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, 2012

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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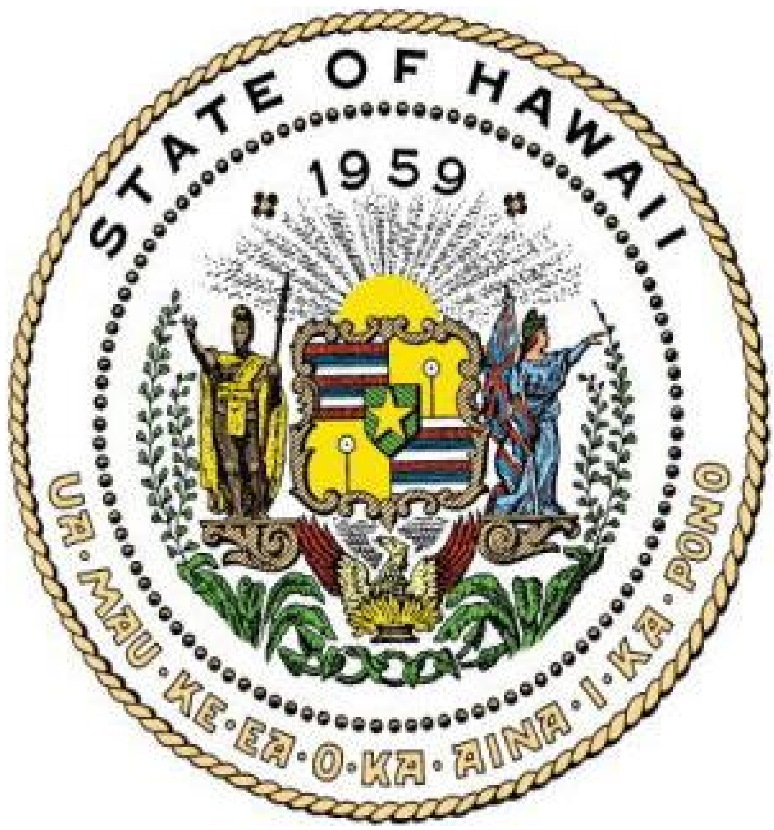
FOR THE FISCAL YEAR ENDED JUNE 30, 2012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INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii:

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, 2012, which collectively comprise the State of Hawaii's basic financial statements (pages 23–125) as listed in the accompanying table of contents. These financial statements are the responsibility of the State of Hawaii's management. 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	97	57
Aggregate Discretely Presented Component Units	100	100
Fiduciary Funds	54	6

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 includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective net assets or financial position of the governmental activities, business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2012, and the respective changes in financial position (and respective cash flows where applicable) thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2013, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4-21), Schedule of Revenue and Expenditures — Budget and Actual (pages 101-104 and 112-118), and Schedules of Funding Progress (page 105) 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.

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 108-111 and 119-125) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of the State of Hawaii's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic 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 by us and other auditors. In our opinion, the combining and individual fund statements and schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte + Touche LLP

January 23, 2013

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, 2012.

Financial Highlights

Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2012 by $4.5 billion (net assets). Unrestricted net assets which may be used to meet the State's ongoing obligations to citizens and creditors was a negative $1.7 billion, an increase of $59.5 million from the previous year. Net assets of governmental activities and business-type activities decreased by $529.9 million and increased by $163.5 million, respectively. The combined decrease to the State was $366.4 million from the prior fiscal year.

Fund Highlights

At June 30, 2012, the State's Governmental Funds reported combined ending fund balances of $1.4 billion, an increase of $698.4 million from the prior fiscal year. Of this amount, $807.4 million, or 55.7%, of total fund balances was in the General Fund, and the remaining $642.4 million represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net assets at June 30, 2012, of $3.2 billion, an increase of $163.5 million during the fiscal year.

Liabilities

The State's liabilities increased during the current fiscal year to $12.2 billion, an increase of $1.1 billion. During fiscal 2012, the State issued General Obligations bonds in the amount of $486.2 million to advance refund $512.5 million of previously issued outstanding General Obligation bonds. In addition, the State issued $800 million in General Obligation bonds for the purpose of financing capital projects. The Department of Transportation issued $5.1 million in Highways Revenue bonds to advance refund $5.4 million in previously issued outstanding Highways Revenue bonds and $112.3 million for the purpose of financing highways capital projects. The Department of Transportation issued $300.9 million in Airports Revenue bonds to advance refund $322.7 million in previously issued outstanding Airports Revenue bonds.

In accordance with GASB No. 45, the State increased the liability for *Postemployment Benefits Other Than Pension*, to $2.6 billion, an increase of $568.3 million for the fiscal year ended June 30, 2012.

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 assets presents information on all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 23–25 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 26–28 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 30–34 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 35 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 43–98 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 assets is a useful indicator of a government's financial position. For the State, total assets exceed liabilities by $4.5 billion as of June 30, 2012, and net assets decreased $366.4 million, or 7.5%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by $529.9 million, or 28.5%, and business-type activities had an increase of $163.5 million, or 5.4%. The following table was derived from the Government-Wide Statement of Net Assets.

Summary Schedule of Net Assets

June 30, 2012 and 2011
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	$ 3,001,480	$ 2,422,652	$ 2,369,460	$ 2,312,526	$ 5,370,940	$ 4,735,178
Capital assets, net	8,833,349	8,792,934	2,473,197	2,409,685	11,306,546	11,202,619
Total assets	11,834,829	11,215,586	4,842,657	4,722,211	16,677,486	15,937,797
Liabilities:						
Long-term liabilities	8,952,869	7,811,543	1,518,782	1,508,606	10,471,651	9,320,149
Other liabilities	1,552,059	1,544,255	147,983	201,192	1,700,042	1,745,447
Total liabilities	10,504,928	9,355,798	1,666,765	1,709,798	12,171,693	11,065,596
Net assets:						
Invested in capital assets, net of related debt	2,794,481	3,326,245	1,560,267	1,476,136	4,354,748	4,802,381
Restricted	930,294	917,730	966,042	956,894	1,896,336	1,874,624
Unrestricted	(2,394,874)	(2,384,187)	649,583	579,383	(1,745,291)	(1,804,804)
Total net assets	$ 1,329,901	$ 1,859,788	$ 3,175,892	$ 3,012,413	$ 4,505,793	$ 4,872,201

Analysis of Net Assets

By far, the largest portion of the State's net assets ($4.4 billion or 96.6%) 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 assets ($1.9 billion or 42.1%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of negative $1.7 billion or negative 38.7% represents unrestricted net assets.

At June 30, 2012, the State is able to report positive balances in two of the categories of net assets for governmental activities and all three categories for business-type activities. The negative balance of unrestricted net assets for governmental activities is primarily attributed to the State's other postemployment benefit liability of $2.6 billion.

Changes in Net Assets

The State's net assets decreased by $366.4 million, or 7.5%, during the fiscal year ended June 30, 2012. Approximately 56.5% of the State's total revenues came from taxes, while 26.9% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 16.6% 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 unemployment compensation.

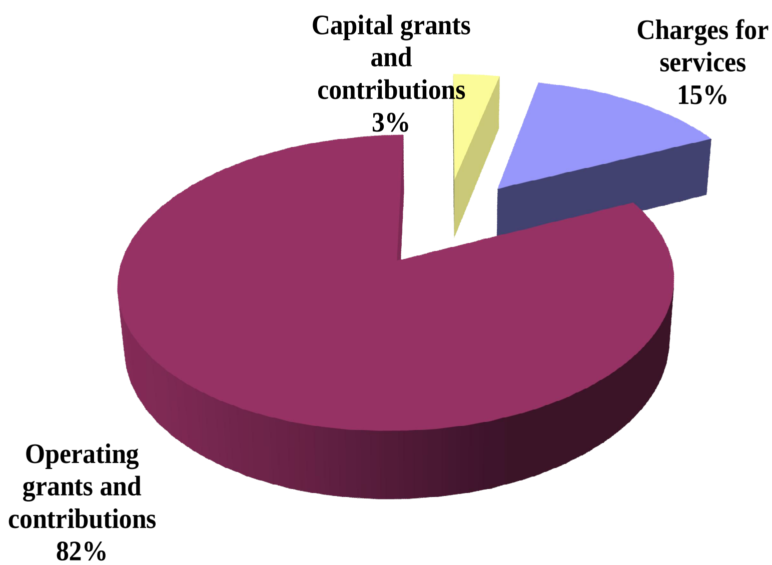
The following financial information was derived from the Government-Wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

Summary Schedule of Changes in Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011
(Amounts in thousands)

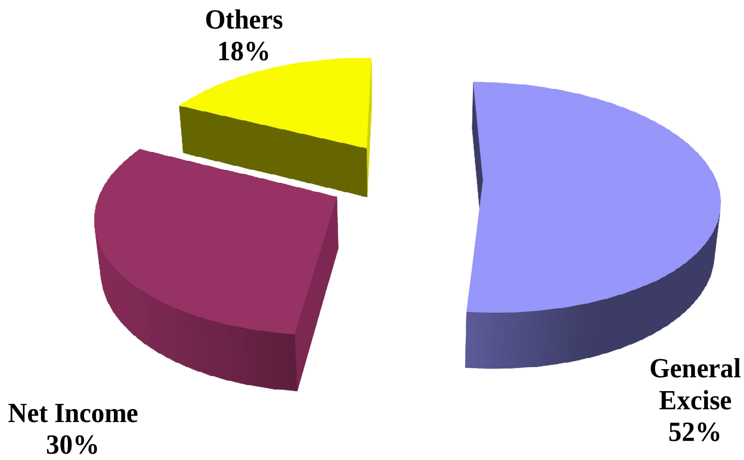
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	$ 421,145	$ 428,772	$ 1,149,559	$ 1,264,434	$ 1,570,704	$ 1,693,206
Operating grants and contributions	2,370,437	2,837,464	-	-	2,370,437	2,837,464
Capital grants and contributions	97,322	132,825	85,899	75,324	183,221	208,149
General revenues:						
Taxes	5,358,622	4,774,934	-	-	5,358,622	4,774,934
Interest and investment income	5,347	55,852	4,164	33,587	9,511	89,439
Total revenues	8,252,873	8,229,847	1,239,622	1,373,345	9,492,495	9,603,192
Expenses:						
General government	552,788	535,434	-	-	552,788	535,434
Public safety	502,002	471,459	-	-	502,002	471,459
Highways	516,924	450,548	-	-	516,924	450,548
Conservation of natural resources	96,349	89,021	-	-	96,349	89,021
Health	773,288	816,525	-	-	773,288	816,525
Welfare	2,464,582	2,553,829	-	-	2,464,582	2,553,829
Lower education	2,598,444	2,545,980	-	-	2,598,444	2,545,980
Higher education	672,716	707,381	-	-	672,716	707,381
Other education	16,753	14,018	-	-	16,753	14,018
Culture and recreation	111,628	108,697	-	-	111,628	108,697
Urban redevelopment and housing	23,888	66,144	-	-	23,888	66,144
Economic development and assistance	209,460	238,315	-	-	209,460	238,315
Interest expense	243,938	239,836	-	-	243,938	239,836
Airports	-	-	353,541	354,368	353,541	354,368
Harbors	-	-	84,826	80,355	84,826	80,355
Unemployment compensation	-	-	468,610	561,548	468,610	561,548
Nonmajor proprietary fund	-	-	169,166	250,346	169,166	250,346
Total expenses	8,782,760	8,837,187	1,076,143	1,246,617	9,858,903	10,083,804
Change in net assets	(529,887)	(607,340)	163,479	126,728	(366,408)	(480,612)
Net assets – beginning of year	1,859,788	2,467,128	3,012,413	2,885,685	4,872,201	5,352,813
Net assets – end of year	$ 1,329,901	$ 1,859,788	$ 3,175,892	$ 3,012,413	$ 4,505,793	$ 4,872,201

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

Program Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2012



Tax Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2012



Analysis of Changes in Net Assets

The State's net assets decreased by $366.4 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 assets of governmental activities of $529.9 million offset by increases in net assets of Unemployment Compensation Fund of $66.0 million, Airports of $41.6 million, Harbors of $38.8 million, and Nonmajor Proprietary Funds of $17.0 million.

Governmental Activities

Governmental activities decreased the State's net assets by $529.9 million. The elements of this decrease are reflected below:

	Governmental Activities (Amounts in thousands)	
	2012	**2011**
General revenues:		
Taxes	$ 5,358,622	$ 4,774,934
Interest and investment income and other	5,347	55,852
Total general revenues	5,363,969	4,830,786
Expenses, net of program revenues:		
General government	38,688	(239,420)
Public safety	463,945	440,026
Highways	351,757	260,142
Conservation of natural resources	36,699	22,043
Health	573,125	604,013
Welfare	1,003,240	829,081
Lower education	2,216,887	2,241,881
Higher education	672,716	707,381
Other education	16,753	14,018
Culture and recreation	108,859	106,539
Urban redevelopment and housing	(9,402)	17,664
Economic development and assistance	176,651	194,922
Interest expense	243,938	239,836
Total governmental activities expenses, net of program revenues	5,893,856	5,438,126
Decrease in governmental activities net assets	$ (529,887)	$ (607,340)

Tax revenues increased by $583.7 million, or 12.2%, from the previous fiscal year. The increase was primarily due to increases in general excise taxes of $266.7 million, in individual and corporate income taxes of $155.5 million, and in transient accommodations taxes of $77.7 million.

Interest and investment income decreased by $50.5 million from the previous year. The decrease is primarily due to the decrease in the fair market value of the student loan auction rate securities, which decreased $4.7 million in fiscal year 2012, compared to increasing $43.2 million in fiscal year 2011.

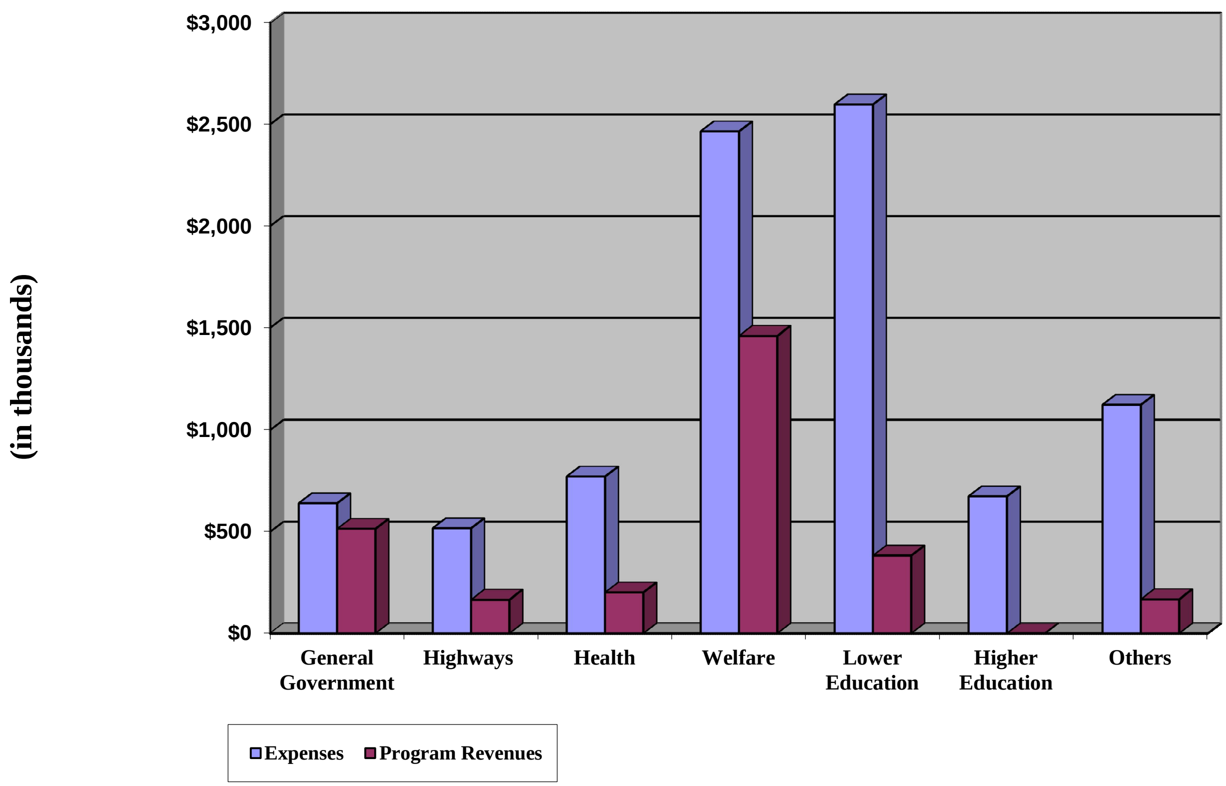
General government net expenses increased $278.1 million, or 116.2%, from the previous fiscal year. The increase is primarily attributed to a decrease of $92.5 million in federal stimulus funds received for educational programs and the $111 million cash transfer from the Hawaii Hurricane Relief fund in fiscal 2011.

Highway net expense increased by $91.6 million or 35.2% from the previous year due mainly to increase spending on highway repairs and maintenance.

Welfare net expenses increased $174.2 million or 21.0%. This change is primarily due to increased general funds appropriated for the medical assistance programs and general support programs of $190.7 million and $36.1 million respectively.

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:

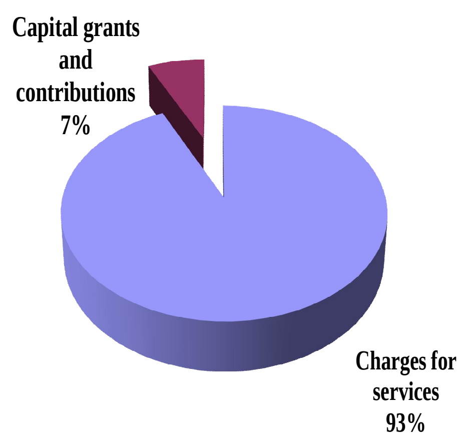
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ended June 30, 2012



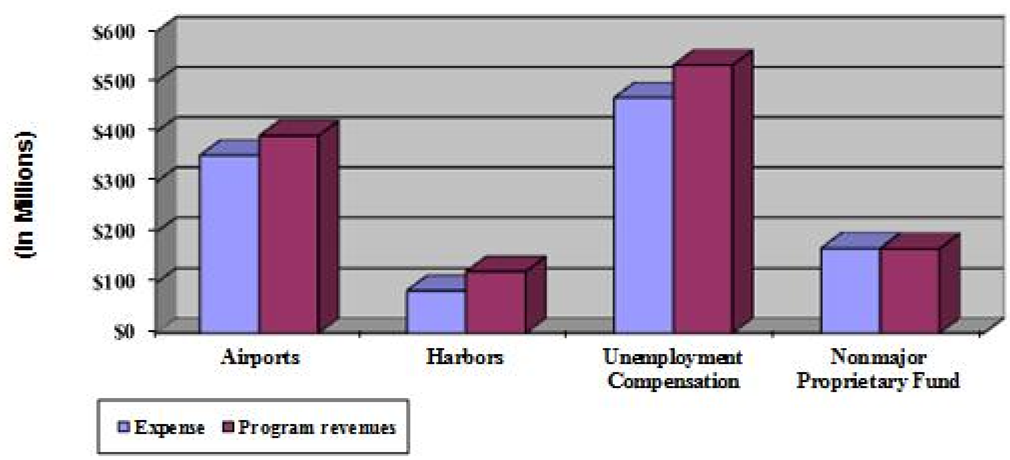
Business-Type Activities

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, 2012



Expenses and Program Revenues – Business-Type Activities
Fiscal Year Ended June 30, 2012



Business-type activities increased the State's net assets by $163.5 million in fiscal 2012, compared to an increase of $126.7 million in fiscal 2011. Key elements of this increase are as follows:

- Airport's net assets increased $41.6 million compared to an increase of $87.9 million in the prior fiscal year. Charges for current services decreased by $44.2 million primarily due to a temporary one year suspension in rental car customer facility charges. Interest income decreased by $18.6 million due to a $1.4 million decrease in the fair market value of investments in the State's treasury investment pool realized in fiscal year 2012 as compared with a $13.1 million increase in fiscal year 2011. Expenses decreased by $0.8 million.

- Harbor's net assets increased $38.8 million in fiscal 2012 compared to an increase of $20.9 million in fiscal 2011. Charges for current services increased by $18.0 million offset by an increase in expenses of $4.5 million.

- The Unemployment Compensation Fund's net assets increased $66.0 million compared to a decrease of $25.9 million in the prior fiscal year. The change was primarily due to a decrease in unemployment benefits paid of $92.9 million.

- Nonmajor Proprietary Fund's net assets increased $17.0 million in fiscal 2012 compared to an increase of $43.9 million in fiscal 2011. The change was primarily due to a decrease of $15.0 million in capital contributions.

  Key elements of the State's business-type activities for the fiscal years ended June 30, 2012 and 2011 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	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Airports	$ 343,279	$ 387,484	$ 49,375	$ 33,695	$ 392,654	$ 421,179	$ 353,541	$ 354,368	$ 39,113	$ 66,811
Harbors	103,876	85,920	19,357	9,426	123,233	95,346	84,826	80,355	38,407	14,991
Unemployment Compensation	533,963	535,243	-	-	533,963	535,243	468,610	561,548	65,353	(26,305)
Nonmajor Proprietary Funds	168,441	255,787	17,167	32,203	185,608	287,990	169,166	250,346	16,442	37,644
Total	$ 1,149,559	$ 1,264,434	$ 85,899	$ 75,324	$ 1,235,458	$ 1,339,758	$ 1,076,143	$ 1,246,617	$ 159,315	$ 93,141

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 extend 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 $1.4 billion. Of this amount, $109,000 is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $518.4 million has been committed to specific purposes. An additional $769.2 million has been assigned to specific purposes by management. The unassigned or unrestricted fund balance was $162.1 million at fiscal year end. This amount includes a deficit of a negative unrestricted fund balance of $387.0 million in the Capital Projects Fund.

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 $807.4 million compared to $557.0 million in fiscal 2011. This increase is mainly attributed to the increase in tax revenues. The fund balance of the State's Capital Projects Fund increased $379.7 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 $507.9 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 increased $12.8 million and $55.5 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 assets of $41.6 million, Harbors had an increase in net assets of $38.8 million, the Unemployment Compensation Fund had an increase in net assets of $66.0 million, and the Nonmajor Proprietary Funds had an increase in net assets of $17.0 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 $293.9 million, or 5.5%, more than the final budget. The increase was attributed to higher tax revenues of $154.7 million, which was comprised of increases in general excise taxes of $74.6 million, and individual net income tax of $84.6 million.

The difference between the final budget and actual expenditures on a budgetary basis was $172.9 million. General government reflected a positive variance of $97.9 million which was primarily due to lower than expected cost for retirement and health benefits of $39.1 million and $21.5 million respectively. Also contributing to the positive variance in general government was $15.1 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 $28.1 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.

Capital Asset and Debt Administration

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounted to $11.3 billion (net of accumulated depreciation of $9.3 billion), an increase of $103.9 million from fiscal 2011. The increase is due to an increase in governmental activities assets of $405.8 million and in business-type assets of $157.9 million offset by increases in primary governmental activities and business-type activities accumulated depreciation of $365.3 million and $94.4 million, respectively. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2012, included the following:

- $154.8 million for various capital improvement projects and repairs and maintenance of public school facilities throughout the State.
- $28.9 million for Honolulu International Airport design and construction of support facilities.
- $34.5 million Taxiway improvements at Kahului Airport.
- $30.6 million for improvements to rental car facilities.
- $67.7 million for various capital improvement projects at airports, Statewide.
- $104.9 million for various highways projects throughout the State.
- $138.0 million various construction, maintenance and renovation projects at various University of Hawaii campuses.

- $25.9 million for various construction, maintenance and renovation projects at state community hospitals.

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, $5.5 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, 2012 and 2011
(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
General obligation bonds	$ 5,475,348	$ 4,987,544	$ 34,611	$ 36,221	$ 5,509,959	$ 5,023,765
Revenue bonds	468,180	378,625	1,370,314	1,410,624	1,838,494	1,789,249
Total	$ 5,943,528	$ 5,366,169	$ 1,404,925	$ 1,446,845	$ 7,348,453	$ 6,813,014

The State's total long-term debt increased by $535.4 million, or 7.9%, during the current fiscal year. The increase resulted from issuance of General Obligation and Revenue Bonds offset by declining principal balances (see notes 4 and 5 to the basic financial statements).

As of June 30, 2012, 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, 2012 was $295 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 Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, 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 $13.6 billion. The State's combined annual OPEB cost for fiscal 2012 was $992.7 million and its OPEB contributions were $271.8 million, resulting in an increase in the net OPEB obligation of $720.9 million. The total net OPEB obligation balance at fiscal year end increased to $3.2 billion. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis for the near term while it analyzes alternative strategies that could be implemented to manage the high cost of providing retiree health benefits.

Economic Factors and Next Year's Budget

The statewide seasonally adjusted unemployment rate for September 2012 was 5.7% while the seasonally adjusted national unemployment rates was 7.8%. One year ago, the State's seasonally adjusted unemployment rate stood at 6.8% while the seasonally adjusted national unemployment rate was 9.0%.

The Council of Revenues in January 2013 increased the State's General Fund tax revenue growth rate for fiscal year 2013 and 2014 from 4.9% to 5.1% and from 3.9% to 6.8%, respectively.

Cumulative general fund tax revenues for the first five months of fiscal 2013 was $2.2 billion, an increase of $238.7 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, increased 11.8%.

Because of the lower estimated general fund revenue growth in fiscal year 2013 projected during the budget cycle, the Governor has imposed a 5% spending restriction on discretionary operating expenses of general funds for all departments and agencies of the Executive Branch.

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 ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Primary Government			
ASSETS	Governmental Activities	Business-Type Activities	Total	Component Units
CASH AND CASH EQUIVALENTS	$ 1,000,899	$ 864,569	$ 1,865,468	$ 369,023
RECEIVABLES:				
Taxes	441,549	90,169	531,718	-
Accounts and accrued interest — net	-	30,359	30,359	185,125
Notes, loans, mortgages, and contributions — net	78,854	-	78,854	25,241
Federal government	48,398	11,524	59,922	3,549
Premium	-	32,788	32,788	-
Other — net	43,330	4,492	47,822	19,622
Total receivables	612,131	169,332	781,463	233,537
INTERNAL BALANCES	1,597	(1,597)	-	-
DUE FROM COMPONENT UNITS	323,871	-	323,871	-
DUE FROM PRIMARY GOVERNMENT	-	-	-	521,499
INVESTMENTS	941,401	-	941,401	430,882
INVENTORIES:				
Developments in progress and dwelling units	-	-	-	24,099
Materials and supplies	-	458	458	32,665
Total inventories	-	458	458	56,764
RESTRICTED ASSETS	-	892,601	892,601	282,657
OTHER ASSETS:				
Prepaid expenses	5,844	17,553	23,397	15,757
Bond issue and deferred costs — net	100,677	8,031	108,708	1,498
Note receivable	-	398,644	398,644	481,386
Investments	-	-	-	556,783
Other	15,060	19,869	34,929	26,518
Total other assets	121,581	444,097	565,678	1,081,942
CAPITAL ASSETS:				
Land and land improvements	2,207,145	1,760,644	3,967,789	478,958
Infrastructure	8,915,933	-	8,915,933	151,840
Construction in progress	707,883	394,123	1,102,006	616,412
Buildings, improvements, and equipment	4,305,301	2,329,681	6,634,982	3,641,751
Accumulated depreciation	(7,302,913)	(2,011,251)	(9,314,164)	(1,949,885)
Total capital assets — net	8,833,349	2,473,197	11,306,546	2,939,076
TOTAL ASSETS	$ 11,834,829	$ 4,842,657	$ 16,677,486	$ 5,915,380

See accompanying notes to basic financial statements

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
LIABILITIES:				
Vouchers and contracts payable	$ 301,056	$ 29,445	$ 330,501	$ 206,306
Other accrued liabilities	267,079	74,053	341,132	113,284
Due to Component Units	521,499	-	521,499	-
Due to Primary Government	-	-	-	323,871
Due to federal government	22,014	-	22,014	-
Deferred revenue	-	5,511	5,511	60,117
Estimated future costs of land sold	-	-	-	34,926
Unamortized bond premium	365,627	-	365,627	-
Premiums payable	-	38,974	38,974	-
Other	74,784	-	74,784	5,542
Long-term liabilities:				
Due within one year:				
Payable from restricted assets — revenue bonds payable — net	-	40,292	40,292	-
Prepaid airport use charge fund	-	14,890	14,890	-
General obligation (GO) bonds payable	372,352	1,678	374,030	-
Notes, mortgages, and installment contracts payable	-	-	-	9,272
Accrued vacation and retirement benefits payable	71,417	3,706	75,123	43,690
Revenue bonds payable — net	27,030	-	27,030	19,222
Reserve for losses and loss adjustment costs	34,493	1,116	35,609	8,337
Capital lease obligations	5,461	-	5,461	7,257
Due in more than one year:				
Prepaid airport use charge fund	-	33,227	33,227	-
GO bonds payable	5,102,996	32,933	5,135,929	-
Notes, mortgages, and installment contracts payable	-	-	-	30,928
Accrued vacation and retirement benefits payable	141,366	8,610	149,976	76,583
Revenue bonds payable — net	441,150	1,330,022	1,771,172	1,050,232
Reserve for losses and loss adjustment costs	135,407	3,787	139,194	21,442
Capital lease obligations	89,879	-	89,879	24,929
Premium on bonds payable	-	-	-	5,625
Other postemployment benefit liability	2,530,970	47,568	2,578,538	624,411
Other	348	953	1,301	68,606
TOTAL LIABILITIES	10,504,928	1,666,765	12,171,693	2,734,580
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	2,794,481	1,560,267	4,354,748	2,073,849
RESTRICTED FOR:				
Capital maintenance projects	138,760	-	138,760	-
Health and welfare	112,966	-	112,966	-
Natural resources	106,018	-	106,018	-
Hawaiian programs	266,788	-	266,788	-
Budget stabilization	24,197	-	24,197	-
Other purposes	281,501	-	281,501	-
Bond requirements and other	64	966,042	966,106	1,023,041
UNRESTRICTED	(2,394,874)	649,583	(1,745,291)	83,910
TOTAL NET ASSETS	$ 1,329,901	$ 3,175,892	$ 4,505,793	$3,180,800

See accompanying notes to basic financial statements.

STATE OF HAWAII

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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	$ 552,788	$ 266,878	$ 247,222	$ -	$ (38,688)	$ -	$ (38,688)	
Public safety	502,002	37,974	83	-	(463,945)	-	(463,945)	
Highways	516,924	6,489	61,356	97,322	(351,757)	-	(351,757)	
Conservation of natural resources	96,349	26,263	33,387	-	(36,699)	-	(36,699)	
Health	773,288	32,339	167,824	-	(573,125)	-	(573,125)	
Welfare	2,464,582	71	1,461,271	-	(1,003,240)	-	(1,003,240)	
Lower education	2,598,444	42,523	339,034	-	(2,216,887)	-	(2,216,887)	
Higher education	672,716	-	-	-	(672,716)	-	(672,716)	
Other education	16,753	-	-	-	(16,753)	-	(16,753)	
Culture and recreation	111,628	-	2,769	-	(108,859)	-	(108,859)	
Urban redevelopment and housing	23,888	3,509	29,781	-	9,402	-	9,402	
Economic development and assistance	209,460	5,099	27,710	-	(176,651)	-	(176,651)	
Interest expense	243,938	-	-	-	(243,938)	-	(243,938)	
Total governmental activities	8,782,760	421,145	2,370,437	97,322	(5,893,856)	-	(5,893,856)	
Business-type activities:								
Airports	353,541	343,279	-	49,375	-	39,113	39,113	
Harbors	84,826	103,876	-	19,357	-	38,407	38,407	
Unemployment compensation	468,610	533,963	-	-	-	65,353	65,353	
Nonmajor proprietary funds	169,166	168,441	-	17,167	-	16,442	16,442	
Total business-type activities	1,076,143	1,149,559	-	85,899	-	159,315	159,315	
TOTAL PRIMARY GOVERNMENT	$9,858,903	$1,570,704	$2,370,437	$ 183,221	(5,893,856)	159,315	(5,734,541)	
COMPONENT UNITS:								
University of Hawaii	$1,616,105	$ 377,077	$ 481,847	$ -				$ (757,181)
Hawaii Housing Finance and Development Corporation	57,856	41,829	25,304	-				9,277
Hawaii Public Housing Authority	123,513	18,435	74,106	11,030				(19,942)
Hawaii Health Systems Corporation	668,136	524,674	1,614	28,184				(113,664)
Hawaii Tourism Authority	108,727	9,607	-	-				(99,120)
Hawaii Community Development Authority	13,682	7,958	-	-				(5,724)
Hawaii Hurricane Relief Fund	3	-	-	-				(3)
Total component units	$2,588,022	$ 979,580	$ 582,871	$ 39,214				(986,357)
GENERAL REVENUES:								
Taxes:								
General excise tax					2,774,636	-	2,774,636	-
Net income tax — corporations and individuals					1,633,085	-	1,633,085	-
Public service companies tax					150,528	-	150,528	-
Transient accommodations tax					138,529	-	138,529	-
Tobacco and liquor taxes					170,824	-	170,824	-
Liquid fuel tax					88,842	-	88,842	-
Tax on premiums of insurance companies					119,472	-	119,472	-
Vehicle weight and registration tax					98,187	-	98,187	-
Rental motor/tour vehicle surcharge tax					106,417	-	106,417	-
Franchise tax					7,229	-	7,229	-
Other tax					70,873	-	70,873	-
Interest and investment income					5,347	4,164	9,511	1,975
Payments from the State — net					-	-	-	911,505
Other revenue					-	-	-	49,732
Total general revenues					5,363,969	4,164	5,368,133	963,212
CHANGE IN NET ASSETS					(529,887)	163,479	(366,408)	(23,145)
NET ASSETS — Beginning of year					1,859,788	3,012,413	4,872,201	3,203,945
NET ASSETS — End of year					$ 1,329,901	$ 3,175,892	$ 4,505,793	$3,180,800

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
CASH AND CASH EQUIVALENTS	$ 238,623	$ 222,355	$ 6,921	$ 533,000	$ 1,000,899
RECEIVABLES:					
Taxes	441,549	-	-	-	441,549
Notes and loans — net	2,187	-	-	76,667	78,854
Federal government	-	-	48,398	-	48,398
Other	14,047	-	-	1,384	15,431
DUE FROM OTHER FUNDS	133,005	-	-	64	133,069
DUE FROM PROPRIETARY FUNDS	-	1,597	-	-	1,597
DUE FROM COMPONENT UNITS	29,300	-	-	-	29,300
INVESTMENTS	286,913	56,839	8,458	589,191	941,401
OTHER ASSETS	15,060	-	-	-	15,060
TOTAL ASSETS	$ 1,160,684	$ 280,791	$ 63,777	$ 1,200,306	$ 2,705,558
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Vouchers and contracts payable	$ 115,379	$ 69,968	$ 31,944	$ 83,765	$ 301,056
Other accrued liabilities	213,900	(30)	-	53,543	267,413
Due to federal government	-	-	-	22,014	22,014
Due to other funds	64	89,900	28,400	14,705	133,069
Due to Component Units	1,563	507,943	-	-	509,506
Deferred revenue	22,340	-	-	-	22,340
Payable from restricted assets — matured bonds and interest payable	-	-	-	348	348
Total liabilities	353,246	667,781	60,344	174,375	1,255,746
FUND BALANCES:					
Restricted	-	-	-	109	109
Committed	-	-	-	518,374	518,374
Assigned	236,779	-	3,433	529,033	769,245
Unassigned	570,659	(386,990)	-	(21,585)	162,084
Total fund balances	807,438	(386,990)	3,433	1,025,931	1,449,812
TOTAL	$ 1,160,684	$ 280,791	$ 63,777	$ 1,200,306	$ 2,705,558

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

TOTAL FUND BALANCE — Governmental Funds	$ 1,449,812
Amounts reported for governmental activities in the Statement of Net Assets 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	2,207,145
Infrastructure	8,915,933
Construction in progress	707,883
Buildings, improvements, and equipment	4,305,301
Accumulated depreciation	(7,302,913)
	8,833,349
Accrued interest and other payables are not recognized in Governmental Funds	(440,410)
Other assets are not available to pay for current-period expenditures and are deferred, or not recognized, in governmental funds, such as deferred revenue and settlement receivables	157,093
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	(5,475,348)
Accrued vacation payable	(212,783)
Revenue bonds payable	(468,180)
Reserve for losses and loss adjustment costs	(169,900)
Other postemployment benefit liability	(2,530,970)
Long-term transactions with Component Units	282,578
Capital lease obligations	(95,340)
	(8,669,943)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 1,329,901

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, 2012
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
General excise tax	$ 2,774,636	$ -	$ -	$ -	$ 2,774,636
Net income tax — corporations and individuals	1,633,412	-	-	-	1,633,412
Public service companies tax	150,528	-	-	-	150,528
Transient accommodations tax	137,529	-	-	1,000	138,529
Tobacco and liquor taxes	151,707	-	-	19,117	170,824
Liquid fuel tax	-	-	-	88,842	88,842
Tax on premiums of insurance companies	117,617	-	-	1,855	119,472
Vehicle weight and registration tax	-	-	-	98,187	98,187
Rental motor/tour vehicle surcharge tax	61,430	-	-	44,987	106,417
Franchise tax	5,229	-	-	2,000	7,229
Other	47,799	-	-	23,074	70,873
Total taxes	5,079,887	-	-	279,062	5,358,949
Interest and investment income (loss)	(1,691)	-	-	7,038	5,347
Charges for current services	121,362	-	-	216,403	337,765
Intergovernmental	13,520	-	819,503	1,405,616	2,238,639
Rentals	360	-	-	25,061	25,421
Fines, forfeitures, and penalties	23,409	-	-	11,674	35,083
Licenses and fees	6,003	-	-	40,387	46,390
Revenues from private sources	25,297	-	-	39,788	65,085
Other	35,464	-	15,704	100,923	152,091
Total revenues	5,303,611	-	835,207	2,125,952	8,264,770
EXPENDITURES:					
Current:					
General government	369,664	63,162	-	54,770	487,596
Public safety	316,863	11,384	-	126,710	454,957
Highways	-	171,009	-	243,620	414,629
Conservation of natural resources	26,290	10,336	-	61,802	98,428
Health	484,543	40,884	-	204,414	729,841
Welfare	1,019,919	1,046	801,551	621,420	2,443,936
Lower education	1,776,825	149,574	-	403,731	2,330,130
Higher education	535,457	137,259	-	-	672,716
Other education	5,544	-	-	11,209	16,753
Culture and recreation	39,144	27,440	-	43,390	109,974
Urban redevelopment and housing	108	1,264	-	47,112	48,484
Economic development and assistance	24,141	12,913	-	110,391	147,445
Housing	20,021	26,112	-	-	46,133
Other	6,229	-	-	5,879	12,108
Debt service	-	-	-	587,760	587,760
Total expenditures	4,624,748	652,383	801,551	2,522,208	8,600,890
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	678,863	(652,383)	33,656	(396,256)	(336,120)
OTHER FINANCING SOURCES (USES):					
Issuance of GO and refunding GO bonds - par	-	800,000	-	486,230	1,286,230
Issuance of GO and refunding GO bonds - premium	109,085	-	-	74,009	183,094
Issuance of revenue and refunding revenue bonds - par	-	112,270	-	5,095	117,365
Issuance of revenue and refunding revenue bonds - premium	-	13,152	-	467	13,619
Payment to refunded bond escrow agent	-	-	-	(565,801)	(565,801)
Transfers in	53,497	138,937	9,465	748,818	950,717
Transfers out	(591,053)	(32,301)	(30,275)	(297,088)	(950,717)
Total other financing (uses) sources	(428,471)	1,032,058	(20,810)	451,730	1,034,507
NET CHANGE IN FUND BALANCES	250,392	379,675	12,846	55,474	698,387
FUND BALANCES — Beginning of year	557,046	(766,665)	(9,413)	970,457	751,425
FUND BALANCES — End of year	$ 807,438	$ (386,990)	$ 3,433	$ 1,025,931	$ 1,449,812

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, 2012

(Amounts in thousands)

TOTAL NET CHANGE IN FUND BALANCES — Governmental Funds	$ 698,387
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	405,760
Depreciation expense	(375,388)
Excess of capital outlay over depreciation expense	30,372
Debt proceeds provide current financial resources to Governmental Funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, this is the amount of proceeds received from general obligation bonds issued.	(1,600,308)
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 assets. In the current year, these amounts consist of:	
Bond principal retirement	826,236
Capital lease payments	5,180
Total long-term debt repayment	831,416
Revenue timing differences result in greater revenue in the Government-Wide financial statements.	(10,902)
Bond issue and deferred costs in Governmental Funds - reported in the statement of net assets - net of amortization.	88,495
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	(555,561)
Change in accrued vacation payable	2,816
Change in HHFDC long-term liability	1,778
Change in reserve for losses and loss adjustment costs	(16,380)
Total	(567,347)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (529,887)

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

ASSETS	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
CURRENT ASSETS:					
Cash and cash equivalents	$ 549,279	$ 115,012	$ 47,486	$ 152,792	$ 864,569
Restricted assets — cash and short-term investments	58,778	33,338	-	-	92,116
Receivables:					
Taxes	-	-	90,169	-	90,169
Accounts and accrued interest (net of allowance for doubtful accounts of $4,221)	20,612	8,881	-	866	30,359
Promissory note receivable (net of allowance for doubtful accounts of $5,060)	5	-	-	34,888	34,893
Federal government	5,401	5,883	-	240	11,524
Premiums	-	-	-	32,788	32,788
Other	389	912	-	3,191	4,492
Materials and supplies inventory	213	245	-	-	458
Prepaid expenses and other assets	-	843	-	16,710	17,553
Total current assets	634,677	165,114	137,655	241,475	1,178,921
NONCURRENT ASSETS:					
Capital assets:					
Land and land improvements	1,251,626	509,018	-	-	1,760,644
Construction in progress	365,910	28,213	-	-	394,123
Buildings and improvements	1,654,756	419,967	-	-	2,074,723
Equipment	220,129	19,754	-	15,075	254,958
	3,492,421	976,952	-	15,075	4,484,448
Less accumulated depreciation	(1,738,637)	(264,027)	-	(8,587)	(2,011,251)
Net capital assets	1,753,784	712,925	-	6,488	2,473,197
Investments	96,893	-	-	-	96,893
Bond issue costs — net	4,409	3,622	-	-	8,031
Promissory note receivable	-	-	-	363,751	363,751
Restricted assets — net direct financing leases	31,212	-	-	-	31,212
Restricted assets — cash and cash equivalents	421,913	250,467	-	-	672,380
Other	3,995	414	-	15,460	19,869
Total noncurrent assets	2,312,206	967,428	-	385,699	3,665,333
TOTAL ASSETS	$ 2,946,883	$ 1,132,542	$ 137,655	$ 627,174	$ 4,844,254

