

**Department of the Attorney General
State of Hawaii**

**Financial Statements
with Accompanying Information
for the Year Ended June 30, 2012**

and

Independent Auditor's Report

**Submitted by
The Auditor
State of Hawaii**

Akamine, Oyadomari & Kosaki
Certified Public Accountants, Inc.

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

March 25, 2013

The Auditor
State of Hawaii

This is our report on the audit of the financial statements of the Department of the Attorney General, State of Hawaii, for the year ended June 30, 2012. Our audit was performed in accordance with the terms of our contract with the Office of the Auditor, State of Hawaii, and with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the OMB Circular A-133 *Compliance Supplement*.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Department of the Attorney General, State of Hawaii's, financial statements for the year ended June 30, 2012, and to comply with the requirements of OMB Circular A-133, which established audit requirements for states, local governments and non-profit organizations that receive Federal awards.

More specifically, the objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the Department of the Attorney General, State of Hawaii's, financial statements.
2. To determine whether expenditures have been made and all revenues and other receipts to which the Department of the Attorney General, State of Hawaii, is entitled have been collected and accounted for in accordance with the laws, rules, regulations, policies, and procedures of the State of Hawaii and where applicable, the Federal government.
3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the Department of the Attorney General with the proper information to plan, evaluate, control and correct program activities.
4. To determine whether the Department of the Attorney General's internal controls are adequate in assuring that there is effective control over and proper accounting of revenues, expenditures, assets, and liabilities.
5. To ascertain and report on whether the Department of the Attorney General has established sufficient internal controls to properly manage federal programs and to comply with the applicable federal laws and regulations.
6. To ascertain and report on whether the Department of the Attorney General has complied with the laws, regulations, contracts, and grants that may have a material effect on the financial statements and on each major federal program.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America, as prescribed by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States, as they pertain to financial audits. The scope of our audit included a general audit of the financial transactions and accounting records of the Department of the Attorney General, State of Hawaii, for the year ended June 30, 2012. In addition, as part of our determination as to whether the Department of the Attorney General, State of Hawaii, has effective controls over and proper accounting of revenues, receipts, expenditures, disbursements, assets and liabilities we considered the internal control over financial reporting. We also performed tests to determine the Department of the Attorney General, State of Hawaii's, compliance with the fiscal provisions of its grant agreements and applicable laws, regulations and Federal circulars.

ORGANIZATION OF THE REPORT

This report is presented in four parts as follows:

- Part I - Financial section
- Part II - Compliance and internal control
- Part III - Findings and questioned costs
- Part IV - Response of the Department of the Attorney General, State of Hawaii.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended to us by the staff of the Department of the Attorney General, State of Hawaii.

Sincerely,

Akamine, Oyadomari & Kosaki CPAs, Inc.

Department of the Attorney General
State of Hawaii
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PART I
FINANCIAL SECTION

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

Independent Auditor's Report

The Auditor
Office of the Auditor
State of Hawaii

We have audited the accompanying financial statements of the governmental activities and each fund of the Department of the Attorney General of the State of Hawaii (AG), as of and for the year ended June 30, 2012, which collectively comprise the AG's basic financial statements, as listed in the foregoing table of contents. These financial statements are the responsibility of the AG's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 provides a reasonable basis for our opinions.

As discussed in Note 1 to the basic financial statements, the financial statements of the AG are intended to present the financial position, changes in financial position, and budgetary comparisons of only that portion of the governmental activities and each fund of the State of Hawaii that is attributable to the transactions of the AG. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2012, and the changes in its financial position and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of the AG as of June 30, 2012, and the respective changes in financial position 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 March 25, 2013 on our consideration of the AG'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 controls 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 and budgetary comparison information on pages 4 through 7 and pages 19 and 20, respectively, 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 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 principally 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.

The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

Akamuni, Oyadomari & Kosaki CPAs, Inc.

