



STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
FINANCIAL ADMINISTRATION DIVISION

Count of Money and Securities in the State Treasury
June 30, 2017

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

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SECTION I

COMPTROLLER'S REPORT

DAVID Y. IGE
GOVERNOR



RODERICK K. BECKER
Comptroller

AUDREY HIDANO
Deputy Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
P.O. BOX 119, HONOLULU, HAWAII 96810-0119

November 17, 2017

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

Dear Governor Ige:

The Department of Accounting and General Services (DAGS) has counted the money and securities in the Hawai'i State Treasury as of June 30, 2017, in accordance with the provisions of Sections 40-7 and 40-8 of the Hawai'i Revised Statutes.

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

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

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

Sincerely,

RODERICK K. BECKER
Comptroller

2017 COUNT OF MONEY AND SECURITIES IN THE STATE TREASURY

OBJECTIVES

The Department of Accounting and General Services, Audit Division, conducted a count of the money and securities in the treasury of the State of Hawai'i, Department of Budget and Finance, Financial Administration Division (Division), as of June 30, 2017, in accordance with the provisions of Sections 40-7 and 40-8 of the Hawai'i Revised Statutes (HRS). The objectives were:

1. To count the money and securities in the State Treasury as of June 30, 2017.
2. To prepare statements showing:
 - a. The amount of money actually in the treasury reconciled with the amount of money as shown by the Comptroller's records (unaudited);
 - b. The amount of securities owned by the State, in the treasury, reconciled with the amount of securities as shown by the Comptroller's records (unaudited); and
 - c. The amount of the depository securities actually in the treasury as compared with the amount of cash deposited in the respective banks (depositories) provided that the sufficiency of these deposits shall not be made a part of the examination.

Authorization of the Count

Authority to conduct this count resides in Sections 40-7 and 40-8, HRS, which state that the Comptroller shall report annually to the Governor the amount of money and securities in the State Treasury. This count is part of the Audit Division's 2017-2018 Audit Plan.

SCOPE AND METHODOLOGY

The scope of the count was: (1) to count the money and securities in the State Treasury as of June 30, 2017 and (2) to prepare financial statements as of June 30, 2017, in accordance with the provisions of Sections 40-7 and 40-8, HRS. The money and securities in the State Treasury are presented in the following statements prepared from the Division's accounting records:

Statement of Cash Balances and Depository Securities
in the State Treasury

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

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

2017 COUNT OF MONEY AND SECURITIES IN THE STATE TREASURY

The methodology was to gain an understanding of the cash and investments' year-end procedures and document the year-end procedures and internal controls related to the process. The Audit Division's staff familiarized themselves with the related State statutes, the Division's written cash and investment policies and procedures, interviewed appropriate personnel and documented their understanding of the established year-end accounting procedures and internal controls in place as of June 30, 2017 as a basis for designing procedures that were appropriate under the circumstances.

RESULTS

Below are the results of our audit:

Objective No. 1: Count the money and securities in the State Treasury as of June 30, 2017.

Results: The money and securities balances were confirmed with the respective depositories and reconciled with the Division's balances as of June 30, 2017.

Conclusion: The money and securities in the State Treasury as of June 30, 2017 were counted as required by statute.

Objective No. 2: Prepare statements as of June 30, 2017 showing: (1) the amount of money actually in the treasury, reconciled with the amount of money as shown by the Comptroller's records (unaudited); (2) the amount of securities owned by the State, in the treasury, reconciled with the amount of securities as shown by the Comptroller's records (unaudited); and (3) the amount of the depository securities actually in the treasury as compared with the amount of cash deposited in the respective banks (depositories) provided that the sufficiency of these deposits shall not be made a part of the examination.

Results: The following statements were prepared.

- The Statement of Cash Balances and Depository Securities in the State Treasury.
- The Statement of Reconciliation of Money and Securities in the State Treasury with the Comptroller's Records (unaudited).

Conclusion:

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

2017 COUNT OF MONEY AND SECURITIES IN THE STATE TREASURY

Comptroller's records. The reconciling items have been identified and recognized as proper reconciling items.

SECTION II
DETAILED FINDINGS AND
RECOMMENDATIONS

DETAILED FINDINGS AND RECOMMENDATIONS

No audit findings were noted during the count of money and securities in the State Treasury as of June 30, 2017 or the preparation of the required statements as of June 30, 2017, in accordance with the provisions of Sections 40-7 and 40-8, HRS.