(Continued)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
LIABILITIES					
CURRENT LIABILITIES:					
Vouchers and contracts payable	$ 21,593	$ 6,645	$ 505	$ 702	$ 29,445
Payable from restricted assets — contracts payable, accrued interest, and other	35,182	19,174	-	-	54,356
Other accrued liabilities	10,578	-	-	1,633	12,211
Due to Primary Government	-	1,597	-	-	1,597
Benefit claims payable	-	-	-	7,486	7,486
Prepaid airport use charge fund	14,890	-	-	-	14,890
Deferred revenue	5,511	-	-	-	5,511
General obligation bonds payable, current portion	-	1,678	-	-	1,678
Reserve for losses and loss adjustment costs	923	193	-	-	1,116
Accrued vacation, current portion	2,964	572	-	170	3,706
Payable from restricted assets — revenue bonds payable	28,450	11,842	-	-	40,292
Premiums payable	-	-	-	38,974	38,974
Total current liabilities	120,091	41,701	505	48,965	211,262
NONCURRENT LIABILITIES:					
General obligation bonds payable	-	32,933	-	-	32,933
Accrued vacation	6,498	1,613	-	499	8,610
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding)	969,431	360,591	-	-	1,330,022
Reserve for losses and loss adjustment costs	3,077	710	-	-	3,787
Other postemployment benefit liability	37,063	8,279	-	2,226	47,568
Prepaid airport use charge fund	33,227	-	-	-	33,227
Other	953	-	-	-	953
Total long-term liabilities	1,050,249	404,126	-	2,725	1,457,100
TOTAL LIABILITIES	1,170,340	445,827	505	51,690	1,668,362
NET ASSETS					
INVESTED IN CAPITAL ASSETS — Net of related debt	1,039,369	514,515	-	6,488	1,560,372
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	314,492	84,359	-	567,193	966,044
UNRESTRICTED	422,682	87,841	137,150	1,803	649,476
TOTAL NET ASSETS	$ 1,776,543	$ 686,715	$ 137,150	$ 575,484	$ 3,175,892

See accompanying notes to basic financial statements. (Concluded)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES:					
Concession fees	$ 143,573	$ -	$ -	$ -	$ 143,573
Unemployment compensation	-	-	533,963	-	533,963
Aviation fuel tax	4,338	-	-	-	4,338
Airport use charges	59,640	-	-	-	59,640
Rentals	102,132	28,979	-	-	131,111
Services and others	421	71,951	-	-	72,372
Administrative fees	-	-	-	10,053	10,053
Premium revenue — self insurance	-	-	-	152,435	152,435
Other	1,991	2,946	-	5,953	10,890
Total operating revenues	312,095	103,876	533,963	168,441	1,118,375
OPERATING EXPENSES:					
Personnel services	124,353	14,453	-	5,003	143,809
Depreciation and amortization	90,755	20,561	-	1,150	112,466
Repairs and maintenance	30,845	1,795	-	84	32,724
Airports operations	53,473	-	-	-	53,473
Harbors operations	-	17,651	-	-	17,651
Fireboat operations	-	1,968	-	-	1,968
General administration	18,891	7,303	-	4,175	30,369
Unemployment compensation	-	-	468,610	-	468,610
Claims	-	-	-	150,489	150,489
Other	119	-	-	951	1,070
Total operating expenses	318,436	63,731	468,610	161,852	1,012,629
Operating (loss) income	(6,341)	40,145	65,353	6,589	105,746
NONOPERATING REVENUES (EXPENSES):					
Interest and investment income	2,505	393	694	572	4,164
Interest expense	(33,215)	(21,092)	-	-	(54,307)
Federal grants	3,315	-	-	-	3,315
Loss on disposal of capital assets	(1,890)	(3)	-	-	(1,893)
Passenger facility charges	31,731	-	-	-	31,731
Other	(547)	-	-	(7,314)	(7,861)
Total nonoperating revenues (expenses)	1,899	(20,702)	694	(6,742)	(24,851)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(4,442)	19,443	66,047	(153)	80,895
CAPITAL CONTRIBUTIONS	46,060	19,357	-	17,167	82,584
CHANGE IN NET ASSETS	41,618	38,800	66,047	17,014	163,479
NET ASSETS - Beginning of year	1,734,925	647,915	71,103	558,470	3,012,413
NET ASSETS — End of year	$ 1,776,543	$ 686,715	$ 137,150	$ 575,484	$ 3,175,892

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	$ 356,838	$ 102,729	$ -	$ -	$ 459,567
Cash received from taxes	-	-	319,553	-	319,553
Cash received from employer and employees for premiums and benefits	-	-	-	500,858	500,858
Cash paid to suppliers	(147,826)	(31,263)	-	(4,408)	(183,497)
Cash paid to employees	(64,977)	(12,673)	-	(4,386)	(82,036)
Cash paid for unemployment compensation	-	-	(468,881)	-	(468,881)
Cash paid for premiums and benefits payable	-	-	-	(510,786)	(510,786)
Reserves returned by insurance carriers	-	-	-	(2,261)	(2,261)
Interest income from notes receivable	-	-	-	3,179	3,179
Administrative loan fees	-	-	-	4,248	4,248
Principal repayments on notes receivable	-	-	-	32,690	32,690
Disbursement of note receivable proceeds	-	-	-	(51,863)	(51,863)
Other cash receipts	-	-	210,954	-	210,954
Net cash provided by (used in) operating activities	144,035	58,793	61,626	(32,729)	231,725
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
State capital contributions	-	-	-	5,872	5,872
Proceeds from federal operating grants	4,878	-	-	30,462	35,340
Disbursements of federal operating grants	-	-	-	(8,029)	(8,029)
Other	-	-	(18,337)	5,975	(12,362)
Net cash provided by (used in) noncapital financing activities	4,878	-	(18,337)	34,280	20,821
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Payments to Airports Division	-	(8,191)	-	-	(8,191)
Acquisition and construction of capital assets	(111,553)	(39,116)	-	(87)	(150,756)
Repayment of general obligation and revenue bonds principal	(25,370)	(9,424)	-	-	(34,794)
Proceeds from loan to primary government	-	186,193	-	-	186,193
Payments to refund airports system revenue bonds	(7,534)	-	-	-	(7,534)
Interest paid on bonds	(45,446)	(21,707)	-	-	(67,153)
Other interest paid	-	(1,483)	-	-	(1,483)
Proceeds from passenger facility charges program	31,037	-	-	-	31,037
Proceeds from rental car customer facility charges program	5,582	-	-	-	5,582
Payments from rental car customer facility charges program	(6,256)	-	-	-	(6,256)
Payments from passenger facility charges program	(14,405)	-	-	-	(14,405)
Proceeds from federal, state, and capital grants	50,325	16,171	-	-	66,496
Net cash provided by (used in) capital and related financing activities	(123,620)	122,443	-	(87)	(1,264)
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	3,327	742	731	722	5,522
Net cash provided by investing activities	3,327	742	731	722	5,522
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,620	181,978	44,020	2,186	256,804
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — beginning of the year	1,001,350	216,839	3,466	150,606	1,372,261
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — end of year	$ 1,029,970	$ 398,817	$ 47,486	$ 152,792	$ 1,629,065

See accompanying notes to basic financial statements

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ (6,341)	$ 40,145	$ 65,353	$ 6,589	$ 105,746
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Provision for uncollectible accounts	-	393	-	-	393
Depreciation	90,755	20,423	-	1,150	112,328
Other amortization	-	138	-	-	138
Bad debt expense	(562)	-	-	-	(562)
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	39,526	-	-	-	39,526
Premium reserves held by insurance companies	-	-	-	(2,288)	(2,288)
Principal forgiveness of loans	-	-	-	(2,000)	(2,000)
Decrease (increase) in assets:					
Receivables	6,622	(1,734)	(3,455)	(17,485)	(16,052)
Inventory of materials and supplies	13	5	-	-	18
Deposits	-	-	-	(4,958)	(4,958)
Prepaid expenses	-	(18)	-	-	(18)
Increase (decrease) in liabilities:					
Vouchers and contracts payable	5,058	(2,584)	(272)	(110)	2,092
Other accrued liabilities	10,289	2,025	-	20,387	32,701
Prepaid airport use charge fund	(2,758)	-	-	-	(2,758)
Deferred revenue	1,433	-	-	-	1,433
Accrued interest on loans receivable	-	-	-	(34,014)	(34,014)
Net cash provided by (used in) operating activities	$ 144,035	$ 58,793	$ 61,626	$ (32,729)	$ 231,725

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 deferred loss on refunding	$ (3,476)	$ (390)	$ -	$ -	$ (3,866)
Principal payments relating to special facility revenue bonds	835	-	-	-	835
Interest payments relating to special facility revenue bonds	1,930	-	-	-	1,930
Development capital assets from other sources	-	3,033	-	-	3,033
Payments to refund airport system revenue bonds	(321,286)	-	-	-	(321,286)
Proceeds from issuance of refunding airport systems revenue bonds	321,286	-	-	-	321,286

See accompanying notes to basic financial statements.

STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Agency Funds
ASSETS	
CASH AND CASH EQUIVALENTS	$ 478,464
RECEIVABLES — taxes	33,444
INVESTMENTS	92,532
OTHER ASSETS - primarily due from individuals, businesses, and counties	94,547
TOTAL	$ 698,987
LIABILITIES AND NET ASSETS	
VOUCHERS PAYABLE	$ 58,621
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	640,366
TOTAL	$ 698,987

See accompanying notes to basic financial statements.

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STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

ASSETS	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
CASH AND CASH EQUIVALENTS	$ 55,567	$ 162,654	$ 66,942	$ 37,625
RECEIVABLES:				
Accounts and accrued interest (net of allowance for	79,657	14,353	346	90,019
doubtful accounts of $65,404)	-	-	-	-
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts)	16,275	8,966	-	-
Federal government	-	-	3,549	-
Other	-	2,678	308	12,344
DUE FROM PRIMARY GOVERNMENT	439	33,000	19,166	60,129
INVESTMENTS	392,779	815	-	7,212
INVENTORIES:				
Developments in progress and dwelling units	-	24,099	-	-
Materials and supplies	12,716	-	931	19,018
PREPAID EXPENSES AND OTHER ASSETS	10,842	354	2,029	-
	568,275	246,919	93,271	226,347
RESTRICTED ASSETS:				
Cash and cash equivalents	-	76,275	-	10,335
Investments	-	183,083	-	-
Deposits, funded reserves, and other	-	465	-	-
Total restricted assets	-	259,823	-	10,335
CAPITAL ASSETS:				
Land and land improvements	114,500	43,355	25,340	6,457
Infrastructure	107,526	-	-	-
Construction in progress	545,827	-	35,664	31,403
Buildings, improvements, and equipment	2,126,110	158,107	554,239	567,680
Less accumulated depreciation	(1,067,026)	(104,474)	(318,739)	(295,978)
Total capital assets — net	1,826,937	96,988	296,504	309,562
OTHER ASSETS:				
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts $7,265)	23,544	449,329	5,243	-
Due from Primary Government	395,390	11,991	-	-
Investments	526,663	7,149	-	-
Other assets	23,874	1,498	594	1,676
Total other assets	969,471	469,967	5,837	1,676
TOTAL ASSETS	$ 3,364,683	$ 1,073,697	$ 395,612	$ 547,920

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 10,611	$ 34,828	$ 796	$ 369,023
-	646	104	185,125
-	-	-	25,241
-	-	-	3,549
4,292	-	-	19,622
-	1,384	-	114,118
9,497	-	20,579	430,882
-	-	-	24,099
-	-	-	32,665
114	2,418	-	15,757
24,514	39,276	21,479	1,220,081
12,499	-	-	99,109
-	-	-	183,083
-	-	-	465
12,499	-	-	282,657
131,497	157,809	-	478,958
-	44,314	-	151,840
-	3,518	-	616,412
216,085	19,530	-	3,641,751
(111,822)	(51,846)	-	(1,949,885)
235,760	173,325	-	2,939,076
-	3,270	-	481,386
-	-	-	407,381
22,971	-	-	556,783
-	374	-	28,016
22,971	3,644	-	1,473,566
$ 295,744	$ 216,245	$ 21,479	$ 5,915,380

(Continued)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2012
(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	$ 106,068	$ 838	$ 6,083	$ 88,926
Other accrued liabilities	95,626	12,362	5,051	-
Due to Primary Government	6,000	-	-	2,000
Deferred revenue	36,816	23,251	-	-
Estimated future costs of land sold	-	34,926	-	-
Notes, mortgages, and installment contracts payable	-	60	-	9,212
Accrued vacation and retirement benefits payable	27,440	-	-	16,036
Revenue bonds payable — net	14,240	4,982	-	-
Reserve for losses and loss adjustment costs	5,279	-	-	3,058
Capital lease obligations	-	-	-	7,257
Other liabilities	-	1,848	1,689	1,152
Total current liabilities	291,469	78,267	12,823	127,641
NONCURRENT LIABILITIES:				
Notes, mortgages, and installment contracts payable	-	5,576	-	25,352
Accrued vacation and retirement benefits payable	47,162	-	-	28,779
Revenue bonds payable — net	608,670	441,562	-	-
Reserve for losses and loss adjustment costs	9,606	-	-	11,836
Premium on bonds payable	5,625	-	-	-
Capital lease obligations	-	-	-	24,929
Due to Primary Government	722	-	-	21,300
Other postemployment benefit liability	413,462	2,451	9,289	196,718
Other liabilities	15,844	2,549	1,469	23,020
Total noncurrent liabilities	1,101,091	452,138	10,758	331,934
TOTAL	1,392,560	530,405	23,581	459,575
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	1,336,377	27,722	296,504	250,811
RESTRICTED	765,876	243,013	4,952	663
UNRESTRICTED (DEFICIT)	(130,130)	272,557	70,575	(163,129)
TOTAL NET ASSETS	$ 1,972,123	$ 543,292	$ 372,031	$ 88,345

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 3,544	$ 447	$ 400	$ 206,306
98	147	-	113,284
19,409	-	-	27,409
-	50	-	60,117
-	-	-	34,926
-	-	-	9,272
120	94	-	43,690
-	-	-	19,222
-	-	-	8,337
-	-	-	7,257
-	853	-	5,542
23,171	1,591	400	535,362
-	-	-	30,928
346	296	-	76,583
-	-	-	1,050,232
-	-	-	21,442
-	-	-	5,625
-	-	-	24,929
274,436	4	-	296,462
1,386	1,105	-	624,411
-	25,724	-	68,606
276,168	27,129	-	2,199,218
299,339	28,720	400	2,734,580
(10,890)	173,325	-	2,073,849
7,295	1,242	-	1,023,041
-	12,958	21,079	83,910
$ (3,595)	$ 187,525	$ 21,079	$ 3,180,800

(Concluded)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
EXPENSES	$ 1,616,105	$ 57,856	$ 123,513	$ 668,136
PROGRAM REVENUES:				
Charges for services	377,077	41,829	18,435	524,674
Operating grants and contributions	481,847	25,304	74,106	1,614
Capital grants and contributions	-	-	11,030	28,184
Total program revenues	858,924	67,133	103,571	554,472
Net program (expenses) revenues	(757,181)	9,277	(19,942)	(113,664)
GENERAL REVENUES (EXPENSES):				
Interest and investment income	1,272	(446)	-	310
Payments from (to) the State	692,572	36,500	3,106	73,376
Other	49,815	-	1,658	(741)
Net general revenues (expenses)	743,659	36,054	4,764	72,945
Change in net assets	(13,522)	45,331	(15,178)	(40,719)
NET ASSETS — Beginning of year	1,985,645	497,961	387,209	129,064
NET ASSETS — End of year	$ 1,972,123	$ 543,292	$ 372,031	$ 88,345

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 108,727	$ 13,682	$ 3	$ 2,588,022
9,607	7,958	-	979,580
-	-	-	582,871
-	-	-	39,214
9,607	7,958	-	1,601,665
(99,120)	(5,724)	(3)	(986,357)
442	59	338	1,975
104,641	1,710	(400)	911,505
(1,000)	-	-	49,732
104,083	1,769	(62)	963,212
4,963	(3,955)	(65)	(23,145)
(8,558)	191,480	21,144	3,203,945
$ (3,595)	$ 187,525	$ 21,079	$ 3,180,800

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) is Hawaii's sole public higher education system and is governed by a Board of Regents consisting of fifteen members appointed by the Governor of the State of Hawaii. 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 377 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 257 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 the 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, SLH 2005, as amended by act 180, SLH 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 2005, as amended by Act 180, SLH 2006, created the Hawaii Public Housing Authority (the Authority).

The Authority's 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 of Hawaii 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 of Hawaii. HHSC is managed by a chief executive officer under the control of a 13-member board of directors.

In June 1996, the Legislature of the State passed Act 262, S.B. 2522. The Act, 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 Ho'ola Hamakua
Ka'u 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.

In June 2007, the State legislature passed Act 290, S.B. 1792. This Act, 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.

In 2009, the Legislature passed Act 182, S.B. 1673, effective July 1, 2009, which 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.

In June 2011, the Legislature passed Act 126, S.B. 1300, effective July 1, 2011, which 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.

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 Kakaʻako, Kalaeloa, and Heʻeia Community Development Districts.

The Hawaii Community Development Authority (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 21 (13 regular members, five and three members who vote only on Kalaeloa and He’eia matters, respectively) voting members who, as a body, oversees the HCDA’s operations and establishes policies to implement its legislative objectives. The board is required to report annually to the State Legislature and the Governor. The 21 member board is comprised of the following:

- 13 members that vote on issues related to Kakaʻako and Kalaeloa:
  - Two members appointed by the Governor from a list of names submitted by the President of the Senate and the Speaker of the House of Representatives;
  - Three members appointed by the Governor from a list of names submitted by the Honolulu City Council;
  - Four at-large members appointed by the Governor;
  - 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, an Ex Officio voting member; and
  - The Director of Transportation, as an Ex Officio voting member.
- Five members appointed by the Governor that vote only on issues related to Kalaeloa:
  - The Chairperson of the Hawaiian Homes Commission;
  - The Director of the City and County of Honolulu Department of Planning and Permitting;
  - Two members from the surrounding community, one of which is selected by the Mayor of the City and County of Honolulu; and
  - One member who is a Hawaiian Cultural Specialist.
- Three members appointed by the Governor that vote only on issues related to Heʻeia:
  - All three members shall be residents of the Heʻeia 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 Assets 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 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 assets are restricted when legally enforceable enabling legislation places restrictions or when restrictions are externally imposed by citizens and/or public interest groups. Additionally, restricted net assets are 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 assets. 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.

In accordance with the GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the State has elected not to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

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 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.

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. Investments in student loan auction rate securities are reported at fair value, which is generally calculated using the present value of projected cash flows methodology.

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.

Inventories in the Governmental Funds are recorded as expenditures when consumed rather than when purchased.

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 assets. 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. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. 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 Assets and Fund Balance — In the Government-Wide financial statements and Proprietary Funds and Component Units financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets 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 legislature.
- *Assigned* — Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.
- *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.

New Accounting Pronouncements

GASB Statement No. 60 — The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which will be effective for years beginning after December 15, 2011. This Statement improves financial reporting by addressing issues related to service concession arrangements. The State does not expect this Statement will have a material effect on its 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 will be effective for years beginning after June 15, 2012. This Statement modifies certain requirements for inclusion of Component Units in the financial reporting entity. The State is currently evaluating the impact that GASB Statement No. 61 will have on its 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* is 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 FASB and AICPA pronouncements. The State does not expect that this Statement will have a material effect on its 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 will become 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. The State does not expect that this Statement will have a material effect on its 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 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources of deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 66 - The GASB issued Statement No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statement 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. 68 – The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will become effective for financial statements for periods beginning after June 15, 2014. This Statement establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The State is currently evaluating the impact that GASB Statement No. 68 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, 2012, was $1,865,468,000 and $892,601,000 respectively, for the Primary Government and unrestricted cash for the Fiduciary Funds as of June 30, 2012, was $478,464,000.

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 $1,981,723,000 at June 30, 2012. Of that amount, $1,981,623,000 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 $47,301,000 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, 2012, 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, 2012 (amounts expressed in thousands).

		Maturity (in Years)		
	Fair Value	**Less than 1**	**1–5**	**>5**
Investments — Primary Government:				
Student loan auction rate securities	$ 225,936	$ -	$ -	$ 225,936
Certificates of deposit	263,592	263,592	-	-
U.S. government securities	348,319	168,642	133,821	45,856
Repurchase agreements	103,554	85,950	17,604	-
	$ 941,401	$ 518,184	$ 151,425	$ 271,792
Investments — Fiduciary Funds:				
Student loan auction rate securities	$ 22,208	$ -	$ -	$ 22,208
Certificates of deposit	25,909	25,909	-	-
U.S. government securities	34,237	16,576	13,153	4,508
Repurchase agreements	10,178	8,448	1,730	-
	$ 92,532	$ 50,933	$ 14,883	$ 26,716

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 and student loan resource securities maintaining a Triple-A rating.

The State's investments include auction rate securities collateralized by student loans issued by the federal government. Liquidity for these auction rate securities is typically provided by an auction process which allows holders to sell their notes and reset the applicable interest rate at predetermined intervals of 7 to 28 days. Beginning in 2009 and throughout 2010, auctions failed and investors without the ability to hold such securities until maturity have taken significant losses. The auction failures appear to have been attributable to inadequate buyers and/or buying demand. In the event that there is a failed auction, the indenture governing the security generally requires the issuer to pay interest at a default rate that is generally above market rates for similar instruments. The securities for which auctions have failed will continue to accrue interest at the predetermined rate and be auctioned periodically until the auction succeeds, the issuer calls the securities, they mature, or the State is able to sell the securities to third parties. During 2012, the State recorded a fair value adjustment of $10,100,000 to decrease the carrying value of the State investment pool's auction rate securities to their fair value at June 30, 2012.

On November 23, 2010, the State and Citigroup Global Market Inc. ("Citi") reached an agreement whereby in June 2015, the State will have the option to require Citi to purchase some or all of the State's remaining investments in auction rate securities. The agreement also provides that starting July 2012, the State will have the ability to obtain interim liquidity on its auction rate securities portfolio of up to $150 million worth of securities, at market value, with the difference between that market value and par paid by Citi in July 2015.

As of June 30, 2012, the State's auction rate securities portfolio had a cost of $479,600,000 and an estimated fair value of $458,797,000. The estimated fair value is comprised of $408,917,000 attributable to the auction rate securities and $49,880,000 million attributable to the fair value of the Citi settlement agreement.

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, 2012, 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, 2011	**Additions**	**Deductions**	**Balance — June 30, 2012**
Capital assets not being depreciated:				
Land and land improvements	$ 2,182,065	$ 25,964	$ (884)	$ 2,207,145
Construction in progress	793,166	314,733	(400,016)	707,883
Total capital assets not being depreciated	2,975,231	340,697	(400,900)	2,915,028
Capital assets being depreciated:				
Infrastructure	8,720,586	195,972	(625)	8,915,933
Buildings and improvements	3,673,523	245,811	-	3,919,334
Equipment	361,162	36,543	(11,738)	385,967
Total capital assets being depreciated	12,755,271	478,326	(12,363)	13,221,234
Less accumulated depreciation:				
Infrastructure	(4,689,570)	(228,943)	228	(4,918,285)
Buildings and improvements	(1,953,530)	(117,813)	-	(2,071,343)
Equipment	(294,468)	(28,632)	9,815	(313,285)
Total accumulated depreciation	(6,937,568)	(375,388)	10,043	(7,302,913)
Total capital assets	$ 8,792,934	$ 443,635	$ (403,220)	$ 8,833,349

	Business-Type Activities			
	Balance — July 1, 2011	Additions	Deductions	Balance — June 30, 2012
Capital assets not being depreciated:				
Land and land improvements	$ 585,215	$ -	$ -	$ 585,215
Construction in progress	343,723	174,039	(123,639)	394,123
Total capital assets not being depreciated	928,938	174,039	(123,639)	979,338
Capital assets being depreciated:				
Land and improvements	1,097,480	79,866	(1,917)	1,175,429
Buildings and improvements	2,041,664	41,956	(8,897)	2,074,723
Equipment	258,497	4,382	(7,921)	254,958
Total capital assets being depreciated	3,397,641	126,204	(18,735)	3,505,110
Less accumulated depreciation:				
Land and improvements	(714,676)	(36,415)	1,917	(749,174)
Buildings and improvements	(1,026,098)	(63,685)	7,401	(1,082,382)
Equipment	(176,120)	(12,366)	8,791	(179,695)
Total accumulated depreciation	(1,916,894)	(112,466)	18,109	(2,011,251)
Total capital assets	$ 2,409,685	$ 187,777	$ (124,265)	$ 2,473,197

Depreciation expense for the fiscal year ended June 30, 2012, was charged to functions/programs of the Primary Government as follows (amounts expressed in thousands):

Governmental activities:	
Highways	$ 212,316
Lower education	67,498
General government	33,572
Urban redevelopment and housing	21,729
Public safety	16,287
Conservation of natural resources	8,585
Health	6,855
Economic development and assistance	4,390
Welfare	2,423
Culture and recreation	1,733
Total depreciation expense — governmental activities	$ 375,388
Business-type activities:	
Airports	$ 90,755
Harbors	20,561
EUTF	1,050
DWTLF	97
WPCF	3
Total depreciation expense — business-type activities	$ 112,466

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 BZ, issued October 1, 1992; Series CA, issued January 1, 1993; 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, DV, and DW, issued November 24, 2009, Series DY, issued February 18, 2010, and Series EB, EC, and ED, issued December 7, 2011, contain call provisions. Stated interest rates range from .2% to 8%.

On December 7, 2011, the State issued $800,000,000, $403,455,000, $2,800,000, $56,225,000 and $23,750,000 of general obligation refunding bonds of 2011, Series DZ, EA, EB, EC, and ED, respectively. Interest rates were 2% to 5% to advance refund $512,515,000 of certain outstanding general obligation bonds previously issued. The net proceeds of $558,980,000 (including a premium of $74,009,000 and after payment of $1,256,000 in underwriting fees) 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. 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 $59,093,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $64,403,000. The Series EA is subject to optional redemption while Series EB, EC and ED bonds are not subject to redemption by the State prior to their respective stated maturities. The bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method.

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, 2012, $621,415,000 of bonds outstanding is considered defeased.

At June 30, 2012, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	$ 4,367,419
Noncallable	1,142,540
Total general obligation bonds outstanding	5,509,959
Less amount recorded as a liability of — Proprietary Funds — Harbors	(34,611)
Amount recorded in the governmental activities of the Primary Government	$ 5,475,348

A summary of general obligation bonds outstanding by series as of June 30, 2012, is as follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount	Amount Outstanding
BZ	October 1, 1992	6.000%	October 1, 2012	200,000	$ 1,535
CA	January 1, 1993	5.500%–8.000%	January 1, 2012–2013	90,000	5,000
CH	November 1, 1993	4.750%	November 1, 2011–2013	250,000	27,770
CM	December 1, 1996	6.000-6.500%	December 1, 2012–2016	150,000	41,650
CW	August 1, 2001	4.300%–5.500%	August 1, 2011–2015	156,750	12,460
CY	February 15, 2002	5.50%–5.750%	February 1, 2012–2015	319,290	123,605
CZ	November 26, 2002	3.500%–5.500%	July 1, 2011–2022	300,000	17,860
DA	September 16, 2003	3.750%–5.250%	September 1, 2011–2023	225,000	101,070
DB	September 16, 2003	4.000%–5.250%	September 1, 2011–2016	188,650	101,885
DD	May 13, 2004	3.700%–5.250%	May 1, 2012–2024	225,000	42,800
DE	November 10, 2004	3.000%–5.000%	October 1, 2011–2024	225,000	130,725
DF	June 15, 2005	3.250%–5.000%	July 1, 2011–2025	225,000	163,375
DG	June 15, 2005	5.000%	July 1, 2011–2017	722,575	516,820
DI	March 23, 2006	3.800%–5.500%	March 1, 2013–2026	350,000	289,190
DJ	April 12, 2007	3.625%–5.000%	April 1, 2012–2027	350,000	306,450
DK	May 20, 2008	3.000%–5.000%	May 1, 2012–2028	375,000	359,110
DL	May 20, 2008	3.000%–5.000%	May 1, 2012–2018	29,010	25,265
DM	May 20, 2008	4.260%–4.670%	May 1, 2012–2014	25,000	8,985
DN	December 16, 2008	3.000%–5.500%	August 1, 2012-2028	100,000	100,000
DO	December 16, 2008	3.000%–5.000%	August 1, 2011-2018	101,825	90,840
DP	December 16, 2008	4.150%–5.680%	August 1, 2011-2016	26,000	22,160
DQ	June 23, 2009	3.000%–5.000%	June 1, 2013-2029	500,000	490,219
DR	June 23, 2009	3.000%–5.000%	June 1, 2014-2019	225,410	203,910
DS	November 5, 2009	.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
DV	November 24, 2009	2.000%–5.000%	November 1, 2012	46,855	46,855
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, 2031	800,000	800,000
EA	December 7, 2011	2.000%–5.000%	December 1, 2023	403,455	403,455
EB	December 7, 2011	2.000%	December 1, 2012	2,800	2,800
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
					$ 5,509,959

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 2012 is as follows (amounts expressed in thousands):

Balance — July 1, 2011	$ 214,415
GO Bond Series DZ, EA, EB, EC, and ED	183,095
Defeased Bond Series CV, CW, CX, CZ, DA, DB, DD, DE, DF, DI	(19,357)
Current-year amortization	(33,296)
Balance — June 30, 2012	$ 344,857

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
2013	$ 372,352	$ 259,126	$ 631,478
2014	430,556	240,722	671,278
2015	412,116	222,349	634,465
2016	406,473	201,776	608,249
2017	426,177	182,051	608,228
2018—2022	1,632,255	643,744	2,275,999
2023—2027	1,219,387	306,935	1,526,322
2028—2031	576,032	63,107	639,139
	$ 5,475,348	$ 2,119,810	$ 7,595,158

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
2013	$ 1,678	$ 1,702	$ 3,380
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—2022	11,710	5,193	16,903
2023—2027	12,773	1,986	14,759
2028—2029	893	44	937
	$ 34,611	$ 14,892	$ 49,503

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, 2012, was $294,505,000.

At June 30, 2012, general obligation bonds authorized but unissued were approximately $1,551,402,000.

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, the Highways issued $112,270,000 in State of Hawaii Highway Revenue Bonds of 2011, Series A, with interest rates ranging from 0.75% to 5% to finance certain highway capital improvement projects and related projects. The bonds are payable annually January 1 through 2032.

On December 15, 2011, the Highways issued $5,095,000 in State of Hawaii Highway Revenue Bonds of 2011, Series B, with an interest rate of 4% 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 improvements projects. The bonds are payable semiannually on April and October 1 through 2039.

On December 17, 2008, the Highways issued $125,175,000 in State of Hawaii Highway Revenue Bonds, Series 2008, with interest rates ranging from 4.75% to 6% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and July 1 through 2029.

On March 15, 2005, the Highways issued $60,000,000 in State of Hawaii Highway Revenue Bonds of 2005, Series A, with interest rates ranging from 3% to 5% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and 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% to 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable semiannually on January and 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 3.5% 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 bonds are payable semiannually on January and July 1 through 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 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 in annual installments through July 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, 2012 (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	3.50%–5.25%	July 1, 2011–2013	44,940	10,465
2005 A	March 15, 2005	3.00%–5.00%	July 1, 2011–2025	60,000	46,675
2005 B	March 15, 2005	3.00%–5.25%	July 1, 2011–2021	123,915	112,155
2008	December 17, 2008	4.75%–6.00%	January 1, 2012–2029	125,175	113,415
2011 A	December 15, 2011	0.75%-5.00%	January 1, 2013-2032	112,270	112,270
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, 2012–2039	42,500	40,525
					$ 468,180

A summary of the revenue bond premium activities for fiscal year 2012 is as follows (amounts expressed in thousands):

	Revenue Bonds
Balance — July 1, 2011	$ 9,341
Current-year additions	13,619
Current-year amortization	(2,190)
Balance — June 30, 2012	$ 20,770

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

Fiscal Year	Principal	Interest	Total
2013	$ 27,030	$ 23,348	$ 50,378
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
2018–2022	139,790	64,608	204,398
2023–2027	94,200	37,575	131,775
2028–2032	67,660	14,451	82,111
2033–2037	11,295	3,760	15,055
2038–2040	5,520	502	6,022
	$ 468,180	$ 223,522	$ 691,702

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, 2012 (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	$ 478,690
2010B, refunding	3.00%–5.00%	2020	166,000	166,000
2011, refunding	2.00%-5.00%	2024	300,885	300,885
			$ 945,865	945,575
Add unamortized premium				28,858
Less:				
Deferred loss on refunding				(7,557)
Current portion				(27,545)
Noncurrent portion				$ 939,331

The certificate providing for the issuance of revenue bonds requires that the Airports division impose, prescribe, and collect revenues that, together with unencumbered funds, will yield net revenues and taxes at least equal to 1.25 times the total interest, principal, and sinking fund requirements for the ensuing 12 months. The Airports division is also required to maintain adequate insurance on its properties. At June 30, 2012, $209,933,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

On October 4, 2011, the Airports Division issued $300,885,000 of airports system revenue bonds (Refunding Series 2011 (AMT)) at interest rates ranging from 2% to 5% to refund its outstanding Refunding Series of 2001 bonds. The average interest rates of the refunded bonds were 5.5782%. Of the net proceeds of approximately $321,287,000 (after payment of approximately $1,664,000 in underwriting fees, insurance and other costs), along with approximately an additional $7,534,000 from the debt service reserve account, approximately $328,822,000 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of Refunding Series of 2001 bonds on November 3, 2011. As a result, the refunded portion of the Refunding Series on 2001 bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

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 and aggregated to $31,005,000 at June 30, 2012.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2012.

$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.

$6,600,000 Issue

During the year ended June 30, 2011, the bonds with a stated maturity date of December 1, 2010 were paid off. The bonds bore interest at 10.125% and were subject to redemption on or after December 1, 2003, at the option of the Airports Division, upon the request of Sky Chefs, Inc. or, if the facilities are destroyed or damaged extensively, at 100% plus interest.

Special facility revenue bonds payable at June 30, 2012, consisted of the following (amounts expressed in thousands):

	Continental		Total
Current portion	$ 905	$ -	$ 905
Noncurrent portion	8,375	21,725	30,100
	$ 9,280	$ 21,725	$ 31,005

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.

In November 2010, the Harbors Division issued $201,390,000 of Revenue Bonds, consisting of $164,275,000 of Series A of 2010 Revenue Bonds and $37,115,000 of Series B of 2010 Revenue Bonds. The Harbors Division's net proceeds of $199,749,000 (including net premiums of $256,000 and after payment of $1,897,000 in underwriting fees), were used to advance refund certain outstanding Revenue Bonds, as well as to fund future harbor capital improvement projects. The Series A of 2010 Revenue Bonds are secured by a cash deposit of $11,455,000.

The net proceeds from the Series B of 2010 Revenue Bonds, along with $2,180,000 from the Harbors Division's cash accounts, were used to advance refund $38,930,000 of the Series A of 2000 Revenue Bonds previously issued and for a redemption premium of $389,000. The advance refunding resulted in a difference between the acquisition price and the net carrying amount of the refunded debt of $1,599,000. This difference is being charged to operations over the next 11 years. However, due to the advance refunding, the Harbors Division decreased its total debt service payments over the next 11 years by $2,554,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,916,000.

The following is a summary of the Harbors' revenue bonds as of June 30, 2012 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current: Principal Due July 1, 2012	Current: Due January 1, 2013	Current: Total	Noncurrent
2000	July 1, 2029	4.50%–6.00%	$ 79,405	$ -	$ -	$ -	$ 14,670
2002	July 1, 2019	3.00%–5.50%	24,420	605	-	605	9,405
2004	January 1, 2024	2.50%–6.00%	52,030	-	1,365	1,365	20,710
2006	January 1, 2031	4.00%–5.25%	96,570	-	2,645	2,645	80,420
2007	July 1, 2027	4.25%–5.50%	51,645	4,215	-	4,215	42,395
2010	July 1, 2040	3.00%–5.75%	201,390	3,210	-	3,210	196,295
			$505,460	8,030	4,010	12,040	363,895
Add unamortized premium				-	-	293	1,456
Less:							
Unamortized discount				-	-	(2)	(16)
Unamortized deferred loss on refunding				-	-	(489)	(4,744)
				$8,030	$4,010	$ 11,842	$360,591

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
2013	$ 42,292	$ 65,950	$ 108,242
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
2018–2022	313,650	241,065	554,715
2023–2027	243,590	162,962	406,552
2028–2032	204,040	106,278	310,318
2033–2037	192,230	59,117	251,347
2038–2041	169,492	31,979	201,471
	$ 1,370,314	$ 908,526	$ 2,278,840

Revenue Bonds Authorized, but Unissued — At June 30, 2012, revenue bonds authorized, but unissued were approximately $3,835,541,000.

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, 2012, amounted to approximately $1,397,093,000. At June 30, 2012, special purpose revenue bonds of $1,399,660,000 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, 2012.

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, 2011	Additions	Deductions	Balance — June 30, 2012	Due Within One Year
General obligation bonds payable — net	$ 4,987,544	$ 1,286,230	$ (798,426)	$ 5,475,348	$ 372,352
Accrued vacation payable	215,599	92,401	(95,217)	212,783	71,417
Revenue bonds payable	378,625	117,365	(27,810)	468,180	27,030
Reserve for losses and loss adjustment costs	153,520	43,030	(26,650)	169,900	34,493
Other postemployment benefits liability	1,975,409	760,652	(205,091)	2,530,970	-
Capital lease obligations	100,520	-	(5,180)	95,340	5,461
Total	$ 7,811,217	$ 2,299,678	$ (1,158,374)	$ 8,952,521	$ 510,753

	Business-Type Activities				
	Balance — July 1, 2011	Additions	Deductions	Balance — June 30, 2012	Due Within One Year
General obligation bonds payable — net	$ 36,221	$ -	$ (1,610)	$ 34,611	$ 1,678
Accrued vacation and retirement benefits payable	12,280	5,661	(5,625)	12,316	3,706
Revenue bonds payable	1,410,624	327,885	(368,195)	1,370,314	40,292
Reserve for losses and loss adjustment costs	4,871	1,095	(1,063)	4,903	1,116
Other postemployment benefits liability	34,808	17,527	(4,767)	47,568	-
Prepaid airport use charge fund	12,302	38,574	(2,759)	48,117	14,890
	$ 1,511,106	$ 390,742	$ (384,019)	$ 1,517,829	$ 61,682

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's Governmental Funds. Approximately 80%, 19%, 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, 2012.

7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2012 (amounts expressed in thousands):

	Due From	Due To
Governmental Funds:		
General Fund:		
Special Revenue Funds	$ 14,705	$ -
Capital Projects Fund	89,900	-
Med-Quest Special Revenue Fund	28,400	-
Debt Service Fund	-	64
	133,005	64
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	-	28,400
Nonmajor Governmental Funds:		
General Fund	64	14,705
Capital Projects Fund	-	-
	64	14,705
Proprietary Fund —		
Harbors	-	1,597
	$ 134,666	$ 134,666

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, 2012, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Governmental Funds:		
General Fund — Nonmajor Governmental Funds	$ 53,497	$ 591,053
Capital Projects Fund — Nonmajor Governmental Funds	138,937	32,301
Med-Quest Special Revenue Fund — Nonmajor Governmental Funds	9,465	30,275
Nonmajor Governmental Funds:		
General Fund	586,719	26,727
Capital Projects Fund	32,301	138,937
Medquest Fund	3,505	4,997
Other Nonmajor Governmental Funds	126,293	126,427
	748,818	297,088
	$ 950,717	$ 950,717

The General Fund transferred approximately $530,067,000 to the Nonmajor Governmental Funds for debt service payments and approximately $56,652,000 to subsidize various Special Revenue Funds programs. Approximately $138,937,000 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 2024. Future minimum lease commitments for noncancelable operating leases as of June 30, 2012, were as follows (amounts expressed in thousands):

Fiscal Year	
2013	$ 15,098
2014	12,399
2015	9,945
2016	7,271
2017	4,711
2018–2022	11,316
2023–2024	1,086
Total future minimum lease payments	$ 61,826

Rent expenditures for operating leases for the fiscal year ended June 30, 2012, amounted to approximately $34,894,000.

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) 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 certificates of participation. 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% - 5%. 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	
2013	$ 10,308
2014	10,271
2015	10,563
2016	10,901
2017	11,032
2018–2022	37,682
2023–2027	28,081
2028–2032	19,191
Total future minimum lease payments	138,029
Less amount representing interest	(42,689)
Present value of net minimum lease payments	95,340
Less current portion	(5,461)
Noncurrent portion	$ 89,879

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 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 $4,338,000 for fiscal year 2012.

Airports — System Rates and Charges

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

- Landing fees amounted to approximately $63,401,000 for fiscal year 2012. Airport landing fees are shown net of aviation fuel tax credits of $3,761,000 for fiscal year 2012, on the statement of revenues, expenses, and changes in net assets, which resulted in net airport landing fees of $59,640,000 for fiscal year 2012. 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 40% of the Airports landing fees for overseas flights for 2012 and are scheduled to increase 1% annually until it reaches 100%.

- Nonexclusive joint-use premise charges for terminal rentals amounted to approximately $47,052,000 for fiscal year 2012. 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 $41,663,000 for fiscal year 2012, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to approximately $24,044,000 for fiscal year 2012.

- Airports system support charges amounted to approximately $421,000 for fiscal year 2012. 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, 2012, was approximately $42,034,000.

In fiscal year 2006, Airports converted certain past-due amounts from two lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from zero to nine years. The balance of $220,000 at June 30, 2012, is due as follows: $126,000 in 2013, $35,000 in 2014, $35,000 in 2015, and $24,000 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 Kona International Airport at Keahole retail concession, accounted for approximately 29% of total concession fees revenues for the fiscal year ended June 30, 2012.

On January 3, 2007, 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 $122 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, 2012 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fifth 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 ($9,950,000 during the last year of the five-year term).

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 to the ATDC portions of the Aloha Tower complex. 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 of 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 time frame.

An amendment of the lease executed in fiscal 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, 2012 was approximately $4,923,000.