Honolulu, Hawaii
March 25, 2013

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
Management's Discussion and Analysis
June 30, 2012

The Department of the Attorney General (the AG), State of Hawaii (the State), was created in 1959 by the Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959). The primary function of the AG is to provide legal and other services to the State, including agencies, officers, and employees of the Executive, Legislative, and Judicial branches of the State's government.

As management of the AG, we offer readers of these basic financial statements this narrative overview and analysis of the financial activities of the AG for the year ended June 30, 2012. This discussion and analysis is designed to assist the reader in the analysis of the AG's financial statements based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

Financial Highlights

Departmental Financial Statement Highlights

The assets of the AG exceeded its liabilities at June 30, 2012 by \$13,975,072 (net assets). Of this amount, \$5,827,362 was invested in capital assets, \$11,115,106 was restricted for specified purposes and there was a deficit of \$2,967,396 in unrestricted net assets. Restricted net assets of the AG decreased by \$8,139,040 or -42.3% versus the prior fiscal year due to an increase in current year expenditures under a Federal justice assistance grant. The deficit in unrestricted net assets is due to the vacation liability which has not yet been funded by the Legislature as of June 30, 2012 and certain 2012 salary and wage liabilities which will be funded by the fiscal 2013 budget.

Program revenues decreased by \$2,908,526 or -7.7% in fiscal 2012 due primarily to decreases in Child Support Enforcement and other federal grants. Total departmental expenses increased minimally by \$6,278 in fiscal 2012 due to increases in Child Support Enforcement and Criminal History and State Identification expenses offset by decreases in general and administrative and legal, and Crime Prevention and Justice Assistance expenses. General revenue support from the State has increased by \$12,916,387 in 2012. As a result, net assets increased by \$2,640,179 in fiscal 2012.

Fund Financial Statement Highlights

At June 30, 2012, the AG's governmental funds reported combined ending fund balances of \$14,404,605, an increase of \$1,873,619 or +15.0% from the prior fiscal year. The increase was principally in the general fund due to appropriations in fiscal 2012 for 2011 legal claims payable.

In fiscal 2012 expenditures (actual on a budgetary basis) for the department were \$6.8 million or 19.8% below budget (appropriated). In fiscal 2012 the legislature appropriated funds for legal claims in the amount of \$5,294,000 which had been accrued as a liability and reflected as general fund expenditures in the fiscal year ended June 30, 2011 financial statements. The 2012 appropriation budgeted these fiscal 2011 legal claims for expenditure in fiscal 2012. As a result, expenditures (actual on a budgetary basis) in fiscal 2012 were less than budgeted. Special revenue fund expenditures (actual on a budgetary basis) were less than appropriated due to delays in spending of various Federal funds, the inability to fill positions due to a hiring freeze and restrictions placed on spending.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the AG's basic financial statements. The AG's basic financial statements consist of three components: (1) departmental financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Departmental Financial Statements

The departmental financial statements are designed to provide readers with a broad overview of the AG's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the AG'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 AG is improving or deteriorating.

The statement of activities presents information showing how the AG's net assets changed during the most recent fiscal year. Functional activities are highlighted in this statement, with functional expenses shown net of related program revenue. This statement shows the extent to which the various functions depend on state appropriations for support.

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 AG uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the AG can be divided into two categories: (1) governmental funds; and (2) agency funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the departmental financial statements. However, unlike the departmental financial statements, governmental fund 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 AG's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the departmental financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the departmental financial statements. By doing so, readers may better understand the long-term impact of the AG's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities in the departmental financial statements.

The AG maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Child Support Enforcement, Legal Services, Crime Prevention and Justice Assistance, and Criminal History and State

Identification Funds. The AG adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and special revenue funds to demonstrate compliance with this budget. The budgetary comparison statement is located in the basic financial statements and additional budgetary information on differences is presented in the notes to the basic financial statements.

Agency Funds (Fiduciary Funds)

Agency funds are used to account for resources held for the benefit of parties outside the AG. Agency funds presented separately are not reflected in the governmental fund financial statements because the funds are not available to support the AG's own programs.

