



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

Verification of Money and Securities in the State Treasury  
June 30, 2021

Internal Audit Report No. 22-01

**AUDIT DIVISION**  
Department of Accounting & General Services

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**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

November 30, 2021

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

Dear Governor Ige:

The Audit Division, Department of Accounting and General Services (DAGS) has verified the money and securities in the Hawai'i State Treasury as of June 30, 2021, 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 State Treasury (unaudited) 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 State Treasury (unaudited) 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 State Treasury as compared with the amount of cash deposited in the respective banks 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,

A handwritten signature in blue ink, appearing to read "Curt T. Otaguro", written over the printed name and title.

CURT T. OTAGURO  
Comptroller

## 2021 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 State Treasury of the State of Hawai‘i, Department of Budget and Finance, Financial Administration Division (Financial Division), as of June 30, 2021, 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, 2021.
2. To prepare statements showing:
  - a. The amount of money actually in the State Treasury (unaudited) 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 State Treasury (unaudited), 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 State 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 Financial Division, and analyzing the transactions to verify the money and securities in the State Treasury. This verification is part of the Audit Division’s 2021-2022 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, 2021, and (2) to prepare statements as of June 30, 2021, 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 Financial Division’s accounting records:

Statement of Cash Balances and Depository Securities  
in the State Treasury (Unaudited)

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



## 2021 VERIFICATION OF MONEY AND SECURITIES IN THE STATE TREASURY

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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 Financial 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, 2021, as a basis for designing procedures that were appropriate under the circumstances.

### RESULTS OF OUR VERIFICATION

**Objective No. 1:** Verify the money and securities in the State Treasury as of June 30, 2021.

Results: The money and securities balances were confirmed with the respective depositories and reconciled with the Financial Division's balances as of June 30, 2021.

Conclusion: The money and securities in the State Treasury as of June 30, 2021 were verified as required by statute.

**Objective No. 2:** Prepare statements as of June 30, 2021 showing: (1) the amount of money actually in the State Treasury (unaudited), 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 State Treasury (unaudited), 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 State 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 (Unaudited).
- The Statement of Reconciliation of Money and Securities in the State Treasury (Unaudited) 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 Financial Division.

## 2021 VERIFICATION OF MONEY AND SECURITIES IN THE STATE TREASURY

- The Statement of Reconciliation of Money and Securities in the State Treasury (unaudited) with the Comptroller's Records (unaudited) was prepared to report the amount of money in the State 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**

### **2021-01 – The Bureau of Conveyances did not Deposit Funds Timely and Submitted the Treasury Deposit Receipts (TDRs) Late to the Financial Division**

#### **Condition**

On September 7, 2021, the Bureau of Conveyances (BOC) of the Department of Land and Natural Resources submitted 158 TDRs and related deposit slips totaling \$55,309,197.23 to the Financial Division. Our review of the submitted TDRs over \$300,000.00 resulted in the following discrepancies:

- Thirty-four (34) TDRs totaling \$31,666,628.57 were listed as outstanding (unrecorded) on the June 30, 2021, First Hawaiian Bank reconciliation;
- The thirty-four (34) TDRs resulted from the BOC not submitting the TDRs timely to the Financial Division. The deposit date for the TDRs and the submission date of September 7, 2021, varied from 11 to 29 weeks; and
- The BOC failed to deposit the funds timely upon receipt. The receipt date and deposit dates range from 3 to 8 weeks.

#### **Cause**

The BOC attributed the delays to staff shortages, supporting documentation not received timely, and introduction of a new system.

#### **Recommendation**

We recommend that the BOC deposit funds, prepare and submit the TDRs to the Financial Division in a timely manner. The TDRs must be prepared and submitted to the Financial Division for funds received at fiscal year end and prior.

### **2021-02 – Federal Unemployment Account (FUA) Payments were Listed as Reconciling Amounts in the Trust Fund Reconciliation Between the Financial Division and the Comptroller's Records**

#### **Condition**

There were 126 entries for FUA payments from February 10, 2021 to June 30, 2021, totaling \$164,978,629.79 in the Trust Fund Reconciliation between the Financial Division and Comptroller's records as of June 30, 2021. The 126 entries were shown as deductions from "Cash on Hand and in banks" for the Financial Division records when reconciling to the Comptroller's records. The same amounts are shown as additions from "US Treasury-UI" for the Financial Division records when reconciling to the Comptroller's records.