STATUS OF PRIOR YEAR'S FINDINGS

2016-01 – INCORRECTLY PREPARED COLLATERAL REPORTS

Condition

The Division's "Report of Collateral Securities Pledged by Banks Pursuant to Section 38-3 of the Hawaii Revised Statutes" (Report OEH8C01R) from January 29, 2016 to June 30, 2016 used incorrect par value percentages, resulting in incorrect minimum collateral and excess collateral calculations

Status

The comment is no longer applicable.

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

Wells Fargo Bank did not provide collateral securities during the fiscal year ended June 30, 2016, as required by Section 38-3, HRS.

Status

The comment is no longer applicable.

2016-03 – NO MONTHLY BANK RECONCILIATIONS

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

Status

The comment is no longer applicable.

SECTION III
STATEMENTS

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
FINANCIAL ADMINISTRATION DIVISION

Statement of Cash Balances and Depository Securities in the State Treasury
June 30, 2017

	<u>Cash with Local Depositories</u>	<u>Securities</u>	<u>Others</u>	<u>Total</u>	<u>Depository Securities</u>
Balance per Division, June 30, 2017	\$328,655,913	6,398,193,980	510,257,809	7,237,107,702	3,456,779,944
Transactions subsequently processed by State departments and agencies	(56,190,828)	-	3,219,553	(52,971,275)	-
Balance per Division, as adjusted, June 30, 2017	<u>\$272,465,085</u>	<u>6,398,193,980</u>	<u>513,477,362</u>	<u>7,184,136,427</u>	<u>3,456,779,944</u>

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

Net unrecorded transactions of local depositories of \$56,190,828, was composed of deposits totaling \$50,487,669 offset by disbursements and debit memos totaling \$103,173,335 and \$3,505,162, respectively, were recorded by local depositories as of June 30, 2017 but were recorded by the Division after June 30, 2017.

Net unrecorded transactions of "Others" of \$3,219,553 was composed of deposits recorded by the Secretary of the Treasury, U.S.A. as of June 30, 2017 but recorded by the Division after June 30, 2017.

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

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
FINANCIAL ADMINISTRATION DIVISION

Statement of Reconciliation of Money and Securities in the State Treasury
with the Comptroller's Records (Unaudited)
June 30, 2017

	Cash with Local Depositories	Securities	Others	Total
Amount in State Treasury as adjusted	\$ 272,465,085	6,398,193,980	513,477,362	7,184,136,427
Deposits in the State Treasury (as adjusted) not reported to Comptroller for recordation as of June 30, 2017	(50,487,669)	-	(344,862)	(50,832,531)
Deposits in the U.S. Treasury (as adjusted) not reported to Comptroller for recordation as of June 30, 2017	-	-	(2,874,691)	(2,874,691)
Deposits recorded by the Comptroller not recorded by the State Treasury as of June 30, 2017	<u>40,549,842</u>	-	-	<u>40,549,842</u>
Carried forward	<u>\$ 262,527,258</u>	<u>6,398,193,980</u>	<u>510,257,809</u>	<u>7,170,979,047</u>

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
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Statement of Reconciliation of Money and Securities in the State Treasury
with the Comptroller's Records (Unaudited), Continued

	<u>Cash with Local Depositories</u>	<u>Securities</u>	<u>Others</u>	<u>Total</u>
Brought forward	\$ <u>262,527,258</u>	6,398,193,980	<u>510,257,809</u>	<u>7,170,979,047</u>
Disbursements and adjustments recorded by the State Treasury not recorded by the Comptroller as of June 30, 2017	14,691,934	-	-	14,691,934
Disbursements recorded by the State Treasury (as adjusted) not reported to the Comptroller for recording as of June 30, 2017	103,173,335	-	-	103,173,335
Disbursements and adjustments recorded by the Comptroller not recorded by the State Treasury as of June 30, 2017	<u>(6,014,079)</u>	-	-	<u>(6,014,079)</u>
Carried forward	\$ <u>374,378,448</u>	<u>6,398,193,980</u>	<u>510,257,809</u>	<u>7,282,830,237</u>

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

	<u>Cash with Local Depositories</u>	<u>Securities</u>	<u>Others</u>	<u>Total</u>
Brought forward	\$ <u>374,378,448</u>	<u>6,398,193,980</u>	<u>510,257,809</u>	<u>7,282,830,237</u>
Bank debits recorded by the State Treasury (as adjusted) not reported to the Comptroller for recordation as of June 30, 2017	3,505,162	-	-	3,505,162
Other adjustments and reclassifications as of June 30, 2017	(<u>65,370</u>)	-	-	(<u>65,370</u>)
Amount per Comptroller's Records - Unaudited	\$ <u>377,818,240</u>	<u>6,398,193,980</u>	<u>510,257,809</u>	<u>7,286,270,029</u>

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

2017 COUNT OF MONEY AND SECURITIES IN THE STATE TREASURY

Significant Accounting Policies

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

The accompanying financial statements present the amount of money and securities, except for those securities held in safekeeping for the County of Kauai and other government agencies, in the State Treasury of the State of Hawai'i, Department of Budget and Finance, Financial Administration Division (the Division), as of June 30, 2017, in accordance with the provisions of Sections 40-7 and 40-8, Hawai'i Revised Statutes (HRS).