The net excess of liabilities over assets of \$2,817,423 at June 30, 2012 in the Statement of Fiduciary Net Assets (Liabilities) result from the Child Support Enforcement program and are due to Internal Revenue Service intercept fees on collection of child support payments from delinquent non-custodial parents, uncollected recoupment due from custodial parents resulting from overpayments, and uncollected nonsufficient fund (NSF) payments due from non-custodial parents.

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 departmental and fund financial statements.

Financial Information

The AG's condensed financial information for the fiscal years 2012 and 2011 are as follows:

Statement of Net Assets	2012	2011
Current assets	\$ 29,206,438	\$ 25,475,915
Capital assets, net of accumulated depreciation	5,827,362	5,159,548
Total assets	<u>\$ 35,033,800</u>	<u>\$ 30,635,463</u>
Current liabilities	\$ 17,720,333	\$ 15,612,929
Noncurrent liabilities	3,338,395	3,687,641
Total liabilities	<u>21,058,728</u>	<u>19,300,570</u>
Net assets:		
Invested in capital assets	5,827,362	5,159,548
Restricted for various purposes	11,115,106	19,254,146
Unrestricted	(2,967,396)	(13,078,801)
Total net assets	<u>13,975,072</u>	<u>11,334,893</u>
Total liabilities and net assets	<u>\$ 35,033,800</u>	<u>\$ 30,635,463</u>

	<u>2012</u>	<u>2011</u>
Changes in Net Assets		
Program revenues:		
Charges for services	\$ 3,735,332	\$ 3,245,882
Operating grants and contributions	30,947,642	34,345,618
General revenues	<u>40,541,226</u>	<u>27,624,839</u>
Total revenues	<u>75,224,200</u>	<u>65,216,339</u>
Expenses:		
General administrative and legal services	42,550,512	42,865,386
Child support enforcement	17,448,782	17,134,437
Crime prevention and justice assistance	6,997,490	8,390,974
Criminal history and State identification	<u>6,261,161</u>	<u>4,860,870</u>
Total expenses	<u>73,257,945</u>	<u>73,251,667</u>
Other financing sources	<u>673,924</u>	<u>227,538</u>
Changes in net assets	2,640,179	(7,807,790)
Net assets - beginning of year	<u>11,334,893</u>	<u>19,142,683</u>
Net assets - end of year	<u>\$ 13,975,072</u>	<u>\$ 11,334,893</u>

Current assets increased by \$3,730,523 principally due to the accrual of the legislative appropriation to fund legal claims payable. The appropriation had been enacted in fiscal 2012 and allotted in fiscal 2013. The increase in current assets were offset by decreases in cash balances at Child Support Enforcement and Legal Services. Current liabilities increased by \$2,107,404 due mainly to increased liabilities for legal claims payable.

At June 30, 2012 and 2011, the AG's investment in capital assets, net of accumulated depreciation amounted to \$5,827,362 and \$5,159,548, respectively, representing an increase of \$667,814 or 12.9% principally due to additions at the Crime Prevention and Justice Assistance Center and the Criminal Justice Data Center. Capital assets include buildings, improvements, furniture and equipment.

Request for Information

Questions concerning any of the information provided in this report or request for additional financial information should be addressed in writing to the Department of the Attorney General, State of Hawaii, 425 Queen Street, Honolulu, Hawaii 96813 or by email at hawaiiag@hawaii.gov. General information about the AG can be found on the State's website, <http://www.hawaii.gov/ag>.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Statement of Net Assets
June 30, 2012

	Governmental Activities	Total
<u>ASSETS:</u>		
Current assets:		
Cash (Note 3)	\$ 18,579,740	\$ 18,579,740
Due from grantor - Federal	1,751,216	1,751,216
Due from State of Hawaii (Note 10)	7,613,922	7,613,922
Due from other State agencies	1,261,560	1,261,560
Total current assets	29,206,438	29,206,438
Noncurrent assets:		
Capital assets - net of accumulated depreciation (Note 4)	5,827,362	5,827,362
Total noncurrent assets	5,827,362	5,827,362
Total assets	\$ 35,033,800	\$ 35,033,800