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, 2012, amounted to $28,979,000 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, 2012 (amounts expressed in thousands):

	Proprietary Funds		
Fiscal Year	**Airports**	**Harbors**	**Total**
2013	$ 114,894	$ 8,623	$ 123,517
2014	117,460	8,470	125,930
2015	109,425	7,079	116,504
2016	74,899	6,837	81,736
2017	61,742	5,427	67,169
2018–2022	109,021	25,872	134,893
2023–2027	21,019	25,151	46,170
2028–2032	13,291	21,304	34,595
2033–2037	8,770	15,221	23,991
2038–2042	16,940	9,947	26,887
2043–2047	-	6,197	6,197
2048–2052	-	2,617	2,617
2053–2057	-	2,481	2,481
2058–2059	-	517	517
	$ 647,461	$ 145,743	$ 793,204

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, 2012, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	$ 49,687
Less amount representing interest	(21,885)
	27,802
Cash with trustee and other	3,410
	$ 31,212

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2012, consisted of the following (amounts expressed in thousands):

Fiscal Year	
2013	$ 2,777
2014	2,778
2015	2,770
2016	2,778
2017	2,776
2018–2022	10,773
2023–2027	6,110
2028	22,336
	$ 53,098

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 $13,771,000 of amounts due from the department of Hawaiian Homelands (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 $2.2 million payments 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, 2012, the full amount was not yet repaid to the State. The total amount due to the State includes $20,123,000 of cash advances to the Department of Health — Division of Community Hospitals, which was assumed by HHSC at the date of its formation. HHSC also received $10,000,000 in advances from the State. On March 30, 2010, the State agreed to defer payment of the $10,000,000 advance over four years beginning in fiscal 2012. Of the $10,000,000 in advances, $2,000,000 is due in fiscal year 2013.

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. 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 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% 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, 2012, the outstanding principal and aggregate interest amounts required to be reimbursed by HTA were $246,650,000 and $149,784,000, 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
2013	$ 12,390	$ 14,038	$ 26,428
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
2018–2022	93,470	38,671	132,141
2023–2027	83,335	48,818	132,153
	$ 246,650	$ 149,784	$ 396,434

Hawaii Hurricane Relief Fund

On June 25, 2002, Act 179 was signed into law by the Governor of the State of Hawaii. 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, 2012, interest earned and transferred into the State General Fund amounted to $400,000.

On May 26, 2011, Act 62 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, 2012.

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% 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% 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, 2012, 2011, and 2010, were approximately \$396,380,000, \$388,242,000, and \$398,724,000, respectively. The State contributed 108.6%, 105.3%, and 99.6% of its required contribution for those years, respectively. Covered payroll for the fiscal year ended June 30, 2012, was approximately \$2,638,338,000.

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 family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with at 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 at 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 retire 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 Employer 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. Therefore, an actuarial valuation was performed for 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, 2012 (amounts in thousands):

	EUTF	UH
Annual required contribution	$ 817,658	$ 134,921
Interest on net OPEB obligation	87,800	12,726
Adjustment to annual required contribution	(48,869)	(11,569)
Annual OPEB cost	856,589	136,078
Contributions made	(231,000)	(40,759)
Increase in net OPEB obligation	625,589	95,319
Net OPEB obligation — beginning of year	2,163,898	318,143
Net OPEB obligation — end of year	$ 2,789,487	$ 413,462
Actuarial accrued liability (AAL) July 1, 2011	$ 11,706,157	$ 1,860,680
Funded OPEB plan assets	-	-
Unfunded actuarial accrued liability (UAAL) July 1, 2011	$ 11,706,157	$ 1,860,680
Funded ratio	- %	- %
Covered payroll	$ 2,093,431	$ 503,900
UAAL as percentage of covered payroll	559 %	369 %

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the preceding years were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	NET OPEB Obligation
EUTF	June 30, 2012	$ 856,589	27.0 %	$ 2,789,487
	June 30, 2011	906,117	25.3 %	2,155,055
	June 30, 2010	687,847	27.8 %	1,046,690
HSTA VEBA (*)	June 30, 2010	$ 202,179	8.7 %	$ 441,026
UH	June 30, 2012	$ 136,078	30.0 %	$ 413,462
	June 30, 2011	150,637	25.7 %	318,143
	June 30, 2010	101,521	22.8 %	206,271

(*) Effective January 1, 2011, HSTA VEBA became part of the EUTF.

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.

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 %
Projected salary increases	3.5 %
Healthcare inflation rates:	
Medical & Rx Pre-65 (HMSA)	8.0% initial, 5.0% ultimate
Medical & Rx Pre-65 (HMSA & Kaiser-HSTA)	8.5% initial, 5.0% ultimate
Medical & Rx Post-65 (HMSA)	8.5% initial, 5.0% ultimate
Medical & Rx Post-65 (Kaiser)	15.0% initial, 5.0% ultimate
Dental	4.0% initial and ultimate
Vision	3% initial and ultimate
Medicare Part B	5% initial and ultimate

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, 2012, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:	
Highways	$ 17,006
Agriculture	6,856
Natural Resources	3,207
All Other	374
	$ 27,443

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, 2012, accumulated sick leave was approximately $1,034,722,000.

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, 2012.

Proprietary Fund Type — Enterprise Funds

Construction and Service Contracts

At June 30, 2012, the Enterprise Funds had commitments of approximately $329,914,000 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, 2012, 2011, and 2010, approximated $3,668,000, $4,130,000, and $11,171,000, 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 $48,589,000 during the fiscal year ended June 30, 2012. As of June 30, 2012, the State expects to receive $27,900,000 for the first six months of fiscal 2013.

Office of Hawaiian Affairs

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 re-conveyed title to those lands (collectively, the “Ceded Lands”) to the State, and the Ceded Lands are 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. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish the OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands 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 all funds derived by the State from the Ceded Lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("*Yamasaki"*), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of moneys OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the Legislature adopted Act 304, SLH 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies, paid 20% of "revenues" to OHA on a quarterly basis.

In 1993, the Legislature enacted Act 35, SLH 1993, appropriating $136.5 million to pay the amount determined to be OHA's claims, with interest, for the period June 16, 1980 through June 30, 1991.

On January 14, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (1st Cir.) ("*OHA I"*)), claiming that the amount paid to OHA was inadequate and that the State had failed to account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution for damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of moneys it receives from (i) the Department of Transportation Airports Division's in-bound duty free airport concession (including receipts from the concessionaire's off-airport sales operations), (ii) the State-owned and operated Hilo Hospital, (iii) the State's public rental housing projects and affordable housing developments, and (iv) interest income, including investment earnings (collectively , the "Sources"). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the circuit court filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the circuit court filed an order granting Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the moneys it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting Plaintiffs' four partial summary judgments was granted and all proceedings in the suit were stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw. 388 (2001) that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard, i.e., a legal standard, by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the Ceded Lands. The Supreme Court dismissed *OHA I* for lack of justifiability, that is, that the case was not appropriate for review by the Court, noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. Immediately thereafter, agencies ceased paying OHA any receipts from the Ceded Lands.

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses, and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. In Act 34, SLH 2003, the legislature appropriated moneys from the various funds into which the Ceded Lands receipts had been deposited after the decision in OHA I was issued and agencies ceased making payments to OHA, and directed the agencies to pay them to OHA.

OHA continues to pursue claims for a portion of the revenues from the Sources and other Ceded Lands that were made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii*, et al., Civil No. 03-1-1505-07 ("*OHA II*"). In September 1996, the Office of the Inspector General of the U.S. Department of Transportation (DOT) issued a report ("IG Report") concluding that payments to OHA between 1992 and 1995 of $28.2 million by the Hawaii Department of Transportation was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the Airports and not a diversion of airport revenues. In May 1997, the Acting Administrator of the FAA concurred in writing ("FAA Memorandum") with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the circuit court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position set forth in the IG Report changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply brief, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In November 1997, the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169 ("DOT Appropriation Act") was enacted into federal law. Section 340 of the DOT Appropriation Act (Section 340) essentially provides that in exchange for there being no further payments of airport revenues for claims related to Ceded Lands, any such payments received prior to May 1, 1996 need not be repaid. The Hawaii Attorney General submitted enactment of Section 340 to the Hawaii Supreme Court in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties to submit supplemental briefs to address whether Section 340 affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* sued the State for alleged breaches of fiduciary duties as purported trustee of the Ceded Lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5, and 6 of the Hawaii Constitution, violations of the Contract Clause of the U.S. Constitution, and misrepresentation and nondisclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose the positions set forth in the FAA Memorandum;

(2) resolving its dispute with the FAA by obtaining a forgiveness of the prior $28.2 million payment in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use them as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors, and omissions" were substantial factors that resulted in the passing of Section 340 and the issuance of the Hawaii Supreme Court's opinion in *OHA I*. Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I*, and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also sought declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and sought appointment of an independent trustee to replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from sources other than airport revenues. On December 26, 2003, the court granted the State's motion to dismiss OHA's complaint in *OHA II*. The court entered a final judgment on May 19, 2004, encompassing the order dismissing the complaint and several procedural orders. On June 8, 2004, OHA filed a notice of appeal from the portions of the May 19, 2004 judgment dismissing its complaint in *OHA II*, denying leave to amend the complaint and denying a request for bifurcation of OHA's claims for liability and damages. The Hawaii Supreme Court affirmed the circuit court's order dismissing OHA's complaint in a decision issued September 9, 2005; granted OHA's motion for reconsideration in an order filed on December 23, 2005; and affirmed the circuit court's final judgment again in an opinion entered on April 28, 2006.

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under article XII, sections 4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix prospectively, the minimum amount of income and proceeds from the lands of the Ceded Lands public trust, OHA is to receive per fiscal year, under those same provisions of the Hawaii Constitution, at $15.1 million. The settlement was contingent on passage of a bill prepared jointly by OHA and the Attorney General without material changes, or, if the bill was changed, with the written approval of OHA and the Governor. The Legislature did not pass any bills for such purpose during its 2008 regular session, and directed instead that OHA and the Attorney General resume negotiations on the payment to be made by the State to resolve the dispute with OHA concerning the sum OHA should have received from November 7, 1978 to June 30, 2008, pursuant to article XII, sections 4 and 6 of the Hawaii Constitution.

On June 2, 2010, OHA filed a petition for writ of mandamus in the Hawaii Supreme Court which asked the court to compel the members of the Twenty-Sixth Legislature (which convened in January 2011) to enact legislation to pay OHA what OHA believes represents unpaid portions of the income and proceeds derived from the ceded lands between 1978 or 1980 through 2008, i.e., approximated at $200,000,000. The court entered an order denying the petition on August 18, 2010. It was reported on November 17, 2011, that the State has reached an agreement in principle, subject to approval of the Legislature, to resolve the amount the State owes OHA through 2012 by providing OHA approximately 25 acres of land worth an estimated $200,000,000. No prediction can be made as to whether an agreement will be finalized and, if so, what form it may take.

On April 11, 2012, the Governor signed Act 15, SLH 2012 ("Act 15"), into law. Act 15 conveys title to nine parcels, valued at approximately $200,000,000 to OHA, as of July 1, 2012. Act 15 also satisfies, resolves, discharges, releases, waives, extinguishes, prohibits, and bars, finally and completely, any and all claims, disputes, controversies, rights, actions, and causes of action, OHA (or other parties claiming through OHA) has asserted or could have asserted to the income and proceeds from the Ceded Lands. Act 15 also withdrew any waiver of sovereign immunity the State may previously have made with respect to OHA's portion of receipts from Ceded Lands, and affirms that the State does not waive its sovereign immunity to permit a claim or suit to be brought to invalidate the act's operative provision.

Until the Legislature alters the amount or establishes a different means of implementing Article XII, Sections 4 and 6 of the Hawaii Constitution, Act 178 serves as the means for satisfying the State's obligation to provide OHA with a portion of the income and proceeds from the Ceded Lands, for native Hawaiians.

In November 1994, OHA and four individuals also filed complaints for declaratory and injunctive relief on November 4, 1994, and November 9, 1994 (*OHA v. Housing Finance and Development Corporation et al.*, Civil No. 94-4207-11 (1st Cir.)) to enjoin the State from alienating any Ceded Lands and extinguishing any rights Hawaiians may have in Ceded Lands that may be alienated. Alternatively, OHA sought a declaration that the amounts paid to OHA by the Housing Finance and Development Corporation (the "HFDC", since succeeded by the HHFDC, as described below) and the State for Ceded Lands that the HFDC planned to use to develop and sell housing units pursuant to Act 318, SLH 1992, were insufficient. Act 318 established a separate process for valuing the Ceded Lands the HFDC used for its two housing developments at Kealakehe and Lahaina, and quantifying the amounts of income and proceeds from the Ceded Lands that the HFDC and State were required to pay to OHA for conveying and using the parcels for the Corporation's two projects.

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell Ceded Lands, denied the declaratory ruling that the sale of Ceded Lands did not directly or indirectly release or limit Hawaiians' claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and the HFDC's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court.

On January 31, 2008, the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remand[ed] the case to the circuit court with instructions to issue an order granting the plaintiffs' request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands has [sic] been resolved." In accordance with the instructions of the Hawaii Supreme Court, the circuit court issued its order on June 4, 2008 granting plaintiffs' request for such injunction. Seeking a reversal of the January 31, 2008, decision of the Hawaii Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008, with the United States Supreme Court. The United States Supreme Court granted the petition for certiorari, and on March 31, 2009, unanimously reversed the Hawaii Supreme Court's decision, and remanded the case to the Hawaii Supreme Court for further proceedings not inconsistent with its opinion. The United States Supreme Court concluded that the State holds "absolute fee" title to the lands conveyed to it by the United States at statehood; that federal law did not prevent the Legislature from deciding, as it had, to sell a portion of the Ceded Lands for the HFDC's two housing developments; and that the Supreme Court of Hawaii erred in reading the federal Apology Resolution "as recognizing claims inconsistent with the title held in 'absolute fee' by the United States and conveyed to the State of Hawaii at statehood." By orders filed on May 15, 2009, the Hawaii Supreme Court re-opened the appeal in that court "for further consideration in light of the United States Supreme Court's mandate."

On July 15, 2009 all but one of the plaintiffs filed a motion to dismiss their appeal, and all of their claims without prejudice, and the Attorney General a motion to dismiss all remaining claims, namely the claims of the plaintiff who did not join the rest of the plaintiffs' motion to dismiss.

By a judgment on appeal filed on December 14, 2009 that referred to an opinion filed on October 27, 2009, the Hawaii Supreme Court vacated the January 31, 2003 judgment, and remanded the case to the circuit court for entry of a judgment dismissing plaintiff Osorio's claims against the State without prejudice. In the Circuit Court, the Attorney General filed a motion to dismiss plaintiff Osorio's claims without prejudice, and a motion to dissolve the injunction entered on June 4, 2008. Two orders were filled in the circuit court on March 9, 2010, one dismissing plaintiff Osorio's claims without prejudice, and the other dissolving the June 4, 2008 injunction.

OHA also filed suit against the Hawaii Housing Authority (the "HHA", since succeeded by the HPHA, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA*, *et al.*, Civil No. 95-2682-07 (1st Cir.)) 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 the State's appeal in *OHA I*. OHA disagrees that the repeal and revival of the pre-*Yamasaki* law by the Hawaii Supreme Court's September 12, 2001, decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

The HFDC and the HHA were merged into the HCDCH after the suits against them described above were filed. HCDCH subsequently was bifurcated into the HHFDC and the HPHA.

The State intends to defend vigorously against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

Department of Hawaiian Home Lands

Individual Claims

In 1991, the State 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 nonbinding 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 by November 1, 1999; 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 State 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. As of September 30, 1999, the Panel had not reviewed claims from 1,376 claimants, and all but the claims of two claimants had not been acted upon by the Legislature.

On September 30, 1999, three claimants filed a suit for declaratory and injunctive relief in the U.S. District Court for the District of Hawaii to secure an injunction prohibiting the enforcement of the notice and suit filing deadlines specified in HRS Chapter 674. Kalima, et al. v. Cayetano, Civil No. 99-00671HG/LEK. A motion for preliminary injunction was heard on November 15, 1999, and denied as moot on September 28, 2000. By stipulation filed on November 13, 2000, the action was dismissed without prejudice.

On December 29, 1999, the same 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 674 and 673, 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. Aguiar v. State of Hawaii, et al., Civil No. 99-612 (3rd Cir.); Silva v. State of Hawaii, et al., Civil No. 99-4775-12 (1st Cir.); Wilhelm v. State of Hawaii, et al., Civil No. 99-4774-12 (First Circuit Court); Williamson v. State of Hawaii, et al., Civil No. 99-4773-12 (First Circuit Court); Hanohano v. State of Hawaii, et al., Civil No. 99-4775-12 (First Circuit Court). The Plaintiffs in these other actions have 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. Plaintiff Hanohano, Silva, Wilhelm, and Williamson have since stipulated to the dismissal of their actions without prejudice.

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 the State 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.

On August 30, 2000, the circuit court entered an order in Kalima I granting Plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denying Defendants' motion for judgment on the pleadings. Essentially, the circuit court rejected Defendants' sovereign immunity, lack of subject matter jurisdiction, and no cause of action defenses the State asserted, and ruled that the Plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for purposes of Count I) could pursue their claims for damages and other relief under HRS Chapters 674 and 661.

The circuit court allowed the State to take an interlocutory appeal from the August 30, 2000, order to the Hawaii Supreme Court, and entered an order staying all proceedings in Kalima I pending the Hawaii Supreme Court's disposition of the appeal. By an order entered on September 20, 2001, the Supreme Court dismissed that appeal for lack of appellate jurisdiction. The State thereafter secured a certification of finality for the August 30, 2000 order from the circuit court, and filed another notice of appeal of the order so that the questions of law the circuit court decided could be reviewed by the Supreme Court prior to trail. By an opinion issued on June 30, 2006, the Supreme Court affirmed the plaintiffs were entitled to pursue their claims for damages under HRS Chapter 674, reversed the circuit court's determination that the plaintiffs had a right to sue under HRS Chapter 661, and remanded the case to the back to trial court for further proceedings.

The plaintiffs have since filed a first and second amended complaint 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 subclass' claims separately and first.

By orders entered on August 6, and August 25, 2009, respectively, two new waiting list subclass representative plaintiffs were added, and the claims of one of the two previously named waiting list subclass representatives were dismissed. Trial on the liability portion of the waiting list subclass' claims began on August 4, 2009 and on November 3, 2009 the circuit judge for the case ruled that the State committed various 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. The State's motion for permission to take an immediate appeal from the circuit court's rulings before a trial on the damages portion of the waiting list subclass' claim began was denied.

After competing motions were filed by the opposing parties to establish a model to calculate damages suffered by each subclass member as a result of the breaches of trust, on January 24, 2012, the circuit court issued an order that, inter alia, state that 1) for purposes of the computation of damages, the time to run would start at the earliest six years from the date a beneficiary's application is accepted for placement on the list to receive homesteads, 2) denied Steps 1 and 2 of Defendant's proposed damages model, 3) called for motion to be presented by the parties to determine issues that the parties wish to raise with respective to individualized circumstances that can be determined on a class-wide basis, and 4) state that after resolution of the motions referenced in 3), the Court would determine the model to be used to calculate damages and whether referral to a Special Master to make such calculations is appropriate. Defendants filed a motion for reconsideration of the above-described order, which was subsequently denied.

The parties filed motions to determine issues with respect to individualized circumstances that can be determined on a class-wide basis on February 10, 2012. The hearing on those motions was postponed to permit notices to opt-out of the Waiting List Damages Model Subclass to be given. The Notice informed members of their right to opt-out by July 15, 2012, and to file damage claims on or before September 1, 2012. Ten individuals opted-out; to the best of the State's knowledge, none filed a separate damage claim on or before September 1, 2012. The motion filed on February 10, 2012 were heard on August 31, 2012, and taken under advisement.

Trial on out of pocket damages, if necessary, has been scheduled for March 4, 2013.

Nelson et al., v. Hawaiian Homes Commission

Nelson et al., v. Hawaiian Homes Commission, et al., Civil No. 07-1-1663-08 BIA (1st Cir.) ("*Nelson*"), was filed on September 6, 2007, but not served. Instead, plaintiffs filed a First Amended Complaint on October 19, 2007, to which, with the plaintiffs' permission, the defendants State of Hawaii and Georgina

Kawamura in her official capacity as the State's Director of Budget and Finance filed an answer on December 31, 2007, and the remaining defendants, the DHHL and the Hawaiian Homes Commission and its members, filed an answer on February 29, 2008.

The Nelson 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 homelands 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 ask 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 Legislature, the State, or any State agency or employee, is required to appropriate, request, or otherwise provide or secure particular amounts of money for the 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.

The plaintiffs also asked the court to declare that DHHL may not lease Hawaiian Home Lands trust property solely to generate revenue, and that DHHL's lease of the Honokohau Makai property is invalid, and to enjoin any further leases of trust lands for commercial developments unrelated to homesteading programs. By a stipulation filed on August 24, 2009, the claim for declaratory and injunctive relief against the DHHL's leasing of trust property solely to generate revenue was dismissed without prejudice, and the claim to invalidate the Honokohau Makai property lease was dismissed with prejudice.

On September 23, 2009, a final judgment was filed in the circuit court. Plaintiffs filed their notice of appeal from (1) the January 21, 2009 order granting the State's motion for summary judgment rejecting plaintiffs' claims that the Legislature, State or any State agency or employee is required to provide or secure particular amounts of money for DHHL and its programs, (2) the January 22, 2009 order granting the DHHL's and Commission's joinder in the State's motion, and (3) the March 17, 2009 order denying the plaintiffs' motion for reconsideration. On January 12, 2011, the Intermediate Court of Appeals, by an opinion by J. Foley with J. Nakamura concurring separately, concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, vacated the circuit court 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 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 support the political question doctrine defense. The application was accepted and oral argument was heard by the Supreme Court on October 6, 2011. At the close of the argument, the case was taken under advisement by the court.

The Hawaii Supreme Court, on May 9, 2012, 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 Supreme Court thus held 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. In the meantime, plaintiffs are seeking attorneys fees, which all defendants oppose.

The State intends to defend vigorously against the claims against the State 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 Nelson, in the respective plaintiffs' favor, could have a material adverse effect on the State's and DHHL'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 Employees' Retirement System's (ERS or the "System") 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 $346,900,000 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 intervener 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 intervener 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 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 intervener 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 $346,900,000 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. The State is unable to determine the outcome at this time.

Hawaii Employer-Union Health Benefits Trust Fund

In June 2006, certain retired public employees ("Plaintiffs") filed a purported class action in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the Hawaii Employer-Union Health Benefits Trust Fund (the "EUTF"), and the EUTF Board of Trustees (the "EUTF Board") (collectively, the "Defendants"). In relevant part, Plaintiffs' claimed that Defendants have violated their constitutional, contractual and statutory rights of Plaintiffs 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. Under the doctrine of primary jurisdiction, Plaintiffs' action was held in abeyance so that the EUTF Board could decide certain issues raised by Plaintiffs' claims.

In May 2007, Plaintiffs filed a petition with the EUTF Board seeking a declaratory ruling as to whether, among other things, the Hawaii Constitution and HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are inferior (not equivalent) to those provided to active employees and their dependents. In September 2007, the EUTF Board held that (a) it did not have jurisdiction to decide the constitutional issues raised by Plaintiffs; (b) HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are different from and/or inferior to those provided to active employees and their dependents; and (c) the EUTF health benefit plans from July 1, 2003, to present complied with the requirements of HRS Chapter 87A. Under HRS Section 91-14, Plaintiffs appealed the EUTF's Board's decision to the First Circuit Court. By order dated July 23, 2008, the circuit court reversed the decision of the EUTF Board. The circuit court's order held that (a) "accrued benefits" under article XVI, section 2 of the Hawaii Constitution, that may not be diminished or impaired, include retiree health benefits; (b) retiree health benefits established by the enactment of HRS Chapters 87 and 87A are protected and vested once accrued; (c) HRS Section 87A-23 requires retirees and their dependents to be provided with health benefits plans that provide benefits reasonably approximate to those provided to active employees and their dependents; and (d) certain of the health benefits provided to retirees and their dependents by the EUTF were not reasonably approximate to those provided to active employees and their dependents. The State and EUTF Board appealed the First Circuit Court's decision to the Hawaii Supreme Court. In a decision dated March 25, 2010, the Hawaii Supreme Court affirmed in part and reversed in part the First Circuit Court's decision. The Hawaii Supreme Court affirmed the First Circuit Court's holding that health benefits for retired state and county employee constitute "accrued benefits" pursuant to Article XVI, Section 2 of the

Hawaii Constitution, but reversed the First Circuit Court's holding that HRS Chapter 87A (particularly HRS Section 87A-23) required that retiree health benefits reasonably approximate those provided to active employees. 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 again 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 not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents. Plaintiffs added a new claim that retirees hired prior to July 1, 2001, are contractually entitled to participate in EUTF health plans without any premium contribution regardless of the contribution caps in HRS Section 87A-33 through 87A-36. Plaintiffs also claim that the EUTF was negligent in failing to provide retirees and their dependents with health benefits that were equivalent to those provided to active employees and their dependents and/or in failing to recognize or inform retirees that they could not be required to contribute money towards the premiums of their health care coverage despite the contribution caps in HRS Sections 87A-33 through 87A-36. Plaintiffs seek declaratory and injunctive relief and damages. The damages sought are the amounts that Plaintiffs and their class have personally paid for health care that should have been covered by their EUTF health plans, caused by their forgoing or delaying health care due to insufficient coverage that should have been covered by their EUTF health plans. In March 2011, the First Circuit Court orally granted Plaintiffs' motion to certify a class consisting of all individuals who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, prior to July 1, 2003, and who qualify as a retired employee-beneficiary and/or whose dependent qualifies as a dependent-beneficiary as those terms are defined in HRS Sections 87A-1 and 87A-21. The parties are currently engaged in discovery. No trial date has yet been set. The State is vigorously contesting liability in this lawsuit.

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.

Because an adverse determination was made by the Circuit Court and upheld on appeal, liability against the State is probable. However, no determination has been made as to the amount of damages. The Plaintiff's estimate of damages in this case is approximately $30,000,000. However, this amount is disputed by the State and there has been no determination by the trial judge as to the amount of damages. Any determination by the trial judge is subject to appeal and would not be finalized unless and until the appeal process is completed.

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% 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 risk management office of the Department of Accounting and General Services. 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, 2012, 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 assets, 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, 2012 (amounts expressed in thousands):

	2012	2011
Unpaid losses and loss adjustment costs — beginning of the fiscal year	$ 153,520	$ 151,712
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	43,517	32,110
Decrease in provision for insured events of prior fiscal years	(487)	(1,976)
Total incurred losses and loss adjustment costs	43,030	30,134
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(7,770)	(5,856)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(18,880)	(22,470)
Total payments	(26,650)	(28,326)
Unpaid losses and loss adjustment costs — end of the fiscal year	$ 169,900	$ 153,520

14. SUBSEQUENT EVENTS

Auction Rate Securities Settlement

On August 2, 2012, Citi exercised its right, under the November 23, 2010 Settlement Agreement, to purchase $149.5 million of the State's investments in auction rate securities at par value. The auction rate securities purchased by Citi had a fair market value of $143.2 million at June 30, 2012.

On October 10, 2012, Citi exercised its right, under the November 23, 2010 Settlement Agreement, to purchase $88.3 million of the State's investments in auction rate securities at par value. The auction rate securities purchased by Citi had a fair market value of $85.2 million at June 30, 2012.

General Obligation Bonds

On December 4, 2012, the State issued $444 million General Obligation Bonds of 2012 Series EE, $396.99 million of General Obligation Refunding Bonds of 2012 Series EF, and $26 million in Taxable General Obligations Bonds of 2012 Series EG. 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)

General Fund — Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis)

Med-Quest Special Revenue Fund — Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis)

Notes to Required Supplementary Information — Budgetary Control

Schedules of Funding Progress — EUTF

Schedules of Funding Progress — HSTA VEBA

Schedules of Funding Progress — UH

STATE OF HAWAII

GENERAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
General excise tax	$ 2,695,863	$ 2,623,348	$ 2,697,951	$ 74,603
Net income tax:				
Corporations	56,362	77,446	73,027	(4,419)
Individuals	1,547,406	1,456,113	1,540,730	84,617
Inheritance and estate tax	19,600	19,600	14,125	(5,475)
Liquor permits and tax	39,685	49,004	48,854	(150)
Public service companies tax	211,625	122,545	150,528	27,983
Tobacco tax	102,480	119,264	102,853	(16,411)
Tax on premiums of insurance companies	105,000	115,000	117,617	2,617
Franchise tax (banks and other financial institutions)	24,349	27,955	5,229	(22,726)
Transient accommodations tax	85,860	112,677	126,302	13,625
Other taxes, primarily conveyances tax	18,454	94,649	95,105	456
Total taxes	4,906,684	4,817,601	4,972,321	154,720
Non-taxes:				
Interest and investment income	10,297	10,268	4,740	(5,528)
Charges for current services	238,489	241,125	231,071	(10,054)
Intergovernmental	4,584	4,529	13,520	8,991
Rentals	630	588	360	(228)
Fines, forfeitures, and penalties	24,115	23,868	23,409	(459)
Licenses and fees	1,020	5,313	6,003	690
Revenues from private sources	16,153	25,180	25,297	117
Debt service requirements	38,720	38,720	40,469	1,749
Other	179,017	179,928	323,864	143,936
Total non-taxes	513,025	529,519	668,733	139,214
Total revenues	5,419,709	5,347,120	5,641,054	293,934
EXPENDITURES:				
General government	1,878,267	1,997,224	1,899,323	97,901
Public safety	243,161	239,982	237,852	2,130
Conservation of natural resources	25,551	24,131	20,735	3,396
Health	404,598	396,552	386,014	10,538
Hospitals	82,140	71,876	71,876	-
Welfare	1,041,243	1,043,040	1,032,498	10,542
Lower education	1,429,717	1,391,923	1,357,223	34,700
Higher education	386,307	378,689	376,108	2,581
Other education	5,088	5,009	4,819	190
Culture and recreation	39,216	38,044	37,231	813
Economic development and assistance	19,853	24,680	23,579	1,101
Housing	15,526	16,416	15,013	1,403
Other	-	13,669	6,053	7,616
Total expenditures	5,570,667	5,641,235	5,468,324	172,911
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(150,958)	(294,115)	172,730	466,845
OTHER FINANCING SOURCES — Transfers in	17,004	25,660	19,575	(6,085)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	$ (133,954)	$ (268,455)	$ 192,305	$ 460,760

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, 2012
(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	925,760	937,314	853,986	(83,328)
Rentals	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-
Licenses and fees	-	-	-	-
Revenues from private sources	-	-	-	-
Other	32,000	5,000	15,951	10,951
Total non-taxes	957,760	942,314	869,937	(72,377)
Total revenues	957,760	942,314	869,937	(72,377)
EXPENDITURES:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways	-	-	-	-
Conservation of natural resources	-	-	-	-
Health	-	-	-	-
Hospitals	-	-	-	-
Welfare	880,891	880,891	829,663	51,228
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	880,891	880,891	829,663	51,228
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ 76,869	$ 61,423	$ 40,274	$ (21,149)

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 2011 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 2009 — 2011 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 the Department of Accounting and General Services. During the fiscal year ended June 30, 2012, 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, 2012
(Amounts in thousands)

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2012, follows (amounts expressed in thousands):

	General Fund	Med-Quest Special Revenue Fund
Excess of revenues and other sources over expenditures — actual (budgetary basis)	$ 192,305	$ 40,274
Transfers	-	(3,092)
Excess of revenues and over expenditures — actual (budgetary basis)	192,305	37,182
Reserve for encumbrances at fiscal year end *	272,519	29,938
Expenditures for liquidation of prior fiscal year encumbrances	(294,403)	(64,052)
Revenues and expenditures for unbudgeted programs and capital projects accounts — net	(1,971)	-
Tax refunds payable	17,135	-
Accrued liabilities	(10,392)	(59,123)
Accrued revenues	75,199	68,901
Net change in fund balance — GAAP basis	$ 250,392	$ 12,846

* 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	804.8
July 1, 2011	-	11,706	11,706	-	2,093	559.2

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	234.8 %
July 1, 2009	-	2,484	2,484	-	683	363.7

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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	238.0 %
July 1, 2009	-	1,850	1,850	-	495	373.4
July 1, 2011	-	1,861	1,861	-	504	369.3

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SUPPLEMENTARY INFORMATION

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, 2012
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
ASSETS							
CASH AND CASH EQUIVALENTS	$ 75,602	$ 45,498	$ 65,434	$ 19,835	$ 104,761	$ 9,989	$ 14,138
RECEIVABLES:							
Notes and loans — net	-	17,686	-	-	-	1,974	-
Other — Net	1,384	-	-	-	-	-	-
DUE FROM OTHER FUNDS	-	-	-	-	-	-	-
INVESTMENTS	90,495	54,983	79,045	24,236	89,025	12,016	17,108
TOTAL	$ 167,481	$ 118,167	$ 144,479	$ 44,071	$ 193,786	$ 23,979	$ 31,246
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Vouchers and contracts payable	$ 24,696	$ 9,433	$ 10,384	$ 3,886	$ 14,410	$ 2,851	$ 6,409
Other accrued liabilities	4,024	2,717	26,120	380	10,847	1,060	1,589
Due to federal government	-	-	-	22,014	-	-	-
Due to other funds	-	-	-	12,800	-	-	-
Payable from restricted assets — matured bonds and interest payable	-	-	-	-	-	-	-
Total liabilities	28,720	12,150	36,504	39,080	25,257	3,911	7,998
FUND BALANCES:							
Restricted	-	-	-	-	-	-	-
Committed	-	91,105	129,560	-	-	18,390	18,014
Assigned	138,761	14,912	-	4,991	168,529	1,678	5,234
Unassigned	-	-	(21,585)	-	-	-	-
Total fund balances	138,761	106,017	107,975	4,991	168,529	20,068	23,248
TOTAL	$ 167,481	$ 118,167	$ 144,479	$ 44,071	$ 193,786	$ 23,979	$ 31,246

Special Revenue Funds: Regulatory	Special Revenue Funds: Hawaiian Programs	Special Revenue Funds: Administrative Support	Special Revenue Funds: All Other	Special Revenue Funds: Total	Debt Service Fund	Total Nonmajor Governmental Funds
$ 20,629	$ 98,678	$ 57,727	$ 20,361	$ 532,652	$ 348	$ 533,000
-	57,007	-	-	76,667	-	76,667
-	-	-	-	1,384	-	1,384
-	-	-	-	-	64	64
24,925	115,746	56,839	24,773	589,191	-	589,191
$ 45,554	$ 271,431	$ 114,566	$ 45,134	$ 1,199,894	$ 412	$ 1,200,306
$ 1,094	$ 4,209	$ 2,250	$ 4,143	$ 83,765	$ -	$ 83,765
1,698	435	2,925	1,748	53,543	-	53,543
-	-	-	-	22,014	-	22,014
-	-	-	1,905	14,705	-	14,705
-	-	-	-	-	348	348
2,792	4,644	5,175	7,796	174,027	348	174,375
-	45	-	-	45	64	109
35,167	158,498	67,640	-	518,374	-	518,374
7,595	108,244	41,751	37,338	529,033	-	529,033
-	-	-	-	(21,585)	-	(21,585)
42,762	266,787	109,391	37,338	1,025,867	64	1,025,931
$ 45,554	$ 271,431	$ 114,566	$ 45,134	$ 1,199,894	$ 412	$ 1,200,306

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
REVENUES:							
Taxes:							
Franchise tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other tax revenue	-	16,592	1,315	-	-	3,944	1,223
Transient accommodations tax	-	1,000	-	-	-	-	-
Tobacco and liquor taxes	-	-	16,828	-	-	-	-
Liquid fuel tax	86,980	250	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-	-
Vehicle weight and registration tax	92,990	-	5,197	-	-	-	-
Rental motor/tour vehicle surcharge tax	44,987	-	-	-	-	-	-
Total taxes	224,957	17,842	23,340	-	-	3,944	1,223
Interest and investment income	479	738	24	2	93	24	37
Charges for current services	2,222	25,604	29,218	210	41,229	5,099	17,054
Intergovernmental	145,325	21,562	138,136	624,398	275,977	26,159	47,318
Rentals	1,000	8,518	-	-	375	1,348	-
Fines, forfeitures, and penalties	2,010	133	2,280	-	-	-	1,270
Licenses and fees	2,047	525	841	71	1,294	-	-
Revenues from private sources	-	2	25,569	2	9,774	-	-
Other	13,353	3,304	2,342	1,663	52,908*	203	2,056
Total revenues	391,393	78,228	221,750	626,346	381,650	36,777	68,958
EXPENDITURES:							
Current:							
General government	-	4,110	176	-	-	-	-
Public safety	-	2,905	-	-	-	-	2,010
Conservation of natural resources	-	61,298	-	-	-	-	-
Health	-	-	204,414	-	-	-	-
Welfare	-	-	-	609,614	-	-	-
Lower education	-	-	-	-	397,245	-	-
Other education	-	-	-	11,209	-	-	-
Culture and recreation	-	8,993	-	-	3,367	-	-
Urban redevelopment and housing	-	-	-	2,758	-	-	-
Economic development and assistance	-	4,468	-	1,189	-	37,200	66,045
Other	-	3	-	-	-	-	-
Highways	236,392	106	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Total expenditures	236,392	81,883	204,590	624,770	400,612	37,200	68,055
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	155,001	(3,655)	17,160	1,576	(18,962)	(423)	903
OTHER FINANCING SOURCES (USES):							
Issuance of GO and refunding GO bonds - par	-	-	-	-	-	-	-
Issuance of GO and refunding GO bonds - premium	-	-	-	-	-	-	-
Issuance of revenue and refunding revenue bonds - par	-	-	-	-	-	-	-
Issuance of revenue and refunding revenue bonds - premiu	-	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-	-
Transfers in	57	3,204	741	3,218	89,030	212	141
Transfers out	(197,138)	(2,989)	(5,016)	(28,299)	(4)	(2,313)	(298)
Total other financing (uses) sources	(197,081)	215	(4,275)	(25,081)	89,026	(2,101)	(157)
NET CHANGE IN FUND BALANCES	(42,080)	(3,440)	12,885	(23,505)	70,064	(2,524)	746
FUND BALANCES — Beginning of year	180,841	109,457	95,090	28,496	98,465	22,592	22,502
FUND BALANCES — End of year	$ 138,761	$106,017	$107,975	$ 4,991	$168,529	$ 20,068	$ 23,248

* Other revenues in the Education Special Revenue Fund include approximately $36 million of excess revenues over expenditures from prior periods related to Hawaii State Public Charter Schools which was not previously reported.