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

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

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

Disbursements – Disbursements that clear the local depositories at month-end may not be recorded to the Division's cash book until the subsequent month. Because the Division does not receive the information until the next business day,

2017 COUNT OF MONEY AND SECURITIES IN THE STATE TREASURY

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

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

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

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

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

The following schedule shows the Division's unadjusted cash balances compared with the amount of depository securities in the respective banks as of June 30, 2017:

2017 COUNT OF MONEY AND SECURITIES IN THE STATE TREASURY

	Cash with Local Depositories	Securities	Others	Total	Depository Securities at Par Value
Cash deposited with local depositories:					
American Savings Bank, F. S. B. Bank of Hawai'i	43,910	138,837,017	-	138,880,927	174,620,151
Central Pacific Bank	65,372	672,430,695	-	672,496,067	846,890,551
First Foundation Bank	1,091,482	413,737,870	-	414,829,352	497,528,045
First Hawaiian Bank	-	2,000,000	-	2,000,000	-
Hawai'i National Bank	326,453,953	1,407,625,000	-	1,734,078,953	1,744,857,965
Territorial Savings Bank	388,719	45,380,537	-	45,769,256	52,331,139
	<u>612,477</u>	<u>116,188,864</u>	<u>-</u>	<u>116,801,341</u>	<u>140,552,093</u>
	<u>328,655,913</u>	<u>2,796,199,983</u>	<u>-</u>	<u>3,124,855,896</u>	<u>3,456,779,944</u>
Cash with mainland depository: Wells Fargo Bank	-	-	14,000	14,000	-
Cash with the Secretary of the Treasury, U.S.A. - Unemployment Trust Fund	-	-	510,243,809	510,243,809	-
Investments:					
U.S. Treasury bonds and notes	-	128,328,376	-	128,328,376	-
U.S. government securities	-	<u>3,473,665,621</u>	-	<u>3,473,665,621</u>	-
	<u>-</u>	<u>3,601,993,997</u>	<u>-</u>	<u>3,601,993,997</u>	<u>-</u>
	<u>328,655,913</u>	<u>6,398,193,980</u>	<u>510,257,809</u>	<u>7,237,107,702</u>	<u>3,456,779,944</u>

Collateral Requirements

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

Cash – Information relating to the bank balance, insurance, and collateral for cash deposits is determined on a statewide basis and not for individual departments or divisions. Total cash deposited with local depositories is covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State. The cash deposited with the U.S. Department of the Treasury for the State's Unemployment Trust Fund is not collateralized and the cash balances held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations is uninsured and not collateralized. These deposits are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it.

For demand or checking accounts and time certificates of deposit, the Division requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State monitors the value of these securities and obtains additional collateral when appropriate.

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

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

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

Credit Risk – The Division’s investment policy limits investments to state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers’ acceptances, money market funds, and student loan resource securities maintaining a Triple-A rating.

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

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

SECTION IV
DIVISION'S RESPONSE

DAVID Y. IGE
GOVERNOR



WESLEY K. MACHIDA
DIRECTOR

LAUREL A. JOHNSTON
DEPUTY DIRECTOR

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

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

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

November 14, 2017

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

Dear Mr. Becker:

We appreciate the opportunity to comment on the Audit Division's report, *Count of Money and Securities in the State Treasury, Department of Budget and Finance Financial Administration Division (FAD)*, as of June 30, 2017, issued in accordance with the provisions of Sections 40-7 and 40-8, HRS.

We are pleased that the draft report found no audit findings with respect to Count of Money and Securities in the Hawaii State Treasury. As such, we have no comments to the draft report.

We appreciate your staff's diligence and professionalism in conducting this audit.

Thank you for the opportunity to review and respond to your Count of Money and Securities in the State Treasury draft report for the fiscal year ended June 30, 2017.

Sincerely,

A handwritten signature in blue ink, appearing to read "Wesley K. Machida".

WESLEY K. MACHIDA
Director of Finance

A handwritten signature in blue ink, appearing to read "Scott Kami".

SCOTT KAMI, Administrator
Financial Administration Division