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Statement of Net Assets (continued)
June 30, 2012

	Governmental Activities	Total
<u>LIABILITIES:</u>		
Current liabilities:		
Vouchers and contracts payable	\$ 2,825,192	\$ 2,825,192
Accrued wages and employee benefits payable	2,581,091	2,581,091
Legal claims payable (Note 10)	7,613,922	7,613,922
Accrued vacation (Note 5)	2,918,500	2,918,500
Due to State of Hawaii	1,552,180	1,552,180
Due to other State agency	229,448	229,448
Total current liabilities	17,720,333	17,720,333
Long-term liabilities:		
Accrued vacation (Note 5)	3,338,395	3,338,395
Total long-term liabilities	3,338,395	3,338,395
Total liabilities	21,058,728	21,058,728
Commitments and contingencies		
<u>NET ASSETS:</u>		
Invested in capital assets	5,827,362	5,827,362
Restricted for various purposes	11,115,106	11,115,106
Unrestricted	(2,967,396)	(2,967,396)
Total net assets	13,975,072	13,975,072
Total liabilities and net assets	\$ 35,033,800	\$ 35,033,800

The accompanying notes are an integral part of the financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Statement of Activities
for the year ended June 30, 2012

	Program Revenues		
	Charges for Services	Operating Grants and Contributions	Net Revenue (Expense) and Changes in Net Assets
<u>FUNCTIONS/PROGRAMS:</u>			
Departmental activities:			
General administrative and legal services (Notes 6 and 7)	\$ 42,550,512	\$ 13,334,306	\$ (28,458,534)
Child support enforcement	17,448,782	10,005,553	(7,443,229)
Crime prevention and justice assistance	6,997,490	6,102,185	(895,305)
Criminal history and State identification	6,261,161	1,505,598	(1,777,903)
Total departmental activities	\$ 73,257,945	\$ 30,947,642	(38,574,971)
General revenues - State appropriations, net of lapsed appropriations of \$582,597			33,788,087
General revenues for non-imposed employee fringe benefits (Note 6)			6,753,139
Total general revenues before other financing sources			40,541,226
Other financing sources			673,924
Total general revenues and other financing sources			41,215,150
Change in net assets			2,640,179
Net assets - beginning of year			11,334,893
Net assets - end of year			\$ 13,975,072

The accompanying notes are an integral part of the financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Balance Sheet
Governmental Funds
June 30, 2012

	<u>General Fund</u>	<u>Child Support Enforcement</u>	<u>Legal Services</u>	<u>Crime Prevention and Justice Assistance</u>	<u>Criminal Justice Data Center</u>	<u>Total</u>
<u>ASSETS:</u>						
Cash (Note 3)	\$ 679,406	\$ 5,105,295	\$ 6,430,165	\$ 4,213,129	\$ 2,151,745	\$ 18,579,740
Due from grantor - Federal	-	1,322,687	79,452	180,103	168,974	1,751,216
Due from State of Hawaii (Note 10)	7,613,922	-	-	-	-	7,613,922
Due from other State agencies	-	-	1,261,560	-	-	1,261,560
Total assets	<u>\$ 8,293,328</u>	<u>\$ 6,427,982</u>	<u>\$ 7,771,177</u>	<u>\$ 4,393,232</u>	<u>\$ 2,320,719</u>	<u>\$ 29,206,438</u>

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Balance Sheet

Governmental Funds (continued)