	Special Revenue Funds							
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
$ 2,000	$ -	$ -	$ -	$ 2,000	$ -	$ -	$ 2,000
-	-	-	-	23,074	-	-	23,074
-	-	-	-	1,000	-	-	1,000
-	-	2,289	-	19,117	-	-	19,117
-	-	-	1,612	88,842	-	-	88,842
1,855	-	-	-	1,855	-	-	1,855
-	-	-	-	98,187	-	-	98,187
-	-	-	-	44,987	-	-	44,987
3,855	-	2,289	1,612	279,062	-	-	279,062
108	5,391	75	67	7,038	-	-	7,038
17,202	3,509	53,474	21,582	216,403	-	-	216,403
-	4,201	55,514	67,026	1,405,616	-	-	1,405,616
-	12,503	(1,452)	2,769	25,061	-	-	25,061
3,354	-	253	2,374	11,674	-	-	11,674
17,418	-	17,833	358	40,387	-	-	40,387
-	3,000	1,438	3	39,788	-	-	39,788
83	13,077	5,616	6,318	100,923	-	-	100,923
42,020	41,681	135,040	102,109	2,125,952	-	-	2,125,952
-	-	35,274	15,210	54,770	-	-	54,770
37,323	-	22,536	61,936	126,710	-	-	126,710
-	-	504	-	61,802	-	-	61,802
-	-	-	-	204,414	-	-	204,414
-	-	11,256	550	621,420	-	-	621,420
-	-	6,486	-	403,731	-	-	403,731
-	-	-	-	11,209	-	-	11,209
-	-	12,092	18,938	43,390	-	-	43,390
-	44,010	344	-	47,112	-	-	47,112
-	1,106	383	-	110,391	-	-	110,391
-	-	5,786	90	5,879	-	-	5,879
-	7,119	3	-	243,620	-	-	243,620
-	-	-	-	-	587,760	-	587,760
37,323	52,235	94,664	96,724	1,934,448	587,760	-	2,522,208
4,697	(10,554)	40,376	5,385	191,504	(587,760)	-	(396,256)
-	-	-	-	-	486,230	-	486,230
-	-	-	-	-	74,009	-	74,009
-	-	-	-	-	5,095	-	5,095
-	-	-	-	-	467	-	467
-	-	-	-	-	(565,801)	-	(565,801)
4,881	30,000	18,960	10,659	161,103	587,715	-	748,818
(3,160)	(3,425)	(50,951)	(3,495)	(297,088)	-	-	(297,088)
1,721	26,575	(31,991)	7,164	(135,985)	587,715	-	451,730
6,418	16,021	8,385	12,549	55,519	(45)	-	55,474
36,344	250,766	101,006	24,789	970,348	109	-	970,457
$42,762	$266,787	$109,391	$ 37,338	$1,025,867	$ 64	$ -	$1,025,931

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, 2012
(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	88,104	86,980	(1,124)	230	250	20
Boating	-	-	-	-	-	-
Vehicle registration fee tax	21,577	34,311	12,734	-	-	-
State vehicle weight tax	34,676	58,679	24,003	-	-	-
Rental/tour vehicle surcharge tax	30,852	44,987	14,135	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	11,300	12,648	1,348
Environmental response tax	-	-	-	-	3,944	3,944
Transient accommodations tax	-	-	-	1,000	1,000	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	175,209	224,957	49,748	12,530	17,842	5,312
Non-taxes:						
Interest and investment income	12,000	1,186	(10,814)	1,248	917	(331)
Charges for current services	79,931	2,222	(77,709)	23,842	25,548	1,706
Intergovernmental	37,702	48,660	10,958	12,249	21,469	9,220
Rentals	-	1,000	1,000	2,880	8,518	5,638
Fines, forfeitures, and penalties	1,408	2,010	602	38	133	95
Licenses and fees	1,716	2,047	331	482	525	43
Revenues from private sources	-	-	-	1	2	1
Other	37	54,108	54,071	3,049	4,002	953
Total non-taxes	132,794	111,233	(21,561)	43,789	61,114	17,325
Total revenues	308,003	336,190	28,187	56,319	78,956	22,637
EXPENDITURES:						
General government	-	-	-	4,248	3,994	254
Public safety	-	-	-	7,513	2,741	4,772
Highways	293,703	241,489	52,214	-	-	-
Conservation of natural resources	-	-	-	101,989	63,871	38,118
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	14,630	9,197	5,433
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	7,638	2,275	5,363
Other	210	-	210	-	-	-
Total expenditures	293,913	241,489	52,424	136,018	82,078	53,940
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ 14,090	$ 94,701	$ 80,611	$ (79,699)	$ (3,122)	$ 76,577

Health			Human Services		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
5,139	5,197	58	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
17,985	16,828	(1,157)	-	-	-
-	-	-	-	-	-
1,341	1,315	(26)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
24,465	23,340	(1,125)	-	-	-
431	368	(63)	-	5	5
81,137	81,264	127	-	210	210
111,953	125,219	13,266	219,483	177,477	(42,006)
-	-	-	-	-	-
1,097	2,280	1,183	-	-	-
817	841	24	406	71	(335)
39,856	25,569	(14,287)	-	2	2
131	2,489	2,358	-	2,137	2,137
235,422	238,030	2,608	219,889	179,902	(39,987)
259,887	261,370	1,483	219,889	179,902	(39,987)
196	178	18	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
372,510	264,807	107,703	-	-	-
-	-	-	-	-	-
-	-	-	270,890	171,675	99,215
-	-	-	-	-	-
-	-	-	24,138	12,405	11,733
-	-	-	-	-	-
-	-	-	3,939	3,924	15
-	-	-	1,225	1,189	36
-	-	-	-	-	-
372,706	264,985	107,721	300,192	189,193	110,999
$(112,819)	$ (3,615)	$ 109,204	$ (80,303)	$ (9,291)	$ 71,012

(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, 2012
(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	-	-	-		3,944	3,944
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	-	3,944	3,944
Non-taxes:						
Interest and investment income	335	141	(194)	150	95	(55)
Charges for current services	35,030	41,212	6,182	8,823	5,099	(3,724)
Intergovernmental	221,906	265,761	43,855	32,814	26,159	(6,655)
Rentals	40	375	335	2,247	1,348	(899)
Fines, forfeitures, and penalties	-	-	-	-	-	-
Licenses and fees	732	1,294	562	-	-	-
Revenues from private sources	367	128	(239)	200	-	(200)
Other	52,765	14,807	(37,958)	17	517	500
Total non-taxes	311,175	323,718	12,543	44,251	33,218	(11,033)
Total revenues	311,175	323,718	12,543	44,251	37,162	(7,089)
EXPENDITURES:						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	621,858	338,852	283,006	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	4,490	3,051	1,439	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	74,833	24,657	50,176
Other	-	-	-	-	-	-
Total expenditures	626,348	341,903	284,445	75,933	24,657	51,276
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (315,173)	$ (18,185)	$ 296,988	$ (31,682)	$ 12,505	$ 44,187

Employment			Regulatory		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
450	1,223	773	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,000	2,000	-
-	-	-	1,300	1,855	555
450	1,223	773	3,300	3,855	555
230	101	(129)	632	214	(418)
18,000	17,054	(946)	19,358	17,202	(2,156)
46,160	47,318	1,158	2,250	1,961	(289)
-	-	-	-	-	-
300	1,270	970	985	3,354	2,369
-	-	-	12,902	15,456	2,554
-	-	-	-	-	-
6	3,420	3,414	3,003	5,364	2,361
64,696	69,163	4,467	39,130	43,551	4,421
65,146	70,386	5,240	42,430	47,406	4,976
-	-	-	-	-	-
2,840	2,010	830	73,530	40,835	32,695
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
133,413	63,291	70,122	2,021	1,962	59
-	-	-	-	-	-
136,253	65,301	70,952	75,551	42,797	32,754
$ (71,107)	$ 5,085	$ 76,192	$(33,121)	$ 4,609	$ 37,730

(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, 2012
(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	2,289	537
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	1,752	2,289	537
Non-taxes:						
Interest and investment income	610	386	(224)	667	240	(427)
Charges for current services	1	77	76	44,155	53,474	9,319
Intergovernmental	8,000	4,188	(3,812)	18,772	55,514	36,742
Rentals	9,083	12,095	3,012	6,235	6,460	225
Fines, forfeitures, and penalties	-	-	-	303	253	(50)
Licenses and fees	-	-	-	15,958	17,833	1,875
Revenues from private sources	-	3,000	3,000	1,850	1,438	(412)
Other	4,660	5,232	572	13,031	7,437	(5,594)
Total non-taxes	22,354	24,978	2,624	100,971	142,649	41,678
Total revenues	22,354	24,978	2,624	102,723	144,938	42,215
EXPENDITURES:						
General government	-	-	-	80,690	45,845	34,845
Public safety	-	-	-	30,710	23,963	6,747
Highways	-	-	-	47	47	-
Conservation of natural resources	-	-	-	636	322	314
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	-	-	-	15,778	11,212	4,566
Lower education	-	-	-	7,000	6,484	516
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	15,235	10,917	4,318
Urban redevelopment and housing	43,683	24,833	18,850	-	-	-
Economic development and assistance	-	-	-	406	385	21
Other	-	-	-	17,051	6,098	10,953
Total expenditures	43,683	24,833	18,850	167,553	105,273	62,280
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (21,329)	$ 145	$ 21,474	$ (64,830)	$ 39,665	$104,495

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)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	88,334	87,230	(1,104)
1,500	1,612	112	1,500	1,612	112
-	-	-	26,716	39,508	12,792
-	-	-	34,676	58,679	24,003
-	-	-	30,852	44,987	14,135
-	-	-	450	1,223	773
-	-	-	1,752	2,289	537
-	-	-	29,285	29,476	191
-	-	-	-	7,888	7,888
-	-	-	2,341	2,315	(26)
-	-	-	2,000	2,000	-
-	-	-	1,300	1,855	555
1,500	1,612	112	219,206	279,062	59,856
276	109	(167)	16,579	3,762	(12,817)
17,400	21,583	4,183	327,677	264,945	(62,732)
24,350	67,025	42,675	735,639	840,751	105,112
2,000	2,769	769	22,485	32,565	10,080
2,403	2,373	(30)	6,534	11,673	5,139
510	357	(153)	33,523	38,424	4,901
35	2	(33)	42,309	30,141	(12,168)
7,820	16,705	8,885	84,519	116,218	31,699
54,794	110,923	56,129	1,269,265	1,338,479	69,214
56,294	112,535	56,241	1,488,471	1,617,541	129,070
18,539	14,820	3,719	103,673	64,837	38,836
138,699	72,931	65,768	254,392	142,480	111,912
-	-	-	293,750	241,536	52,214
-	-	-	102,625	64,193	38,432
-	-	-	372,510	264,807	107,703
-	-	-	-	-	-
550	549	1	287,218	183,436	103,782
-	-	-	628,858	345,336	283,522
-	-	-	24,138	12,405	11,733
18,107	12,983	5,124	52,462	36,148	16,314
-	-	-	47,622	28,757	18,865
-	-	-	219,536	93,759	125,777
-	-	-	17,261	6,098	11,163
175,895	101,283	74,612	2,404,045	1,483,792	920,253
$ (119,601)	$ 11,252	$ 130,853	$ (915,574)	$ 133,749	$ 1,049,323

(Concluded)

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2012
(Amounts in thousands)

EXCESS OF REVENUES OVER EXPENDITURES — Actual (budgetary basis)	$ 133,749
RESERVE FOR ENCUMBRANCES AT YEAR-END*	279,362
EXPENDITURES FOR LIQUIDATION OF PRIOR FISCAL YEAR ENCUMBRANCES	(388,221)
EXPENDITURES FOR UNBUDGETED PROGRAMS, PRINCIPALLY EXPENDITURES FOR CAPITAL PROJECTS ACCOUNTS AND REVOLVING FUNDS	(17,366)
EXPENDITURES FOR DEBT SERVICE PAID OUT OF OTHER GOVERNMENTAL FUNDS	(587,760)
TRANSFERS	151,755
ACCRUED LIABILITIES	(424,670)
ACCRUED REVENUES	456,895
DEFICIENCY OF REVENUES UNDER EXPENDITURES — GAAP basis	$ (396,256)

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

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012
(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	$ -	$ 107,108	$ 45,684	$ 152,792
Receivables:				
Accounts and accrued interest (net of allowance for doubtful accounts of $0)	32	744	90	866
Promissory note receivable (net of allowance for doubtful accounts of $0)	-	29,834	5,054	34,888
Federal government	-	-	240	240
Premiums	32,788	-	-	32,788
Other	2,103	404	684	3,191
Prepaid expenses and other assets	16,710	-	-	16,710
Total current assets	51,633	138,090	51,752	241,475
CAPITAL ASSETS				
Equipment	13,760	78	1,237	15,075
	13,760	78	1,237	15,075
Less accumulated depreciation	(7,578)	(41)	(968)	(8,587)
Net capital assets	6,182	37	269	6,488
Promissory note receivable	-	294,648	69,103	363,751
Other	-	9,617	5,843	15,460
Total noncurrent assets	6,182	304,302	75,215	385,699
TOTAL ASSETS	$ 57,815	$ 442,392	$ 126,967	$ 627,174

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012
(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	$ 432	$ 69	$ 201	$ 702
Other accrued liabilities	1,633	-	-	1,633
Accrued vacation, current portion	64	72	34	170
Benefits claims payable	7,486	-	-	7,486
Premiums payable	38,974	-	-	38,974
Total current liabilities	48,589	141	235	48,965
NONCURRENT LIABILITIES:				
Accrued vacation	187	213	99	499
Other postemployment benefit liability	1,054	844	328	2,226
TOTAL	49,830	1,198	662	51,690
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	6,182	37	269	6,488
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	-	441,157	126,036	567,193
UNRESTRICTED	1,803	-	-	1,803
TOTAL NET ASSETS	$ 7,985	$ 441,194	$ 126,305	$ 575,484

(Concluded)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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	$ 5,855	$ 1,777	$ 2,421	$ 10,053
Premium revenue — self insurance	152,435	-	-	152,435
Other	2,773	2,905	275	5,953
Total operating revenues	161,063	4,682	2,696	168,441
OPERATING EXPENSES:				
Personnel services	2,460	1,596	947	5,003
Depreciation	1,050	3	97	1,150
Repairs and maintenance	6	1	77	84
General administration	2,274	126	1,775	4,175
Claims	150,489	-	-	150,489
Other	861	67	23	951
Total operating expenses	157,140	1,793	2,919	161,852
Operating income	3,923	2,889	(223)	6,589
NONOPERATING REVENUES (EXPENSE):				
Interest and investment income	270	155	147	572
Other	5,975	-	(13,289)	(7,314)
Total nonoperating revenues (expenses)	6,245	155	(13,142)	(6,742)
INCOME BEFORE CAPITAL CONTRIBUTIONS	10,168	3,044	(13,365)	(153)
CAPITAL CONTRIBUTIONS:	-	8,811	8,356	17,167
CHANGE IN NET ASSETS	10,168	11,855	(5,009)	17,014
NET ASSETS — Beginning of year	(2,183)	429,339	131,314	558,470
				-
NET ASSETS — End of year	$ 7,985	$ 441,194	$ 126,305	$ 575,484

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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	$ 500,858	$ -	$ -	$ 500,858
Cash paid to suppliers	(2,169)	(191)	(2,048)	(4,408)
Cash paid to employees	(2,142)	(1,418)	(826)	(4,386)
Cash paid for premiums and benefit payments	(510,786)	-	-	(510,786)
Reserves returned by insurance carriers	(2,261)	-	-	(2,261)
Interest income from notes receivable	-	2,895	284	3,179
Administrative loan fees	-	1,757	2,491	4,248
Principal repayments on notes receivable	-	27,615	5,075	32,690
Disbursement of notes receivable proceeds	-	(48,510)	(3,353)	(51,863)
Net cash provided by (used in) operating activities	(16,500)	(17,852)	1,623	(32,729)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State capital contributions	-	3,157	2,715	5,872
Proceeds from federal operating grants	-	24,918	5,544	30,462
Disbursement of federal operating grant	-	(7,240)	(789)	(8,029)
Other	5,975	-	-	5,975
Net cash provided by noncapital financing activities	5,975	20,835	7,470	34,280
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES - Acquisition and construction of capital assets	(15)	(40)	(32)	(87)
CASH FLOWS FROM INVESTING ACTIVITIES — Interest received and loss from investments	335	226	161	722
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,205)	3,169	9,222	2,186
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year	10,205	103,939	36,462	150,606
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	$ -	$ 107,108	$ 45,684	$ 152,792

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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	$ 3,923	$ 2,889	$ (223)	$ 6,589
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	1,050	3	97	1,150
Premium reserves held by insurance companies	(2,288)	-	-	(2,288)
Principal forgiveness of loan	-	(2,000)	-	(2,000)
Increase in assets:				-
Receivables	(362)	(18,923)	1,800	(17,485)
Deposits	(4,958)	-	-	(4,958)
Increase in liabilities:				
Vouchers and contracts payable	112	(44)	(178)	(110)
Other accrued liabilities	20,037	223	127	20,387
Accrued interest on loans receivable	(34,014)	-	-	(34,014)
Net cash provided by (used in) operating activities	$ (16,500)	$ (17,852)	$ 1,623	$ (32,729)

(Concluded)

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS — AGENCY FUNDS
JUNE 30, 2012
(Amounts in thousands)

	Agency Funds			Total
	Tax Collections	Custodial	Other	Total Agency Funds
ASSETS				
CASH AND CASH EQUIVALENTS	$ 5,541	$ 443,341	$ 29,582	$ 478,464
RECEIVABLES — taxes	-	-	33,444	33,444
INVESTMENTS	6,772	42,660	43,100	92,532
OTHER ASSETS - primarily due from individuals, businesses, and counties	46,169	48,378	-	94,547
TOTAL ASSETS	$ 58,482	$ 534,379	$ 106,126	$ 698,987
LIABILITIES				
VOUCHERS PAYABLE	$ 58,482	$ 74	$ 65	$ 58,621
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	-	534,305	106,061	640,366
TOTAL LIABILITIES	$ 58,482	$ 534,379	$ 106,126	$ 698,987

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Balance — July 1, 2011	Additions	Deductions	Balance — June 30, 2012
TAX COLLECTIONS:				
Assets:				
Cash and cash equivalents	$ 11,983	$ 7,146,487	$ (7,152,929)	$ 5,541
Due from individuals, businesses, and counties	35,006	7,157,649	(7,146,486)	46,169
Investments	19,551	6,772	(19,551)	6,772
Total assets	$ 66,540	$ 14,310,908	$ (14,318,966)	$ 58,482
Liabilities:				
Vouchers payable	$ 66,540	$ 58,482	$ (66,540)	$ 58,482
Due to individuals, businesses, and counties	-	-	-	-
Total liabilities	$ 66,540	$ 58,482	$ (66,540)	$ 58,482
CUSTODIAL:				
Assets:				
Cash and cash equivalents	$ 350,959	$ 4,243,963	$ (4,151,581)	$ 443,341
Due from individuals, businesses, and counties	48,055	433,168	(432,845)	48,378
Investments	33,852	42,660	(33,852)	42,660
Total assets	$ 432,866	$ 4,719,791	$ (4,618,278)	$ 534,379
Liabilities:				
Vouchers payable	$ 437	$ 74	$ (437)	$ 74
Due to individuals, businesses, and counties	432,429	4,325,900	(4,224,024)	534,305
Total liabilities	$ 432,866	$ 4,325,974	$ (4,224,461)	$ 534,379
OTHER:				
Assets:				
Cash and cash equivalents	$ 28,724	$ 33,480	$ (32,622)	$ 29,582
Receivables	8,584	33,444	(8,584)	33,444
Investments	56,858	43,102	(56,860)	43,100
Total assets	$ 94,166	$ 110,026	$ (98,066)	$ 106,126
Liabilities:				
Vouchers payable	$ 4,380	$ 65	$ (4,380)	$ 65
Due to individuals, businesses, and counties	89,786	58,340	(42,065)	106,061
Total liabilities	$ 94,166	$ 58,405	$ (46,445)	$ 106,126
TOTAL — All agency funds:				
Assets:				
Cash and cash equivalents	$ 391,666	$ 11,423,930	$ (11,337,132)	$ 478,464
Receivables	8,584	33,444	(8,584)	33,444
Due from individuals, businesses, and counties	83,061	7,590,817	(7,579,331)	94,547
Investments	110,261	92,534	(110,263)	92,532
Total assets	$ 593,572	$ 19,140,725	$ (19,035,310)	$ 698,987
Liabilities:				
Vouchers payable	$ 71,357	$ 58,621	$ (71,357)	$ 58,621
Due to individuals, businesses, and counties	522,215	4,384,240	(4,266,089)	640,366
Total liabilities	$ 593,572	$ 4,442,861	$ (4,337,446)	$ 698,987

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
OMB CIRCULAR A-133 COMPLIANCE REPORTS

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

To the Auditor of
State of Hawaii:

We have audited 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, 2012, which collectively comprise the State of Hawaii's basic financial statements, and have issued our report thereon dated January 23, 2013. Our report includes a reference to 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.

Other auditors 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

Management of the State of Hawaii is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Hawaii's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of State of Hawaii's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (2012-01 and 2012-02).

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (2012-03 through 2012-06).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Hawaii's basic financial statements are free of 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*.

We noted certain matters that we reported to management of the State of Hawaii in a separate letter dated January 23, 2013.

The State of Hawaii's responses to the findings identified in our audit are attached to the accompanying schedule of findings and questioned costs. We did not audit the State of Hawaii's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor of the State of Hawaii, management of the State of Hawaii, Federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte + Touche LLP

January 23, 2013

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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

To the Auditor of
State of Hawaii:

Compliance

We have audited the State of Hawaii's Departments of Accounting and General Services, Agriculture, Budget and Finance, Business, Economic Development and Tourism, Commerce and Consumer Affairs, Defense, Human Resources Development, Labor and Industrial Relations, Land and Natural Resources, Public Safety, and 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, 2012. These Departments' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Hawaii's management. Our responsibility is to express an opinion on the Departments' compliance based on our audit.

The State of Hawaii's basic financial statements include, among other departments and agencies, the operations of: 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. These entities expended $2,909,884,802 in federal awards, which is not included in the schedule for the year ended June 30, 2012. 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.

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, Audits of States, Local Governments, 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. Our audit does not provide a legal determination of the Departments' compliance with those requirements.

As described in items 2012-10, 2012-26, 2012-53, 2012-55, and 2012-73 in the accompanying schedule of findings and questioned costs, the State of Hawaii did not comply with the requirements regarding reporting that are applicable to CFDA No. 11.555, *Public Safety Interoperable Communications Grant Program*, and CFDA No. 97.067, *Homeland Security Grant Program*, and the requirements regarding cash management that are applicable to CFDA No. 17.225 and ARRA 17.225, *Unemployment Insurance*, CFDA No. ARRA 84.410A, *Education Jobs Fund*, and CFDA No. 93.558, *Temporary Assistance for Needy Families*. Compliance with such requirements is necessary, in our opinion, for the Departments to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Departments complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures disclosed other instances of noncompliance with those requirements, 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 2012-07 through 2012-09, 2012-11 through 2012-25, 2012-27 through 2012-52, 2012-54, 2012-56 through 2012-72, and 2012-74.

Internal Control over Compliance

Management of the State of Hawaii is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Departments' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be 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 a 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 2012-10, 2012-26, 2012-53, 2012-55, and 2012-73 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 2012-07 through 2012-09, 2012-11 through 2012-25, 2012-27 through 2012-52, 2012-54, 2012-56 through 2012-72, and 2012-74 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited 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, 2012, and have issued our report thereon dated January 23, 2013, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the State of Hawaii's financial statements. 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The Departments' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Departments' responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Auditor of the State of Hawaii, management of the State of Hawaii and the Departments, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte + Touche LLP

March 27, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

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	$ 732,312	$ -
Wetlands Reserve Program	10.072	4,750	
Aquaculture Grants Program	10.086	13,289	
Federal-State Marketing Improvement Program	10.156	43,070	
Inspection Grading and Standardization	10.162	10,362	
Market Protection and Promotion	10.163	81,081	
Specialty Crop Block Grant Program	10.169	18	
Specialty Crop Block Grant Program — Farm Bill	10.170	587,418	
Organic Certification Cost Share Programs	10.171	7,148	
Emergency Food Assistance Program (Administrative Costs)	10.568	16,479	
Senior Farmers Market Nutrition Program	10.576	498,326	484,817
Cooperative Forestry Assistance	10.664	934,165	363,640
Urban and Community Forestry Program	10.675	211,930	60,257
Forest Legacy Program	10.676	28,471	
Forest Stewardship Program	10.678	264,058	
Forest Health Protection	10.680	1,066,499	
ARRA — Wildland Fire Management	ARRA 10.688	1,817,936	275,180
Watershed Protection and Flood Prevention	10.904	703,341	
Wildlife Habitat Incentive Program	10.914	181,625	
Scientific Cooperation and Research	10.961	13,565	
USDA Quick Response Marketing Fund	10.Unknown	34,084	
Total U.S. Department of Agriculture Direct Programs		7,249,927	1,183,894
U.S. Department of Agriculture Pass-Through Programs from —			
State Department of Human Services — State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	199,899	
Total U.S. Department of Agriculture		7,449,826	1,183,894
DEPARTMENT OF COMMERCE:			
U.S. Department of Commerce Direct Programs:			
Market Development Cooperator Program	11.112	179,182	
Economic Development Support for Planning Organizations	11.302	78	
Economic Adjustment Assistance	11.307	97,903	
Interjurisdictional Fisheries Act of 1986	11.407	49,656	
Coastal Zone Management Administration Awards	11.419	2,282,060	1,042,212
Financial Assistance for National Centers for Coastal Ocean Science	11.426	104,159	
Marine Sanctuary Program	11.429	279,063	
Pacific Fisheries Data Program	11.437	242,805	
Unallied Industry Projects	11.452	148,722	
Unallied Management Projects	11.454	12,837	
Habitat Conservation	11.463	128,628	
Meteorologic and Hydrologic Modernization Development	11.467	379,848	
Unallied Science Program	11.472	213,458	
Center for Sponsored Coastal Ocean Research — Coastal Ocean Program	11.478	82,773	
Coral Reef Conservation Program	11.482	70,274	
Public Safety Interoperable Communications Grant Program	11.555	1,043,611	386,488
ARRA — State Broadband Data and Development Grant Program	ARRA 11.558	830,353	830,353
Manufacturing Extension Partnership	11.611	453,189	
National Oceanic and Atmosphere Administration — Management Support for Hawaiian Islands Humpback Whale, Joint Enforcement Agreement	11.Unknown	724,328	
Total U. S. Department of Commerce Direct Programs		7,322,927	2,259,053
U.S. Department of Commerce Pass-Through Program from —			
Research Corporation of the University of Hawaii, State of Hawaii — Habitat Conservation	11.463	56,323	
Total U.S. Department of Commerce		7,379,250	2,259,053

See accompanying notes to schedule of expenditures of federal awards.

(Continued)

STATE OF HAWAII

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

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:			
Military Construction, National Guard	12.400	$ 244,714	$ -
National Guard Military Operations and Maintenance Projects	12.401	17,450,275	
ARRA — National Guard Military Operations and Maintenance Projects	ARRA 12.401	502,843	
National Guard Challenge Program	12.404	4,935,644	
Basic, Applied, and Advanced Research in Science and Engineering	12.630	27,304	
Air Force Defense Research Sciences Program	12.800	3,338,757	
Research and Technology Development	12.910	5,995,638	
Total U.S. Department of Defense		32,495,175	-
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	217,813	
Total U.S. Department of Housing and Urban Development		217,813	-
DEPARTMENT OF INTERIOR:			
U.S. Department of Interior Direct Programs:			
Fish and Wildlife Management Assistance	15.608	974,050	
Coastal Wetlands Planning, Protection, and Restoration Act	15.614	270,803	
Cooperative Endangered Species Conservation Fund	15.615	2,629,784	615,825
Clean Vessel Act	15.616	409,521	
Sportfishing and Boating Safety Act	15.622	374,032	
Coastal Program	15.630	49,740	
Partners for Fish and Wildlife	15.631	216	
Landowner Incentive Program	15.633	399,492	
State Wildlife Grants	15.634	798,769	
Service Training and Technical Assistance (Generic Training)	15.649	24,875	
Endangered Species Conservation — Recovery Implementation Funds	15.657	483,942	
Economic, Social, and Political Development of the Territories	15.875	132,011	
Historic Preservation Fund Grants-In-Aid	15.904	781,957	25,000
Outdoor Recreation — Acquisition, Development, and Planning	15.916	811,740	466,140
Total U.S. Department of Interior Direct Programs		8,140,932	1,106,965
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	15.605	4,096,536	
Wildlife Restoration and Basic Hunter Education	15.611	1,916,399	
Total Fish and Wildlife Cluster		6,012,935	-
Total U.S. Department of Interior		14,153,867	1,106,965
DEPARTMENT OF JUSTICE:			
U.S. Department of Justice Direct Programs:			
Promoting Evidence Integration in Sex Offender Management Discretionary Grant Program	16.203	199,213	
Crime Victim Compensation	16.576	243,876	
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	136,995	
Statewide Automated Victim Information Notification Program	16.740	121,000	
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	52,318	
U.S. Drug Enforcement Agency	16.Unknown	100,000	
Marijuana Eradication	16.Unknown	332,856	
Total U.S. Department of Justice Direct Programs		1,186,258	-

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

STATE OF HAWAII

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor and Program Title	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Justice Pass-Through from:			
State Department of the Attorney General:			
Residential Substance Abuse Treatment for State Prisoners	16.593	$ 62,541	$ -
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	52,758	
State Department of Human Services:			
Juvenile Justice and Delinquency Prevention — Allocation to States	16.540	15,630	
Enforcing Underage Drinking Laws Program	16.727	84,962	
Subtotal U.S. Department of Justice Pass-Through Programs		215,891	-
State Department of the Attorney General: Justice Assistance Grant Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	136,428	
ARRA — Edward Byrne Memorial Justice Assistance Grant Program/Grants to States and Territories	ARRA 16.803	399,365	
Total Justice Assistance Grant Program Cluster		535,793	-
Total U.S. Department of Justice		1,937,942	-
DEPARTMENT OF LABOR:			
U.S. Department of Labor Direct Programs:			
Labor Force Statistics	17.002	707,235	
Compensation and Working Conditions	17.005	52,878	
Unemployment Insurance	17.225	484,696,503	
ARRA — Unemployment Insurance	ARRA 17.225	2,835,345	
Senior Community Service Employment Program	17.235	2,149,329	1,876,507
Trade Adjustment Assistance	17.245	108,529	
WIA Pilots, Demonstrations, and Research Projects	17.261	80,165	
Workforce Incentive Grants	17.266	6,176	
Work Opportunity Tax Credit Program	17.271	62,070	
Temporary Labor Certification for Foreign Workers	17.273	68,965	
ARRA — Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	ARRA 17.275	2,897,261	2,390,335
ARRA — Workforce Investment Act National Emergency Grants	ARRA 17.277	550,801	217,621
Occupational Safety and Health — State Program	17.503	1,470,934	
Consultation Agreements	17.504	338,975	
WIA Dislocated Worker National Reserve — Demonstration — Reimbursement	17.999	51,384	
Total U.S. Department of Labor Direct Programs		496,076,550	4,484,463
Employment Service Cluster:			
Employment Service/Wagner-Peyser Funded Activities	17.207	3,292,706	
Disabled Veterans' Outreach Program	17.801	288,900	
Local Veterans' Employment Representative Program	17.804	253,091	
Total Employment Service Cluster		3,834,697	-
Workforce Investment Act (WIA) Cluster:			
WIA Adult Program	17.258	2,409,558	1,846,458
WIA Youth Activities	17.259	3,192,894	2,547,388
WIA Dislocated Worker Formula Grants	17.278	2,625,283	2,180,604
Total Workforce Investment Cluster		8,227,735	6,574,450
Total U.S. Department of Labor		508,138,982	11,058,913
DEPARTMENT OF TRANSPORTATION:			
U.S. Department of Transportation Direct Programs:			
Recreational Trails Program	20.219	656,433	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	126,876	
Total U.S. Department of Transportation Direct Programs		783,309	-
U.S. Department of Transportation Pass-Through Program from —			
State Department of Transportation — Federal Transit — Capital Investment Grants	20.500	5,541,523	
Total U.S. Department of Transportation		6,324,832	-

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

STATE OF HAWAII

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor and Program Title	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
DEPARTMENT OF TREASURY:			
U.S. Department of Treasury Direct Program — State Small Business Credit Initiative	21.Unknown	$ 262,206	$ 260,000
Total U.S. Department of Treasury		262,206	260,000
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION:			
U.S. Equal Employment Opportunity Commission Direct Program — Employment Discrimination — State and Local Fair Employment Practices Agency Contracts	30.002	150,662	
Total Equal Employment Opportunity Commission		150,662	-
GENERAL SERVICES ADMINISTRATION:			
U.S. General Services Administration Direct Programs:			
Donation of Federal Surplus Personal Property	39.003	14,165,212	
Election Reform Payments	39.011	62,830	
Total General Services Administration		14,228,042	-
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION:			
National Aeronautics and Space Administration Direct Program — Basic Research	43.AAA	50,000	
Total National Aeronautics and Space Administration		50,000	-
NATIONAL ENDOWMENT FOR THE ARTS:			
U.S. National Endowment for the Arts Direct Program — Promotion of the Arts — Partnership Agreements	45.025	853,483	447,723
Total National Endowment for the Arts		853,483	447,723
SMALL BUSINESS ADMINISTRATION:			
U.S. Small Business Administration Direct Program — State Trade and Export Promotion Pilot Grant Program	59.061	289,306	155,000
Total Small Business Administration		289,306	155,000
DEPARTMENT OF VETERANS AFFAIRS:			
U.S. Department of Veterans Affairs Direct Program — State Cemetery Grants	64.203	64,598	
Total Department of Veterans Affairs		64,598	-
ENVIRONMENTAL PROTECTION AGENCY:			
U.S. Environmental Protection Agency Direct Programs:			
Performance Partnership Grants	66.605	175,334	
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	133,103	
Pollution Prevention Grants Program	66.708	46,611	
Total Environmental Protection Agency		355,048	-
DEPARTMENT OF ENERGY:			
U.S. Department of Energy Direct Programs:			
ARRA — State Energy Program	ARRA 81.041	11,719,491	5,191,829
Weatherization Assistance for Low-Income Persons	81.042	63,278	62,274
ARRA — Weatherization Assistance for Low-Income Persons	ARRA 81.042	782,717	537,767
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, and Technical Analysis/Assistance	81.117	5,216	
State Energy Program Special Projects	81.119	40,000	
Electricity Delivery and Energy Reliability, Research, Development, and Analysis	81.122	98,032	
ARRA — Electricity Delivery and Energy Reliability, Research, Development, and Analysis	ARRA 81.122	420,529	
ARRA — Energy Efficiency and Conservation Block Grant Program	ARRA 81.128	4,261,287	1,154,036
Total U.S. Department of Energy		17,390,550	6,945,906

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

STATE OF HAWAII

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor and Program Title	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
DEPARTMENT OF EDUCATION:			
U.S. Department of Education Direct Programs:			
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331A	$ 24,396	$ -
College Access Challenge Grant	84.378	65,304	
ARRA — State Fiscal Stabilization Fund — Government Services	ARRA 84.397A	3,134,553	2,465,849
ARRA — Education Jobs Fund	ARRA 84.410A	31,050,699	31,050,699
Total U.S. Department of Education Direct Programs		34,274,952	33,516,548
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	335,594	
State University of Hawaii — Career and Technical Education — Basic Grants to States	84.048A	76,612	
Total U.S. Department of Education Pass-Through Programs from the State Department of Education and the State University of Hawaii		412,206	-
Total U.S. Department of Education		34,687,158	33,516,548
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION:			
U.S. National Archives and Records Administration Direct Program — National Historical Publications and Records Grants	89.003	36,300	
Total National Archives and Records Administration		36,300	-
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
U.S. Department of Health and Human Services Direct Programs:			
Affordable Care Act State Health Care Workforce Development Grants	93.509	54,769	
Affordable Care Act Grants to States for Health Insurance Premium Review	93.511	15,341	
State Planning and Establishment Grants for the Affordable Care Act's Exchanges	93.525	860,605	
Refugee and Entrant Assistance — State Administered Programs	93.566	67,964	66,382
Community Services Block Grant	93.569	3,675,570	3,187,256
ARRA — Strengthening Communities Fund	ARRA 93.711	73,667	
Total U.S. Department of Health and Human Services Direct Programs		4,747,916	3,253,638
U.S. Department of Health and Human Services Pass-Through Programs from:			
State Department of Health — Substance Abuse and Mental Health Services — Projects of Regional and National Significance	93.243	6,158	
State Department of Human Services — Temporary Assistance for Needy Families	93.558	1,782,960	39,618
State Department of Health — Social Services Block Grant	93.667	175,969	175,969
Total U.S. Department of Health and Human Services Pass-Through Programs from the State Department of Human Services		1,965,087	215,587
Total U.S. Department of Health and Human Services		6,713,003	3,469,225

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

STATE OF HAWAII

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor and Program Title	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
DEPARTMENT OF HOMELAND SECURITY:			
U.S. Department of Homeland Security Direct Programs:			
Homeland Security Preparedness Technical Assistance Program	97.007	$ 46,738	$ -
Non-Profit Security Program	97.008	16,793	16,793
Boating Safety Financial Assistance	97.012	821,041	
Community Assistance Program — State Support Services Element	97.023	120,604	
Disaster Grants — Public Assistance (Presidentially Declared Disasters)	97.036	8,121,570	8,018,741
Hazard Mitigation Grant	97.039	730,135	650,775
National Dam Safety Program	97.041	53,294	
Emergency Management Performance Grants	97.042	3,215,701	
Cooperating Technical Partners	97.045	102,475	
Fire Management Assistance Grant	97.046	844,296	
Pre-Disaster Mitigation	97.047	318,630	297,848
Interoperable Emergency Communications	97.055	194,829	56,556
Port Security Grant Program	97.056	7,510	7,510
Intercity Bus Security Grants	97.057	36,395	36,395
Homeland Security Grant Program	97.067	12,689,651	10,888,964
Earthquake Consortium	97.082	57,969	
Regional Catastrophic Preparedness Grant Program	97.111	1,162,262	1,162,262
National Special Security Event	97.126	7,485,000	
Total U.S. Department of Homeland Security		36,024,893	21,135,844
TOTAL FEDERAL EXPENDITURES		$689,202,936	$81,539,071

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

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
- 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 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 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 Property Personal 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 $487,531,848 reported as expenditures for the unemployment insurance program (CFDA No. 17.225), $260,084,009 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 (R&D) EXPENDITURES

The SEFA includes the following R&D amounts:

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture Direct Programs:		
Federal-State Marketing Improvement Program	10.156	$ 43,070
Scientific Cooperation and Research	10.961	13,565
Total U.S. Department of Agriculture		56,635
U.S. Department of Commerce Direct Programs:		
Coastal Zone Management Administration Awards	11.419	2,282,060
Financial Assistance for National Centers for Coastal Ocean Science	11.426	104,159
Center for Sponsored Coastal Ocean Research — Coastal Ocean Program	11.478	82,773
Coral Reef Conservation Program	11.482	70,274
Total U.S. Department of Commerce		2,539,266
U.S. Department of Defense Direct Programs:		
Basic, Applied, and Advanced Research in Science and Engineering	12.630	27,304
Air Force Defense Research Sciences Program	12.800	3,338,757
Research and Technology Development	12.910	5,995,638
Total U.S. Department of Defense		9,361,699
U.S. Department of the Interior Direct Programs:		
Sport Fish Restoration Program	15.605	4,096,536
Wildlife Restoration and Basic Hunter Education	15.611	1,916,399
Economic, Social, and Political Development of the Territories	15.875	132,011
Total U.S. Department of the Interior		6,144,946
National Aeronautics and Space Administration Direct Program — Basic Research	43.AAA	50,000
Total U.S. National Aeronautics and Space Administration		50,000
Total Research and Development Cluster		$ 18,152,546

* * * * * *

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I — SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	**Unqualified**	
Internal control over financial reporting:		
• Material weakness(es) identified?	__X__ yes	______ 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 unqualified opinion was issued on the State of Hawaii's compliance with its major federal programs for the year ended June 30, 2012, except for the requirements regarding reporting that are applicable to CFDA No. 11.555, *Public Safety Interoperable Communications Grant Program*, and CFDA No. 97.067, *Homeland Security Grant Program*, and the requirements regarding cash management that are applicable to CFDA No. 17.225 and ARRA 17.225, *Unemployment Insurance*, CFDA No. ARRA 84.410A, ARRA – *Education Jobs Fund*, and CFDA No. 93.558, *Temporary Assistance for Needy Families*, 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:

CFDA Number	Name of Federal Program
ARRA 10.688	ARRA — Wildland Fire Management
11.555	Public Safety Interoperable Communications Grant Program
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
Justice Assistance Grant Program Cluster:	
16.738	Edward Byrne Memorial Justice Assistance Grant Program
ARRA 16.803	ARRA — Edward Byrne Memorial Justice Assistance Grant Program/Grants to States and Territories
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
ARRA 17.277	ARRA — Workforce Investment Act National Emergency Grants
20.500	Federal Transit — Capital Investment Grants
39.003	Donation of Federal Surplus Personal Property
ARRA 81.041	ARRA — State Energy Program
81.042	Weatherization Assistance for Low-Income Persons
ARRA 81.042	ARRA — Weatherization Assistance for Low-Income Persons
81.122	Electricity Delivery and Energy Reliability, Research, Development, and Analysis
ARRA 81.122	ARRA — Electricity Delivery and Energy Reliability, Research, Development, and Analysis
ARRA 81.128	ARRA — Energy Efficiency and Conservation Block Grant Program
ARRA 84.397A	ARRA — State Fiscal Stabilization Fund — Government Services
ARRA 84.410A	ARRA — Education Jobs Fund

CFDA Number	Name of Federal Program
93.558	Temporary Assistance for Needy Families
93.569	Community Services Block Grant
97.036	Disaster Grants — Public Assistance (Presidentially Declared Disasters)
97.042	Emergency Management Performance Grants
97.067	Homeland Security Grant Program
97.126	National Special Security Event
Research and Development Cluster:	
10.156	Federal-State Marketing Improvement Program
10.961	Scientific Cooperation and Research
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 & Technology Development
15.605	Sport Fish Restoration Program
15.611	Wildlife Restoration and Basic Hunter Education
15.875	Economic, Social, and Political Development of the Territories
43.AAA	Basic Research

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

Material Weaknesses

We consider the following deficiencies in the State of Hawaii's ("State") internal control over financial reporting to be material weaknesses as of June 30, 2012.

2012-01 — Internal Control over Financial Reporting

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 Department of Accounting and General Services (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, 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.

A similar finding was included in the prior year's single audit report. Refer to page 277 (Reference: 2011-03).

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.

Effect

Due to the information not being submitted to DAGS timely and DAGS needing to estimate amounts to be used in the accruals when preparing the financial statements, accruals from certain departments were materially overstated or understated. Further, the untimely submittal of information prevented DAGS from performing a complete and effective review of the journal entries and supporting schedules. This resulted in the following:

- Correction of the following misstatements:
    - $925 million and $106 million reclassification of bond proceeds from revenues to other financing sources in the Capital Projects Fund and the General Fund, respectively, for appropriate GAAP presentation.
    - $114 million reclassification from investments to cash and cash equivalents in the Government-Wide financial statements for appropriate GAAP presentation.
    - $10.2 million overstatement of accounts payables in the Special Revenue Funds related to the Department of Transportation – Highways Division.
    - $1.7 million overstatement of accounts payables in the Capital Projects Fund related to the Department of Transportation – Highways Division.
- The following uncorrected material misstatements:
    - $11 million understatement of assets, $9 million understatement of liabilities, and a $2 million understatement of revenues in the Special Revenue Fund for the effect of charter school transactions related to the Department of Education.

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.

Views of Responsible Officials

See Corrective Action Plan.

2012-02 — Schedule of Expenditures of Federal Awards (SEFA)

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 in 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 audit period.

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.

A similar finding was included in the prior year's single audit report. Refer to page 275 (Reference: 2011-01).

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 material weakness in internal control over financial reporting. The effects of the errors are:

- CFDA No. 12.800, Air Force Defense Research Sciences Program of $3,338,757 was originally omitted from the SEFA

- Federal expenditure amounts for the following programs were inaccurate:

    - CFDA No. 12.400, Military Construction, National Guard, was overstated by $142,180

    - CFDA No. 12.404, National Guard Challenge Program, was understated by $37,752

    - CFDA No. 16.727, Enforcing Underage Drinking Laws Program, was understated by $84,962

    - CFDA No. 39.003, Donation of Federal Surplus Personal Property, was overstated by $63,000

    - CFDA No. 81.042, Weatherization Assistance for Low-Income Persons, was overstated by $81,984

    - CFDA No. ARRA 81.128, Energy Efficiency and Conservation Block Grant Program, was understated by $2,500,000

    - CFDA No. 93.558, Temporary Assistance for Needy Families, was understated by $87,621

    - CFDA No. 97.067, Homeland Security Grant Program, was overstated by $46,737

- CFDA numbers for the following programs were inaccurate:

    - CFDA No. 11.555, Public Safety Interoperable Communications Grant Program, for $1,043,612 was erroneously coded to CFDA No. 97.055, Interoperable Emergency Communications

    - CFDA No. 93,667, Social Services Block Grant, for $175,969 was erroneously coded to CFDA No. 93.558, Temporary Assistance for Needy Families

- The expenditure amount for CFDA No. 93.569, Community Services Block Grant, included expenditures of a grant from a not-for-profit organization of $6,242. Non-federal expenditures should not be included in the SEFA.

- Amounts reported as provided to subrecipients for the following programs were inaccurate:
    - CFDA No. 81.041, State Energy Program, expenditures disclosed as being passed through to subrecipients were overstated by $2,711,017
    - CFDA No. ARRA 10.688, Wildland Fire Management, expenditures disclosed as being passed through to subrecipients were overstated by $275,250
- Delinquent submission of the combined June 30, 2011, SEFA, which was due by March 31, 2012.

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.

Views of Responsible Officials

See Corrective Action Plan.

Significant Deficiencies

We consider the following deficiencies in the State's internal control over financial reporting to be significant deficiencies as of June 30, 2012.

2012-03 — Accounting for Component Units and Proprietary Funds

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 No. 14, *The Financial Reporting Entity*, and by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units — an amendment of GASB Statement No. 14*. 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. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* should be reported separately within the Proprietary Fund (PF) financial statements.

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.

A similar finding was included in the prior year's single audit report. Refer to page 278 (Reference: 2011-04).

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.

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. See below for summary of balances of entities and funds that were incorrectly classified by State management (in millions):

	Revenues	Expenditures	Assets
Discretely presented Component Units:			
Stadium Authority	$ 6.7	$ 14.0	$ 89.4
Natural Energy Laboratory of Hawaii Authority	10.2	10.9	22.3
High Technology Development Corporation	4.9	6.1	13.3
Hawaii Strategic Development Corporation	0.1	1.6	5.5
Non-major Proprietary Funds:			
Department of Labor and Industrial Relations — Disability Compensation Fund	17.4	14.6	15.3
Public Safety Department — Correctional Industries Fund	5.4	5.0	4.4
Accounting and General Services — State Parking Revolving Fund	3.8	3.7	23.5
Accounting and General Services — Motor Pool Fund	2.5	2.7	4.0

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

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.

Views of Responsible Officials

See Corrective Action Plan.

2012-04 — Accounting for Capital Assets

Criteria

The State CAFR is prepared under GAAP, which requires the State to report capital asset balances (i.e., infrastructure, land, land improvements, buildings, construction in progress, and accumulated depreciation) in the Government-Wide financial statements of the State CAFR.