## 2021 VERIFICATION OF MONEY AND SECURITIES IN THE STATE TREASURY

### **Cause**

The Department of Labor and Industrial Relations (DLIR) submits vouchers for the FUA payments to DAGS' accounting section, Uniform Accounting and Reporting Branch (UARB). The same journal vouchers are also recorded on the Financial Division's cash records. Both DLIR and the Financial Division are recording entries without understanding the effects on the Trust Fund reconciliation.

### **Recommendation**

We recommend UARB provide clear guidance to both DLIR and the Financial Division in recording these transactions to resolve the reconciling issue.

**STATUS OF PRIOR YEAR'S RECOMMENDATION**

There were no findings noted during the verification of money and securities in the State Treasury 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.

**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 (Unaudited)**

June 30, 2021

	<u>Cash with Local Depositories</u>	<u>Securities</u>	<u>Others</u>	<u>Total</u>	<u>Depository Securities</u>
Balance in the State Treasury, June 30, 2021	\$1,833,193,300	\$7,771,318,241	\$(5,571,423)	\$9,598,940,118	\$1,663,391,996
<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;">=</div> <div>           Transactions subsequently processed by State departments and agencies         </div> <div style="margin-left: 10px;">1</div> <div style="margin-left: 10px;">2</div> </div>	<u>33,539,414</u>	<u>-</u>	<u>7,582,493</u>	<u>41,121,907</u>	<u>-</u>
Balance in the State Treasury, as adjusted, June 30, 2021	<u>\$1,866,732,714</u>	<u>\$7,771,318,241</u>	<u>\$ 2,011,070</u>	<u>\$9,640,062,025</u>	<u>\$1,663,391,996</u>

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

1. Net unrecorded transactions of local depositories of \$33,539,414, were composed of deposits totaling \$405,319,400, offset by disbursements and debit memos totaling \$364,030,183 and \$7,749,803, respectively, were recorded by local depositories as of June 30, 2021, but were recorded by the Financial Administration Division after June 30, 2021.
2. Net unrecorded transactions of "Others" of \$7,582,493, were composed of deposits totaling \$32,704,097, offset by a disbursement of \$25,121,604 recorded by the Secretary of the Treasury, U.S.A. and mainland banks as of June 30, 2021, but recorded by the Financial Administration Division after June 30, 2021.

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 (Unaudited)  
with the Comptroller's Records (Unaudited)**

June 30, 2021

	<u>Cash with Local Depositories</u>	<u>Securities</u>	<u>Others</u>	<u>Total</u>
Amount in State Treasury as adjusted	\$ 1,866,732,714	\$7,771,318,241	\$ 2,011,070	\$ 9,640,062,025
Deposits in the State Treasury (as adjusted) not reported to Comptroller for recordation as of June 30, 2021	( 405,319,400)	-	(27,114,885)	( 432,434,285)
Deposits in the U.S. Treasury (as adjusted) not reported to Comptroller for recordation as of June 30, 2021	-	-	( 5,589,212)	( 5,589,212)
Deposits recorded by the Comptroller not recorded by the State Treasury as of June 30, 2021	<u>93,698,997</u>	<u>-</u>	<u>-</u>	<u>93,698,997</u>
Carried forward	\$ <u>1,555,112,311</u>	\$ <u>7,771,318,241</u>	\$ <u>(30,693,027)</u>	\$ <u>9,295,737,525</u>



STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
FINANCIAL ADMINISTRATION DIVISION

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

June 30, 2021

	Cash with Local <u>Depositories</u>	<u>Securities</u>	<u>Others</u>	<u>Total</u>
Brought forward	\$ 1,555,112,311	\$7,771,318,241	\$(30,693,027)	\$ 9,295,737,525
Disbursements and adjustments recorded by the State Treasury not recorded by the Comptroller as of June 30, 2021	20,347,397	-	-	20,347,397
Disbursements recorded by the State Treasury (as adjusted) not reported to the Comptroller for recording as of June 30, 2021	364,030,183	-	25,121,604	389,151,787
Disbursements and adjustments recorded by the Comptroller not recorded by the State Treasury as of June 30, 2021	( 52,288,018)	-	-	( 52,288,018)
Carried forward	\$ <u>1,887,201,873</u>	\$ <u>7,771,318,241</u>	\$ <u>( 5,571,423)</u>	\$ <u>9,652,948,691</u>