June 30, 2012

	General Fund	Child Support Enforcement	Legal Services	Crime Prevention and Justice Assistance	Criminal Justice Data Center	Total
<u>LIABILITIES AND FUND BALANCES:</u>						
Liabilities:						
Vouchers and contracts payable	\$ 1,252,307	\$ 755,458	\$ 170,418	\$ 385,895	\$ 261,114	\$ 2,825,192
Accrued wages and employee benefits payable	1,179,325	458,734	774,519	28,111	140,402	2,581,091
Legal claims payable (Note 10)	7,613,922	-	-	-	-	7,613,922
Due to State of Hawaii	25,400	-	1,526,780	-	-	1,552,180
Due to other State agency	-	-	229,448	-	-	229,448
	<u>10,070,954</u>	<u>1,214,192</u>	<u>2,701,165</u>	<u>414,006</u>	<u>401,516</u>	<u>14,801,833</u>
Total liabilities						
Fund balances (Note 15):						
Restricted	-	5,213,790	1,774,943	3,979,226	147,147	11,115,106
Committed	-	-	3,295,069	-	1,772,056	5,067,125
Assigned	581,738	-	-	-	-	581,738
Unassigned	(2,359,364)	-	-	-	-	(2,359,364)
Total fund balances	<u>(1,777,626)</u>	<u>5,213,790</u>	<u>5,070,012</u>	<u>3,979,226</u>	<u>1,919,203</u>	<u>14,404,605</u>
Total liabilities and fund balances	\$ <u>8,293,328</u>	\$ <u>6,427,982</u>	\$ <u>7,771,177</u>	\$ <u>4,393,232</u>	\$ <u>2,320,719</u>	\$ <u>29,206,438</u>

The accompanying notes are an integral part of the financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the year ended June 30, 2012

	General Fund	Child Support Enforcement	Legal Services	Crime Prevention and Justice Assistance	Criminal Justice Data Center	Total
Revenues:						
State allotted appropriations	\$ 34,370,684	\$ -	\$ -	\$ -	\$ -	\$ 34,370,684
State revenue for non-imposed employee fringe benefits (Note 6)	6,753,139	-	-	-	-	6,753,139
Fees and other	-	30,609	2,268,343	9,960	3,007,883	5,316,795
Intergovernmental	-	-	1,366,641	6,092,225	1,475,375	8,934,241
Special fund revenues (Note 7)	-	5,965,456	10,106,994	-	-	16,072,450
Share of TANF collections	-	4,009,488	-	-	-	4,009,488
Litigation settlements	-	-	350,000	-	-	350,000
Total revenues	<u>41,123,823</u>	<u>10,005,553</u>	<u>14,091,978</u>	<u>6,102,185</u>	<u>4,483,258</u>	<u>75,806,797</u>
Expenditures:						
General administrative and legal services (Note 6)	27,685,193	-	14,842,981	-	-	42,528,174
Child support enforcement	4,937,025	12,452,716	-	-	-	17,389,741
Crime prevention and justice assistance	-	-	-	7,198,837	-	7,198,837
Criminal history and State identification	1,703,947	-	-	-	5,193,359	6,897,306
Total expenditures	<u>34,326,165</u>	<u>12,452,716</u>	<u>14,842,981</u>	<u>7,198,837</u>	<u>5,193,359</u>	<u>74,014,058</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,797,658</u>	<u>(2,447,163)</u>	<u>(751,003)</u>	<u>(1,096,652)</u>	<u>(710,101)</u>	<u>1,792,739</u>
Other financing sources (uses)						
Lapsed appropriations	(582,597)	-	-	-	-	(582,597)
Other	(1,269,527)	-	626,500	616,525	689,979	663,477
Total other financing sources (uses)	<u>(1,852,124)</u>	<u>-</u>	<u>626,500</u>	<u>616,525</u>	<u>689,979</u>	<u>80,880</u>
Net change in fund balances	<u>4,945,534</u>	<u>(2,447,163)</u>	<u>(124,503)</u>	<u>(480,127)</u>	<u>(20,122)</u>	<u>1,873,619</u>
Fund balances - beginning of year	<u>(6,723,160)</u>	<u>7,660,953</u>	<u>5,194,515</u>	<u>4,459,353</u>	<u>1,939,325</u>	<u>12,530,986</u>
Fund balances - end of year	<u>\$ (1,777,626)</u>	<u>\$ 5,213,790</u>	<u>\$ 5,070,012</u>	<u>\$ 3,979,226</u>	<u>\$ 1,919,203</u>	<u>\$ 14,404,605</u>