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.

A similar finding was included in the prior year's single audit report. Refer to page 279 (Reference: 2011-05).

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.

Effect

As a result of the significant deficiency, DAGS encounters delays in the preparation of capital asset information, which results in delays in the preparation and issuance of the CAFR.

In addition, the following misstatements were detected:

- $27.9 million of fixed assets were incorrectly classified in the prior year's financial statements as construction in progress, when they should have been classified as "infrastructure"

- $9.2 million of retention payables in the prior year's financial statements were not recorded relating to ongoing construction projects in the DOE.

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.

Views of Responsible Officials

See Corrective Action Plan.

2012-05 — Mainframe Access Security Controls

Criteria

Mainframe applications include the Payroll System, Financial Accounting and Management Information System (FAMIS), Central Warrant Writer System (CWWS), Warrant Reconciliation System (Recon) and Unemployment Insurance Benefits Payment System (UI BPS) System. The mainframe applications are important as they are used to account for most of the transactions of the State. DAGS has created controls to prevent and detect users from having access privileges beyond those necessary to perform their assigned duties. DAGS has also created controls to prevent and detect systems from being inadequately configured or updated with unrestricted system access to unauthorized or inappropriate users.

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.

A similar finding was included in the prior year's single audit report. Refer to page 280 (Reference: 2011-06).

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.

Effect

The exceptions noted above may result in users having access privileges beyond those necessary to perform their assigned duties or systems, which are inadequately configured or updated with unrestricted system access to unauthorized or inappropriate users.

In addition, information resources or financial data may be modified inappropriately, disclosed without authorization, and/or unavailable when needed. Furthermore, such security breaches or modifications to data may go undetected.

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.

Views of Responsible Officials

See Corrective Action Plan.

2012-06 — Great Plains Access Security Controls

Criteria

Great Plains is a system utilized by the Department of Budget and Finance, which helps the department track cash and investment transactions and balances. DAGS has created controls to prevent and detect users from having access privileges beyond those necessary to perform their assigned duties. DAGS has also created controls to prevent and detect systems from being inadequately configured or updated with unrestricted system access to unauthorized or inappropriate users.

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.

A similar finding was included in the prior year's single audit report. Refer to page 281 (Reference: 2011-07).

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.

Effect

The exceptions noted above may increase the likelihood of users having access privileges beyond those necessary to perform their assigned duties, or systems, which are inadequately configured or updated with unrestricted system access to unauthorized or inappropriate users.

In addition, information resources or financial data may be modified inappropriately, disclosed without authorization, and/or unavailable when needed. Furthermore, such security breaches or modifications to data may go undetected. This significant deficiency in the operating effectiveness of internal controls may result in information system user access to the State's information systems not being appropriately managed, and in turn, the security would not enable the State to minimize the likelihood of disruption, unauthorized alterations, and errors which impact the accurate, complete, and valid processing and recording of financial information.

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).

Views of Responsible Officials

See Corrective Action Plan.

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)

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 drawdown 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 fund transfers being requested and received must be as close as is administratively feasible to a 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 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.

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 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 13 out of 25 instances totaling $171,808 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 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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

According to the OMB Circular A-133 Compliance Supplement, Section M, Subrecipient Monitoring, for non-ARRA first-tier subawards made on or after October 1, 2010, the pass-through entity is required to have the subrecipient provide a valid Data Universal Number Systems (DUNS) number before issuing the subaward. In addition, at the time of the subaward, the pass-through entity must make subrecipients aware of 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 requirements imposed by laws, regulations, and the provisions of contract or grant agreements.

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.

Questioned Costs

None.

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.

Effect

Without obtaining a DUNS number from the subrecipient, the department would be unable to determine if the subrecipient is registered. If the subrecipient does not have a DUNS number that is properly registered, the Federal Government's OMB may not be able to properly keep track of how federal grant money is awarded and dispersed. In addition, without communicating the award information to the subrecipient, the subrecipient would be unable to determine if Federal awards are being used for authorized purposes and in compliance with the provisions of the award.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 drawdown 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 fund transfers being requested and received must be as close as is administratively feasible to a 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.

Further, according to the grant document, "SAAs should request funds based upon immediate disbursement requirements. Funds will not be paid in a lump sum, but rather disbursed over time as project costs are incurred or anticipated. Recipients should time their drawdown requests to ensure that Federal cash on hand is the minimum needed for disbursements to be made immediately or within a few days. Grantees may elect to draw down funds up to 30 days prior to expenditure/disbursement. NTIA strongly encourages recipients to draw down funds as close to expenditure as possible to avoid accruing interest."

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.

Questioned Costs

The amount of potential interest due cannot be determined.

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.

Effect

As a result of the deficiency in internal controls over compliance with cash management requirements, there was one out of nine instances totaling $16,332 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 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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The Transparency Act requires prime awardees of federal grants to file a Federal Funding Accountability and Transparency Act (FFATA) subaward report by the end of the month following the month in which the prime awardee awards any subgrant equal to or greater than $25,000.

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.

Questioned Costs

Cannot be determined.

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.

Effect

As a result of not fulfilling the Transparency Act requirements, the program is not in compliance with Federal and grant requirements.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 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.

Questioned Costs

Cannot be determined.

Cause

Supervisory personnel were not aware of the requirement to prepare payroll certifications for employees working solely 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 create semiannual payroll certifications for employees who work solely on one award, as required by OMB Circular A-87.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The U.S. Department of the Treasury regulations in 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the drawdown 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 fund transfers being requested and received must be as close as is administratively feasible to a 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.

Further, according to NGR 5-1 Section 11-5a (5), the time elapsing between the transfer of funds from the U.S. Department of the Treasury and their disbursement by the State should be no more than 45 days.

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.

Questioned Costs

The amount of potential interest due cannot be determined.

Cause

There was a lack of monitoring to ensure this requirement was met.

Effect

As a result of the deficiency in internal controls over compliance with cash management requirements, we noted three of 40 instances totaling $214,168 where Federal funds were advanced to the State, but not disbursed within the program's specified time frame of 45 days.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 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.

A similar finding was included in the prior year's single audit report. Refer to page 301 (Reference: 2011-31).

Questioned Costs

Cannot be determined.

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.

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 create semiannual payroll certifications for employees who work solely on one award, as required by OMB Circular A-87.

Views of Responsible Officials

See Corrective Action Plan.

2012-14 — Cash Management (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)

Criteria

The U.S. Department of the Treasury regulations in 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the drawdown 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 fund transfers being requested and received must be as close as is administratively feasible to a 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.

Further, according to NGR 5-1 Section 11-5a (5), the time elapsing between the transfer of funds from the U.S. Department of the Treasury and the disbursement by the State should be no more than 45 days.

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.

A similar finding was included in the prior year's single audit report. Refer to page 299 (Reference: 2011-28).

Questioned Costs

The amount of potential interest due cannot be determined.

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.

Effect

As a result of the deficiency in internal controls over compliance with cash management requirements, we noted two out of 60 instances totaling $27,085 where Federal funds were advanced to the State, but not disbursed within the program's specified time frame of 45 days.

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.

Views of Responsible Officials

See Corrective Action Plan.

2012-15 — Eligibility (Significant Deficiency)
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)

Criteria

The Master Youth Program Cooperative Agreement (MYPCA) contains eligibility participant requirements. One requirement of the MYPCA is the participant must be 16 to 18 years of age at the time of entry into the program.

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.

Questioned Costs

Cannot be determined.

Cause

Program management experienced turnover during the audit period and, as a result, proper eligibility clearance was computed incorrectly.

Effect

As a result of the deficiency, one cadet was admitted into the Master Youth Program who was not eligible to participate in the program.

Recommendation

The application review process and eligibility requirements should be communicated timely to every employee and new employees.

Views of Responsible Officials

See Corrective Action Plan.

2012-16 — Cash Management (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA 12.800, Air Force Defense Research Sciences Program
Direct Program from U.S. Department of Defense (Award FA8650-11-2-5605)

Criteria

The U.S. Department of the Treasury regulations in 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the drawdown 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 fund transfers being requested and received must be as close as is administratively feasible to a 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.

Further, per the cooperative agreement, "Interest earned from advance deposited in interest-bearing accounts shall be remitted annually to the Department of Health and Human Services (HHS)." The technical performance portion of the agreement is for a 24-month period, thus the 12-month cycle from the effective date of the agreement is being used as the "annual" cycle of the award.

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.

Questioned Costs

The amount of potential interest due cannot be determined.

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.

Effect

The drawdown of funds not done within a timely basis violated the provisions of the Air Force Defense Research Sciences Program and allowed the Department to have Federal funds in excess of its immediate needs. Further, the Department did not remit interest earned on Federal funds to HHS annually. Twelve months from the effective date of the agreement is being used as the basis of the "annual" cycle. Interest was not due to be remitted as of June 30, 2012; however, we noted that subsequent to June 30, 2012, the Department did not remit interest for the first annual cycle of the award.

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.

Views of Responsible Officials

See Corrective Action Plan.

2012-17 — Equipment and Real Property Management — Acquisitions Not Recorded in FAIS (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA 12.800, Air Force Defense Research Sciences Program
Direct Program 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, "2. Applies to States - 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, under Timing of Recordation, "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 (decals are not required for controlled items). Receiving and inspection activities are the responsibility of the receiving agency. 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 DAGS, SPO, and Inventory Management Office for review and subsequent entry into the FAIS. Departments must be certain that the acquisition value reported on the AGS Form 17A does not represent a partial payment only. All payments associated with the acquisition of the property should be recorded in the FAIS.

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.

Questioned Costs

None.

Cause

Responsible individuals did not properly monitor newly acquired property to ensure that it is entered 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 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.

Views of Responsible Officials

See Corrective Action Plan.

2012-18 — Reporting — Federal Reporting Accuracy (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA 12.800, Air Force Defense Research Sciences Program
Direct Program from U.S. Department of Defense (Award FA8650-11-2-5605)

Criteria

The Department is required to file Federal Form SF-425, *Federal Financial Report*, on a quarterly basis, pursuant to the report instructions. In accordance with the OMB Circular A-133 Compliance Supplement, Section L. Reporting, Suggested Audit Procedures — Compliance, for selected financial, performance, and special reports, we are required to review accounting reports and ascertain if all applicable accounts were included.

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.

Questioned Costs

$25,900 ($8,300 + $17,600)

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.

Effect

The financial information relating to expenditures of Federal funds was inaccurately reported to the awarding agency.

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.

Views of Responsible Officials

See Corrective Action Plan.

2012-19 — Reporting — Submission of Reports (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA 12.800, Air Force Defense Research Sciences Program
Direct Program from U.S. Department of Defense (Award FA8650-11-2-5605)

Criteria

The State DBEDT receives funds from the U.S. Department of Defense to conduct research and development of alternative fuels and advance power technologies associated with ground vehicles, facilities, deployed locations, and power systems. The cooperative agreement requires that a copy of the Program Management Plan be submitted to the Federal program manager no later than 45 days following the execution of the cooperative agreement.

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.

Questioned Costs

None.

Cause

Individuals responsible for preparing the reports did not appropriately retain supporting documentation to verify the timeliness of the report submission.

Effect

The submission of the Program Management Plan after the required deadline would result in noncompliance with the program requirement. Further, the Federal awarding agency would not be able to properly monitor the Department's planned performance of the cooperative agreement.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The U.S. Department of the Treasury regulations in 31 CFR Section 205.33, for cash management compliance, requires the State to minimize the time between the drawdown 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 fund transfers being requested and received must be as close as is administratively feasible to a 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 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.

Questioned Costs

The amount of potential interest due cannot be determined.

Cause

There was a lack of monitoring to ensure that Federal funds are disbursed on a timely basis.

Effect

As a result of the deficiency in internal controls over compliance with cash management requirements, we noted eight of 17 instances totaling $175,263 where Federal funds were disbursesd after 30 days from being received from the Federal government.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The Department is required to file Federal Form SF-425, *Federal Financial Report*, on a quarterly basis, pursuant to the report instructions. In accordance with the OMB Circular A-133 Compliance Supplement, Section L. Reporting, Suggested Audit Procedures — Compliance, for selected financial, performance, and special reports, we are required to review accounting reports and ascertain if all applicable accounts were included.

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.

Questioned Costs

$69,988

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.

Effect

The financial information relating to expenditures of Federal funds was inaccurately reported to the awarding agency.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The Department receives funds from the U.S. Department of Defense to support and stimulate basic research, applied research and technology development at educational institutions, nonprofit organizations, and commercial firms, which may have military or dual-use application. In accordance with the grant agreement, quarterly Technical Status Reports are required to be submitted to the Defense Advanced Research Projects Agency (DARPA) within 45 calendar days following each calendar quarter. In addition, the Annual Program Plan is required to be submitted to DARPA in the first quarter of each year of the grant agreement.

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.

Questioned Costs

Cannot be determined.

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.

Effect

The filing of the quarterly Technical Report after the required deadline would result in noncompliance with the program requirement. Further, the Federal awarding agency would not be able to properly monitor the State DBEDT's performance and compliance with the grant provisions. In addition, failure to file the Annual Program Plan would result in noncompliance with the program requirement, and the Federal awarding agency would not be able to properly monitor the State DBEDT's performance and compliance with the grant provisions.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 drawdown 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 fund transfers being requested and received must be as close as is administratively feasible to a 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 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.

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 Federal funds are disbursed on a timely basis.

Effect

As a result of the deficiency in internal controls over compliance with cash management requirements, we noted two of eight instances totaling $302,250 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 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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

According to the OMB Circular A-133, Section F, Equipment and Real Property Management, equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

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.

Questioned Costs

None.

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.

Effect

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

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.

Views of Responsible Officials

See Corrective Action Plan.

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 (Awards 09-SU-06, 09-SU-16, 09-SU-22, and 09-SU-23)

Criteria

According to the OMB Circular A-133 Compliance Supplement, Section F. Equipment and Real Property Management, Suggested Audit Procedures — Compliance, "2. Applies to States - 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, under Timing of Recordation, "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 (decals are not required for controlled items). Receiving and inspection activities are the responsibility of the receiving agency. 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 DAGS, SPO, and Inventory Management Office for review and subsequent entry into the FAIS. Departments must be certain that the acquisition value reported on the AGS Form 17A does not represent a partial payment only. All payments associated with the acquisition of the property should be recorded in the FAIS.

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.

Questioned Costs

None.

Cause

There was a lack of monitoring to ensure that the newly acquired property was entered into the FAIS.

Effect

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

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

According to the OMB Circular A-133 Compliance Supplement under C. Cash Management:

"1. For programs tested as a major, verify which of those programs are covered by the Cash Management Improvement Act Agreement ("Treasury-State Agreement") in accordance with the materiality thresholds in 31 CFR Section 205.5, Table A.

2. For those programs identified in Procedure 1, 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

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.

Questioned Costs

Cannot be determined.

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.

Effect

New major programs that would normally fall under the scope of the Treasury-State Agreement would not be identified and appropriately covered under the Treasury-State Agreement.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The State's procurement process includes requirements to ensure the integrity of the awarding of State contracts, including travel procedures, which states that "*applicable forms and worksheets shall be used for the purposes of Intra-State and Out-of-State travel.*" Applicable forms consist of the "Travel Approval Form" and the "Statement of Completed Travel." In addition, applicable worksheets consist of Airfare: worksheet A, Per Diem: worksheet B, Hotel Lodging: worksheet C, Transportation: worksheet D, Ferry Service: worksheet E, and other miscellaneous fees. Further, per examination of the SPO travel procedures, "a Statement of Completed Travel is required, along with all applicable worksheets, and supporting documents/receipts within 10 days upon return to duty for reimbursement of traveler's expenses."

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.

A similar finding was included in the prior year's single audit report. Refer to page 304 (Reference: 2011-37).

Questioned Costs

None.

Cause

The lack of adequate monitoring of travel reports and follow-up on delinquent/missing reports.

Effect

The failure to file travel reports within the 10-day deadline would possibly result in expenditures being reported in the wrong accounting period. This may have a negative impact on the comparison of actual expenditures to the amounts budgeted by period.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 paid the proper amounts, or 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 system requires each 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 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.

A similar finding was included in the prior year's single audit report. Refer to page 306 (Reference: 2011-40).

Questioned Costs

Cannot be determined.

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.

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.

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)

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 drawdown 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 fund transfers being requested and received must be as close as is administratively feasible to a 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 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.

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 federal funds are disbursed on a timely basis.

Effect

As a result of the deficiency in internal controls over compliance with cash management requirements, we noted two of 17 instances totaling $111,749 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 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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The Department receives funds from the U.S. Department of Labor for the administration of the program of competitive grants for worker training and placement in high-growth and emerging industry sectors. A requirement of the program is that the Department of Labor Employment and Training Administration (ETA) 9130 report (which provides information on the use of Federal expenditures charged against grant awards made by the ETA) is due no later than the 45th day after the end of each calendar quarter.

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.

Questioned Costs

None.

Cause

The lack of adequate supervisory review over the preparation of the required reports allowed the report to be filed late.

Effect

The late filing of the report results in a noncompliance with the program requirement.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The Department receives funds from the U.S. Department of Labor for the administration of the Workforce Investment Act National Emergency Grant. A requirement of the program is that the ETA 9104 Quarterly Report and the ETA 9090 Quarterly WIA Performance reports (which provide information on the use of Federal expenditures charged against grant awards) are due no later than the 45th day after the end of each calendar quarter.

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.

Questioned Costs

None.

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.

Effect

The late filing of the report results in a noncompliance with the program requirements.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The State DLIR's Workforce Investment Act National Emergency Grant agreement requires on-site monitoring visits of the program's subrecipient be performed at least once each year of the award period.

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.

Questioned Costs

None.

Cause

The on-site reviews were not performed due to the lack of personnel and resources to perform the on-site/fiscal monitoring process.

Effect

The State DLIR is not compliant with its own program proposal, which specified the annual on-site reviews. Without proper on-site/fiscal monitoring, the State DLIR cannot ensure the existence of accountability for program resources and for providing subrecipients with information useful to the improvement of the program's operations and services.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

Based on the State Plan of Operation for the Federal Surplus Property Donation Program, donee Eligibility Files are required to be "reviewed to renew or update the contents at least once every three years starting with a beginning date of January 1, 1978, and continuing in three-year intervals from the date of the first updating." Further, the State Plan of Operation 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 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.

Questioned Costs

Cannot be determined.

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.

Effect

Failure to review and update donee Eligibility Files at least once every three years could result in the State 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 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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

Based on the State Plan of Operation for the Federal Surplus Property Donation Program, an external audit of the program is required at least every two years, which should include a review of conformance with the requirements of 41 CFR 101-44, Donation of Federal Surplus Personal Property. In addition, an internal audit of the program by the Statewide Internal Audit Agency is required periodically.

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.

Questioned Costs

Cannot be determined.

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.)

Effect

Failure to obtain the required external audit would not identify any non-compliance with the requirements of 41 CFR 101-44.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 drawdown 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 fund transfers being requested and received must be as close as is administratively feasible to a 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 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.

Questioned Costs

The amount of potential interest due cannot be determined.

Cause

There was a lack of monitoring to ensure that Federal funds are disbursed on a timely basis.

Effect

As a result of the deficiency in internal controls over compliance with cash management requirements, we noted one of 25 instances totaling $9,928 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 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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

According to the OMB Circular A-133 Compliance Supplement, Section F. Equipment and Real Property Management, Suggested Audit Procedures — Compliance, "2. Applies to States - 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, under Timing of Recordation, "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 (decals are not required for controlled items). Receiving and inspection activities are the responsibility of the receiving agency. 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 DAGS, SPO, and Inventory Management Office for review and subsequent entry into the FAIS. Departments must be certain that the acquisition value reported on the AGS Form 17A does not represent a partial payment only. All payments associated with the acquisition of the property should be recorded in the FAIS.

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.

Questioned Costs

None.

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.

Effect

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

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The Department receives funds from the U.S. Department of Energy to design and implement State-wide energy plans and programs that best meet the State's individual energy needs. In accordance with State Energy Program (SEP) Notice 10-006, Reporting Guidance, Performance Reports are required to be submitted to the U.S. Department of Energy via PAGE (Performance and Accountability for Grants in Energy) no later than the 30th day of the month following the end of the reporting period.

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.

A similar finding was included in the prior year's single audit report. Refer to page 311 (Reference: 2011-48).

Questioned Costs

None.

Cause

Individuals responsible for preparing the reports did not properly monitor the required deadlines to submit the Performance Reports.

Effect

The filing of the Performance 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 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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The State DBEDT is required to file Federal Form SF-425, *Federal Financial Report*, on a quarterly basis, in accordance with the report instructions.

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.

A similar finding was included in the prior year's single audit report. Refer to page 308 (Reference: 2011-44).

Questioned Costs

Cannot be determined.

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.

Effect

The financial information relating to expenditures of Federal funds was inaccurately reported to the awarding agency.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

According to the OMB Circular A-133 Compliance Supplement, Section L. Reporting, Suggested Audit Procedures – Compliance, "1. Review applicable laws, regulations, and the provisions of contract or grant agreements pertaining to the program for reporting requirements. Determine the types and frequency of required reports. Obtain and review Federal awarding agency or pass-through entity, in the case of a subrecipient, instructions for completing the reports. a. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual)."

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.

Questioned Costs

None.

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.

Effect

Inappropriate identification of the “Basis of Accounting” does not allow the awarding agency to properly monitor the progress of the grant.

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.

Views of Responsible Officials and Planned Corrective Action

See Corrective Action Plan.

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)

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 audit period.

- 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

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.

Questioned Costs

Cannot be determined.

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.

Effect

The Department was not in compliance with requirements related to subrecipient monitoring. Subrecipients that do not have a single audit performed may be expending Federal grant awards that are not in compliance with the grant agreement and OMB Circular A-133.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The State's procurement process includes requirements to ensure the integrity of the awarding of State contracts, including travel procedures, which states that "*applicable forms and worksheets shall be used for the purposes of Intra-State and Out-of-State travel.*" Applicable forms consist of the "Travel Approval Form" and the "Statement of Completed Travel." In addition, applicable worksheets consist of Airfare: worksheet A, Per Diem: worksheet B, Hotel Lodging: worksheet C, Transportation: worksheet D, Ferry Service: worksheet E, and other miscellaneous fees. Further, per examination of SPO travel procedures, noted that "a Statement of Completed Travel is required, along with all applicable worksheets and supporting documents/receipts within 10 days upon return to duty for reimbursement of traveler's expenses."

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.

Questioned Costs

None.

Cause

The lack of adequate monitoring of travel reports and follow-up on delinquent/missing reports.

Effect

The failure to file travel reports within the 10-day deadline would possibly result in expenditures being reported in the wrong accounting period. This may have a negative impact on the comparison of actual expenditures to the amounts budgeted by period.

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.

Views of Responsible Officials

See Corrective Action Plan.

2012-42 — Procurement — Competitive Purchases of Services (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)

Criteria

In carrying out its program activities, the State DLIR often procures goods and services. The Hawaii Revised Statutes (HRS) Chapter 103F pertains to the procurement of goods, services, and construction. HRS 103F-402 specifically addresses the procurement requirements that pertain to competitive purchases of services. In the State DLIR's request for proposals, it specified specific due dates for receipt of the proposals. The due dates are different based on the method of submission (i.e., hand delivery or mail delivery).

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.

A similar finding was included in the prior year's single audit report. Refer to page 313 (Reference: 2011-52).

Questioned Cost

Cannot be determined. The procurement violation does not necessarily indicate that the expenditures should be disallowed.

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.

Effect

Without the procurement documents, it is not possible to determine if all of the requirements of HRS 103F were met when the contract was awarded.

Recommendation

The internal controls over the maintenance of files and documents should be improved to strengthen controls over compliance with procurement policies.

Views of Responsible Officials

See Corrective Action Plan.

2012-43 — Reporting — Federal Reporting Accuracy (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)

Criteria

The State DLIR is required to file Federal Form SF-425, *Federal Financial Report*, on a quarterly basis, in accordance with the report instructions. In addition, according to the Recovery Act, the Department is required to submit periodic reports to the Federal awarding agency under ARRA Section 1512. Recipients are required to report the cumulative total expenditures for the total federal amount of ARRA expenditures, including the amounts for services performed by subawardees.

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.

A similar finding was included in the prior year’s single audit report. Refer to page 312 (Reference: 2011-50).

Questioned Costs

Cannot be determined.

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.

Effect

The financial information relating to cash receipts for the program was inaccurately reported to the Federal government.

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.

Views of Responsible Officials

See Corrective Action Plan.

2012-44 — Subrecipient Monitoring — On-Site Reviews (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 (Award EE0000176)

Criteria

The State DLIR's Weatherization Assistance for Low-Income Persons agreements require that full on-site reviews of subrecipients be performed at least once every year. Such reviews should include administrative, fiscal, personnel, and program components.

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.

A similar finding was included in the prior year's single audit report. Refer to page 313 (Reference: 2011-51).

Questioned Costs

None.

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.

Effect

The State DLIR is not compliant with its own program proposal, which specified the on-site fiscal reviews. Without proper on-site fiscal monitoring, the State DLIR cannot ensure the existence of accountability for program resources and for providing subrecipients with information useful to the improvement of the program's operations and services.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The State B&F is required to file Federal Form SF-425, *Federal Financial Report*, on a quarterly basis, in accordance with the report instructions. In addition, according to the Recovery Act, the department is required to submit periodic reports to the Federal awarding agency under ARRA Section 1512. Recipients are required to report the cumulative total expenditures for the total federal amount of ARRA expenditures, including the amounts for services performed by subawardees.

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.

Questioned Costs

$55,610 ($53,707 + $1,903)

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.

Effect

The financial information relating to expenditures of Federal funds was inaccurately reported to the awarding agency.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The Department receives funds from the U.S. Department of Energy to develop cost-effective technology that enhances the reliability, efficiency, and resiliency of the electric grid, while enabling the effective utilization of emerging and renewable generation sources and promoting the rapid deployment and integration of advanced digital “Smart Grid” technology. In accordance with grant agreement, a task summary document that describes the relationship of each of the interested parties (the “Task Summary Document”) is required to be submitted within 12 months of the award date.

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.

A similar finding was included in the prior year’s single audit report. Refer to page 315 (Reference: 2011-55).

Questioned Costs

None.

Cause

Individuals responsible for preparing the reports did not properly monitor the required deadline to submit the Task Summary Document.

Effect

The filing of the Task Summary Document 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 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.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 drawdown 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 fund transfers being requested and received must be as close as is administratively feasible to a 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 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.

Questioned Costs

The amount of potential interest due cannot be determined.

Cause

There was a lack of monitoring to ensure that Federal funds are disbursed on a timely basis.

Effect

As a result of the deficiency in internal controls over compliance with cash management requirements, we noted two of ten instances totaling $218,241 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 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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

According to the OMB Circular A-133 Compliance Supplement, Section F. Equipment and Real Property Management, Suggested Audit Procedures — Compliance, "2. Applies to States - 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, under Timing of Recordation, "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 (decals are not required for controlled items). Receiving and inspection activities are the responsibility of the receiving agency. 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 DAGS, SPO, and Inventory Management Office for review and subsequent entry into the FAIS. Departments must be certain that the acquisition value reported on the AGS Form 17A does not represent a partial payment only. All payments associated with the acquisition of the property should be recorded in the FAIS.

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.

Questioned Costs

None.

Cause

There was a lack of monitoring to ensure that newly acquired property is entered into the FAIS.

Effect

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

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.

Views of Responsible Officials

See Corrective Action Plan.

2012-49 — Reporting — Federal Reporting Accuracy (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)

Criteria

According to the Recovery Act, the Department is required to submit periodic reports to the Federal awarding agency under ARRA Section 1512. Recipients are required to report the cumulative total expenditures for the total federal amount of ARRA expenditures, including the amounts for services performed by subawardees.

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.

A similar finding was included in the prior year's single audit report. Refer to page 316 (Reference: 2011-57).

Questioned Costs

$7,550

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.

Effect

The financial information relating to expenditures of Federal funds was inaccurately reported to the awarding agency.

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.

Views of Responsible Officials

See Corrective Action Plan.

2012-50 — Reporting – Inappropriate Accounting Basis Reported (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)

Criteria

According to the OMB Circular A-133 Compliance Supplement, Section L. Reporting, Suggested Audit Procedures – Compliance, "1. Review applicable laws, regulations, and the provisions of contract or grant agreements pertaining to the program for reporting requirements. Determine the types and frequency of required reports. Obtain and review Federal awarding agency or pass-through entity, in the case of a subrecipient, instructions for completing the reports. a. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual)."

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.

Questioned Costs

None.

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.

Effect

Inappropriate identification of the "Basis of Accounting" does not allow the awarding agency to properly monitor the progress of the grant.

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.

Views of Responsible Officials and Planned Corrective Action

See Corrective Action Plan.

2012-51 — Allowable Costs (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)

Criteria

Expenditures incurred must be in compliance with the Federal grant agreement and Memorandum of Agreement (MOA) between the Governor of the State of Hawaii and the State DOD. The Governor of the State of Hawaii agrees to provide education opportunities to encourage Science, Technology, Engineering and Math (STEM) Program participation for at-risk youth in the State DOD-sponsored program called "About Face Family of Programs."

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.

Questioned Costs

$2,937

Cause

Responsible employees did not maintain proper supporting documentation for the expenditure.

Effect

As a result of the lack of supporting documentation, the $2,937 is a questioned cost that could possibly be an unallowable cost.

Recommendation

DOD should improve the procedures surrounding recording and maintaining backup documents in order to keep complete and proper supporting documentation for all expenditures.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The MOA between the Governor of the State of Hawaii and the State DOD outlines the progress reports that State DOD is required to submit for the grant as follows:

- By September 30, 2011, the State DOD will provide a status report summarizing the expenditures of State Fiscal Stabilization Fund (SFSF) Part B funds and updating its objectives/goals that have been attained, student participation data, and the overall progress achieved to date.

- By March 31, 2012, the State DOD will provide a final report summarizing total expenditures, objectives and goals achieved, student achievements, and student participation data.

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.

Questioned Costs

None.

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.

Effect

The expenditures reported were not reflective of the actual and final expenditures of the program.

Recommendation

The State DOD should implement procedures to ensure that requirements detailed within the MOA are strictly adhered to.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

According to the OMB Circular A-133 Circular Compliance Supplement, under C. Cash Management,

1. For programs tested as a major program, 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.

2. For those programs identified in Procedure 1, 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

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.

Questioned Costs

Cannot be determined.

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.

Effect

New major programs that would normally fall under the scope of the Treasury-State Agreement would not be identified and appropriately covered under the Treasury-State Agreement.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 semiannually 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 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.

A similar finding was included in the prior year's single audit report. Refer to page 298 (Reference: 2011-27).

Questioned Costs

None.

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.

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 create semiannual payroll certifications for employees who work solely on one award, as required by OMB Circular A-87.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 drawdown 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 fund transfers being requested and received must be as close as is administratively feasible to a 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 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.

A similar finding was included in the prior year's single audit report. Refer to page 329 (Reference: 2011-79).

Questioned Costs

The amount of potential interest due cannot be determined.

Cause

State DOD fiscal and program personnel did not track cash advances to monitor cash management requirements.

Effect

The entity may not be in compliance with cash management requirements and could have possibly earned interest that should be remitted to the Federal government.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 preaward costs authorized by the federal awarding agency.

According to the grant agreement, funds, other than contingency funds, are available to the State until expended for the purpose of providing assistance under the Temporary Assistance for Needy Families (TANF) program; contingency funds may be used for qualified expenditures only in the fiscal year for which the funding is provided.

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.

Questioned Costs

$10,371

Cause

The State used TANF funds to pay for the expenditures not within the period of availability instead of using State funding.

Effect

$10,371 in expenditures incurred after the period of availability were improperly funded by Federal funds.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 drawdown 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 fund transfers being requested and received must be as close as is administratively feasible to a 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 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.

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 federal funds are disbursed in a timely basis.

Effect

As a result of the deficiency in internal controls over compliance with cash management requirements, we noted one of 25 instances totaling $1,127 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 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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The Department receives funds from the U.S. Department of Health and Human Services for the administration of Community Services Block Grant Program. The annual financial status report for the year ended September 30, 2011, was due on or before January 30, 2012.

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.

Questioned Costs

None.

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).

Effect

The late filing of the report results in a noncompliance with the program requirement.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The Department receives funds from the U.S. Department of Health and Human Services for the administration of Community Services Block Grant Program. As of February 1, 2011, the U.S. Department of Health and Human Services began the transition from the use of the Form SF-269, *Financial Status Report*, to the use of the Form SF-425, *Federal Financial Report,* for expenditure reporting.

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.

Questioned Costs

None.

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.

Effect

Information required by Form SF-425 (which is not included in Form SF-269) was not reported.

Recommendation

Utilize Form SF-425 for future expenditure reporting.

Views of Responsible Officials and Planned Corrective Action.

See Corrective Action Plan.

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)

Criteria

The State DLIR's Community Services Block Grant Program agreement requires that full on-site reviews of subrecipients be performed at least once every three years. Such reviews should include administrative, fiscal, personnel, and program components.

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.

Questioned Costs

None.

Cause

The on-site reviews were mainly due to the lack of personnel and resources to perform the on-site/fiscal monitoring process.

Effect

The State DLIR is not compliant with its own program proposal, which specified the on-site reviews. Without proper on-site/fiscal monitoring, DLIR cannot ensure the existence of accountability for program resources and for providing subrecipients with information useful to the improvement of the program's operations and services.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 audit period;

- Issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and

- 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 to also monitor the achievement of performance goals.

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.

A similar finding was included in the prior year's single audit report. Refer to page 332 (Reference: 2011-84).

Questioned Costs

Cannot be determined.

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.

Effect

Unless management issues its decision on the 2011 single audit findings, the subrecipient would not be aware of whether its corrective action plan relating to the findings would be acceptable to the pass-through entity.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 semiannually 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 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.

A similar finding was included in the prior year's single audit report. Refer to page 337 (Reference: 2011-92).

Questioned Costs

Cannot be determined.

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.

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 create semiannual payroll certifications for employees who work solely on one award, as required by OMB Circular A-87.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 drawdown 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 fund transfers being requested and received must be as close as is administratively feasible to a 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 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.

Questioned Costs

The amount of potential interest due cannot be determined.

Cause

State personnel were unaware of the cash management requirement dates and, therefore, were untimely.

Effect

As a result of the deficiency in internal controls over compliance with cash management, we noted one of nine instances totaling $161,020 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 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.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 audit period;

- Issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and

- 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 the course of our audit, we noted that no one within the State DOD actively monitors or reviews the subrecipient compliance reports.

A similar finding was included in the prior year's single audit report. Refer to page 336 (Reference: 2011-90).

Questioned Costs

None.

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.

Effect

Without the monitoring of subrecipient activities, there would be no assurance that the subrecipients undertook corrective action plans that addressed any deficiencies affecting the Department's pass-through funds.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

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 semiannually 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 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.

Questioned Costs

Cannot be determined.

Cause

Supervisory personnel were not aware of the requirement to prepare payroll certifications for employees working solely 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 create semiannual payroll certifications for employees who work solely on one award, as required by OMB Circular A-87.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

Per OMB Circular A-133, Compliance Supplement under Activities Allowed or Unallowed section: "The specific requirements for activities allowed or unallowed are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program." Generally, Federal funds per an award are to be spent solely on items outlined within the respective grant agreement as being allowable costs/activities.

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 97.055) was inappropriately paid with funding from CFDA 97.042 (Emergency Management Performance Grants) program. The expenditure should have been paid with the Interoperable Communications Grant Program funding (CFDA 97.055).

Questioned Costs

$343

Cause

Fiscal accountants responsible for recording the cash disbursement incorrectly charged the wrong program for the expenditure.

Effect

Expenditures of $343 for the Interoperable Communications Grant Program (CFDA 97.055) were inappropriately paid by funds from CFDA 97.042 (Emergency Management Performance Grants).

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

According to the grant guidance, Emergency Management Performance Grant (EMPG) Quarterly Progress Reports must be submitted to the EMPG Regional Program Manager located at the FEMA regional office on a quarterly basis. The Quarterly Progress Reports should be based on the EMPG Work Plan. The quarterly progress report should be completed using the SF-Performance Progress Report (SF-PPR). Copies of the quarterly progress reports will be kept on file with the EMPG Regional Program Manager, as well as with FEMA's Grant Programs Director.

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.

Questioned Costs

None.

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.

Effect

The effect of submitting the quarterly progress reports in a format that includes items from other grants makes it difficult to determine which items relate to EMPG and which items are specific to other grants. Further, it is not the required format per the grant guidance.

Recommendation

DOD should submit quarterly progress reports in the required format per the grant guidance using Form SF-PPR.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

According to the OMB Circular A-87, Attachment A, paragraph C (Basic Guidelines), to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards.

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.

Questioned Costs

$25,153

Cause

The State had a sudden change in administration and did not update the employee status on a timely basis.

Effect

This resulted in $25,153 being charged to the Homeland Security Grant Program when the employee was working solely on the Public Assistance Disasters Grant Program and, therefore, is considered unallowable under OMB Circular A-87.

Recommendation

The State should ensure that payroll changes are made on a timely basis by monitoring and reviewing the payroll periodically.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

According to the OMB Circular A-87 Attachment B Item 8(h), "(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation, which meets the standards in Subsection (5)." Per Subsection (5), "Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee, (b) they must account for the total activity for which each employee is compensated, (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee."

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.

Similar findings were included in the prior year's single audit report. Refer to pages 296 and 298 (Reference: 2011-22 and 2011-27).

Questioned Costs

Cannot be determined.

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.

Effect

Without the completion of the required payroll certifications to certify the time spent for each employee who worked on multiple grants, it would be difficult to ascertain whether grant funds are allocated correctly based on the time worked for each employee.

Recommendation

The State DOD should create monthly payroll certifications for employees who work on multiple awards, as required by OMB Circular A-87.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

According to the OMB Circular A-133, Section F, *Equipment and Real Property Management*, equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

In addition, the State's Inventory System User Manual requires equipment additions to be recorded in the equipment listing in the quarter of the fiscal year that the equipment was received.

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.

Questioned Costs

None.

Cause

Due to personnel changes, the department was unable to record the equipment purchased under the grant on a timely basis.

Effect

Without adding equipment purchases to the equipment listing in the calendar quarter that the equipment is received, the equipment listing would not accurately reflect all of the equipment on hand.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

According to the "SPO Travel Procedures, for intrastate airfare, one quote is required, the itinerary must be the most economical possible, itineraries must be authorized, and all receipts and airline boarding passes must be retained. In addition, the State Procurement Policy states that definite travel arrangements should be made only once approvals have been received.

Further, a statement of completed travel, along with all required applicable worksheets and supporting documents/receipts, is to be submitted within 10 days upon return to duty for reimbursement of the traveler's expenses. One of the key documents required is the airline boarding pass, which serves as the proof of travel.

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.

Questioned Costs

$194

Cause

There was a lack of adequate supervisory review of the required documentation accompanying travel reimbursement.

Effect

Making definite travel arrangements, through purchasing a ticket prior to receiving a travel approval, may result in unauthorized purchases. Further, without an adequate review of travel documents, unauthorized travel expenditures may be reimbursed by the State.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The Department receives funds from the U.S. Department of Homeland Security. According to the grant guidance, FEMA will track the congressionally mandated obligation of funds to local units of government through each State's Initial Strategy Implementation Plan (ISIP), which is due within 45 days of receipt of the funds. The final Biannual Strategy Implementation Report (BSIR) must be submitted within 90 days after the close of the grant.

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.

A similar finding was included in the prior year's single audit report. Refer to page 339 (Reference: 2011-95).

Questioned Costs

None.

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.

Effect

Reports were not submitted in a timely manner in compliance with the grant guidance.

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.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

The Transparency Act requires prime awardees of federal grants to file an FFATA subaward report by the end of the month following the month in which the prime awardee awards any subgrant equal to or greater than $25,000.

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.

Questioned Costs

Cannot be determined.

Cause

Management did not make any effort to meet the requirements of the Transparency Act during fiscal year 2012.

Effect

Not fulfilling the Transparency Act requirement will result in being not in compliance with Federal and grant regulations.

Recommendation

There should be clear procedures in place to ensure that the required Transparency Act requirements are met.

Views of Responsible Officials

See Corrective Action Plan.

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)

Criteria

According to the OMB Circular A-133, Section M, *Subrecipient Monitoring*, for non-ARRA first-tier subawards made on or after October 1, 2010, the pass-through entity is required to have the subrecipient provide a valid DUNS number before issuing the subaward.

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.

Questioned Costs

None.

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.

Effect

Without obtaining a DUNS number from the subrecipient, the Department would be unable to determine if the subrecipient is registered. If the subrecipient does not have a DUNS number that is properly registered, the Federal Government's OMB may not be able to properly keep track of how federal grant money is awarded and dispersed.

Recommendation

A procedure should be established to ensure that a DUNS number is obtained from subrecipients before a subaward is granted.

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 13.0050

Deloitte & Touche LLP
1132 Bishop Street
Ste. 1200
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, 2012. 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,

for Maria Zielinski

DEAN H. SEKI
Comptroller

SECTION II — FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2012-01 —Internal Control Over Financial Reporting (Page 145)

CORRECTIVE ACTION PLAN

Concur. The 2012 Legislature approved $15 million to fund a planning and requirements gathering effort to support the acquisition of a modern financial management system. The Department of Accounting and General Services (DAGS) looks forward to the acquisition and implementation of a modern financial system to commence in calendar year 2014.

DAGS will continue to modify its process to become a well-defined, systematic, efficient, and orderly process for financial reporting that shall 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.

Person Responsible	Wayne Horie, Administrator, DAGS Accounting Division
Anticipated Completion Date	August 31, 2013

2012-02 — Schedule of Expenditures of Federal Awards (SEFA) (Page 147)

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 2013 in preparation of the 2013 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.

Person Responsible	Wayne Horie, Administrator, DAGS Accounting Division
Anticipated Completion Date	August 31, 2013

SIGNIFICANT DEFICIENCIES

2012-03 — Accounting for Component Units and Proprietary Funds (Page 149)

CORRECTIVE ACTION PLAN

Concur. Currently, eight State agencies meet the Governmental Accounting Standards Board (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.

Person Responsible	Wayne Horie, Administrator, DAGS Accounting Division
Anticipated Completion Date	August 31, 2013

2012-04 — Accounting for Capital Assets (Page 151)

CORRECTIVE ACTION PLAN

Concur. 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 and implementation of a financial management system to commence in calendar year 2014.

DAGS will continue to use its current Fixed Asset Inventory System (FAIS) and other departments' capital asset accounting records. DAGS will continue to modify its process into a formal, methodical, and systematic process of policies and business processes to ensure that information is processed by the State's various departments' capital asset ledgers and systems in an accurate and timely manner. The process will include periodic consolidation and review procedures, which will require capital asset information to be provided, consolidated, and reviewed for errors by qualified employees on a periodic basis. The development and implementation of the corrective action plan will depend on available resources.