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
FINANCIAL ADMINISTRATION DIVISION

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

June 30, 2021

	<u>Cash with Local Depositories</u>	<u>Securities</u>	<u>Others</u>	<u>Total</u>
Brought forward	\$ 1,887,201,873	\$7,771,318,241	\$( 5,571,423)	\$ 9,652,948,691
Bank debits recorded by the State Treasury (as adjusted) not reported to the Comptroller for recordation as of June 30, 2021	7,749,803	-	-	7,749,803
Other adjustments and reclassifications as of June 30, 2021	<u>31,812</u>	<u>-</u>	<u>-</u>	<u>31,812</u>
Amount per Comptroller's Records - Unaudited	<u>\$ 1,894,983,488</u>	<u>\$7,771,318,241</u>	<u>\$( 5,571,423)</u>	<u>\$ 9,660,730,306</u>

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

## 2021 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 (Financial Division), as of June 30, 2021, 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 Financial 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 Financial Division. Such differences are summarized as follows:

Deposits - Deposits made to local depositories during the month may not be recorded in the Financial 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 Financial Division for recording into the cash book maintained by the Financial 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 Financial Division's cash book. This time lag is a major contributing factor for the difference between the Financial Division's cash book and the bank statements.

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

## 2021 VERIFICATION OF MONEY AND SECURITIES IN THE STATE TREASURY

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depositories at month-end are recorded by the Financial 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 Financial Division's cash book. The process to properly record debit memos requires the Financial Division to notify State departments and agencies to investigate and prepare adjustment vouchers for recording into the accounting systems maintained by DAGS and the Financial 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 Financial 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 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 Financial 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 Financial Division's unadjusted cash balances compared with the amount of depository securities in the respective banks as of June 30, 2021.



2021 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.	\$ 252,474	\$ 10,000,000	\$ -	\$ 10,252,474	\$ 26,438,203
Bank of Hawaii	250,269	-	-	250,269	259,242,565
Central Pacific Bank	250,796	305,804,712	-	306,055,508	335,951,898
First Hawaiian Bank	1,831,938,146	25,000,000	-	1,856,938,146	945,456,703
Hawaii National Bank	250,814	-	-	250,814	2,723,841
Territorial Savings Bank	250,801	65,500,000	-	65,750,801	92,571,505
	<u>1,833,193,300</u>	<u>406,304,712</u>	<u>-</u>	<u>2,239,498,012</u>	<u>1,662,384,715</u>
Cash with mainland depository:					
Wells Fargo Bank	<u>-</u>	<u>-</u>	<u>14,000</u>	<u>14,000</u>	<u>1,007,281</u>
Cash with the Secretary of the Treasury, U.S.A. - Unemployment Trust Fund	<u>-</u>	<u>-</u>	<u>(5,585,423)</u>	<u>( 5,585,423)</u>	<u>-</u>
Investments:					
U.S. Government Securities:					
Wells Fargo Institutional Retirement and Trust	<u>-</u>	<u>7,365,013,529</u>	<u>-</u>	<u>7,365,013,529</u>	<u>-</u>
	<u>\$1,833,193,300</u>	<u>\$7,771,318,241</u>	<u>\$(5,571,423)</u>	<u>\$ 9,598,940,118</u>	<u>\$1,663,391,996</u>

## 2021 VERIFICATION OF MONEY AND SECURITIES IN THE STATE TREASURY

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### Collateral Requirements

The Director of Finance, through the Financial Division, is responsible for the safekeeping of all monies paid into the State Treasury. The Financial 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 any 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 Financial 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 Financial 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 Financial Division holds investments both for the State and as an agent for other parties. The Financial 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 Financial Division’s investment policy limits maturities on investments to not more than five years from the date of investment.

