HRS, to the credit of the Director of Finance, State of Hawai'i, are valued at par value and the sufficiency of such deposits is not a part of the count required by Section 40-7, HRS.

Cash - Cash includes cash deposited with local depositories, cash with the Secretary of the Treasury, U.S.A. - Unemployment Trust Fund, cash with mainland depositories, and all time certificates of deposit. Major differences that normally occur between the Division's records or cash book and the balances reflected in the records and bank statements from local depositories are due to the accounting policies of the Accounting Division of the Department of Accounting and General Services (DAGS) and the Division. Such differences are summarized as follows:

Deposits - Deposits made to local depositories during the month are not recorded in the Division's cash book until the subsequent month in compliance with the accounting policies that require State departments and agencies to immediately deposit cash received directly into the State's local depositories. Departments and agencies then prepare a multi-copy, unnumbered Treasury Deposit Receipt (TDR) with the necessary information to record the cash received into the State's accounting system maintained by DAGS. The TDR, validated deposit slips and other supporting documents are then submitted to the Division for recording into the cash book maintained by the Division. Accordingly, there is a time lag between the date the deposit is made at the local depositories and the date the TDR is recorded in the Division's cash book. This time lag is a major contributing factor for the difference between the Division's cash book and the bank statements.

Disbursements – Disbursements or warrants that clear the local depositories at month-end are not recorded to the Division's cash book until the subsequent month. Because the Division does not receive the information until the next

2016 COUNT OF MONEY AND SECURITIES IN THE STATE TREASURY

business day, warrants that clear the local depositories at month-end are recorded by the Division as disbursements the next business day of the subsequent month.

Debit Memos - Debit memos recorded by local depositories during the month are not recorded immediately to the Division's cash book. The process to properly record debit memos requires the Division to notify the State departments and agencies for them to investigate and prepare adjustment vouchers for recording into the accounting systems maintained by DAGS and the Division's cash book.

Interest Income from the Secretary of the Treasury, U.S.A. - Fourth quarter interest income that is recorded by the Secretary of the Treasury, U.S.A. at fiscal year-end is recorded by the Division after June 30. The State Department of Labor and Industrial Relations (DLIR) retrieves and transmits the reports and information necessary for the Division to prepare the TDR. However, the necessary interest reports and information from the Secretary of the Treasury, U.S.A. are not available to DLIR until the subsequent month.

Investments – Investments include repurchase agreements, U.S. Treasury bonds and notes, and U.S. government securities which are carried at cost. Securities acquired by donation are carried at their fair market value at the date of donation.

Depository Securities – Section 38-3, HRS, states that for the protection of funds deposited under this chapter, securities shall be deposited with the Director of Finance, or with the State's fiscal agents in the name of the State. Funds deposited under this chapter include cash deposited, time certificates of deposit, and repurchase agreements with local depositories. Funds on deposit with First Foundation Bank were fully guaranteed by the Federal Deposit Insurance Corporation under various Federal programs so no depository securities were required to protect these funds. Cash with fiscal agents, brokers, and investments are funds deposited under Sections 39-13 and 36-21, HRS, and do not require collateral securities.

The following schedule shows the Division's unadjusted cash balances compared with the amount of depository securities in the respective banks as of June 30, 2016:

2016 COUNT OF MONEY AND SECURITIES IN THE STATE TREASURY

	Cash with Local Depositories	Securities	Others	Total	Depository Securities at Par Value
Cash deposited with local depositories:					
American Savings Bank, F. S. B. Bank of Hawai'i	190,860	54,489,775	-	54,680,635	63,946,275
Central Pacific Bank	125,323	217,905,695	-	218,031,018	333,399,697
First Foundation Bank	256,912	408,034,074	-	408,290,986	488,259,321
First Hawaiian Bank	-	10,000,000	-	10,000,000	-
Hawai'i National Bank	185,628,201	1,156,298,500	-	1,341,926,701	1,392,860,243
Territorial Savings Bank	171,017	70,727,741	-	70,898,758	74,744,104
	<u>253,452</u>	<u>108,000,000</u>	<u>-</u>	<u>108,253,452</u>	<u>134,377,285</u>
	<u>186,625,765</u>	<u>2,025,455,785</u>	<u>-</u>	<u>2,212,081,550</u>	<u>2,487,586,925</u>
Cash with mainland depository: Wells Fargo Bank	-	-	10,000	10,000	-
Cash with the Secretary of the Treasury, U.S.A. - Unemployment Trust Fund	-	-	501,465,325	501,465,325	-
Investments:					
U.S. Treasury bonds and notes	-	303,712,516	-	303,712,516	-
U.S. government securities	-	3,551,167,318	-	3,551,167,318	-
Repurchase agreements	-	61,169,735	-	61,169,735	68,440,256
	<u>-</u>	<u>3,916,049,569</u>	<u>-</u>	<u>3,916,049,569</u>	<u>68,440,256</u>
	<u>186,625,765</u>	<u>5,941,505,354</u>	<u>501,475,325</u>	<u>6,629,606,444</u>	<u>2,556,027,181</u>

Collateral Requirements

The Director of Finance, through the Division, is responsible for the safekeeping of all monies paid into the State Treasury. The Division 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. Allocation of investment earnings is based on 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, and repurchase agreements with federally-insured financial institutions.

Cash – Information relating to the bank balance, insurance, and collateral for cash deposits is determined on a statewide basis and not for individual departments or divisions. Total cash deposited with local depositories is 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. The cash deposited with the U.S. Department of the Treasury for the State's Unemployment Trust Fund is not collateralized and the cash balances held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations is uninsured and not collateralized. 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 Division requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. 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 depository securities for the protection of funds deposited with the American Savings Bank, Bank of Hawai'i, and First Hawaiian Bank, to the credit of the Director of Finance, State of Hawai'i, include certain securities deposited for the protection of repurchase agreements totaling \$27,067,450, \$4,102,285, and \$30,000,000, respectively. The State monitors the value of these securities and obtains additional collateral when appropriate.