Person Responsible	Wayne Horie, Administrator, DAGS Accounting Division
Anticipated Completion Date	August 31, 2013

2012-05 — Mainframe Access Security Controls (Page 152)

CORRECTIVE ACTION PLAN

Concur. DAGS agency will be reminded to review its mainframe applications' access controls. The agency will strengthen its internal controls regarding its mainframe applications' access controls.

All DP Coordinators are now required to authorize and document those staff that is authorized to submit Information and Communication Services Division requests. Authorized staff will not be allowed to create or modify access to the Mainframe or LAN.

The System Services Branch (SSB) has implemented passwords of maximum complexity available and to the extent possible on the current release of the zOS mainframe operating system. Password complexity on the current zOS is limited. Further research has shown that the planned migration to newer releases of the xOS operating systems will permit "pass phrases" of between nine and 100 characters in length. Password complexity features with the new operating system release will be investigated and implemented with the upgrade.

Management will implement a procedure to annually review RACF user access permissions to confirm that existing accounts do not belong to terminated employees and user access permissions are based on a business requirement. Management will implement a procedure to annually review LAN user access permissions to confirm that existing accounts do not belong to terminated employees and access to administrative permissions and sensitive network folders are based on a business requirement. Responses from each of the business owners will be documented via email.

The SSB and Production Services Branch will change the shared accounts to individual accounts. Users for these individual accounts would have the ability to select the necessary and specific control job functionality that would be assigned appropriate user access rights.

Person Responsible	Wayne Sasaki, System Services Branch Manager
Anticipated Completion Date	December 31, 2013

2012-06 — Great Plains Access Security Controls (Page 154)

CORRECTIVE ACTION PLAN

Concur. The State Department of Budget and Finance's (B&F) agency will be reminded to establish periodic reviews of security logs or events for Great Plains and supporting systems.

The agency will strengthen its internal controls regarding its security logs or events for Great Plains and supporting systems.

Access to Great Plains system is controlled on a higher level by access to B&F network via Active Directory. B&F implemented Active Directory increased password complexity in January 2012. Financial Administration Division will establish procedures for documenting user access and deletions and review of user access for the Great Plains software application.

Person Responsible	Judy Dang, Funds Custody Manager
Anticipated Completion Date	December 31, 2013

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-07 – Cash Management (Significant Deficiency) (Page 157)
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)

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 fund 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, etc.) will be identified. A timetable 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.

Person Responsible	Roger H. Imoto, Division of Forestry and Wildlife Administrator
Anticipated Completion Date	June 30, 2013

2012-08 — Subrecipient Monitoring (Significant Deficiency) (Page 158)
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)

CORRECTIVE ACTION PLAN

Concur. The State Department of Business, Economic Development and Tourism's (DBEDT) agency will be reminded that prior to awarding a subaward, the subrecipient's DUNS number shall be obtained. The errors noted in the audit finding will be corrected and the requirement will be made a part of the subaward awarding procedures.

The agency will strengthen its internal controls regarding its subawarding process. The agency will include requesting the subrecipient's DUNS number before issuing the subaward in its awarding procedures. In addition, this requirement will be communicated to or included in its future subrecipient agreements. The agency's individuals, supervisors, and administrator responsible for issuing subawards will be trained in the DUNS number requirement procedures. Written instructions will be available as a reference. The subawarding process will be reviewed by the individual's supervisor before the subaward is made. The agency's administrator will monitor the overall subawarding process to ensure that the Federal requirements are met.

Person Responsible	Leo Asuncion, CZM Program Manager
Anticipated Completion Date	March 31, 2013

2012-09 — Cash Management (Significant Deficiency) (Page 159)
State Department of Defense

CFDA No. 11.555, Public Safety Interoperable Communications Grant Program
Direct Program from the U.S. Department of Defense (Award 2007-GS-T7-0005)

CORRECTIVE ACTION PLAN

Concur. The State Department of Defense's (DOD) 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, etc.) will be identified. A timetable 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.

Person Responsible	Thomas T. Moriyasu, Business Management Officer
Anticipated Completion Date	March 31, 2013

2012-10 — Reporting — Federal Transparency Act (Material Weakness) (Page 160)
State Department of Defense

CFDA No. 11.555, Public Safety Interoperable Communications Grant Program
Direct Program from the U.S. Department of Defense (Award 2007-GS-T7-0005)

CORRECTIVE ACTION PLAN

Concur. The State DOD's agency will be reminded that the program year 2011 award for the Public Safety Interoperable Communications Grant is subject to the Transparency Act requirement. The error noted in the audit finding will be corrected. The State DOD will register in the FFATA Subaward Reporting System to allow the State DOD programs to report applicable subaward spending in accordance with the Transparency Act.

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 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
Anticipated Completion Date	June 30, 2013

2012-11 — Allowable Costs — Payroll Certifications (Significant Deficiency) (Page 161)
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)

CORRECTIVE ACTION PLAN

Concur. The State DOD's 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 be trained. 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.

Person Responsible	Richard Campbell, YCA Director
Anticipated Completion Date	March 31, 2013

2012-12 — Cash Management (Significant Deficiency) (Page 162)
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 (Award FOMA W912J6-12-2-1001)

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, etc.) will be identified. A timetable 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.

Person Responsible	Thomas T. Moriyasu, Business Management Officer
Anticipated Completion Date	November 15, 2013

2012-13 — Allowable Costs — Payroll Certifications (Significant Deficiency) (Page 163)
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)

CORRECTIVE ACTION PLAN

Concur. The State DOD's 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 be trained. 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.

Person Responsible	Richard Campbell, YCA Director
Anticipated Completion Date	March 31, 2013

2012-14 — Cash Management (Significant Deficiency) (Page 164)
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)

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, etc.) will be identified. A timetable 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.

Person Responsible	Richard Campbell, YCA Director
Anticipated Completion Date	June 30, 2013

2012-15 — Eligibility (Significant Deficiency) **(Page 165)**
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)

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 to 18 years of age at the time of entry into the program.

The error noted in the audit finding will be addressed and eligibility controls improved.

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 be trained. Written instructions will be available as a reference. The program's participant eligibility will be reviewed by the individual's supervisor before the participant is allowed to participate in the program. The agency's administrator will monitor the overall participant eligibility process to ensure compliance with Federal requirements.

Person Responsible	Richard Campbell, YCA Director
Anticipated Completion Date	March 31, 2013

2012-16 — Cash Management (Significant Deficiency) (Page 166)
State Department of Business, Economic Development and Tourism

CFDA 12.800, Air Force Defense Research Sciences Program
Direct Program from 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 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, etc.) will be identified. A timetable 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 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.

Person Responsible	Edward Russell, HCATT Program Manager
Anticipated Completion Date	March 31, 2013

2012-17 — Equipment and Real Property Management — Acquisitions Not Recorded in FAIS (Significant Deficiency) (Page 167)
State Department of Business, Economic Development and Tourism

CFDA 12.800, Air Force Defense Research Sciences Program
Direct Program from U.S. Department of Defense (Award FA8650-11-2-5605)

CORRECTIVE ACTION PLAN

Concur. The State DBEDT's agency will be reminded to record equipment purchases in the calendar quarter that it was received. The agency will prepare 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 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.

Person Responsible	Steve Sakuda, Accountant
Anticipated Completion Date	March 31, 2013

2012-18 — Reporting — Federal Reporting Accuracy (Significant Deficiency) (Page 168)
State Department of Business, Economic Development and Tourism

CFDA 12.800, Air Force Defense Research Sciences Program
Direct Program from U.S. Department of Defense (Award FA8650-11-2-5605)

CORRECTIVE ACTION PLAN

Concur. The State DBEDT's agency will be reminded that Federal Form SF-425 reports shall be complete, accurate, and submitted by the required due date. The errors noted in the audit finding will be corrected, other quarters not selected for testing will be reviewed and corrected, and the FY2013 Federal reports issued will be reviewed and corrected, if applicable, for the errors noted.

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 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.

Person Responsible	Steve Sakuda, Accountant
Anticipated Completion Date	March 31, 2013

2012-19 — Reporting — Submission of Reports (Significant Deficiency) (Page 169)
State Department of Business, Economic Development and Tourism

CFDA 12.800, Air Force Defense Research Sciences Program
Direct Program from U.S. Department of Defense (Award FA8650-11-2-5605)

CORRECTIVE ACTION PLAN

Concur. The State DBEDT's agency will be reminded that the annual Program Management Plan shall be submitted by the required due date and written evidence of submittal date be retained in the report file. The error noted in the audit finding has been addressed and subsequent annual Program Management Plans will be submitted on time. Written evidence of submittal date will be retained. This procedure will be included in the agency's Federal reporting process' storage and maintenance of the reports.

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.

Person Responsible	Edward Russell, HCATT Program Manager
Anticipated Completion Date	March 31, 2013

2012-20 — Cash Management (Significant Deficiency) **(Page 170)**
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)

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 fund 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. The agency will review its FY2013 Federal expenditure supporting documents to ensure compliance with its cash management process.

Person Responsible	Gregory Barbour, NELHA Executive Director
Anticipated Completion Date	June 30, 2013

2012-21 — Reporting — Federal Reporting Accuracy (Significant Deficiency) (Page 171)
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)

CORRECTIVE ACTION PLAN

Concur. The State DBEDT's agency will be reminded that Federal Form SF-425 reports shall be complete, accurate, and submitted by the required due date. The errors noted in the audit finding will be corrected.

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. The agency will review its FY2013 Federal reports issued to ensure compliance with its Federal reporting requirements.

Person Responsible	Gregory Barbour, NELHA Executive Director
Anticipated Completion Date	June 30, 2013

2012-22 — Reporting — Submission of Reports (Significant Deficiency) (Page 172)
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)

CORRECTIVE ACTION PLAN

Concur. The State DBEDT's agency will be reminded that the Technical Status Reports shall be submitted by the required due date. The error noted in the audit finding will be corrected.

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. The agency will review its FY2013 Federal reports submitted to ensure compliance with its Federal reporting requirements.

Person Responsible	Gregory Barbour, NELHA Executive Director
Anticipated Completion Date	June 30, 2013

2012-23 — Cash Management (Significant Deficiency) (Page 173)
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)

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, etc.) will be identified. A timetable 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.

Person Responsible	William M. Tam, Acting Administrator Division of Aquatic Resources Ed R. Underwood, Administrator Division of Boating & Ocean Recreation
Anticipated Completion Date	June 30, 2013

2012-24 — Equipment and Real Property Management — Equipment Inventory (Significant Deficiency) (Page 174)
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)

CORRECTIVE ACTION PLAN

Concur. The State Department of Public Safety's (DPS) agency will be reminded that a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records. The error noted in the audit finding will be corrected with a scheduled physical inventory of equipment.

The agency will strengthen its internal controls regarding its equipment and real property management. The agency will develop a timetable to remind the staff of when to conduct the physical inventories and the supervisors to monitor for timeliness of the physical inventory and reconciliation to the equipment records. Once implemented, the timetable will be maintained and updated by an individual of the agency. The timetable shall be reviewed by the individual's supervisor on a periodic basis.

The agency's individuals, supervisors, and administrator responsible to manage equipment and real property will be trained. Written instructions will be available as a reference. The physical inventory process will be reviewed by the individual's supervisor to ensure a complete and accurate physical inventory. The agency's administrator will monitor the physical inventory process to ensure compliance with the Federal requirements.

Person Responsible — Clifford Asato, Fiscal Officer

Anticipated Completion Date — June 30, 2013

2012-25 — Equipment and Real Property Management — Acquisitions Not Recorded in FAIS (Significant Deficiency) (Page 175)
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 (Awards 09-SU-06, 09-SU-16, 09-SU-22, and 09-SU-23)

CORRECTIVE ACTION PLAN

Concur. The State DPS'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 agency will prepare 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 a State Form 17a for equipment purchases at the same time the equipment purchases are paid.

The State DPS'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.

Person Responsible — Clifford Asato, Fiscal Officer

Anticipated Completion Date — June 30, 2013

2012-26 — Cash Management — Treasury-State Agreement (Material Weakness) (Page 176)
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)

CORRECTIVE ACTION PLAN

Concur. The State Department of Labor and Industrial Relations' (DLIR) agency will be reminded to inquire annually with the B&F to ensure that a Treasury-State Agreement has been executed for the current fiscal year. The agency has been informed that B&F 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 be trained in the cash management requirements. Included in the training will be the Treasury-State Agreement and its relationship with the agency's Federal grant payments.

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.

Person Responsible	Anne Eustaquio, Program Development Officer
Anticipated Completion Date	March 31, 2013

2012-27 — Procurement — Statement of Completed Travel (Page 177)
(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)

CORRECTIVE ACTION PLAN

Concur. The State DLIR's agency will be reminded that the procurement required "Statement of Completed Travel" and supporting documents/receipts should be submitted by the 10-day deadline. The error noted in the audit finding has been addressed, and travelers will be encouraged to submit the travel form and supporting documents by the required deadline.

The agency will strengthen its internal controls regarding its procurement - travel process. The agency's individuals, supervisors, and administrator responsible to prepare, review, and monitor the procurement – travel process will be trained in the preparation and submitting of the "Statement of Completed Travel" form. Written instructions will be available as a reference. The "Statement of Completed Travel" form will be reviewed by the individual's supervisor before the form is submitted for payment or collection. The agency's administrator will monitor the procurement – travel process to ensure compliance with procurement requirements.

Person Responsible	Pamela Touguchi, Chief Appeals Officer
Anticipated Completion Date	March 31, 2013

2012-28 — Special Tests and Provisions — Timeliness of Unemployment Insurance Claims Reviews (Significant Deficiency) (Page 178)
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)

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 laws, rules, and procedures. The error noted in the audit finding has been addressed and additional staff has been hired 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.

Person Responsible	Anne Eustaquio, Program Development Officer
Anticipated Completion Date	March 31, 2013

2012-29 — Cash Management (Significant Deficiency) (Page 179)
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)

CORRECTIVE ACTION PLAN

Concur. The State DLIR'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, etc.) will be identified. A timetable 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.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	March 31, 2013

2012-30 — Reporting — Untimely Submission of Reports (Page 180)
(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)

CORRECTIVE ACTION PLAN

Concur. The State DLIR's agency will be reminded that Federal reports ETA 9130 shall be submitted by the required due date. The error noted in the audit finding has been addressed and future Federal reports will be submitted on time.

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.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	March 31, 2013

2012-31 — Reporting — Untimely Submission of Reports (Page 181)
(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)

CORRECTIVE ACTION PLAN

Concur. The State DLIR's agency will be reminded that Federal reports ETA 9104 and ETA 9090 shall be submitted by the required due date. The error noted in the audit finding will be addressed and future Federal reports will be submitted on time.

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.

Person Responsible	Elaine Young, WDD Administrator
Anticipated Completion Date	March 31, 2013

2012-32 — Subrecipient Monitoring — On-Site Reviews **(Page 182)**
(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)

CORRECTIVE ACTION PLAN

Concur. The State DLIR's agency will be reminded that subrecipient monitoring of on-site reviews should be conducted in accordance with grant requirements. The error noted in the audit finding has been addressed and future on-site reviews will be conducted in accordance with grant requirements.

The agency will develop a tracking system of on-site reviews to remind the staff of the grant on-site review requirements and the supervisors as to the reviews to be monitored for timeliness of scheduling of on-site reviews. Once implemented, the tracking system will be maintained and updated by an individual of the agency. The tracking system shall be monitored by a supervisor on a periodic basis.

The agency will strengthen its internal controls regarding its subrecipient monitoring process. The agency's individuals, supervisors, and administrator responsible for subrecipient monitoring will be trained. Written instructions will be available as a reference. The tracking system and on-site reviews will be reviewed by the individual's supervisor before it is filed. The agency's administrator will monitor the subrecipient monitoring process to ensure compliance with Federal requirements.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	June 30, 2013

2012-33 — Special Tests and Provisions — Eligibility Files (Page 183)
(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)

CORRECTIVE ACTION PLAN

Concur. The State DAGS' agency will be reminded that the individuals responsible for the administration of the Federal Surplus Property Donation Program should have the proper knowledge of the State's policies and procedures for reviewing and updating donee eligibility files. The main objective is to ensure that the files are reviewed and updated at least once every three years. The error noted in the audit finding will be corrected.

The agency will develop a tracking system of the donee eligibility files to remind the preparers of the due dates and the reviewers as to the donee files to be monitored for timeliness of their review and update. 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 donee eligibility files. The agency's individuals, supervisors, and administrator responsible for the donee eligibility files will be trained to conduct the review and update procedures. Written instructions will be available as a reference. The review and update shall be reviewed by the individuals' supervisor upon completion. The agency's administrator will monitor the review and update process to ensure that the donee eligibility files are reviewed and updated at least once every three years.

Person Responsible	Ruth Yamaguchi, Assistant Administrator, SPO
Anticipated Completion Date	June 30, 2013

2012-34 — Special Tests and Provisions — Audit Requirement (Page 184)
(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)

CORRECTIVE ACTION PLAN

Concur. The State DAGS' agency will be reminded that the State Plan of Operation requires an external audit of the program at least every two years.

The agency will strengthen its internal controls regarding its audit requirement. The agency's individuals, supervisors, and administrator responsible for administering the program will be trained. Written instructions will be available as a reference. An audit will be scheduled by program staff. Supervision will be provided by a supervisor. The agency's administrator will monitor the program to ensure that an external audit is conducted at least every two years.

Person Responsible Ruth Yamaguchi, Assistant Administrator, SPO

Anticipated Completion Date June 30, 2013

2012-35 — Cash Management (Significant Deficiency) (Page 185)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.041, State Energy Program
Direct Program from the U.S. Department of Energy (Award 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, etc.) 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 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.

Person Responsible Denise Fenn, Accounting Specialist

Anticipated Completion Date March 31, 2013

2012-36 — Equipment and Real Property Management — Acquisitions Not Recorded in FAIS (Significant Deficiency) (Page 186)
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)

CORRECTIVE ACTION PLAN

Concur. The State DBEDT's agency will be reminded to record equipment purchases in the calendar quarter that it was received. The agency will prepare 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 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.

Person Responsible	Denise Fenn, Accounting Specialist
Anticipated Completion Date	March 31, 2013

2012-37 — Reporting — Untimely Submission of Reports (Page 187)
(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)

CORRECTIVE ACTION PLAN

Concur. The State DBEDT's agency will be reminded that quarterly performance reports shall be submitted by the required due date. The error noted in the audit finding has been addressed and future annual reports will be submitted on time.

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.

Person Responsible	Donna Mau, SID Federal Grants and Fiscal Officer
Anticipated Completion Date	March 31, 2013

2012-38 — Reporting — Federal Reporting Accuracy (Significant Deficiency) (Page 188)
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)

CORRECTIVE ACTION PLAN

Concur. The State DBEDT's agency will be reminded that Federal Form SF-425 reports shall be complete, accurate, and submitted by the required due date. The errors noted in the audit finding will be corrected and the FY2013 Federal reports issued will be reviewed and corrected, if applicable, for the errors noted.

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 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.

Person Responsible	Donna Mau, SID Federal Grants and Fiscal Officer
Anticipated Completion Date	March 31, 2013

2012-39 — Reporting — Inappropriate Accounting Basis Reported (Page 189)
(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)

CORRECTIVE ACTION PLAN

Concur. The State DBEDT's agency will be reminded that Federal Form SF-425 reports shall be complete, accurate, and submitted by the required due date. The error noted in the audit finding will be corrected and the FY2013 Federal reports issued will be reviewed and corrected, if applicable, for the error noted.

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.

Person Responsible	Donna Mau, SID Federal Grants and Fiscal Officer
Anticipated Completion Date	March 31, 2013

2012-40 — Subrecipient Monitoring (Significant Deficiency) (Page 190)
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)

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 will be corrected.

The agency will strengthen its internal controls regarding its subrecipient monitoring process. For future subrecipient grants, the agency will include in its subrecipient agreements the following: (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) compliance with OMB Circular A-133.

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.

The agency will develop a checklist 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 be trained 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.

Person Responsible	Donna Mau, SID Federal Grants and Fiscal Officer
Anticipated Completion Date	June 30, 2013

2012-41 — Procurement — Statement of Completed Travel (Significant Deficiency) (Page 191)
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)

CORRECTIVE ACTION PLAN

Concur. The State DLIR's agency will be reminded that the procurement required "Statement of Completed Travel," and supporting documents/receipts should be submitted by the 10-day deadline. The error noted in the audit finding has been addressed and travelers will be encouraged to submit the travel form and supporting documents by the required deadline.

The agency will strengthen its internal controls regarding its procurement - travel process. The agency's individuals, supervisors, and administrator responsible to prepare, review, and monitor the procurement – travel process will be trained in the preparation and submitting of the "Statement of Completed Travel" form. Written instructions will be available as a reference. The "Statement of Completed Travel" form will be reviewed by the individual's supervisor before the form is submitted for payment or collection. The agency's administrator will monitor the overall procurement process to ensure compliance with procurement requirements.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	March 31, 2013

2012-42 — Procurement — Competitive Purchases of Services (Page 192)
(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)

CORRECTIVE ACTION PLAN

Concur. The State DLIR's agency will be reminded that the State's procurement policies and procedures for competitive purchases of services shall be complied with. The errors noted in the audit finding have been addressed and future procurement proposals received will be date-stamped or another similar method of documenting the date and time the proposal was received will be used.

The agency will strengthen its internal controls regarding its procurement process. The agency's individuals, supervisors, and administrator responsible for the procurement of goods and services will be trained in the procurement competitive purchases of services. Only individuals that have received the training and delegated procurement authority on procurement methods will be allowed to conduct the procurement of competitive purchases of services. Written instructions will be available as a reference. The procurement of competitive purchases of services will be reviewed by the individual's supervisor before the award is made. The agency's administrator will monitor the overall procurement process to ensure compliance with State procurement requirements.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	March 31, 2013

2012-43 — Reporting — Federal Reporting Accuracy (Significant Deficiency) (Page 193)
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)

CORRECTIVE ACTION PLAN

Concur. The State DLIR's agency will be reminded that Federal Form SF-425 and ARRA Section 1512 shall be complete, accurate, and submitted by the required due date. The errors noted in the audit finding will be corrected; other quarters not tested will be reviewed and corrected, if necessary; and the FY2013 Federal Form SF-425 and ARRA Section 1512 issued will be reviewed and corrected, if applicable, for the errors noted.

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 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.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	July 31, 2013

2012-44 — Subrecipient Monitoring — On-Site Reviews (Page 194)
(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 (Award EE0000176)

CORRECTIVE ACTION PLAN

Concur. The State DLIR's agency will be reminded that subrecipient monitoring of on-site reviews should be conducted in accordance with grant requirements and the agency's own program proposal. The on-site reviews conducted failed to include the subrecipients' fiscal activities. The errors noted in the audit finding will be corrected and future on-site reviews will include the monitoring of the subrecipient's administrative, fiscal, personnel, and program functions.

The agency will develop a tracking system of on-site reviews to remind the staff of the grant on-site review requirements and the supervisors as to the reviews to be monitored for timeliness of scheduling the on-site reviews. Once implemented, the tracking system will be maintained and updated by an individual of the agency. The tracking system shall be monitored by a supervisor on a periodic basis.

The agency will strengthen its internal controls regarding its subrecipient monitoring process. The agency's individuals, supervisors, and administrator responsible for subrecipient monitoring will be trained. The training will include the monitoring of the subrecipient's administrative, fiscal, personnel, and program functions. Written instructions will be available as a reference. The tracking system and on-site reviews will be reviewed by the individual's supervisor before it is filed. The agency's administrator will monitor the overall subrecipient monitoring process to ensure compliance with Federal requirements.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	March 31, 2013

2012-45 — Reporting — Federal Reporting Accuracy (Significant Deficiency) (Page 195)
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)

CORRECTIVE ACTION PLAN

Concur. The State B&F's 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 errors noted in the audit finding will be corrected; other quarters not selected for testing will be reviewed and corrected; and the FY2013 Federal reports issued will be reviewed and corrected, if applicable, for the errors noted.

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 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.

Person Responsible	Marsha Watase, Research Assistant
Anticipated Completion Date	March 31, 2013

2012-46 — Reporting — Untimely Submission of Reports (Page 196)
(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)

CORRECTIVE ACTION PLAN

Concur. The State B&F's agency will be reminded that annual Federal Task Summary document shall be submitted by the required due date. The error noted in the audit finding has been addressed and the future annual report will be submitted on time.

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.

Person Responsible	Marsha Watase, Research Assistant
Anticipated Completion Date	March 31, 2013

2012-47 — Cash Management (Significant Deficiency) (Page 197)
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)

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, etc.) will be identified. A timetable 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.

Person Responsible	Denise Fenn, Accounting Specialist
Anticipated Completion Date	March 31, 2013

2012-48 — Equipment and Real Property Management — Acquisitions Not Recorded in FAIS (Significant Deficiency) (Page 198)
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)

CORRECTIVE ACTION PLAN

Concur. The State DBEDT's agency will be reminded to record equipment purchases in the calendar quarter that it was received. The agency will prepare 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.

Person Responsible	Denise Fenn, Accounting Specialist
Anticipated Completion Date	March 31, 2013

2012-49 — Reporting — Federal Reporting Accuracy (Significant Deficiency) (Page 199)
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)

CORRECTIVE ACTION PLAN

Concur. The State DBEDT's agency will be reminded that Federal ARRA Section 1512 reports shall be complete, accurate, and submitted by the required due date. The errors noted in the audit finding will be corrected and FY2013 Federal reports issued will be reviewed and corrected, if applicable, for the errors noted.

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 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.

Person Responsible	Donna Mau, SID Federal Grants and Fiscal Officer
Anticipated Completion Date	March 31, 2013

2012-50 — Reporting — Inappropriate Accounting Basis Reported (Significant Deficiency) (Page 200)
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)

CORRECTIVE ACTION PLAN

Concur. The State DBEDT's agency will be reminded that Federal Form SF-425 reports shall be complete, accurate, and submitted by the required due date. The errors noted in the audit finding will be corrected and the FY2013 Federal reports issued will be reviewed and corrected, if applicable, for the errors noted.

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.

Person Responsible	Donna Mau, SID Federal Grants and Fiscal Officer
Anticipated Completion Date	March 31, 2013

2012-51 — Allowable Costs (Significant Deficiency) (Page 201)
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)

CORRECTIVE ACTION PLAN

Concur. The State DOD's agency will be reminded that Federal expenditures shall have adequate supporting documentation. The error noted in the audit finding will be corrected.

The agency will strengthen its internal controls regarding its file maintenance. The agency's individuals, supervisors, and administrator responsible for the program's filing of expenditure supporting documentation will be trained. Written instructions will be available as a reference. The program's supporting documentation filing maintenance will be reviewed by the individual's supervisor. The agency's administrator will monitor the overall filing maintenance process to ensure compliance with Federal requirements.

Person Responsible	Thomas T. Moriyasu, Business Management Officer
Anticipated Completion Date	September 30, 2013

2012-52 — Reporting — Inaccurate Total Expenditures in Final Report (Significant Deficiency) (Page 202)
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)

CORRECTIVE ACTION PLAN

Concur. The State DOD's agency will be reminded that MOU agreement's reporting requirements shall be accurate, complete, and submitted on time. The error noted in the audit finding will be corrected.

The agency will strengthen its internal controls regarding its reporting requirements. The agency's individuals, supervisors, and administrator responsible for the program's reporting will be trained. Written instructions will be available as a reference. The program's reports will be reviewed by the individual's supervisor before they are submitted. The agency's administrator will monitor the overall reporting process to ensure compliance with MOU agreement's requirements.

Person Responsible	Thomas T. Moriyasu, Business Management Officer
Anticipated Completion Date	June 30, 2013

2012-53 — Cash Management — Treasury-State Agreement (Material Weakness) (Page 203)
State Governor's Office

CFDA No. ARRA 84.410A, ARRA — Education Jobs Fund
Direct Program from the U.S. Department of Education (Award S410A100012)

CORRECTIVE ACTION PLAN

Concur. The State Governor's Office will be reminded to inquire annually with the B&F to ensure that a Treasury-State Agreement has been executed for the current fiscal year. The agency has been informed that B&F 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 be trained in the cash management requirements. Included in the training will be the Treasury-State Agreement and its relationship with the agency's Federal grant payments.

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.

Person Responsible	Tammi Chun, Policy Analyst, Office of the Governor
Anticipated Completion Date	August 31, 2013

2012-54 — Allowable Costs — Payroll Certifications (Significant Deficiency) (Page 204)
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)

CORRECTIVE ACTION PLAN

Concur. The State DOD's 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 be trained. 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.

Person Responsible	Thomas T. Moriyasu, Business Management Officer
Anticipated Completion Date	March 31, 2013

2012-55 — Cash Management (Material Weakness) (Page 205)
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)

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, etc.) will be identified. A timetable 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.

Person Responsible	Thomas T. Moriyasu, Business Management Officer
Anticipated Completion Date	March 31, 2013

2012-56 — Period of Availability (Significant Deficiency) (Page 206)
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)

CORRECTIVE ACTION PLAN

Concur. The State DOD'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 used TANF program funds to pay for expenditures incurred after the program was terminated. The errors noted in the audit finding will be corrected.

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 be trained. Written instructions will be available as a reference. The program's purchases will be reviewed by the individual's supervisor before they are submitted for payment. The agency's administrator will monitor the overall purchases and payment process to ensure compliance with the Federal requirements.

Person Responsible	Thomas T. Moriyasu, Business Management Officer
Anticipated Completion Date	March 31, 2013

2012-57 — Cash Management (Significant Deficiency) (Page 207)
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)

CORRECTIVE ACTION PLAN

Concur. The State DLIR'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, etc.) will be identified. A timetable 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.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	March 31, 2013

2012-58 — Reporting — Untimely Submission of Reports (Page 208)
(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)

CORRECTIVE ACTION PLAN

Concur. The State DLIR's agency will be reminded that the annual financial status report shall be submitted by the required due date. The error noted in the audit finding will be addressed and future annual financial status reports will be submitted on time.

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.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	March 31, 2013

2012-59 — Reporting — Expenditure Reporting Form (Significant Deficiency) (Page 209)
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)

CORRECTIVE ACTION PLAN

Concur. The State DLIR's agency will be reminded that Federal Form SF-425 and not Form SF-269 should be used to report Federal expenditures. The error noted in the audit finding will be corrected and the future annual report will be submitted on the appropriate form.

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 for accuracy and completeness 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.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	March 31, 2013

2012-60 — Subrecipient Monitoring — On-Site Reviews (Significant Deficiency) (Page 210)
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)

CORRECTIVE ACTION PLAN

Concur. The State DLIR's agency will be reminded that subrecipient monitoring of on-site reviews should be conducted in accordance with grant requirements and the agency's own program proposal. The error noted in the audit finding will be corrected with an on-site review being scheduled.

The agency will develop a tracking system of on-site reviews to remind the staff of the grant on-site review requirements and the supervisors as to the reviews to be monitored for timeliness of scheduling on-site reviews. Once implemented, the tracking system will be maintained and updated by an individual of the agency. The tracking system shall be monitored by a supervisor on a periodic basis.

The agency will strengthen its internal controls regarding its subrecipient monitoring process. The agency's individuals, supervisors, and administrator responsible for subrecipient monitoring will be trained. The training will include the monitoring of the subrecipient's administrative, fiscal, personnel, and program functions. Written instructions will be available as a reference. The tracking system and on-site reviews will be reviewed by the individual's supervisor before it is filed. The agency's administrator will monitor the overall subrecipient monitoring process to ensure compliance with Federal requirements.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	March 31, 2013

2012-61 — Subrecipient Monitoring — Management Decision (Significant Deficiency) State Department of Labor and Industrial Relations

(Page 210)

CFDA No. 93.569, Community Services Block Grant
Direct Program from the U.S. Department of Health and Human Services (Award G12B1HICOSR)

CORRECTIVE ACTION PLAN

Concur. The State DLIR's agency will be reminded that subrecipient monitoring should be conducted in accordance with grant requirements and OMB Circular A-133. The error noted in the audit finding will be corrected with a management decision being issued on the subrecipient's 2011 single audit report's findings.

The agency will strengthen its internal controls regarding its subrecipient monitoring process. The agency's individuals, supervisors, and administrator responsible for subrecipient monitoring will be trained. Written instructions will be available as a reference. The management decision on Single Audit report findings will be reviewed by the individual's supervisor before it is issued. The agency's administrator will monitor the overall subrecipient monitoring process to ensure compliance with Federal requirements.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	March 31, 2013

2012-62 — Allowable Costs — Payroll Certifications (Significant Deficiency) (Page 212)
State Department of Defense

CFDA No. 97.036, Disasters 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)

CORRECTIVE ACTION PLAN

Concur. The State DOD's 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 be trained. 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.

Person Responsible	Vern T. Miyagi, Executive Officer
Anticipated Completion Date	March 31, 2013

2012-63 — Cash Management (Significant Deficiency) (Page 213)
State Department of Defense

CFDA No. 97.036, Disasters Grants – Public Assistance (Presidentially Declared Disasters)
Direct Program from the U.S. Department of Homeland Security (Award FEMA-1147-DR-HI)

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, etc.) will be identified. A timetable 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.

Person Responsible	Vern T. Miyagi, Executive Officer
Anticipated Completion Date	March 31, 2013

2012-64 — Subrecipient Monitoring (Significant Deficiency) (Page 214)
State Department of Defense

CFDA No. 97.036, Disasters 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)

CORRECTIVE ACTION PLAN

Concur. The State DOD's agency will be reminded to conduct its subrecipient monitoring responsibilities for subrecipient grants. The error noted in the audit finding will be corrected.

The agency will strengthen its internal controls regarding its subrecipient monitoring process. For future subrecipient grants, the agency will include in its subrecipient agreements the following: (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) compliance with OMB Circular A-133.

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.

The agency will develop a checklist 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 be trained 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.

Person Responsible	Vern T. Miyagi, Executive Officer
Anticipated Completion Date	March 31, 2013

2012-65 — Allowable Costs — Payroll Certifications (Significant Deficiency) (Page 215)
State Department of Defense

CFDA No. 97.042, Emergency Management Preparedness 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)

CORRECTIVE ACTION PLAN

Concur. The State DOD's 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 be trained. 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.

Person Responsible	Vern T. Miyagi, Executive Officer
Anticipated Completion Date	March 31, 2013

2012-66 — Allowable Cost (Significant Deficiency) (Page 216)
State Department of Defense

CFDA No. 97.042, Emergency Management Performance Grants
Direct Program from the U.S. Department of Homeland Security (Award 2009-EP-T9-0032, 2010-EP-E0-0042, and EMW-2011-EP-00072-S01)

CORRECTIVE ACTION PLAN

Concur. The State DOD's agency will be reminded that Federal funds per an award are to be spent solely on items outlined within the respective grant agreement as being allowable costs/activities. The error noted in the audit finding will be corrected.

The agency will strengthen its internal controls regarding its purchases and payment process. The agency's individuals, supervisors, and administrator responsible for the program's purchases and payment process will be trained. Written instructions will be available as a reference. The program's purchases will be reviewed by the individual's supervisor before they are submitted for payment. The agency's administrator will monitor the overall purchases and payment process to ensure compliance with Federal requirements.

Person Responsible	Thomas T. Moriyasu, Business Management Officer
Anticipated Completion Date	June 30, 2013

2012-67 — Reporting — Incorrect Format for Quarterly Progress Reports (Page 217) (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)

CORRECTIVE ACTION PLAN

Concur. The State DOD's agency will be reminded that the quarterly SF-Performance Progress Report shall be submitted as outlined in the grant agreement. The error noted in the audit finding will be corrected.

The agency will strengthen its internal controls regarding its Federal reporting process. The agency's individuals, supervisors, and administrator responsible for the Federal reporting process will be trained. Written instructions will be available as a reference. The program's reports will be reviewed by the individual's supervisor before they are submitted. The agency's administrator will monitor the overall reporting process to ensure compliance with Federal requirements.

Person Responsible	Vern T. Miyagi, Executive Officer
Anticipated Completion Date	March 31, 2013

2012-68 — Allowable Costs — Payroll Funded by an Incorrect Grant (Significant Deficiency) (Page 218) State Department of Defense

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2008GET8002)

CORRECTIVE ACTION PLAN

Concur. The State DOD's agency will be reminded that Federal funds per an award are to be spent solely on items outlined within the respective grant agreement as being allowable costs/activities. The error noted in the audit finding will be corrected.

The agency will strengthen its internal controls regarding its purchases and payment process. The agency's individuals, supervisors, and administrator responsible for the program's purchases and payment process will be trained. Written instructions will be available as a reference. The program's purchases will be reviewed by the individual's supervisor before they are submitted for payment. The agency's administrator will monitor the overall purchases and payment process to ensure compliance with Federal requirements.

Person Responsible	Dolores Cook, Grant Management Officer
Anticipated Completion Date	March 31, 2013

2012-69 — Allowable Costs — Payroll Certifications (Significant Deficiency) (Page 218) State Department of Defense

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2008GET80022)

CORRECTIVE ACTION PLAN

Concur. The State DOD's agency will be reminded that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee, (b) they must account for the total activity for which each employee is compensated, (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. 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 be trained. 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.

Person Responsible	Dolores Cook, Grant Management Officer
Anticipated Completion Date	March 31, 2013

2012-70 — Equipment and Real Property Management (Significant Deficiency) (Page 219)
State Department of Defense

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2008GET80022)

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 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.

Person Responsible	Dolores Cook, Grant Management Officer
Anticipated Completion Date	March 31, 2013

2012-71 — Procurement — Statement of Completed Travel (Page 220)
(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)

CORRECTIVE ACTION PLAN

Concur. The State DOD's agency will be reminded that the procurement-travel process requires pre-approval before the purchase of airfare expense, and the "Statement of Completed Travel" with all supporting documents should be submitted by the 10-day deadline. The errors noted in the audit finding have been addressed and travelers will be encouraged to follow the procurement - travel rules.

The agency will strengthen its internal controls regarding its procurement - travel process. The agency's individuals, supervisors, and administrator responsible to prepare, review, and monitor the procurement – travel process will be trained. Written instructions will be available as a reference. The travel purchases will be reviewed by the individual's supervisor before payment is made. The agency's administrator will monitor the overall procurement process to ensure compliance with procurement requirements.

Person Responsible	Dolores Cook, Grant Management Officer
Anticipated Completion Date	March 31, 2013

2012-72 — Reporting — Untimely Submission of Reports (Significant Deficiency) State Department of Defense

(Page 221)

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)

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 error noted in the audit finding has been addressed and the future reports will be submitted on time.

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. 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.

Person Responsible	Dolores Cook, Grant Management Officer
Anticipated Completion Date	March 31, 2013

2012-73 — Reporting — Federal Transparency Act (Material Weakness) (Page 223)
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)

CORRECTIVE ACTION PLAN

Concur. The State DOD's agency will be reminded that the program year 2011 award for the Homeland Security Grant is subject to the Transparency Act requirement. The error noted in the audit finding will be corrected. The State DOD will register in the FFATA Subaward Reporting System to allow the State DOD programs to report applicable subaward spending in accordance with the Transparency Act.

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 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
Anticipated Completion Date	March 31, 2013

2012-74 — Subrecipient Monitoring (Significant Deficiency) (Page 223)
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)

CORRECTIVE ACTION PLAN

Concur. The State DOD's agency will be reminded that prior to awarding a subaward, the subrecipient's DUNS number shall be obtained. The error noted in the audit finding will be corrected and the requirement will be made a part of the subaward awarding procedures.

The agency will strengthen its internal controls regarding its subawarding process. The agency will include requesting the subrecipient's DUNS number before issuing the subaward in its awarding procedures. In addition, this requirement will be communicated to or included in its future subrecipient agreements. The agency's individuals, supervisors, and administrator responsible for issuing subawards will be trained in the DUNS number requirement procedures. Written instructions will be available as a reference. The subawarding process will be reviewed by the individual's supervisor before the subaward is made. The agency's administrator will monitor the overall subawarding process to ensure that the Federal requirements are met.

Person Responsible	Dolores Cook, Grant Management Officer

Anticipated Completion Date	March 31, 2013

STATUS OF PRIOR YEAR SINGLE AUDIT FINDINGS

SECTION II – FINANCIAL STATEMENT FINDINGS

2011-01 — Schedule of Expenditures of Federal Awards (SEFA) (Material Weakness)

Condition

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 nonfederal entities that expend $500,000 or more in a year in 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 audit period.

Cause

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.

DAGS required that each department prepares its own departmental SEFA. Each department attempted to prepare its SEFA using a different basis of accounting. Certain departments prepared the SEFA on a cash basis, while other departments prepared the SEFA on the accrual basis, and some departments used a mix of both cash basis and accrual basis. The difference in basis resulted in federal expenditures being omitted for some grants and federal expenditures being included that pertained to the subsequent year.

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. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-02)

2011-02 — Accounting and Reporting of Cash and Cash Equivalents (Material Weakness)

Condition

The cash reconciliation process requires the Department of Budget and Finance (B&F) personnel to reconcile bank statements to the B&F cash subledger. This cash subledger, in turn, is reconciled with the State's general ledger, FAMIS, which is maintained by DAGS. The B&F cash subledger also includes certain investments, which are identified during the reconciliation process and are recorded on a separate line item by DAGS when preparing the financial statements.

During the audit, it was determined that the Capital Projects Fund did not have enough cash during the year to fund all of its projects resulting in a cash deficit balance. This occurred because all of the State's cash and investments from all departments are pooled together by B&F, and the cash balance for each fund and department is not determined until the B&F cash balances are reconciled with DAGS' accounting records. The June 30, 2011, bank reconciliations for certain major accounts were not completed until December 2011. As a result, the Director of State B&F needed to declare a temporary loan in the amount of $186,193,000 from the Department of Transportation — Harbors, a proprietary fund, to the Capital Projects Fund.

Cause

B&F is responsible for maintaining and reporting the cash balances of the State's bank accounts to DAGS for reconciliation with FAMIS. B&F maintains a stand-alone cash subledger in order to track the cash activity. These cash subledgers are manually reconciled to the bank statements by B&F personnel, which is a time consuming process. Although B&F is required to submit to DAGS the reconciled cash subledger on a monthly basis, B&F was late in the submission of the monthly bank statement reconciliations throughout the year and did not submit its June 30, 2011, bank statement to cash subledger reconciliation to DAGS until December 2011 for certain major bank accounts.

Recommendation

Differences between the bank statements and the cash subledger and between the cash subledger and FAMIS should be identified timely, reviewed, and recorded in FAMIS. Without this process, the State's funds and agencies will not know what their cash balance is, and will not have complete financial records.

Current Status of Corrective Action Plan

Corrected

2011-03 — Internal Control over Financial Reporting (Significant Deficiency)

Condition

The State's internal control over financial reporting could be improved. During the June 30, 2011 audit, we identified multiple deficiencies that, when considered in the aggregate, indicated a significant deficiency in the internal control over financial reporting.

