



**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
**FINANCIAL ADMINISTRATION DIVISION**

Verification of Money and Securities in the State Treasury  
June 30, 2020

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

TABLE OF CONTENTS

	<u>Page</u>
Section I: Introduction	
Comptroller’s Report	2
Objectives	3
Scope and Methodology	3
Results	4
Section II: Findings and Recommendations	
Detailed Findings and Recommendations	7
Status of Prior Year’s Recommendation	8
Section III: Statements	
Statement of Cash Balances and Depository Securities in the State Treasury	10
Statement of Reconciliation of Money and Securities in the State Treasury with the Comptroller’s Records (Unaudited)	11
Significant Accounting Policies	14

**SECTION I**  
**INTRODUCTION**

DAVID Y. IGE  
GOVERNOR



CURT T. OTAGURO  
COMPTROLLER  
  
AUDREY HIDANO  
DEPUTY COMPTROLLER

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

October 27, 2020

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 verified the money and securities in the Hawai'i State Treasury as of June 30, 2020, 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 verify 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 verification 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. Roderick K. Becker, 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,

  
CURT T. OTAGURO  
Comptroller

## 2020 VERIFICATION OF MONEY AND SECURITIES IN THE STATE TREASURY

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### OBJECTIVES

The Department of Accounting and General Services, Audit Division, conducted a verification 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, 2020, in accordance with the provisions of Sections 40-7 and 40-8 of the Hawai'i Revised Statutes (HRS). The objectives were:

1. To verify the money and securities in the State Treasury as of June 30, 2020.
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 verification.

### Authorization of the Verification

Authority to conduct this verification resides in Sections 40-7 and 40-8, HRS, which states that the Comptroller shall count the money and securities in the State Treasury once in each fiscal year and report annually to the Governor the amount of money and securities in the State Treasury. Our verification procedures included confirming amounts and terms with third parties, reconciling the Comptroller's records with the records at the Division, and analyzing the transactions to verify the money and securities in the State Treasury. This verification is part of the Audit Division's 2020-2021 Audit Plan.

### SCOPE AND METHODOLOGY

The scope of the verification was: (1) to verify the money and securities in the State Treasury as of June 30, 2020, and (2) to prepare statements as of June 30, 2020, 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)

## 2020 VERIFICATION OF MONEY AND SECURITIES IN THE STATE TREASURY

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

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, 2020, as a basis for designing procedures that were appropriate under the circumstances.

### **RESULTS**

Below are the results of our verification:

**Objective No. 1:** Verify the money and securities in the State Treasury as of June 30, 2020.

Results: The money and securities balances were confirmed with the respective depositories and reconciled with the Division's balances as of June 30, 2020.

Conclusion: The money and securities in the State Treasury as of June 30, 2020 were verified as required by statute.

**Objective No. 2:** Prepare statements as of June 30, 2020 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 verification.

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.

## 2020 VERIFICATION OF MONEY AND SECURITIES IN THE STATE TREASURY

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

**SECTION II**  
**FINDINGS AND**  
**RECOMMENDATIONS**



**DETAILED FINDINGS AND RECOMMENDATIONS**

No findings were noted during the verification of money and securities in the State Treasury as of June 30, 2020, or the preparation of the required statements as of June 30, 2020, in accordance with the provisions of Sections 40-7 and 40-8 HRS.

**STATUS OF PRIOR YEAR'S RECOMMENDATION**

**2019-01 – BANK HAD INSUFFICIENT COLLATERAL SECURITIES**

**Recommendation**

We recommended the Division periodically monitor during the term of the letters of credit, the adequacy of the pledge collateral on its public deposits.

**Status**

The Division has established internal procedures to monitor the terms of the letters of credit if used as pledged collateral on its public deposits.

**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, 2020

	Cash with Local Depositories	Securities	Others	Total	Depository Securities
Balance in the State Treasury, June 30, 2020	\$ 1,361,890,167	\$ 5,902,688,893	\$ 46,482,083	\$ 7,311,061,143	\$ 2,735,320,027
Transactions subsequently processed by State departments and agencies	( <u>103,842,279</u> ) <sup>1</sup>	-	<u>50,062,303</u> <sup>2</sup>	( <u>53,779,976</u> )	-
Balance in the State Treasury, as adjusted, June 30, 2020	\$ <u>1,258,047,888</u>	\$ <u>5,902,688,893</u>	\$ <u>96,544,386</u>	\$ <u>7,257,281,167</u>	\$ <u>2,735,320,027</u>

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

1. Net unrecorded transactions of local depositories of (\$103,842,279), were composed of deposits totaling \$154,066,293 offset by disbursements and debit memos totaling \$255,637,314 and \$2,271,257, respectively, were recorded by local depositories as of June 30, 2020, but were recorded by the Financial Administration Division after June 30, 2020.
2. Net unrecorded transactions of "Others" of \$50,062,303, were composed of deposits totaling \$81,322,926 offset by a disbursement of \$31,260,623 recorded by the Secretary of the Treasury, U.S.A. and mainland banks as of June 30, 2020, but recorded by the Financial Administration Division after June 30, 2020.