No more than 60% of state funds may be deposited in any one depository under Section 38-2, HRS, unless the depository offers yields greater than those offered by other depositories in the State of Hawai'i. In order to maximize the yield on state funds, the Division, on occasion, deposits more than 60% of the aggregate amount of moneys available for deposit in the State Treasury in one depository when that depository offers higher yields than other depositories in the State of Hawai'i. The Attorney General, State of Hawai'i, has stated that the higher interest rate offered by that depository need not be materially higher to qualify under Section 38-2, HRS.

Investments – The Division holds investments both for the State and as an agent for other parties. The Division's investment of funds not required for immediate payments are predominantly comprised of U.S. government securities.

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

Credit Risk – The Division’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, money market funds, and student loan resource securities maintaining a Triple-A rating.

Custodial Risk – For an investment, custodial risk is a risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Division’s investments are held at a custodian bank.

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

SECTION IV
DIVISION'S RESPONSE

DAVID Y. IGE
GOVERNOR



WESLEY K. MACHIDA
DIRECTOR

LAUREL A. JOHNSTON
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

December 27, 2016

The Honorable Roderick Becker, Comptroller
Department of Accounting and General Services
State of Hawaii
P.O. Box 119
Honolulu, Hawaii 96810

Dear Mr. Becker:

We appreciate the opportunity to comment on the Audit Division's report, *Count of Money and Securities in the State Treasury, Department of Budget and Finance Financial Administration Division (FAD)*, as of June 30, 2016, issued in accordance with the provisions of Sections 40-7 and 40-8, HRS.

We would like to take this opportunity to provide our division's responses to the Detailed Findings, Recommendations described in Section II of the report. There are three new current year findings and no repeat findings in this year's audit report. As explained in the Significant Accounting Policies section of the report, the prior repeat finding regarding unrecorded deposits is no longer applicable.

The following outlines our plan to address the internal control finding noted in the report.

Issue 2016-01: Incorrectly prepared collateral reports

Background: ETS upgraded the CICS version (IBM program that provides user connectivity to mainframe where the collateral system resides) which somehow resulted in an older version of a part of the program which calculates the percentages applied to the collateral amounts pledged. The program was corrected in September 2016 upon notification from staff as a result of the audit work performed. FAD staff went back over the period and noted no instances of insufficient collateral, as the banks self-monitor their collateral positions daily.

Audit Recommendation: The preparer and the reviewer of the collateral report should review the calculations used after software upgrades are implemented.

B&F Response: Concur. FAD has since filled the Accountant position in its fiscal section, responsible for reviewing the collateral reports.

Issue 2016-02: Bank was not required to provide collateral securities

Background: The state contracted Wells Fargo Bank N.A. as a result of its banking services solicitation in 2015. Wells Fargo was contracted to cover existing agency lockbox services and process agency electronic (ACH) disbursements, effective with the start of 2016 fiscal year. The accounts set up at Wells Fargo Bank basically serve as pass-through accounts for the collection of lockbox deposits and for the processing of ACH payments; with balances transferred from and to the state's primary bank account at First Hawaiian Bank on a daily basis. The exception being the Department of Health's Emergency Medical Services lockbox account, which was the continuation of an ongoing agreement with their billing contractor that called for weekly transfers of balances into First Hawaiian Bank. Due to the "pass-through" nature of the accounts, the balances during the period for three of the four active bank accounts were covered under FDIC insurance. The bank was aware of the collateral requirement but failed to follow up executing the Depository Pledge Agreement transferring the EMS account under the Director of Finance.

Audit Recommendation: The division should require a collateral agreement to be in place at the time of opening of any new bank account for which collateral is required by statute.

B&F Response: A fully executed Depository Pledge Agreement under the Director of Finance, was completed in August 2016. It should be noted that the EMS account actually remained collateralized under the prior collateral agreement held with the Department of Health's Emergency Medical Services System during the interim until an agreement was executed with the Director of Finance. So any excess balance in that account was collateralized by the bank.

Issue 2016-03: No monthly bank reconciliations

Background: The state contracted Wells Fargo Bank N.A. as a result of its banking services solicitation in 2015. Wells Fargo was contracted to cover existing agency lockbox services and process agency electronic (ACH) disbursements, effective with the start of 2016 fiscal year. The accounts set up at Wells Fargo Bank basically serve as pass-through accounts for the collection of lockbox deposits and for the processing of ACH payments; with balances transferred from and to the state's primary bank account at First Hawaiian Bank on a daily basis. The exception being the Department of Health's Emergency Medical Services lockbox account, which was the continuation of an ongoing agreement with their billing contractor that called for weekly transfers of balances into First Hawaiian Bank. Because the Wells Fargo accounts are monitored daily by B&F treasury staff in order to do the transfers, any discrepancies would be noticed and resolved quickly.

Audit Recommendation: The Division should document its monitoring activities by preparing monthly bank reconciliations for all bank accounts.

B&F Response: FAD has formalized its reconciliation process and the documented monthly bank reconciliations have been done since June 2016.

Thank you for the opportunity to review and respond to your detailed findings and recommendations from the Count of Money and Securities in the State Treasury report for the fiscal year ended June 30, 2016.

Sincerely,



WESLEY K. MACHIDA
Director of Finance



SCOTT KAMI, Administrator
Financial Administration Division