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2012

	Total Governmental Funds	Long Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets
ASSETS:				
Current assets:				
Cash	\$ 18,579,740	\$ -	\$ -	\$ 18,579,740
Due from grantor - Federal	1,751,216	-	-	1,751,216
Due from State of Hawaii	7,613,922	-	-	7,613,922
Due from other State agencies	1,261,560	-	-	1,261,560
Total current assets	29,206,438	-	-	29,206,438
Noncurrent assets:				
Capital assets net of accumulated depreciation	-	5,827,362 (1)	-	5,827,362
Total noncurrent assets	-	5,827,362	-	5,827,362
Total assets	\$ 29,206,438	\$ 5,827,362	\$ -	\$ 35,033,800

The accompanying notes are an integral part of the financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets (continued)
June 30, 2012

	<u>Total Governmental Funds</u>	<u>Long Term Assets, Liabilities</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Net Assets</u>
<u>LIABILITIES:</u>				
Current liabilities:				
Vouchers and contracts payable	\$ 2,825,192	\$ -	\$ -	\$ 2,825,192
Accrued wages and employee benefits payable	2,581,091	-	-	2,581,091
Legal claims payable	7,613,922	-	-	7,613,922
Accrued vacation	-	2,918,500	(2) -	2,918,500
Due to State of Hawaii	1,552,180	-	-	1,552,180
Due to other State agency	229,448	-	-	229,448
	<u>14,801,833</u>	<u>2,918,500</u>	<u>-</u>	<u>17,720,333</u>
Total current liabilities				
Long-term liabilities				
Accrued vacation	-	3,338,395	(2) -	3,338,395
	<u>-</u>	<u>3,338,395</u>	<u>-</u>	<u>3,338,395</u>
Total long-term liabilities				
	<u>-</u>	<u>3,338,395</u>	<u>-</u>	<u>3,338,395</u>
Total liabilities	<u>14,801,833</u>	<u>6,256,895</u>	<u>-</u>	<u>21,058,728</u>
<u>FUND BALANCES/NET ASSETS:</u>				
Invested in capital assets	-	5,827,362	(1) -	5,827,362
Restricted for various purposes	-	-	11,115,106 (3)	11,115,106
Unrestricted	-	(6,256,895)	(2) 3,289,499 (3)	(2,967,396)
Restricted	11,115,106	-	(11,115,106) (3)	-
Committed	5,067,125	-	(5,067,125) (3)	-
Assigned	581,738	-	(581,738) (3)	-
Unassigned	(2,359,364)	-	2,359,364 (3)	-
	<u>14,404,605</u>	<u>(429,533)</u>	<u>-</u>	<u>13,975,072</u>
Total fund balances/net assets				
	<u>14,404,605</u>	<u>(429,533)</u>	<u>-</u>	<u>13,975,072</u>
Total liabilities and fund balances/net assets	<u>\$ 29,206,438</u>	<u>\$ 5,827,362</u>	<u>\$ -</u>	<u>\$ 35,033,800</u>

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2012 (continued)

Total fund balances - governmental funds \$ 14,404,605

Amounts reported for governmental activities in the statement of net assets are different because:

- (1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. These assets consist of:

Buildings and improvements	\$ 10,253,588
Office, furniture, and equipment	4,912,026
Accumulated depreciation	<u>(9,338,252)</u>

Total capital assets 5,827,362

- (2) Accrued vacation is not reported in the governmental funds.

Due within one year	\$ (2,918,500)
Due in more than one year	<u>(3,338,395)</u>

Total accrued vacation (6,256,895)

- (3) Reclassify fund balances to net assets

Total net assets \$ 13,975,072

The accompanying notes are an integral part of the financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Reconciliation of Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
for the year ended June 30, 2012