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, 2020

	<u>Cash with Local Depositories</u>	<u>Securities</u>	<u>Others</u>	<u>Total</u>
Amount in State Treasury as adjusted	\$ 1,258,047,888	\$5,902,688,893	\$ 96,544,386	\$ 7,257,281,167
Deposits in the State Treasury (as adjusted) not reported to Comptroller for recordation as of June 30, 2020	( 154,066,293)	-	(32,195,751)	( 186,262,044)
Deposits in the U.S. Treasury (as adjusted) not reported to Comptroller for recordation as of June 30, 2020	-	-	(49,127,175)	( 49,127,175)
Deposits recorded by the Comptroller not recorded by the State Treasury as of June 30, 2020	<u>83,010,263</u>	<u>-</u>	<u>-</u>	<u>83,010,263</u>
Carried forward	<u>\$ 1,186,991,858</u>	<u>\$5,902,688,893</u>	<u>\$ 15,221,460</u>	<u>\$ 7,104,902,211</u>

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
FINANCIAL ADMINISTRATION DIVISION

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

June 30, 2020

	Cash with Local Depositories	Securities	Others	Total
Brought forward	\$ 1,186,991,858	\$ 5,902,688,893	\$ 15,221,460	\$ 7,104,902,211
Disbursements and adjustments recorded by the State Treasury not recorded by the Comptroller as of June 30, 2020	( 10,202,945)	-	-	( 10,202,945)
Disbursements recorded by the State Treasury (as adjusted) not reported to the Comptroller for recording as of June 30, 2020	255,637,314	-	31,260,623	286,897,937
Disbursements and adjustments recorded by the Comptroller not recorded by the State Treasury as of June 30, 2020	( 20,677,100)	-	-	( 20,677,100)
Carried forward	<u>\$ 1,411,749,127</u>	<u>\$ 5,902,688,893</u>	<u>\$ 46,482,083</u>	<u>\$ 7,360,920,103</u>

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
FINANCIAL ADMINISTRATION DIVISION

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

June 30, 2020

	Cash with Local Depositories	Securities	Others	Total
Brought forward	\$ 1,411,749,127	\$ 5,902,688,893	\$ 46,482,083	\$ 7,360,920,103
Bank debits recorded by the State Treasury (as adjusted) not reported to the Comptroller for recordation as of June 30, 2020	2,271,257	-	-	2,271,257
Other adjustments and reclassifications as of June 30, 2020	( 15,203)	-	-	( 15,203)
Amount per Comptroller's Records - Unaudited	<u>\$ 1,414,005,181</u>	<u>\$ 5,902,688,893</u>	<u>\$ 46,482,083</u>	<u>\$ 7,363,176,157</u>

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

## 2020 VERIFICATION OF MONEY AND SECURITIES IN THE STATE TREASURY

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### Significant Accounting Policies

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

The accompanying 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, 2020, 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 in the Division's cash book until the subsequent month. Because the Division does not receive the information until the next business day, disbursements that clear the local depositories at month-end are recorded



## 2020 VERIFICATION OF MONEY AND SECURITIES IN THE STATE TREASURY

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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 State departments and agencies to investigate and prepare adjustment vouchers for recording into the accounting systems maintained by DAGS and the Division's cash book.

Coronavirus Aid, Relief, and Economic Security Act (CARES ACT) adjustments and interest income from the Secretary of the Treasury, U.S.A. at fiscal year-end are recorded by the Division after June 30<sup>th</sup>. The State Department of Labor and Industrial Relations (DLIR) retrieves and transmits the State accounting forms and information necessary for the Division to record receipts and disbursements under the CARES Act and fourth quarter interest income. However, the necessary accounting forms and information from the Secretary of the Treasury, U.S.A. were not available to the Division until the subsequent months.

Investments – Investments include U.S. Treasury bills and notes, and agency bonds and notes issued by Government Sponsored Enterprises (GSE) such as Federal Home Loan Mortgage Corporation as authorized under Section 36-21, HRS, 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. 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, 2020.

2020 VERIFICATION 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.	\$ 311,755	\$ 75,213,826	\$ -	\$ 75,525,581	\$ 85,748,650
Bank of Hawaii	1,296,207	225,044,000	-	226,340,207	474,467,559
Central Pacific Bank	16,201,577	288,737,702	-	304,939,279	333,836,140
First Hawaiian Bank	1,341,544,284	880,702,274	-	2,222,246,558	1,692,913,830
Hawaii National Bank	268,760	-	-	268,760	3,221,214
Territorial Savings Bank	2,267,584	121,500,000	-	123,767,584	145,132,634
	<u>1,361,890,167</u>	<u>1,591,197,802</u>	<u>-</u>	<u>2,953,087,969</u>	<u>2,735,320,027</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	-	-	46,468,083	46,468,083	-
Investments:					
U.S. Treasury bond: Bank of Hawaii	-	10,764	-	10,764	-
U.S. Government Securities: Wells Fargo Institutional Retirement and Trust	-	4,311,480,327	-	4,311,480,327	-
	-	4,311,491,091	-	4,311,491,091	-
	<u>\$1,361,890,167</u>	<u>\$5,902,688,893</u>	<u>\$46,482,083</u>	<u>\$7,311,061,143</u>	<u>\$2,735,320,027</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 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, and money market funds 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, which is not a broker/dealer firm whose securities are protected by the Securities Investor Protection Corporation (SPIC) up to a maximum amount. All the investments are in government-backed securities that have the full faith and credit of the U.S. government.

***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.