The process used by the DAGS Accounting Division to obtain the required information from the State departments and agencies to prepare the Comprehensive Annual Financial Report (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, very time consuming, and causes delays in statewide financial reporting. In addition, there is no enforcement of the timetable that is established to ensure that all of the departments and agencies submit accurate information on a timely basis.

Numerous post-closing adjustments were required to correct accounting and reporting errors made in the current year.

Cause

DAGS is responsible for preparing the CAFR for the State. The CAFR includes governmental fund financial statements prepared on a modified accrual basis of accounting and government-wide financial statements prepared on a full accrual basis. Since FAMIS is maintained using the cash basis of accounting, DAGS is required to prepare accounting entries to convert the cash basis of accounting to the modified accrual basis of accounting to prepare governmental fund financial statements, and then prepare another set of entries to convert to the accrual basis of accounting to prepare government-wide financial statements. As part of the closing process in fiscal year 2011, 289 accounting entries were posted, which were characterized as follows:

- 77 top-sided government-wide entries. These entries were prepared without a trial balance or a fund-to-government-wide financial statement conversion worksheet.

- 212 Fund Financial statement entries, one of which was an audit adjustment entry.

Information necessary to prepare such accounting entries must be obtained from the State departments and agencies. In fiscal year 2011, 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.

Additionally, DAGS consolidates the CAFR using audited financial statements from other State agencies. DAGS was unable to receive final financial statements from other State agencies timely.

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. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-01)

2011-04 — Accounting for Component Units and Proprietary Funds (Significant Deficiency)

Condition

During fiscal year 2008, DAGS implemented a policy on reporting "material" Component Units (CUs) and Proprietary Funds (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, 2011, CAFR. Instead, they were reported as part of the governmental funds to which these entities were administratively attached.

DAGS also noted that the State DLIR — 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, 2011, 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, but instead used its own definition of materiality. 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. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-03)

2011-05 — 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 (DOE) are accounted for by utilizing the Fixed Asset Inventory System (FAIS), which is maintained by the Inventory Management Branch ("Inventory Management") of the State Procurement Office 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 and the Department of Transportation — Highways Division 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.

The State's construction in progress, except for the DOE, is maintained by DAGS — Public Works (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

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-04)

2011-06 — Mainframe Access Security Controls (Significant Deficiency)

Condition

During the course of our audit, we noted the following exceptions related to information security at the Information and Communication Services Division (ICSD):

- Passwords for the mainframe and network were not configured to require password complexity (such as alphanumeric, uppercase, lowercase, or special characters).
- Minimum passwords' lengths were not in compliance with policy for the mainframe and the network.
- The Resource Access Control Facility (RACF) user access review did not include a revalidation to confirm that access was required based on job description and that access was free of terminated users.
- Shared administrative accounts used by operations were not identified by the RACF user access review.
- Although logging was enabled, there was no formal process to monitor Local Area Network (LAN) or natural security logs.
- There was not a segregation of duties between the ability to authorize access and the ability to create or modify a user account on the mainframe (RACF) or the LAN.
- Evidence was not available to demonstrate that a review of network access was performed.

Cause

ICSD has not communicated to all users that the online user access request system must be used to request new access, modify access, and to document terminated user access within five business days of termination. The user access reviews do not include a review and sign off from business managers and supervisors, indicating that they authorize access and that the system is free of terminated users. Logging and monitoring procedures appear to be informal or lack documentation required to evidence the operating effectiveness of the control. Generic administrative accounts were once assigned to individuals are now shared among multiple users. System limitations may prevent DAGS management from implementing the strong password settings as described above.

Recommendation

ICSD should communicate to departments requiring access to ICSD systems that they are required to complete the standard user access request form to request user access or modify access to the system. In addition, a process should be created to facilitate timely (within five days) notification of terminated users to ICSD and documentation of the notification should be retained. ICSD should implement a process to document the monitoring procedures performed around network security logs. ICSD should assign all generic accounts to individual users to establish accountability. ICSD should implement strong password settings and consider upgrading software to allow for strong password settings to be enforced.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-05)

2011-07 — Great Plains Access Security Controls (Significant Deficiency)

Condition

Through our testing procedures, we noted that password complexity (uppercase, lowercase, alphanumeric, and special character) was not required for the Great Plains application, database, or supporting active directory. Through our testing procedures, there were instances of a lack of documented approval for new hires prior to being added to the system. Further, we determined that the process to notify, confirm, or provide evidence of Great Plains access removal when a user is terminated may not always be associated with formal documentation. In addition, user access reviews for the Great Plains application was not documented. Finally, logging and monitoring procedures were not documented for the Great Plains application or supporting infrastructure.

Cause

Management did not configure the Great Plains application, database, and active directory password settings to enforce complexity during the 2011 fiscal year. Although a process exists for the communication of new and terminated employees, the Great Plains user access permissions may not have been consistently documented along with these new hire and termination requests. The user access review for Great Plains was not documented during fiscal year 2011. Regular monitoring procedures around existing logs were not performed.

Recommendation

Management should:

- Implement a process for the formal documentation of authorization of Great Plains user access permissions.

- Implement a process for the formal documentation of removal of Great Plains user access permissions.

- Implement a formal user access review process, including a review for terminated users and user access permissions based on job functionality.

- Implement a process for formal logging and monitoring of Great Plains systems (application, database, operating system, and network)

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-06)

2011-08 — Accounting for Accrued Receivables and Liabilities (Significant Deficiency)

Condition

Accrued receivables and liabilities for some of the departments were not submitted to DAGS in a timely manner. To prevent further delay in the preparation of their financial statements, DAGS prepared the CAFR by using estimates of the accruals from the missing departments.

Cause

Due to lack of communication between DAGS Accounting Division and various State agencies, DAGS Accounting Division was not aware of all accrued receivables and liabilities at June 30, 2011. Further, because certain State agencies were not timely in submitting their accruals for consolidation into the CAFR, DAGS was forced to estimate certain accruals in the CAFR, which resulted in significant differences between the estimates and the actual accruals.

Recommendation

The State should revise internal controls over financial reporting of accrued revenues and expenditures to ensure that the DAGS Accounting Division receives accurate financial information for use in preparing the State CAFR.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-01)

2011-09 — Processing of Treasury Deposit Receipts (Significant Deficiency)

Condition

In a sample size of 25 treasury deposit receipts (TDRs), we noted three instances where there was insufficient evidence to demonstrate that the batch submissions from user departments were properly reviewed and authorized.

Cause

There was no documented evidence of proper review and approval of TDRs at the department level.

Recommendation

Management should emphasize the importance of the review and approval of TDRs, and should also stress the importance of ensuring documented evidence of such review at the department level, B&F, and DAGS.

Current Status of Corrective Action Plan

Corrected

2010-04 — Accounting for Postemployment Benefits (Significant Deficiency)

Condition

State B&F is responsible for procuring the outside actuary, which was hired to perform the actuarial valuation for the State. Certain significant assumptions needed to be determined by the State and provided to the third-party actuary in order for the actuary to complete the valuation. These assumptions were not provided to the third-party actuary until February 2011, which resulted in the State receiving the actuary report in March 2011.

Cause

Whenever the State performs a new valuation, it re-evaluates the assumptions used to determine if the underlying assumptions are reflective of the current and future situation of the State. The State started to address these assumptions during late fiscal year 2009, but did not make a definitive decision to change certain assumptions until the third quarter of fiscal year 2011. For its July 1, 2009 valuation, the State changed its discount rate from 5% to 4% and changed the amortization period from 30 years closed to 30 years open.

Recommendation

The State needs to improve the process in determining the significant assumptions to be used for the other postemployment benefit calculation. The State management needs to confirm the estimates and submit the details to the State-contracted actuary timely.

Current Status of Corrective Action Plan

Corrected

Financial Statement Finding – State Department of Agriculture

09-01 Deficiency in Accounting for Capital Assets (Material Weakness)

NOTE: This finding was included on page 269 of the prior year's single audit report.

Condition

During the prior-year audit, the Department did not properly report capital purchases and construction in progress in accordance with GAAP and the State's policies and procedures which resulted in an audit restatement to the Department's July 1, 2007, net assets balance of approximately $1.3 million.

During the audit, the following audit adjustments were made to the Department's financial statements:

- $2,429,000 adjustment for the transfer of construction in progress to land improvements for a project completed during fiscal year 2009 and related depreciation expense of $81,000.
- $698,000 to record internally developed computer software.
- $1,248,000 adjustment to reverse improper recordation of assets as construction in progress that should have been expensed.

Net capital asset expenditures of $41,985 were not properly reported in the State's FAIS for the current year.

Cause

The Department does not maintain adequate records to reconcile assets recorded in FAIS and expenditures recorded in the State's Financial Accounting and Management Information System ("FAMIS"). The Department's various program personnel are responsible for completing the proper forms to ensure that the capital asset additions, disposals, and transfers for their program are accurately reported in a timely manner. However, the program personnel did not complete the appropriate forms in a timely manner, and therefore, the capital assets were not recorded into FAIS in the appropriate period.

Recommendation

We recommend that the Department perform the following:

☐ Report capital asset additions to the State Procurement Office (SPO) in a timely manner in accordance with the State Inventory Manual.
☐ Implement procedures for property custodians to reconcile quarterly equipment acquisitions in FAMIS to the DAGS computerized inventory reports (MDB reports) from the FAIS in a timely manner.
☐ Carefully review expenditures to ensure capital assets are properly recorded to eliminate future audit adjustments.
☐ Ensure that property custodians are properly trained to perform these duties.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-04).

Financial Statement Finding – State Department of Land and Natural Resources

09-01 Expenditures Claimed for Reimbursement Were Overstated (Material Weakness)

NOTE: This finding was included on page 270 of the prior year's single audit report.

Condition

Internal controls over financial reporting provided for inaccurate disclosure of financial results of financially assisted activities as it allowed for excess costs to be claimed for reimbursement by DBOR for the period October 2008 through March 2009.

Cause

DBOR's internal controls over financial reporting allowed for inaccurate financial reporting. Law enforcement personnel costs provided by DOCARE were not checked for accuracy by DBOR, which also duplicated other costs claimed.

Recommendation

As the grantee, DBOR is responsible for the accuracy of financial results reported in its RBS program, including those program costs calculated by and provided to them by DOCARE. Reimbursement claims should be reviewed for accuracy prior to filing with the grantor agency. Such a review should include a review of the accuracy of costs reported by DOCARE as well as the documentation of other program costs.

Current Status of Corrective Action Plan

Corrected

Financial Statement Findings – State Department of Public Safety

09-01 Improve Controls over Inmate Agency Accounts (Material Weakness)

NOTE: This finding was included on page 270 of the prior year's single audit report.

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 unreconciliable 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. The implementation of the Corrective Action Plan is in process. The anticipated date of completion is December 2015.

09-02 Strengthen Controls over Compensated Leaves of Absence (Deficiency)

NOTE: This finding was included on page 271 of the prior year's single audit report.

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. The implementation of the Corrective Action Plan is in process. The anticipated date of completion is December 2015.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2011-10 Special Tests — Accountability for Commodities (Material Weakness)
State Department of Labor and Industrial Relations

CFDA No. 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Award from the U.S. Department of Agriculture (Awards 2010IY810547, 2011IY810547, and 2010CC200347)

Condition

The State DLIR contracts with a warehouse storage facility to store the food inventory donated by the U.S. Department of Agriculture. This food inventory is being stored temporarily until it is distributed to eligible recipient agencies.

We obtained the monthly physical inventory counts performed by the warehouse storage facility. We noted that the physical inventory counts were not reconciled with the Department's records. For the month ended June 30, 2011, the physical inventory counted by the warehouse storage facility was 11,276 cases of food, whereas the Department's records indicated that 5,369 cases of food should have been at the warehouse.

Cause

Due to the lack of resources and oversight over the inventory recordkeeping and reconciliation process, the physical inventory count was not reconciled to the Department's records.

Recommendation

Although the Department discontinued using the warehouse storage facility since February 2012, the Department should establish and implement controls to reconcile the food inventory records at the eligible recipient agencies.

Current Status of Corrective Action Plan

Corrected

2011-11 Subrecipient Monitoring — Single Audit Report Requirement (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 10.568 and ARRA 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Program from the U.S. Department of Agriculture (Awards 2011IY810547, 2010IY810547, and 2010CC200347)

Condition

The Department received funds relating to the Emergency Food Assistance Program (TEFAP), and passed through the funds to four subrecipients. Each of the subrecipients expended more than $500,000 in Federal funds and thus was required to undergo Single Audits. During fiscal year 2011, two of the subrecipients did not have a Single Audit performed.

Cause

Department personnel did not aggressively follow up on the failure of two of the subrecipients to have a Single Audit conducted.

Recommendation

Department personnel should monitor their subrecipients' compliance with the provisions of OMB Circular A-133 and require proper resolution of any instance of noncompliance. Additional training should be provided to the department's personnel, as deemed necessary.

Current Status of Corrective Action Plan

Not repeated. The program's subrecipients did not expend more than $500,000 during the year and therefore did not require a Single Audit.

2011-12 Subrecipient Monitoring — Corrective Action Plan Timeline (Significant Deficiency) State Department of Labor and Industrial Relations

CFDA No. 10.568 and ARRA 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Program from the U.S. Department of Agriculture (Awards 2010IY810547, 2011IY810547, and 2010CC200347)

Condition

During the course of our audit, we examined the reports issued by the State to the four eligible recipient agencies (ERAs) during fiscal year 2011. These reports noted deficiencies in the ERAs' compliance with TEFAP requirements and required corrective action to be taken. However, the reports did not include any timelines for when such corrective action needed to be undertaken by, even though such timelines are required by the State TEFAP Plan.

Cause

When the State examiners wrote the reports detailing their reviews of the ERAs' compliance with TEFAP requirements, they concentrated mainly on the Federal TEFAP requirements (which do not include timeline requirements), as opposed to the requirements included in the State TEFAP Plan (which includes timeline requirements).

Recommendation

The State examiners should be instructed to include timelines for taking corrective action in their reports to the ERAs, as required by the State TEFAP Plan.

Current Status of Corrective Action Plan

Corrected

2011-13 Subrecipient Monitoring — Central Contractor Registration (Significant Deficiency) State Department of Labor and Industrial Relations

CFDA No. 10.568 and ARRA 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Program from the U.S. Department of Agriculture (Awards 2010IY810547, 2011IY810547, and 2010CC200347)

Condition

During the course of our audit, we examined the Memorandum of Understanding (MOU) between the State and the four subrecipients receiving Federal awards under the TEFAP. The purpose of the MOU is to identify the requirements of, and cooperative clauses in, the TEFAP. The MOU did not include the Federal award information noted above, or the subrecipients' need to register in the CCR.

Cause

The State's program specialist does not believe that it was necessary to include the Federal award information in the MOU, as such information can be obtained elsewhere by the subrecipients. For example, such information is included in a grant document that is available online.

Recommendation

The State should ensure that subrecipients are initially provided with Federal award information in order to ensure that these subrecipients can properly research any requirements relating to their Federal awards. No corrective action is needed for the CCR requirement, as the TEFAP ARRA award was not renewed for the program year 2011 (October 1, 2010 to September 30, 2011).

Current Status of Corrective Action Plan

Corrected

2011-14 Preparation of the Schedule of Expenditures of Federal Awards (Significant Deficiency) State Department of Labor and Industrial Relations

CFDA Nos. 10.568 and ARRA 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Program from the U.S. Department of Agriculture (Awards 2010IY810547, 2011IY810547, and 2010CC200347)

Condition

During the course of our audit, we tested the preparation of the SEFA by comparing amounts included therein with the amounts included in the Department's accounting records (and as reported on the *FNS-667* form.) We noted differences in amounts for both ARRA awards and non-ARRA awards. For the ARRA awards, the amounts included on the SEFA were understated by $41,405. For the non-ARRA awards, the amounts included on the SEFA were overstated by $56,075. The combining of the two errors results in a net overstatement of the SEFA by $14,670. The error in reporting does not result in a questioned cost.

Cause

Due to turnover in the Department, there were several employees who had responsibility in preparing the initial drafts of the SEFA, so errors were probably made during subsequent revisions of the SEFA.

Recommendation

The department should improve the design and implementation of internal controls relating to the preparation of the SEFA. For example, reconciliation between the accounting records, the *FNS-667* form, and the SEFA should be performed before the SEFA is finalized.

Current Status of Corrective Action Plan

Corrected

2011-15 ARRA Reported Information (Material Weakness)
State Department of Labor and Industrial Relations

CFDA No. ARRA 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Program from the U.S. Department of Agriculture (Award 2010CC200347)

Condition

We tested the ARRA 1512 report filed for the quarter ended September 30, 2010, and were not able to find any support for any of the financial information included in the report.

Cause

Turnover in the Department resulted in existing personnel being unable to locate the documents and schedules supporting the report in question.

Recommendation

Controls relating to the preparation and filing of the ARRA 1512 reports should be improved, in order to ensure that the reporting guidelines are adhered to.

Current Status of Corrective Action Plan

Corrected

2011-16 Untimely Submission of Reports (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Program from the U.S. Department of Agriculture (Awards 2011IY810547 and 2010IY810547)

Condition

During the course of our audit, we examined the *FNS-667* forms for each of the quarters in fiscal year 2011, and noted that the forms were not filed before the deadline for two of the quarters. The form for the quarter ended September 30, 2010, was filed 34 days past the deadline and the form for the quarter ended March 31, 2011, was filed 20 days past the deadline.

Cause

The lack of proper training of the report preparers and adequate supervisory review over the preparation of the *FNS-667* forms resulted in the untimely submission of the forms.

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

2011-17 Procurement — Tax Clearance Form (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA Nos. 10.568 and ARRA 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Program from the U.S. Department of Agriculture (Awards 2010IY810547, 2011IY810547, and 2010CC200347)

Condition

During the course of our audit, we examined expenditures made by the Department in connection with the TEFAP. We selected a contract for $100,000 and could not locate the Tax Clearance Form. Accordingly, we were unable to ascertain whether the form had been submitted prior to the awarding of the contract, as required by HRS 103D-328.

Cause

The program specialist was not able to explain the inability to locate the form and suggested that there is a possibility that it had been misfiled. In addition, because of turnover in the Department, it is not possible to ask the person who was originally responsible for the procurement.

Recommendation

The internal controls over the maintenance of vendor files and documents should be reviewed to ascertain whether improvements are necessary to strengthen such controls.

Current Status of Corrective Action Plan

Corrected

2011-18 Property Records (Deficiency)
State Department of Land and Natural Resources

CFDA No. 10.676, Forestry Legacy Program
Direct Program from the U.S. Department of Agriculture (Awards 07-CA-11052021-178, 08-CA-11052021-127, 08-DG-11052021-128, and 09-DG-11052021-181)

CFDA No. 11.419, Coastal Zone Management Administration Award
Direct Program from U.S. Department of Commerce (Award NA10NOS4190135)

Condition

During the course of our audit, we tested the timing of the recording of real property acquisitions in the FAIS and noted two instances where the property was not recorded in the quarter that the property was received. For CFDA No. 10.676, real property acquired in June 2011 was not recorded until the quarter ended December 31, 2011; and for CFDA No. 11.419, real property acquired in February 2011 was not recorded until the quarter ended December 31, 2011.

Cause

The Department did not make a concerted effort to ensure that all real property additions are recorded in the FAIS on a timely basis.

Recommendation

Personnel who are responsible for the property 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

Corrected

2011-19 Preparation of the Schedule of Expenditures of Federal Awards (Deficiency)
State Department of Land and Natural Resources

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

Condition

During the course of our audit, we tested the SEFA to ascertain that entities identified as subrecipients met the definition included in OMB Circular A-133. We identified an entity that was designated as a subrecipient, but which did not meet the definition, and thus, should have been designated as a vendor. The payment to that entity totaled $32,659.

Cause

The incorrect designation of the entity as a subrecipient was the result of an incorrect coding in the accounting records. When the payment was entered into the accounting system, the subrecipient field was erroneously checked off, instead of being left blank.

Recommendation

Procedures should be established to require program administrators to review the preparation of their portions of the SEFA to ensure that the amounts are correctly reported.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-02)

2011-20 Davis-Bacon Act (Significant Deficiency)
State Department of Land and Natural Resources

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

Condition

The grant included two projects in which remote wilderness fences were to be erected at two separate locations. The cost of both fences was $182,000 and $175,000, respectively.

The projects began in January 2010. At that time, the State DLNR inquired of the Federal Agency whether the Davis-Bacon Act applied to the "remote wilderness fences." After a series of correspondence and research, in April 2010 the Federal Agency communicated to the State DLNR that the Davis-Bacon Act in fact was applicable to the fencing. However, since the project was already completed by the time the Federal Agency confirmed that the Davis-Bacon Act applied, it was too late to comply with the applicable requirements.

Cause

Due to the lack of training, it was unclear to State DLNR personnel whether the provisions of the Davis-Bacon Act and the related HRS requirements were applicable.

Recommendation

Conduct procurement training for the various State DLNR personnel who perform procurement functions. In addition, expedite the hiring of the procurement position within the Division, which has been vacant for the past few years.

Current Status of Corrective Action Plan

Corrected

2011-21 Subrecipient Monitoring (Material Weakness)
State Department of Defense

CFDA No. 11.555, Public Safety Interoperable Communications Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2007-GS-H7-0005)

Condition

During the course of our audit, we requested from the Department personnel evidence that would demonstrate the Department's monitoring of all four of the subrecipients. The Department personnel indicated that they had not monitored the subrecipients' activities during the fiscal year.

Cause

The Department personnel were not familiar with the provisions of OMB Circular A-133 that addressed the monitoring of subrecipients.

Recommendation

Procedures should be established that address the monitoring of all subrecipient activities to ensure that such subrecipients take appropriate corrective action on all audit findings.

Current Status of Corrective Action Plan

Corrected

2011-22 Personnel Activity Reports (Significant Deficiency)
State Department of Defense

CFDA No. 11.555, Public Safety Interoperable Communications Grant Program
CFDA No. 97.067, Homeland Security Grant Program
Direct Programs from the U.S. Department of Homeland Security (Awards 2007-GS-H7-0005, 2007-GE-T7-0013, 2008-GE-T8-0022, and 2009-SS-T9-00060)

Condition

Certain of the Department's personnel work on certain activities that fall under the provisions of the Public Safety Interoperable Communications Grant (CFDA No. 11.555). The Department received approval from its cognizant agency to use funds from the Homeland Security Grant Program (CFDA No. 97.067) to pay for such services. Because these workers provide services to more than one activity, personnel activity reports or their equivalent should have been prepared to support the required allocation of time.

During the course of our audit, we attempted to examine personnel activity reports for the affected grants, but were informed that such activity reports were not prepared.

Cause

Supervisory personnel were not aware of the requirement to prepare personnel activity reports for employees working on multiple activities.

Recommendation

Personnel working on multiple activities should be required to prepare payroll activity reports, as required by OMB Circular A-87.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-69) for CFDA No. 97.067, Homeland Security Grant Program

2011-23 Inability to Verify Timely Submittal of Report (Deficiency)
State Department of Defense

CFDA No. 11.555, Public Safety Interoperable Communications Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2007-GS-H7-0005)

Condition

We observed documentation showing the Categorical Assistance Programs Report (CAPR) for the six-month period ended December 31, 2010, was submitted, but no supporting documentation was retained to indicate whether the report was filed timely.

Cause

The CAPR is submitted electronically on the grantor's website and supervisors did not advise the employee submitting the report to retain evidence of timely filing.

Recommendation

Controls relating to retaining proof of timely submission should be improved to ensure that the reporting guidelines are met.

Current Status of Corrective Action Plan

Corrected.

2011-24 Property Records (Significant Deficiency)
State Department of Defense

CFDA No. 12.401, National Guard Military Operations and Maintenance Projects
Direct Program from the U.S. Department of Defense (Award W912J6)

Condition

The listing of equipment that was reported to the USFPO in fiscal year 2011 was not updated on a regular basis, and thus, did not include all of the equipment that should have been reported.

Cause

The Department did not set a priority of updating its records of equipment purchased with Federal funds. As a result, the listing of the inventory of equipment was inaccurate.

Recommendation

The Department should take a physical inventory of the equipment purchased with Federal funds and update its listing of such equipment.

Current Status of Corrective Action Plan

Corrected

2011-25 Davis-Bacon Act (Significant Deficiency)
State Department of Defense

CFDA No. 12.401, National Guard Military Operations and Maintenance Projects
Direct Program from the U.S. Department of Defense (Award W912J6)

Condition

The Department engages numerous contractors for various construction projects. However, through our testing of internal controls, we noted that the Department's project managers do not consistently review the contractors' submitted certified payroll reports for compliance with the Davis-Bacon Act.

Cause

The Department has not established adequate internal control procedures to monitor the contractors' compliance with the Davis-Bacon Act. In addition, the Department claims that it does not have sufficient resources to adequately monitor the contractors.

Recommendation

Internal controls should be established to ensure that the Department's personnel are adequately monitoring the contractors' compliance with the Davis-Bacon Act.

Current Status of Corrective Action Plan

Corrected

2011-26 ARRA Reporting Requirements (Significant Deficiency)
State Department of Defense

CFDA No. ARRA 12.401, National Guard Military Operations and Maintenance Projects
Direct Program from the U.S. Department of Defense (Award 912J6)

Condition

The State DOD does not normally communicate the ARRA requirements to its contractors and does not usually check the contractors for compliance with such requirements.

Cause

The Department believes that it is the responsibility of the vendors to become familiar with the ARRA regulations. It also believes that the disbursement of ARRA funds to the local construction industry is sufficiently widespread, such that the vendors are knowledgeable of the requirements.

Recommendation

Internal controls should be established to monitor the vendors for compliance with the ARRA regulations.

Current Status of Corrective Action Plan

Corrected

2011-27 Payroll Certifications (Significant Deficiency)
State Department of Defense

CFDA No. 11.555, Public Safety Interoperable Communications Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2007-GS-H7-0005)

CFDA No. 93.558, Temporary Assistance for Needy Families Cluster
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Awards 2007GET70013, 2008GET80022, 2009SST90006, and 2010SST00006)

Condition

We noted that payroll certifications were not completed for employees who solely worked on a single Federal award. From our testing procedures, we selected eight employees who were required to complete a payroll certification. Of the employees that were required to submit a certified payroll, we noted that the required certification was not completed for seven out of the eight employees tested.

Cause

The nonpreparation of the payroll certification is due to a lack of monitoring by program administrators and supervisory officials to ensure that payroll certifications are completed.

Recommendation

Enforce the requirement that all employees who worked on a specific grant program to complete a payroll certification on a semiannual basis at a minimum.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Findings (2012-54) for CFDA No. 93.558, Temporary Assistance for Needy Families, and (2012-69) for CFDA No. 97.067, Homeland Security Grant Program

2011-28 Cash Management (Material Weakness)
State Department of Defense

CFDA No. 12.404, National Guard Challenge Program
Direct Program from the U.S. Department of Defense (Award W912J6)

Condition

The Department received an advance funding of $184,460 on December 22, 2010. A portion of the funds was used within the appropriate time frame and two of the selections were outside of the appropriate time frame. We tested two disbursements from this amount to determine if the funds were disbursed within 30 days from the date of their receipt. We noted that both disbursements were made in excess of the 30-day requirement: the elapsed time for one being 63 days and the other being 138 days.

Cause

The Department's program budget technician who was responsible for the drawdown and disbursement of the program funds was erroneously under the impression that the fiscal year 2010 award funding was going to close and that the Department would not be able to request an extension of the program funding. Thus, he drew down a larger amount than was necessary for the January 2011 time period in order to have sufficient funds to cover the remainder of the program period.

Recommendation

Supervisory oversight of the drawdown and disbursement of Federal funds should be strengthened in order to avoid similar instances in the future.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-14)

2011-29 Close Out Reporting (Significant Deficiency)
State Department of Defense

CFDA No. 12.404, National Guard Challenge Program
Direct Program from the U.S. Department of Defense (Award W912J6)

Condition

The State DOD did not complete the required closeout and settlement reporting for the Kalaeloa and Kulani program sites.

Cause

There was a lack of monitoring to ensure this requirement was met.

Recommendation

The State should improve the controls over monitoring grant reporting requirements to ensure all required reports are timely filed.

Current Status of Corrective Action Plan

Corrected

2011-30 Close Out Reporting, Kulani Program Site (Significant Deficiency)
State Department of Defense

CFDA No. 12.404, National Guard Challenge Program
Direct Program from the U.S. Department of Defense (Award W912J6)

Condition

During our cash management testing, we noted that funds were spent after the close of the 2010 award for the Kulani program site, but there was no approval letter from the U.S. Property and Fiscal Office (USPFO) to disburse unliquidated claims and undisbursed obligations, as required by the grant agreement.

Cause

The National Guard Bureau abruptly closed the 2010 Kulani award and did not give the State DOD prior notice.

Recommendation

The State should improve the controls over monitoring grant reporting requirements to ensure approval letters are obtained prior to disbursing any remaining funds after grant close out.

Current Status of Corrective Action Plan

Corrected

2011-31 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 (Award W912J6)

Condition

During the course of our audit, we selected two employees who worked solely on a single Federal award to determine if the proper payroll certifications were filed on a timely basis. We noted that the required certifications (in which the employees certify that they worked solely on the program for the period covered) were not prepared by these employees or their supervisors.

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

Enforce the requirement that all employees or their supervisors complete payroll certifications while working on a single Federal award program.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-13)

2011-32 Payroll Allowable Costs (Deficiency)
State Department of Land and Natural Resources

CFDA No. 15.605, Coordination of Statewide Sport Fish Restoration
Direct Program from the U.S. Department of the Interior (Award F-13-C-35)

Condition

During the course of our audit, we tested the compensation paid to eight employees to determine if they met the provisions of OMB Circular A-87. We noted that for the program under CFDA No. 15.605, manual worksheets are used as a basis for allocating payroll expenses to the grant. We found exceptions for two out of the eight employees.

In the first instance, the employee's pay rate was increased by $0.75 per hour in May 2009. However, the manual worksheets used to allocate payroll expenses to the grant were not updated to reflect the increase until February 2011. Therefore, for the period from May 2009 to February 2011, the grant was undercharged by $0.75 for each hour the employee worked on the grant.

In the second instance, the employee received a monthly pay differential of $153, beginning some time in 1996. However, the manual worksheets used to allocate payroll expenses to the grant were never updated to reflect the increase. Therefore, the grant was undercharged by $153 per month or $1,620 for fiscal year 2011.

Cause

The program accountant indicated that it was an oversight that the manual worksheets were not updated to reflect the payroll increases.

Recommendation

Internal controls over the allocating of payroll costs to the grants should be reviewed and strengthened in order to prevent future occurrences of misstatements.

Current Status of Corrective Action Plan

Corrected

2011-33 Allowable Costs — Allocation of R&D Expenses (Deficiency)
State Department of Land and Natural Resources

CFDA Nos. 15.611, Wildlife Restoration; 15.615, Cooperative Endangered Species; and 15.634, State Wildlife Grant
Direct Awards from the U.S. Department of Interior (Awards W-22-G-16, E-2-11, and T-2-8)

Condition

Certain State DLNR grants consist of projects with multiple activities (in which research and development may be one of the multiple activities for the project). We noted that for invoices received, research and development costs are estimated and allocated within the grants using a percentage of 50% research and development and 50% for non-research and development. The allocation method supporting the 50% estimate could not be provided.

Cause

The program manager was not aware that research and development costs needed to be specifically tracked and, therefore, estimated a percentage.

Recommendation

Establish and implement controls to ensure that costs relating to research and development are separately tracked and accounted for accurately. Alternatively, a basis supporting the allocation estimate should be prepared.

Current Status of Corrective Action Plan

Corrected

2011-34 Untimely Submission of Reports (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA Nos. 17.207, 17.801, and 17.804, Employment Services Cluster
Direct Program from the U.S. Department of Labor (Award DV-19669-10-55-5-15)

Condition

During the course of our audit, we examined two Expenditure Register Reports that were submitted at the end of the December 31, 2010, reporting period. We noted that one of the reports was submitted 115 days after December 31, 2010, in excess of the 30-day requirement.

Cause

The lack of adequate supervisory review over the preparation of the required reports allowed the report to be filed late.

Recommendation

Internal controls over financial reporting should be improved to ensure that all required financial reports are prepared, reviewed, and submitted prior to reporting deadlines.

Current Status of Corrective Action Plan

Corrected

2011-35 Physical Inventory of Equipment (Deficiency)
State Department of Labor and Industrial Relations

CFDA Nos. 17.207, 17.801, and 17.804, Employment Services Cluster
Direct Program from the U.S. Department of Labor (Award DV-19669-10-55-5-15)

Condition

During the course of our audit, we selected one program branch location to test whether a physical inventory of equipment was taken within two years from the last physical inventory of May 11, 2009. We did ascertain that a subsequent physical inventory was taken; however, such inventory was taken on September 27, 2011, which is a date past the two-year cut-off.

Cause

The Branch 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

A timetable should be established in order to ensure that a physical inventory of equipment is taken at least once every two years.

Current Status of Corrective Action Plan

Corrected

2011-36 Property Records (Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 17.207, 17.801, and 17.804, Employment Services Cluster
Direct Program from the U.S. Department of Labor (Award DV-19669-10-55-5-15)

Condition

We tested one of two equipment purchases made by the grant during the year and noted that the addition was not recorded in the calendar quarter that the equipment was received, but it was recorded in the subsequent quarter.

Cause

The Department did not make a concerted effort to ensure that all equipment additions are recorded in the equipment listing 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

Corrected

2011-37 Travel Policy (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-19578-10-55-A-15)

Condition

We tested 25 selections in which two selections were travel reimbursements. Of these, we noted one instance in which the *Statement of Completed Travel* and supporting documents/receipts were not submitted within 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

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-27).

2011-38 Property Records (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-19578-10-55-A-15)

Condition

During our testing of equipment additions and disposals for compliance, we noted that the equipment listing was not accurate or complete. The equipment listing was not updated for all purchases and disposals of equipment made during fiscal year 2011. As a result, the equipment records were not adequately maintained, as required by OMB Circular A-133.

Cause

The Department did not set a priority of updating its records of equipment purchased with Federal funds. As a result, the listing of the inventory of equipment was inaccurate.

Recommendation

The Department should take a physical inventory of the equipment purchased with Federal funds and update its listing of such equipment.

Current Status of Corrective Action Plan

Corrected

2011-39 Federal Withholding Taxes (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 17.225, Unemployment Insurance
Direct Program from the U.S. Department of Labor (Awards UI-19578-10-55-A-15 and UI-21095-11-A-15)

Condition

During the course of our audit, we examined 60 selections of which 15 claimants were paid Federal Additional Compensation (FAC). Out of the 15 payments to claimants, three had elected to have Federal income taxes withheld. However, no income tax withholdings were made.

Cause

The Department's Benefit Payment system, which handles the FAC program, does not have the capability to withhold Federal income taxes from the FAC payments.

Recommendation

The feasibility of making revisions to the Benefit Payment system in order to fully comply with the FAC program regulations should be investigated, along with an analysis of the resulting cost-benefit relationship.

Current Status of Corrective Action Plan

Not repeated. The FAC program ended in December 2010.

2011-40 Timeliness of Unemployment Insurance Claim Processing (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 17.225, Unemployment Insurance
Direct Program from the U.S. Department of Labor (Awards UI-18016-09-55-A-15 and UI-19578-10-55-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 2010 to December 2010 and the Hawaii Regional Review Memo, which details a summary of the BAM unit review by the Unemployment Insurance 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 — non-separation based. We noted that the State BAM unit failed to meet the required completion percentages for all of the categories listed above, except for the requirement to complete 70% of paid claims within 60 days. Per the Hawaii Regional Review Memo, we noted of the 361 paid cases selected; only 359 cases are completed timely. For denied cases, we noted at least 150 cases were selected, but only 111 cases were completed timely for monetary and non-separation types; and 107 cases were completed timely for separation types.

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. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-28).

2011-41 Property Records (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. ARRA 17.275, 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-A15)

Condition

During our testing of equipment additions and disposals for compliance, we noted that the equipment listing was not accurate or complete. The equipment listing was not updated for the equipment purchased or disposed during fiscal year 2011. As a result, the equipment records were misstated by $34,126.

Cause

The Department did not set a priority of updating its records of equipment purchased with Federal funds. As a result, the listing of the inventory of equipment was inaccurate.

Recommendation

The Department should take a physical inventory of the equipment purchased with Federal funds and update its listing of such equipment.

Current Status of Corrective Action Plan

Corrected

2011-42 Subrecipient Monitoring: No On-Site Review Performed (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. ARRA 17.275, Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors
Direct Program from U.S. Department of Labor (Award GJ-19909-10-60-A-15)

Condition

During the course of our audit, we noted that physical on-site reviews were not performed within one year of the subrecipient agreement's effective date for all four of the subrecipients selected for testing.

Cause

The on-site reviews were mainly due to the lack of resources and controls to ensure that the on-site monitoring takes place in accordance with subrecipient agreements.

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 subrecipient agreements.

Current Status of Corrective Action Plan

Corrected

2011-43 Travel Policy (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. ARRA 17.275, 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-A15)

Condition

We tested 40 selections in which 15 selections were travel reimbursement. Of these, we noted two instances in which the *Statement of Completed Travel* and supporting documents/receipts were not submitted within the 10-day deadline. For one instance, the form was due on May 20, 2011; however, the form was not submitted until June 29, 2011. For the other instance, the form appeared to never have been submitted.

Cause

The lack of adequate monitoring of travel reports and follow up on delinquent reports allowed the submission of such reports to be late.

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

2011-44 Federal Reporting Accuracy (Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. 81.041, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

Condition

During our testing, we noted that the Federal Form SF-425 for the quarters ended March 31, 2011, and June 30, 2011, contained inaccurate amounts. For the quarter ended March 31, 2011, the Department's accounting records reflected cash receipts of $1,843,627, but $1,904,607 was reported on the Federal Financial Report, resulting in an overstatement of $60,980. In addition, for that same quarter, the Department's accounting records reported cash disbursements of $2,087,722, but $2,089,363 was reported on the Federal Financial Report, resulting in an overstatement of $1,641. Also, for the quarter ended June 30, 2011, the Department's accounting records reflected cash receipts of $3,370,631, but $3,304,108 was reported on the Federal Financial Report, resulting in an understatement of $66,523. The differences were due to timing and therefore were corrected in the subsequent reporting.

Cause

The lack of adequate supervisory review over the preparation of Federal Form SF-425 allowed errors to be made in the preparation of the 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

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-38)

2011-45 ARRA Reported Information (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.041, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

Condition

We tested the ARRA Section 1512 reports filed for the quarters ended December 31, 2010, and June 30, 2011, and noted errors on both of the reports. On the December 31, 2010, report, the State Public Utilities Commission and the State DAGS were identified as subawardees, however, the Department's subaward agreements included the State Public Utilities Commission and Kauai Island Utility Cooperative as the subawardees. And, on the June 30, 2011, report, the State Public Utilities Commission and the State DAGS were identified as subawardees on the Section 1512 reports; however, the Department's subaward agreements included the State Public Utilities Commission, Kauai Island Utilities Cooperative, City and County of Honolulu, County of Kauai, GreenCar Hawaii, Plug in America, Better Place, and AeroVironment as subawardees.

As a result of the erroneous identification of subawardees, the expenditures made by the subawardees were incorrectly stated on the ARRA Section 1512 reports as follows:

	Per ARRA 1512 Report	Per Department Accounting Records	Difference
Subawardee Expenditures:			
Quarter Ended 12/31/10	$ 2,818	$ 1,333,581	$ (1,330,763)
Quarter Ended 6/30/11	2,818	2,941,230	$ (2,938,412)
Subawardee Awards:			
Quarter Ended 12/31/10	6,200,000	6,400,000	$ (200,000)
Quarter Ended 6/30/11	6,200,000	9,000,000	$ (2,800,000)

Cause

The person preparing the ARRA Section 1512 report was not completely aware of the reporting requirements, and the person supervising its preparation did not review the report in sufficient detail.

Recommendation

Controls relating to the preparation and review of the ARRA Section 1512 reports should be improved, in order to ensure that the reporting guidelines are adhered to.

Current Status of Corrective Action Plan

Corrected

2011-46 Communicating CFDA Numbers to Subrecipients (Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. 81.041, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

Condition

During fiscal year 2011, the State Energy Program entered into subaward agreements with Kauai Island Utility Cooperative, City and County of Honolulu, County of Kauai, GreenCar Hawaii, Plug in America, Better Place, and AeroVironment. The agreements for each of these entities did not include all of the required Federal award information, in that the CFDA title and number were not included. However, other information such as the award name and number, if the award is for research and development, name of Federal awarding agency and certain other applicable requirements were included.

Cause

The personnel responsible for preparing the subaward agreements were not aware of all the required information that needed to be communicated to the subrecipients.

Recommendation

The existing subaward agreements should be reviewed and amended to include all required Federal award information. In addition, the personnel preparing the subaward agreements should be properly trained as to the required information that should be included in these agreements.

Current Status of Corrective Action Plan

Corrected

2011-47 Travel Policy (Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. 81.041, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

Condition

In our sample of 40 transactions, we noted two instances (out of the 11 travel transactions tested) in which the *Statement of Completed Travel* and supporting documents/receipts were not submitted within the 10-day deadline.

Cause

The lack of adequate monitoring of travel reports and follow-up on delinquent reports allowed the submission of such reports to be late.

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

2011-48 Untimely Submission of Reports (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. 81.041, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

Condition

During the course of our audit, we examined two performance reports for the quarters ended March 31, 2011 and June 30, 2011. We noted that the performance report for the quarter ended March 31, 2011, was submitted four days after the deadline.

Cause

The lack of adequate supervisory review over the preparation of the required reports allowed these reports to be filed late.

Recommendation

Internal controls over financial reporting should be improved to ensure that all required financial reports are prepared, reviewed, and submitted prior to reporting deadlines.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-37)

2011-49 Preparation of the Schedule of Expenditures of Federal Awards (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

During the course of our audit, we tested the preparation of the SEFA by comparing amounts included therein with the amounts included in the Department's accounting records (and as reported on the Federal Financial Report SF-425.) We noted differences in amounts reported for the non-ARRA and ARRA grants.

Non-ARRA grant — The adjusted accounting records and the Financial Status Report (determined on a program-year basis) reflected actual expenditures of $18,932, while the adjusted SEFA included an amount of $110,496 relating to the program year. Thus, there is a difference of $8,436.

ARRA grant — Similar to the above, the adjusted accounting records and the Financial Status Report (determined on a program-year basis) reflected actual expenditures of $1,837,826, while the adjusted SEFA included an amount of $1,793,231 relating to the program year. Thus, there is a difference of $44,595.

Cause

The individuals responsible for preparing the SEFA indicated that expenditures that were not paid by Federal funds were inadvertently included in the SEFA.