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

**SECTION IV**  
**FINANCIAL DIVISION'S RESPONSE**

DAVID Y. IGE  
GOVERNOR



CRAIG K. HIRAI  
DIRECTOR

GLORIA CHANG  
DEPUTY DIRECTOR

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

**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**

P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

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

November 23, 2021

The Honorable Curt Otaguro, Comptroller  
Department of Accounting and General Services  
State of Hawaii  
P.O. Box 119  
Honolulu, HI 96810

Dear Mr. Otaguro:

We appreciate the opportunity to comment on the Audit Division's report, *Verification of Money and Securities in the State Treasury, Department of Budget and Finance, Financial Administration Division* (FAD), as of June 30, 2021, issued in accordance with the provisions of Sections 40-7 and 40-8, HRS.

We would like to take this opportunity to provide our division's responses to the Findings and Recommendations described in Section II of the report. There are two current year findings and no repeat findings in this year's audit report.

The following outlines our plan to address the findings noted in the report.

Issue 2021-01: The Bureau of Conveyances did not deposit funds timely and submitted the Treasury Deposit Receipts (TDRs) late to the Financial Administration Division (FAD)

Background: Cash receipts should be recorded in a timely manner; especially at fiscal year end to recognize receipts in the proper fiscal year. The Bureau of Conveyances (BOC) of the Department of Land and Natural Resources submitted 158 TDRs totaling \$55.3 million on September 7, 2021. The audit review of TDRs over \$300,000 found that thirty-four TDRs totaling \$31.7 million were listed as outstanding (unrecorded) as of June 30, 2021.

Audit Recommendation: The BOC should deposit funds, prepare and submit the TDRs to FAD in a timely manner. The TDRs must be prepared and submitted to FAD for funds received at fiscal year end and prior.

B&F Response: Concur. Prior to the end of each fiscal year, the Director of Finance issues a Finance Memo (refer to Finance Memo 21-06) noting the year-end cutoffs and reminder that HRS 40-32 requires money collected be deposited into the state treasury at least weekly. Also, as part of the bank and cash reconciliation process, FAD informs agencies of outstanding deposits and debit memos by monthly email or memo. FAD with the assistance of the Audit

division has met with BOC to inform them of the finding and discussion is ongoing for a solution. BOC acknowledges the issue and will confer with DLNR Fiscal on the viability of submitting TDR's upon receipt of funds which will require reconciliation of receivables for both BOC and DLNR after the fact.

Issue 2021-02: Federal Unemployment Account (FUA) payments were listed as reconciling amounts in Trust Fund reconciliation between FAD and Comptroller's Records

Background: The Uniform Accounting and Reporting Branch (UARB) of DAGS Accounting Division, prepares a reconciliation of cash by fund between Comptroller records in FAMIS and FAD state treasury's departmental system's balances. As of June 30, 2021, there were 126 entries for FUA payments from February 10, 2021 to June 30, 2021, totaling \$165 million in the Trust Fund reconciliation between FAD and Comptroller's records. The 126 entries were shown as deductions from FAD records "Cash on Hand and in banks" for Trust Fund. The same amounts were shown as additions to FAD records under "U.S. Treasury-UI" when reconciling to the Comptroller's records. The Department of Labor and Industrial Relations (DLIR) submits vouchers for the FUA payments to UARB. The same vouchers are being recorded in the FAD cash records. Both DLIR and FAD are recording entries without understanding the effects on the Trust Fund reconciliation.

Audit Recommendation: The UARB should provide clear guidance to both DLIR and FAD in recording these transactions to resolve reconciling issues.

B&F Response: Concur. Both DLIR and FAD staff are recording the transactions correctly to their knowledge. Requests for assistance have been sent to DAGS to resolve these reconciling items. Audit Division assistance in facilitating discussion and analysis of the entries will be appreciated. FAD would like to resolve these items and will continue to work with both agencies to do so.

Thank you for the opportunity to review and respond to your detailed findings and recommendations from the Verification of Money and Securities in the State Treasury report for the fiscal year ended June 30, 2021.

Sincerely,



CRAIG K. HIRAI  
Director of Finance



RODERICK K. BECKER, Administrator  
Financial Administration Division