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities
Revenues:				
State allotted appropriations	\$ 34,370,684	\$ -	\$ (582,597) (3)	\$ 33,788,087
State revenue for non-imposed employee fringe benefits	6,753,139	-	-	6,753,139
Fees and other	5,316,795	-	(5,316,795) (4)	-
Intergovernmental	8,934,241	-	(8,934,241) (4)	-
Special fund revenues	16,072,450	-	(16,072,450) (4)	-
Share of TANF collections	4,009,488	-	(4,009,488) (4)	-
Litigation settlements	350,000	-	(350,000) (4)	-
Charges for services	-	-	3,735,332 (4)	3,735,332
Operating grants and contributions	-	-	30,947,642 (4)	30,947,642
TOTAL REVENUES	<u>75,806,797</u>	<u>-</u>	<u>(582,597)</u>	<u>75,224,200</u>
Expenditures:				
General administrative and legal services	42,528,174	14,339 (1) 7,999 (2)	-	42,550,512
Child support enforcement	17,389,741	146,323 (1) (87,282) (2)	-	17,448,782
Crime prevention and justice assistance	7,198,837	(177,878) (1) (23,469) (2)	-	6,997,490
Criminal history and State identification	6,897,306	(640,151) (1) 4,006 (2)	-	6,261,161
TOTAL EXPENDITURES	<u>74,014,058</u>	<u>(756,113)</u>	<u>-</u>	<u>73,257,945</u>
Excess (deficiency) of revenues over (under) expenditures	1,792,739	756,113	(582,597)	1,966,255
Other financing sources (uses)				
Lapsed appropriations	(582,597)	-	582,597 (3)	-
Other	663,477	-	10,447 (1)	673,924
Total other financing sources (uses)	<u>80,880</u>	<u>-</u>	<u>593,044</u>	<u>673,924</u>
Net change fund balance/net assets	<u>\$ 1,873,619</u>	<u>\$ 756,113</u>	<u>\$ 10,447</u>	<u>\$ 2,640,179</u>

The accompanying notes are an integral part of the financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

**Reconciliation of Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to Statement of Activities
for the year ended June 30, 2012 (continued)**

Change in fund balances - governmental funds \$ 1,873,619

Amounts reported for governmental activities in the statement of activities are different because:

- (1) 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 fiscal year 2012, these transactions were:

Capital outlays and equipment purchases	\$	1,613,272	
Depreciation expense		<u>(955,905)</u>	
Excess of capital outlays and equipment purchases over depreciation expense		657,367	
Net transfer of capital assets from other State departments		<u>10,447</u>	667,814

(2) The decrease in accrued vacation is not reported in governmental funds. 98,746

(3) Lapsed appropriations are netted against appropriations in the statement of activities. -

(4) Reclassification of revenues -

Change in net assets \$ 2,640,179

The accompanying notes are an integral part of the financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Statement of Revenues and Expenditures – Budget and Actual
General Fund
for the year ended June 30, 2012

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget-Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Appropriations	\$ 34,370,684	\$ 34,370,684	\$ 34,370,684	\$ -
Expenditures:				
General administrative and legal services (Note 10)	29,011,398	29,011,398	22,370,664	6,640,734
Child support enforcement	3,859,392	3,859,392	3,768,420	90,972
Criminal history and State identification	1,499,894	1,499,894	1,407,290	92,604
	<u>34,370,684</u>	<u>34,370,684</u>	<u>27,546,374</u>	<u>6,824,310</u>
Excess of appropriations over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,824,310</u>	<u>\$ 6,824,310</u>

The accompanying notes are an integral part of the basic financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Statement of Revenues and Expenditures – Budget and Actual
Special Funds
for the year ended June 30, 2012

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget-Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<u>Child Support Enforcement</u>				
Revenues	\$ 17,142,511	\$ 17,142,511	\$ 10,005,553	\$ (7,136,958)
Expenditures	17,142,511	17,142,511	12,390,364	4,752,147
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,384,811)</u>	<u>\$ (2,384,811)</u>
<u>Legal Services</u>				
Revenues	\$ 17,585,075	\$ 17,585,075	\$ 14,097,578	\$ (3,487,497)
Expenditures	17,585,075	17,585,075	14,831,391	2,753,684
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (733,813)</u>	<u>\$ (733,813)</u>
<u>Crime Prevention and Justice Assistance</u>				
Revenue	\$ 8,827,439	\$ 8,827,439	\$ 6,118,575	\$ (2,708,864)
Expenditures	8,827,439	8,827,439	6,952,458	1,874,981
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (833,883)</u>	<u>\$ (833,883)</u>
<u>Criminal Justice Data Center</u>				
Revenue	\$ 5,749,851	\$ 5,749,851	\$ 4,483,258	\$ (1,266,593)
Expenditures	5,749,851	5,749,851	5,335,435	414,416
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (852,177)</u>	<u>\$ (852,177)</u>