Recommendation

Procedures should be established to require program administrators to review the preparation of their portions of the SEFA to ensure that the amounts are correctly reported.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-02)

2011-50 Federal Reporting Accuracy (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

During the course of our audit, we tested the Federal Form SF-425 for the quarters ended March 31, 2011 and June 30, 2011, for both ARRA and non-ARRA. We noted the reports for the quarter ended March 31, 2011, contained errors relating to the reporting of cash receipts. The Department’s accounting records and the Federal Ledger Sheets indicated cash receipts of $365,438 (non-ARRA) and $2,911,288 (ARRA). However, $540,438 and $2,961,171 were reported on the Form SF-425, resulting in an understatement of $175,000 and overstatement of $49,883 for non-ARRA and ARRA, respectively. We also tested the ARRA Section 1512 reports for the quarters ended September 30, 2010 and March 31, 2011. We noted that both reports contained errors relating to the reporting of total federal amount received/invoiced. The Department’s accounting records, the Federal Ledger Sheets, indicated total federal amount of ARRA funds received of $2,134,886 (September 30, 2010) and $2,911,288 (March 31, 2011), but $2,534,305 and $2,832,241 were reported on the 1512 reports, resulting in an overstatement of $399,419 for the quarter ended September 30, 2010, and understatement of $79,047 for the quarter ended March 31, 2011. For the quarter ended March 31, 2011, total federal amount of ARRA expenditure was understated by $128,930 on the 1512 report.

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 and in the untimely submission of such 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

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-43)

2011-51 Subrecipient Monitoring — No On-Site Review Performed (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 81.042, Weatherization Assistance for Low-Income Persons
Direct Program from the U.S. Department of Energy (Award EE0000176)

Condition

We noted that while the State DLIR monitored the subrecipients by communicating via telephone and e-mail frequently, physical on-site reviews were not performed during the program years 2010 and 2011 for all four of the program's subrecipients.

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

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-44)

2011-52 Procurement — Competitive Purchases of Services (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 81.042, Weatherization Assistance for Low-Income Persons
Direct Program from U.S. Department of Energy (Awards EE0000176 and EE0000183)

Condition

During the course of our audit, we were unable to obtain supporting documents from the State DLIR to test whether a selection relating to the installation of weatherization equipment in the amount of $45,000 was procured in accordance with Chapter 103F-402. We further noted that the awarding of this particular contract (OCS-POS-10-52) was not posted on the State Procurement website within the required seven days after the notice of award.

Cause

Due to staff turnover in the Department, the program specialist was not able to explain the inability to locate the procurement documents, and suggested that there is a possibility that they had been misfiled.

Recommendation

The internal controls over the maintenance of vendor files and documents should be reviewed to ascertain whether improvements are necessary to strengthen such controls.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-42)

2011-53 Untimely Submission of Reports (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 U.S. Department of Energy (Award EE0000176)

Condition

During the course of our audit, we examined the Federal Form SF-425 and the Quarterly Program Reports for each of the quarters in fiscal year 2011, and noted that the forms were not filed before the deadline for seven reports. The Federal Form SF-425 (ARRA) for the quarter ended March 31, 2011, was filed 13 days past the deadline; Federal Form SF-425 (ARRA) for the quarter ended June 31, 2010, was filed 16 days past the deadline; Federal Form SF-425 (non-ARRA) for the quarter ended March 31, 2011, was filed 153 days past the deadline; Federal Form SF-425 (non-ARRA) for the quarter ended June 31, 2011, was filed 80 days past the deadline; non-ARRA Quarterly Program Report for the quarter ended September 31, 2010, was filed 52 days past the deadline; non-ARRA Quarterly Program Report for the quarter ended March 31, 2011, was filed 181 days past the deadline; and ARRA Quarterly Program Report for the quarter ended March 31, 2011, was filed five days past the deadline.

Cause

The lack of proper training of the report preparers and the lack of adequate supervisory review over the preparation of the financial and performance forms resulted in the untimely submission of the forms.

Recommendation

Controls related to the preparation of the forms and the supervisory review of the forms could be improved. For example, a tracking system of the reporting requirements could 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

2011-54 Recording of Expenditures in Proper Period (Material Weakness)
State Department of Business, Economic Development, and Tourism

CFDA No. ARRA 81.122, Electricity Delivery and Energy Reliability, Research, and Development
Direct Program from the U.S. Department of Energy (Award DE-OE0000110)

Condition

During the course of our audit, of the three total transactions for the year, we made two expenditure selections to test whether the Department complied with the regulations relating to activities that are allowed or unallowed. For one of the selections, the Department drew down $55,712 and expended that amount, however recorded an expenditure of only $53,542 during fiscal year 2011. The difference of $4,170 was recorded as a fiscal year 2012 expenditure.

Cause

Because the allotment threshold was reached for fiscal year 2011, the Program Manager charged the amount of the expenditure in excess of the allotted amount to fiscal year 2012.

Recommendation

Program Managers should be instructed to report all expenditures in the year that they are incurred.

Current Status of Corrective Action Plan

Corrected

2011-55 Reporting — Untimely Submission of Reports (Significant Deficiency)
State Department of Budget and Finance

CFDA No. ARRA 81.122, Electricity Delivery and Energy Reliability, Research, Development, and Analysis
Direct Program from the U.S. Department of Energy (Award DE-OE0000172)

Condition

During the course of our audit, we noted that two reports were not submitted before the deadline. The Project Management Plan was submitted 14 days past the deadline, and the Workforce Development Plan was submitted 14 days past the deadline.

Cause

The lack of proper training of the report preparers and the lack of adequate supervisory review over the preparation of the financial and performance forms resulted in the untimely submission of the forms.

Recommendation

Controls related to the preparation of the forms and the supervisory review of the forms could be improved. For example, a tracking system of the reporting requirements could 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. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-46)

2011-56 ARRA Reported Information (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.127, Energy Efficient Appliance Rebate Program
Direct Program from the U.S. Department of Energy (Award DE-EE0001587)

Condition

During the course of our audit, we tested two ARRA reports for the quarters ended December 31, 2010 and June 30, 2011. Both reports indicated expenditures related to the same entity as both a “subrecipient” and “vendor”, totaling $1,096,421. In addition, for the quarter ended June 30, 2011, the State DBEDT reported no subrecipient expenditures in the ARRA Section 1512 report while the general ledger reported $1,124,609 of subrecipient expenditures.

Cause

The person preparing the ARRA Section 1512 report was not completely aware of the reporting requirements, and the person supervising its preparation did not review the report in sufficient detail.

Recommendation

Controls relating to the preparation and review of the ARRA Section 1512 reports should be improved in order to ensure that the reporting guidelines are adhered to.

Current Status of Corrective Action Plan

Not repeated. The program ended on June 30, 2011.

2011-57 ARRA Reported Information (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.128, Energy Efficiency and Conservation Block Grant Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000811)

Condition

We tested the ARRA Section 1512 reports filed for the quarters ended December 31, 2010 and June 30, 2011, and noted error on the December 31, 2010 report. That report failed to include Kauai Island Utility Cooperative as a subawardee, even though the Department had a subaward agreement with such entity. As a result of this omission, the ARRA Section 1512 report for that quarter did not include a subrecipient award amount of $200,000 and did not include subrecipient expenditures of $18,085.

Cause

The person preparing the ARRA Section 1512 report was not completely aware of the reporting requirements, and the person supervising its preparation did not review the report in sufficient detail.

Recommendation

Controls relating to the preparation and review of the ARRA Section 1512 reports should be improved in order to ensure that the reporting guidelines are adhered to.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-49)

2011-58 Federal Reporting Accuracy (Material Weakness)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.128, Energy Efficiency and Conservation Block Grant Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000811)

Condition

During the course of our audit, we tested Federal Form SF-425 for the quarters ended September 30, 2010 and June 30, 2011. We noted that the report for the quarter ended June 30, 2011, contained an error relating to the reporting of cash receipts. The Department's accounting records reflected cash receipts of $4,655,275, but $4,716,255 was reported on the Federal Financial Report, resulting in an overstatement of $60,980.

In addition, the report for the quarter ended September 30, 2010, was filed 53 days after the end of the quarter, as compared with the 30-day filing deadline after quarter end.

Cause

The lack of adequate supervisory review over the preparation of Federal Form SF-425 resulted in errors being made in the preparation of reports and in the untimely submission of such 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

2011-59 Communicating CFDA Numbers to Subrecipients (Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.128, Energy Efficiency and Conservation Block Grant Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000811)

Condition

During fiscal year 2011, the State Energy Program entered into subaward agreements with Kauai Island Utility Cooperative and Honolulu Community Reinvestment Corporation. The agreements for each of these entities did not include all of the required Federal award information, in that the CFDA title and number were not included. However, other information such as the award name and number, if the award is for research and development, name of Federal awarding agency and certain other applicable requirements were included.

Cause

The personnel responsible for preparing the subaward agreements were not aware of all of the required information that needed to be communicated to the subrecipients.

Recommendation

The existing subaward agreements should be reviewed and amended to include all required Federal award information. In addition, the personnel preparing the subaward agreements should be properly trained as to the required information that should be included in these agreements.

Current Status of Corrective Action Plan

Corrected

2011-60 Untimely Submission of Reports (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.128, Energy Efficiency and Conservation Block Grant Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000811)

Condition

We examined two quarterly Federal Form SF-425 for the quarters ended September 30, 2010 and June 30, 2011, submitted by the program to the reporting agency and noted the September 30, 2010, financial report was submitted 23 days after the deadline for the reported quarter.

Cause

The lack of adequate supervisory review and oversight over the timely submittal of financial reports resulted in the finding.

Recommendation

The Department should consider improving the design and implementation of reporting internal controls. The program should incorporate periodic training related to Federal reporting requirements. These trainings should include recent updates and required procedures related to the most recent updates. The trainings should be held periodically (at least annually) or more often as needed (e.g., when new updates to Federal reporting requirements are incorporated).

The Department should also implement a tracking system which reminds staff when program reports are due. In addition, supervisory reviews should be conducted timely to ensure timely submittal of reports.

Current Status of Corrective Action Plan

Corrected

2011-61 Procurement (Significant Deficiency)
Office of the Governor

CFDA No. ARRA 84.397A, State Fiscal Stabilization Fund Cluster
Direct Program from the U.S. Department of Education (Award S397A090012)

Condition

During the course of our audit, we noted that a subrecipient reimbursement request included an invoice addressed to an employee of the Office of the Governor.

Cause

The Office of the Governor was not aware that an employee was involved with an organization that was receiving Federal funds awarded by it.

Recommendation

Discussions should be held with the subrecipient to address the procurement violation and to determine how the situation should be resolved.

Current Status of Corrective Action Plan

Corrected

2011-62 Subrecipient Monitoring (Significant Deficiency)
Office of the Governor

CFDA Nos. ARRA 84.394A and ARRA 84.397A, State Fiscal Stabilization Fund Cluster
Direct Program from the U.S. Department of Education (Awards S394A090012 and S397A090012)

Condition

The Office of the Governor received ARRA grants and passed the amounts through subrecipients, one of which is the Charter Schools Administration (CSA). During fiscal year 2011, CSA expended more than $500,000 of Federal funds, and was thus required to undergo a Single Audit. However, to date, CSA has not had the required audit performed. The same situation is applicable to the 2010 fiscal year.

Cause

The Office of the Governor is unsure as to why CSA has not had the required Single Audit performed. Its repeated requests have failed to get an appropriate response from CSA.

Recommendation

The Office of the Governor should consider setting a deadline for CSA to submit its Single Audit Report, and if the deadline is not met, the Office of the Governor should consider applying sanctions to CSA.

Current Status of Corrective Action Plan

Corrected

2011-63 Subrecipient Classified as Vendor (Significant Deficiency)
Office of the Governor

CFDA No. ARRA 84.397A, State Fiscal Stabilization Fund — Government Services
Direct Program from the U.S. Department of Education (Award S397A090012)

Condition

The Governor's Office treated a particular entity as a vendor. However, the arrangement between the entity and the Governor's office exhibits characteristics of a subrecipient. As a result, the OMB Circular A-133 requirements relating to subrecipient monitoring were not followed, as this arrangement was not previously determined.

Cause

The substance of the arrangement between the Governor's Office and the entity was perceived to be a "vendor" as opposed to a "subrecipient" relationship.

Recommendation

The Governor's Office should review the classification of entities receiving funds under the grants at the inception of the relationship in accordance with the definition of a "vendor" versus "subrecipient" and adhere with the applicable compliance requirements.

Current Status of Corrective Action Plan

Corrected

2011-64 Procurement — Required Approval of Governor (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 the course of our audit, we tested the Department's compliance with the Master Agreement for procurement of services from RCUH. We tested one contract and noted a discrepancy in a contract dated June 16, 2010, for $618,000. For that contract, the Governor's prior approval was received, and the funding source approved was for 100% use of Federal funds. However, when the Memorandum of Understanding (MOU) was entered into between the State and RCUH, the source of funding was broadened to include Federal funds, transferred Federal funds, and State funds.

Cause

According to an explanation by Department personnel, even though the request to the Office of the Governor specifically identified Federal funding for the project, the Department wanted more flexibility, and thus broadened the types of funding allowable when it entered into the MOU with RCUH.

Recommendation

If State funds were used to pay for project expenses, the Department should seek advice from the State Department of Attorney General for guidance as to the resolution of this matter.

As to future requests for services from RCUH, the Department should strictly adhere to the requirements that are approved by the Office of the Governor.

Current Status of Corrective Action Plan

Corrected

2011-65 Procurement — Contract Execution Date (Material Weakness)
State Department of Defense

CFDA No. ARRA 93.714, Emergency Contingency Fund for Temporary Assistance for Needy Families State Program, Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-200)

Condition

During the course of our audit, we tested contracts with vendors for compliance with the State Procurement Code. We noted two instances wherein the contract between the State and the vendors had an effective date, which was prior to the date the parties executed the contract. In one instance, the effective date was August 1, 2010; however the contract was not executed until February 2011. For the second instance, we noted that the services were performed on July 1, 2010; however the effective date of the contract was August 1, 2010. Accordingly, the Department did not follow the requirements of Comptroller's Memorandum No. 2009-14.

Cause

According to Department personnel, because of upcoming deadlines, the Department did not have adequate time to execute the contract prior to the program performance period.

Recommendation

Internal controls over contract negotiations should be strengthened to ensure that all procurement provisions are met. And, if circumstances make it impossible for a contract to be signed before the effective date of the agreement, then the Department should adhere to the requirements of Comptroller's Memorandum No. 2009-14.

Current Status of Corrective Action Plan

Not repeated. The program ended on September 30, 2010.

2011-66 Procurement Exemption (Material Weakness)
State Department of Defense

CFDA No. ARRA 93.714, Emergency Contingency Fund for Temporary Assistance for Needy Families State Program, Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-200)

Condition

During fiscal year 2011, the Department negotiated a contract with a not-for-profit organization under circumstances that the Department believed qualified for exemption from the procurement process, and accordingly, applied for an exemption. The SPO approved the exemption on August 11, 2010, however, the services under the contract began on July 1, 2010. The amount of the contract totaled $742,718.

Cause

According to the program specialist, the Department did not have adequate time prior to the program performance period to properly obtain the procurement exemption approval.

Recommendation

Internal controls over the procurement process should be strengthened to ensure that all of the procurement provisions are met before a contractor is allowed to start services.

Current Status of Corrective Action Plan

Not repeated. The program ended on September 30, 2010.

2011-67 Expenditure of State Funds on Federal Programs (Material Weakness)
State Department of Defense

CFDA No. ARRA 93.714, Emergency Contingency Fund for Temporary Assistance for Needy Families State Program, Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-200)

Condition

During the course of our audit, we tested the Department's compliance with the State procurement procedures. The State DOD's accounting records reflect a total expenditure of Federal funds for the Temporary Assistance for Needy Families (TANF) program of $6,497,860, which is below the $6,500,000 allotment. However, we noted that a TANF contract with a not-for-profit organization for $268,296 (Finding 2011-69) was paid for with State funds, and $66,750 of expenditures for the Summer Youth Employment Program (Finding 2011-72) was also paid for with State funds. Based on the above, expenditures for the TANF program totaled $6,832,906, which exceeded the allotment of $6,500,000 of Federal funds by $332,906.

Cause

There was a lack of proper monitoring of expenditures of funds against the amount allotted.

Recommendation

Internal controls over the monitoring of expenditures on the TANF program should be improved to ensure that the expenditures do not exceed the allotment.

Current Status of Corrective Action Plan

Not repeated. The program ended on September 30, 2010.

2011-68 Reimbursement Requests (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)

Condition

During our audit of cash management compliance testing, we examined 40 selections and identified three instances in which there was no transfer of funds from the State DHS. Per further inquiry and review, we noted that the State failed to submit a request for reimbursement from the State DHS. After further investigation, a total of $737,480 was not submitted to the State DHS for reimbursement.

Cause

The cause is due to the lack of supervisory review to ensure that all allowable expenditures were properly submitted for reimbursement.

Recommendation

Improve record keeping over expenditures of the program such that DOD would be reimbursed for all expenditures spent on the program.

Current Status of Corrective Action Plan

Corrected

2011-69 Segregation of Duties (Material Weakness)
State Department of Defense

CFDA No. ARRA 93.714, Emergency Contingency Fund for Temporary Assistance for Needy Families State Program, Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Awards DHS-10-ETPO-125 SA 1, DHS-10-ETPO-124 SA 1, and DHS-05-BESSD-2203 SA6)

Condition

We noted that for invoices related to the Summer Youth Employment Program under the Temporary Assistance for Needy Families (TANF) cluster, goods and services were reviewed and approved by the Business Management Officer, who also reviewed and signed off on the requisition to encumber funds. Further, he was also the individual who reviewed and authorized payments to the vendors. As such, we noted there is a lack of segregation of duties as the same person was responsible for authorizing and recording transactions.

Cause

There was a lack of personnel resources to separate the responsibilities to different individuals within the program.

Recommendation

The Department should evaluate the program requirements and capacity in which they are able to take on additional federal programs before accepting the projects.

Current Status of Corrective Action Plan

Not repeated. The program ended on September 30, 2010.

2011-70 Unauthorized Use of Purchasing Card (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 the course of our audit, we tested purchases made by using the pCard, and noted an instance of a violation of the use of the card. During the month of July 2010, a pCard holder went on a trip for five days, of which two days were for official business and three days were for personal reasons. The pCard holder rented a car for the entire five days of the trip and paid for all five days' rental by using the pCard. The pCard is to be used for only official business reasons. Of the total charge of $200, only $80 should have been paid by using the pCard. It should be noted that, subsequent to the filing of the travel report, the pCard holder reimbursed the State for the personal portion of the charge.

Cause

The pCard holder acknowledged that he made a mistake and that he should have used his personal credit card for the portion of the trip that he was on vacation.

Recommendation

The Department should stress to its pCard holders that use of the card is strictly for official government business only, and continued violation of any Purchasing Card Program procedures would result in disciplinary action.

Current Status of Corrective Action Plan

Corrected

2011-71 Procurement — Travel Documentation (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 the course of our audit, we tested disbursements throughout fiscal year 2011, including travel reimbursements. We noted an instance of a violation for a trip taken on August 26, 2010. The traveler did submit a Statement of Completed Travel within the 10-day requirement, but did not include the boarding pass with the submitted 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 requests.

Recommendation

Internal controls over the review of travel reimbursements should be improved to ensure that only authorized travel expenditures are approved.

Current Status of Corrective Action Plan

Corrected

2011-72 Reporting (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 (Awards DHS-10-ETPO-125 SA 1, DHS-10-ETPO-124 SA 1, and DHS-05-BESSD-2203 SA 6)

Condition

During the course of our audit, we attempted to test the quarterly reports being submitted by the State DOD to the State DHS for selected MOA for the TANF program. However, we noted that no reports were submitted for the quarters ended September 30, 2010, December 31, 2010, March 31, 2011, and June 30, 2011.

Cause

Based on discussions with the TANF program specialist, he indicated that he thought that it would be more efficient to submit an annual report instead of quarterly reports.

Recommendation

The Department should adhere to the requirement that quarterly progress reports should be submitted by the 15th day of the month following each calendar quarter.

Current Status of Corrective Action Plan

Corrected

2011-73 Reporting — Summer Youth Employment Program (Significant Deficiency)
State Department of Defense

CFDA No. ARRA 93.714, Emergency Contingency Fund for Temporary Assistance for Needy Families State Program, Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-200)

Condition

During the course of our audit, we tested the DOD’s compliance with the MOA. We noted that the DOD did not prepare the required program reports.

Cause

According to the program specialist, the failure to prepare the required SYEP reports was an oversight.

Recommendation

The Department should adhere to the requirement of submitting progress reports on the SYEP.

Current Status of Corrective Action Plan

Not repeated. The program ended on September 30, 2010.

2011-74 Eligibility Testing — Summer Youth Employment Program (Significant Deficiency)
State Department of Defense

CFDA No. ARRA 93.714, Emergency Contingency Fund for Temporary Assistance for Needy Families State Program, Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-200)

Condition

During the course of our audit, we tested the expenditures made for SYEP, and selected 40 applications completed by the participants for testing. Of this number, we could not locate three applications. For the rest of our selections, we noted that although the participants signed the application forms, no documentation or evidence was provided to prove their eligibility related to income or assistance programs. In addition, there was no indication that authorized program personnel examined any documentation or evidence supporting eligibility.

Cause

According to program specialists, they did not believe that obtaining evidence supporting eligibility requirements was necessary. The signed certification regarding eligibility on the application form was considered to be sufficient.

In addition, there was a lack of proper internal controls over the storage and maintenance of the applicants' files such that not all of the applications could be located.

Recommendation

The State should consider revising its policy of not requiring documentation from the applicants verifying the eligibility information included on the application.

In addition, internal controls over the filing and maintenance of all applications should be strengthened in order to ensure that applications are not lost or misfiled.

Current Status of Corrective Action Plan

Not repeated. The program ended on September 30, 2010.

2011-75 Reporting — Subrecipient (Significant Deficiency)
State Department of Accounting and General Services

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-11-ETPO-272)

Condition

No reports were submitted by the HSFCA for the semiannual periods ended December 31, 2010 and June 30, 2011.

Cause

There was a lack of appropriate supervisory review over the monitoring of HSFCA's compliance with the MOA.

Recommendation

Internal controls over the monitoring of HSFCA's activities, including reporting requirements, should be improved.

Current Status of Corrective Action Plan

Corrected

2011-76 Inaccurate Payroll Allocation (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 (Awards DHS-10-ETPO-125 SA 1, DHS-10-ETPO-124 SA 1, and DHS-05-BESSD-2203 SA6)

Condition

During fiscal year 2011, three employees were 100% funded by the TANF grant program. We noted that these employees worked a portion of their time on another grant program that was not affiliated with the TANF grant program. The total salary charged to the TANF program, which should have been charged to the other program, was $26,440 for 1,032 hours for the three employees.

Further, payroll certifications were not completed for employees who solely worked on a single Federal award. For the two employees selected for testing, no required certification had been completed.

Cause

The State lacks the personnel resources to assign employees to each program. Therefore, employees funded through the TANF program worked on other grant programs and supervisory review did not identify the inappropriate allocation of payroll costs amongst programs. Program administrators and supervisory officials did not monitor that payroll certifications were completed as required.

Recommendation

The State DOD should ensure that accurate payroll records are maintained for purposes of properly allocating personnel costs to the respective programs and grants, and implement a policy that requires all employees who worked on a specific grant program to complete a payroll certification by either the employee or the supervisory official on a semiannual basis.

Current Status of Corrective Action Plan

Corrected

2011-77 Untimely Submission of Reports (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 (Awards DHS-10-ETPO-125 SA 1, DHS-10-ETPO-124 SA 1, and DHS-05-BESSD-2203 SA6)

Condition

During the course of the audit, we noted that the following reports were not submitted timely:

CFDA No.	Report No.	Description	Reporting Period	Days Overdue
93.558	n/a	Monthly Financial Report	January 31, 2011	23
93.558	n/a	Monthly Financial Report	July 31, 2010	83
93.558	n/a	Monthly Financial Report	June 30, 2010	91
93.558	n/a	Monthly Financial Report	March 31, 2011	19

Cause

The finding is primarily as a result of the lack of resources and oversight over the timely submittal of financial reports. In addition, there is no penalty of submitting requests late, except that the requested funds would be received later.

Recommendation

The Department should consider improving the design and implementation of reporting internal controls. The program should incorporate periodic training related to requirements within the MOA. These trainings should include recent updates and required procedures related to the most recent updates.

Program should also implement a tracking system which reminds staff when reports are due. In addition, supervisory review should be conducted timely to ensure timely submittal of reports.

Current Status of Corrective Action Plan

Corrected

2011-78 — Cash Management (Material Weakness)
State Department of Defense

CFDA No. ARRA 93.714, Emergency Contingency Fund for Temporary Assistance for Needy Families State Program, Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-200)

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 date exceeded

90 days. It is administratively feasible for the State to make expenditures in less than 90 days. Therefore, any interest income earned on the deposits of the Federal funds should be submitted to the Federal Government.

Cause

State DOD program personnel were not aware of the cash management requirements and were also not aware that they are able to draw Federal funds more frequently than on a quarterly 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

Not repeated. The program ended on September 30, 2010.

2011-79 Lack of Supporting Records (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)

Condition

During our audit of the cash management compliance section, we examined 40 selections of funds requested and identified two instances in which there was a lack of support for the requested amount. Per further inquiry and review, we noted that a proper reconciliation between the journal voucher and the supporting documents was not possible. One instance was related to a journal voucher transfer dated April 15, 2011, for the total amount of $522,747.98 for program costs related to periods ended December 2010 and January 2011. The second instance was related to a journal voucher transfer dated February 22, 2011, for the total amount of $616,352.61 for program costs related to the period ended November 30, 2010.

Cause

The cause includes the lack of supervisory review to ensure that expenditures are reconciled to supporting accounting records.

Recommendation

Improve record keeping over expenditures such that expenditures can be reconciled for request for reimbursement from the program.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-55)

2011-80 Reporting — Lack of Support (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)

Condition

During the course of our audit, we noted that one of our selections did not agree to supporting documentation. For the report relating to the period ended June 30, 2011, the total amount requested was $172,971, but the supporting records indicated $103,797, resulting in an excess of $69,174 requested for reimbursement.

Cause

The cause includes the lack of supervisory review to ensure that reported expenditure requests are reconciled to supporting accounting records.

Recommendation

Improve record keeping over expenditures such that expenditures can be reconciled for request for reimbursement from the program.

Current Status of Corrective Action Plan

Corrected

2011-81 Earmarking — Excess Administrative Expenses (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 93.569, Community Services Block Grant Program
Direct Program from the U.S. Department of Health and Human Services/State Department of Human Services(Award G11B1HICOSR)

Condition

During the course of our audit, we tested the amount of CSBG administrative expenses that were included in the SEFA. Such amount totaled $408,622. In order to determine if that amount was in excess of 5 percent of CSBG funds, we noted that the CSBG expenditures under CFDA 93.569 for the Federal fiscal year ended September 30, 2011, was $3,507,970. Five percent of this amount would total $175,399. The reported amount of $408,622 exceeds this threshold. However, the exact excess is not easily determinable, as the SEFA is prepared on the basis of the State’s fiscal year ended June 30, 2011, while the CSBG information reported to the Federal government was on the basis of its fiscal year ended September 30, 2010.

Once the Department realized that it probably exceeded the 5% threshold, it discontinued requesting reimbursement of administrative expenses from the Federal government. However, it did not exclude from the SEFA the amount of the unreimbursed administrative expenses.

Cause

The presumable overcharging of State administrative expenses against the CSBG grant is due to the failure of the Department to set up the proper controls to track and monitor the administrative amounts being charged to the grant.

Recommendation

The Department should establish controls to monitor the amount of administrative expenses that are being charged to the CSBG grant in order to ensure that the maximum threshold is not exceeded. In addition, once the amounts are reconciled, any excess reimbursements for State administrative expenses should be returned to the Federal government.

Current Status of Corrective Action Plan

Corrected

2011-82 Preparation of the Schedule of Expenditures of Federal Awards (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. ARRA 93.710, ARRA Community Services Block Grant Program
Direct Program from the U.S. Department of Health and Human Services (Award G0901HICOS2)

Condition

During the course of our audit, we tested the preparation of the SEFA by comparing amounts included therein with the amounts included in the Department's accounting records (and as reported on the Financial Status Report SF-269A Final Report.) We noted differences in amounts for the ARRA award. The accounting records and the Financial Status Report reflected actual cumulative expenditures of $4,027,217, while the fiscal years 2010 and 2011 SEFAs include a cumulative amount of $4,161,068. Thus, there is a difference of $133,851.

Cause

The individuals responsible for preparing the SEFA indicated that expenditures that were not paid by Federal funds were inadvertently included in the SEFA.

Recommendation

Procedures should be established to require program administrators to review the preparation of their portions of the SEFA to ensure that the amounts are correctly reported.

Current Status of Corrective Action Plan

Corrected

2011-83 Subrecipient Monitoring — Follow Up on Subrecipient (Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 93.569, Community Services Block Grant Program
Direct Program from the U.S. Department of Health and Human Services (Award G11B1HICOSR)

Condition

The Department acts as a pass-through entity to four subrecipients: Honolulu Community Action Plan, Inc. (HCAP), Hawaii County Economic Opportunity Council (HCEOC), Maui Economic Opportunity, Inc. (MEO), and Kauai Economic Opportunity, Inc. (KEO).

During the course of our audit, we examined the monitoring reports submitted by the Department to KEO during fiscal year 2011. We noted that the monitoring took place on April 28, 2011, and April 29, 2011, and a report was sent on May 11, 2011. A corrective action plan was required to be submitted within 60 days of the May 11, 2011, report date, or by July 10, 2011. Because no response was received by that date, a follow-up letter was sent on September 9, 2011. KEO submitted a corrective action plan on October 5, 2011, which exceeds the required time frame of 60 days (July 10, 2011).

Thus, although the monitoring and preparation of the monitoring report were performed on a timely basis, the follow up on the delinquent corrective action plan was not timely.

Cause

There are no procedures in place to ensure that all phases of the monitoring of subrecipients are done on a timely basis.

Recommendation

The Department should institute controls to ensure that the activities and reporting of subrecipients are monitored on a timely basis.

Current Status of Corrective Action Plan

Corrected

2011-84 Subrecipient Monitoring — Management Decision (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA Nos. 93.569, Community Services Block Grant Program, and 93.710 ARRA Community Services Block Grant Program
Direct Program from the U.S. Department of Health and Human Services (Awards G10B1HICOSR, G11B1HICOSR, and G0901HICOS2)

Condition

During the course of our audit, we examined the single audit report for one of the Department's subrecipients, HCEOC, for the year ended September 30, 2010. That single audit report included the following findings: (1) There were material weaknesses in the internal control system over grant accounting, and (2) there existed noncompliance with Federal grant reporting requirements. The single audit report was received by the Department during the last week of June 2011.

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 issued any management decision on the two findings.

Cause

The program specialist indicated that no management decision was issued on the fiscal year 2010 single audit report findings because the subrecipient is still working on its corrective action plan pertaining to the 2009 single audit findings. Because some of the 2009 findings carried over to 2010, management did not believe that it was necessary to issue another decision.

Recommendation

The Department should comply with the requirements of OMB Circular A-133 and issue its decision on the HCEOC 2010 single audit report findings.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-61)

2011-85 Untimely Submission of Reports (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. ARRA 93.710, ARRA — Community Services Block Grant Program
Direct Program from the U.S. Department of Health and Human Services (Award G0901HICOS2)

Condition

The Department filed the Federal Form SF-269, *Financial Status Report*, for CFDA No. 93.710 on February 24, 2011, 57 days after it was due.

Cause

The delay was caused by a lack of resources to prepare all of the information required for the final report and by a lack of supervisory oversight on the report preparation process.

Recommendation

Internal controls over financial reporting should be improved to ensure that all required financial reports are prepared, reviewed, and submitted prior to reporting deadlines.

Current Status of Corrective Action Plan

Not repeated. The program ended on September 30, 2010.

2011-86 ARRA Reported Information (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. ARRA 93.710, ARRA — Community Services Block Grant Program
Direct Program from the U.S. Department of Health and Human Services (Award G0901HICOS2)

Condition

During the course of our audit, we tested the ARRA 1512 report filed for the quarter ended December 31, 2010. The report represented the final report for the CFDA No. 93.710 CSBG ARRA program. The amount reported in the accounting records (and on Federal Form SF-269A, *Financial Status Report*) totaled $4,027,217, while the amount on the ARRA 1512 report totaled $3,992,356, representing a difference of $34,861. The difference was caused by erroneously including only subrecipient expenditures on the ARRA 1512 report, but excluding allowable administration expenses. Thus, the ARRA 1512 report was understated by $34,861.

Cause

The person preparing the ARRA 1512 report was not completely aware of the reporting requirements, and the person supervising its preparation did not review the report in sufficient detail.

Recommendation

Controls relating to the preparation and review of the ARRA 1512 reports should be improved in order to ensure that the reporting guidelines are adhered to.

Current Status of Corrective Action Plan

Not repeated. The program ended on September 30, 2010.

2011-87 Procurement — Small Purchase Bids (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 (Awards G10B1HICOSR and G11B1HICOSR)

Condition

During the course of our audit, we made one selection of expenditures between $5,000 and $15,000, and noted that the disbursement did not have an SPO-10 — Record of Procurement form included with the supporting documents.

Cause

The program specialist was not able to explain the inability to locate the form and suggested that there is a possibility that it had been misfiled.

Recommendation

The internal controls over the maintenance of vendor files and documents should be reviewed to ascertain whether improvements are necessary to strengthen such controls.

Current Status of Corrective Action Plan

Corrected

2011-88 Untimely Awarding of Subgrant (Deficiency)
State Department of Labor and Industrial Relations

CFDA No. ARRA 93.710, ARRA — Community Services Block Grant Program
Direct Program from the U.S. Department of Health and Human Services (Award G0901HICOS2)

Condition

The Department received the CFDA No. 93.710 CSBG ARRA grant of $5,000,000 in the middle of April 2009, which was significantly after the start of the period of availability from October 1, 2008 to September 30, 2010. In addition, after the Department received the grant, there were delays in awarding the subgrants, such that the awards took place between October 2009 and April 2010. Because of this delay in the awarding of subgrants, the subgrantees were not able to expend all of their allotted funds prior to the grant expiration date of September 30, 2010. As a result, upon the expiration of the grant, the Federal awarding agency reduced the original $5,000,000 grant by $972,782, representing the unexpended funds. Based on these circumstances, it would appear that the Department did not meet the requirement to award subgrants in a timely manner.

Cause

According to the program specialist, delays were encountered in awarding subgrants because the subgrantees requested funds for unallowable expenditures, such as construction contracts. Because the grant requests were rejected and had to be resubmitted, delays were encountered in the awarding of the subgrants.

Recommendation

The Department should improve its communication with the subgrantees to ensure that they are aware of the grant requirements and allowable costs, such that they do not request amounts for noncompliant purposes. This should reduce the amount of delays encountered in the grant awarding process.

Current Status of Corrective Action Plan

Not repeated. The program ended on September 30, 2010.

2011-89 Federal Transparency Act Reporting (Material Weakness)
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-1967-DR-HI)

Condition

Subawards made under FEMA-1967-DR-HI are subject to the compliance reporting requirements of the Federal Funding and Accountability Transparency Act. For Fiscal Year 2011, there were two subawards greater than $25,000 required to be reported under the Transparency Act, one for $29,550 to the Department of Environmental Management and the other for $138,938 to the Hawaii County Police Department, which were not reported as required.

Cause

Due to a lack of training and/or understanding of the OMB Circular A-133 requirements, personnel did not design procedures to comply with this reporting requirement.

Recommendation

The State Civil Defense office must provide training on reporting requirements under the Federal Transparency Act for subawards in excess of $25,000 and implement procedures to ensure compliance with reporting requirements.

Current Status of Corrective Action Plan

Corrected

2011-90 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, and FEMA-1575-DR-HI)

Condition

We noted that the public assistance disaster grant program administration does not maintain cumulative details of funding that goes to each applicant for all disaster grants. Further, we noted no one monitors and reviews the subrecipient compliance reports. As such, no one ensures the compliance requirements in relation to subrecipient compliance reports are followed.

Cause

Department personnel were not familiar with the provisions of OMB Circular A-133 that addressed the monitoring of subrecipients and lack personnel to monitor compliance with this requirement. The State Civil Defense office and individuals within the State DOD fiscal office do not monitor the amount of funding given to each subrecipient. The State Civil Defense office assumed reports were reviewed by the State DOD fiscal office, which does not have the personnel resources to monitor this compliance requirement.

Recommendation

The State Civil Defense office should maintain a cumulative detail listing for each applicant to identify which subrecipients received in excess of $500,000 in federal funding to appropriately monitor subrecipients' compliance audit requirements.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-64)

2011-91 Communicating CFDA Numbers to Subrecipients (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, and FEMA-1575-DR-HI)

Condition

During the fiscal year, the State DOD entered into subaward agreements with the City and County of Honolulu and the County of Kauai. The agreements for each of these entities did not include all of the required CFDA title and number.

Cause

The personnel responsible for preparing the subaward agreements were not aware of all the required information that needed to be communicated to the subrecipients.

Recommendation

The existing subaward agreements should be reviewed and amended to include all required Federal award information. In addition, the personnel preparing the subaward agreements should be properly trained as to the required information that should be included in these agreements.

Current Status of Corrective Action Plan

Corrected

2011-92 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-1743-DR-HI, FEMA-1664-DR-HI, FEMA-1640-DR-HI, FEMA-1814-DR-HI, and FEMA-1575-DR-HI)

Condition

Certain employees selected for testing worked on a single Federal disaster grant award during the pay period; however, we noted there were no payroll certifications completed on a semiannual basis for these employees.

Cause

Supervisory personnel were not aware of the requirement to prepare personnel activity reports for employees working on multiple activities. The State Civil Defense office submits an application to the Federal Emergency Management Administration for reimbursement of projects related to disaster 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 semiannual certified statement by a supervisory employee to assert that the employee's time was spent solely on one 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. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-62)

2011-93 Monitoring of Subrecipient Audit Findings (Material Weakness)
State Department of Defense

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Awards 2007GET70013, 2008GET80022, 2009SST90006, and 2010SST00006)

Condition

The State DOD Homeland Security Division personnel did not understand that they were responsible to follow up on findings in the subrecipients' single audit reports. All of the Division's four subrecipients' audit findings were not monitored: 1) City & County of Honolulu, 2) Hawaii County, 3) Maui County, and 4) Kauai County.

Cause

Due to DOD Homeland Security Division personnel's lack of training and/or understanding of the OMB Circular A-133 requirements, subrecipient single audit report findings were not monitored.

Recommendations

Enforce the requirement to monitor subrecipient single audit findings.

Current Status of Corrective Action Plan

Corrected

2011-94 Lack of Evidence of Timely Filing 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 2007GET70013, 2008GET80022, 2009SST90006, and 2010SST00006)

Condition

We obtained a copy of the After Action Report (AAR) pertaining to an exercise related to the 93rd Weapons of Mass Destruction - Civil Support Team for Kauai, but no supporting documentation was available to verify if and when this report was submitted.

Cause

There was a lack of monitoring to verify this report was submitted, and submitted timely.

Recommendations

Internal controls over financial reporting should be implemented to provide training on all grant requirements and grant administrators should review the AARs and Improvement Plans and ensure that they are submitted to the appropriate personnel on a timely basis.

Current Status of Corrective Action Plan

Corrected

2011-95 Untimely Submission of Reports (Deficiency)
State Department of Defense

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Awards 2007GET70013, 2008GET80022, 2009SST90006, and 2010SST00006)

Condition

We received support that showed the reports for the periods we selected were submitted, but we were unable to determine whether the reports were submitted on a timely basis.

Cause

When the reports are submitted online, an automatic email verifying the date of submittal is typically sent to the personnel who submitted the report. Due to staff turnover, program personnel were unable to provide documentation as to the date of report submission.

Recommendations

Establish a better stream of communication between the federal agency and the State Civil Defense to ensure that when reports are submitted, all supervisory personnel, not just the individual submitting the report, receive documentation that the report was submitted.

Current Status of Corrective Action Plan

Repeated. The implementation of the Corrective Action Plan is in process. See Current Year Finding (2012-72)

2010-13 — Cash Management (Significant Deficiency)
State Department of Agriculture

CFDA No. 10.025, *Plant and Animal Disease, Pest Control, and Animal Care*
Direct Program from the U.S. Department of Agriculture (Award 08-8510-0586-CA)

Condition

During our audit, we examined 40 selections of cash advances and identified 13 instances where the number of days elapsed between the federal cash advances and federal fund expenditures date exceeded 90 days. It is administratively feasible for the State to make expenditures in less than 90 days. Therefore, any interest income earned on the deposits of the federal funds should be submitted to the federal government.

Cause

State DOA program personnel were not aware of the cash management requirements and were also not aware that they are able to draw Federal funds more frequently than on a quarterly basis.

Recommendation

As a result of the deficiency on internal controls over compliance with grant requirements, we identified 13 instances of noncompliance. These 13 instances resulted in $871 of Federal funds that were advanced to the State, but not disbursed within the administratively feasible time period.

Current Status of Corrective Action Plan

Corrected

2010-14 — Federal Reporting Accuracy (Significant Deficiency)
State Department of Agriculture

CFDA No. 10.025, *Plant and Animal Disease, Pest Control, and Animal Care*
Direct Program from the U.S. Department of Agriculture (Award 08-8510-0586-CA)

Condition

During the course of our audit, we examined nine federal financial reports, of which eight reports did not reconcile to the supporting accounting records. These eight instances resulted in differences of $37,983 between federal funds that were in the report and the accounting records reported in FAMIS. However, since the reports are not used to request reimbursement, there are no questioned costs.

Cause

The lack of supervisory review and unreconciled records of Federal Form SF-425 caused inaccurate reporting to the Federal government.

Recommendation

Controls related to the preparation and review of Federal reports should be improved. The department should consider improving the design and implementation of Federal reporting internal controls to assure accuracy and completeness of data and information included in reports submitted to the Federal awarding agency.

Current Status of Corrective Action Plan

Corrected

2010-15 — Matching (Material Weakness)
State Department of Agriculture

CFDA No. 10.025, *Plant and Animal Disease, Pest Control, and Animal Care*
Direct Program from the U.S. Department of Agriculture (Award 08-8510-0586-CA)

Condition

During the course of our audit, we examined seven cases of awards with matching requirements to be contributed by the State DOA. We noted two instances in which the State's matching requirement was not fulfilled:

- *Cooperative Agreement — Noxious Weed*: $2,311 of State DOA's $20,500 required matching contribution was not made.

- *Cooperative Agreement — Citrus Health*: $15,896 of State DOA's $18,032 required matching contribution was not made.

- The total value of the required funds that were not contributed by the State DOA was $18,207. In applying the matching contribution percentage to the contributions not made, the total questioned costs is $51,155 ($2,311 x 60/40 and $15,896 x 75/25)

Cause

The lack of supervisory review over matching contributions caused inadequate matching contributions.

Recommendation

The supervisory review over Federal matching requirements should be improved by formally communicating the program requirements to program personnel and performing detailed reviews of reports.

Current Status of Corrective Action Plan

Corrected