The accompanying notes are an integral part of the basic financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Statement of Fiduciary Net Assets (Liabilities)

June 30, 2012

	<u>Agency Funds</u>
ASSETS:	
Cash (Note 3)	<u>\$ 9,229,947</u>
Total assets	<u>9,229,947</u>
LIABILITIES:	
Due to agency recipients	<u>12,047,370</u>
Total liabilities	<u>12,047,370</u>
NET ASSETS (LIABILITIES):	
Total net liabilities (Note 16)	<u><u>\$ (2,817,423)</u></u>

The accompanying notes are an integral part of the basic financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Notes to financial statements

June 30, 2012

1. Summary of Significant Accounting Policies

The Department of the Attorney General of the State of Hawaii (AG) administers and renders legal services, including furnishing written legal opinions to the Governor, State Legislature, and such state departments and offices as the Governor may direct; represents the State of Hawaii (State) in all civil actions in which the State is a party; approves as to legality and form all documents relating to the acquisition of any land or interest in land by the State; and unless otherwise provided by law, prosecutes cases involving agreements, uniform laws, or other matters which are enforceable in the courts of the State.

The AG's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the AG are discussed below.

Financial Reporting Entity

The AG is part of the Executive Branch of the State of Hawaii. The AG's financial statements reflect only its portion of the activities attributable to the AG. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually which includes the AG's financial activities.

The accompanying financial statements reflect the financial position and changes in financial position of the following divisions of the AG:

Administrative Services Office – This office provides fiscal, personnel, data processing, library, messenger, reception, and other support services to the department and its operating divisions.

Office of Child Support Hearings (OCSH) – The Office of Child Support Hearings is an office funded with State and Federal funds that provides a fair and impartial forum for expeditious resolution of child support disputes. Once a part of the Child Support Enforcement Agency, the office has been a separate office of the AG since 1992. The office has concurrent jurisdiction with the court in proceedings in which a support obligation is established, modified, or terminated. Attorney hearings officers issue orders establishing, modifying, terminating, and enforcing child support obligations.

Child Support Enforcement Agency (CSEA) – The Child Support Enforcement Agency provides assistance to children by locating parents, establishing paternity and support obligations (both financial and medical), and enforcing those obligations.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Notes to financial statements
June 30, 2012

Hawaii Criminal Justice Data Center – The Hawaii Criminal Justice Data Center is responsible for the statewide Criminal Justice Information System (CJIS-Hawaii), the statewide Automated Fingerprint Identification System (AFIS), the statewide sex offender registry, and in fiscal 2012 the issuance of State identification cards.

Effective January 2, 2013 the statewide civil identification program was transferred from the Department of the Attorney General to the State Department of Transportation with State identification cards issued by the County driver licensing offices.

Investigations Division – The Investigations Division conducts investigations in support of the department’s civil, criminal, and administrative cases. These investigations involve such areas as homeland security; internet crimes against children; high technology computer crimes; drug nuisance abatement; environmental crimes; tobacco tax enforcement; airport, harbors, and highways; cold homicide cases; and other criminal and civil matters.

Crime Prevention and Justice Assistance Division – The Crime Prevention and Justice Assistance Division serves as a central point for obtaining, disseminating, and maintaining information regarding available financial (Federal and State funds) and non-financial resources to assist in improving the coordination of programs of the criminal justice and juvenile justice systems and agencies. It administers grants, provides training and technical assistance, engages in multi-agency and statewide planning efforts, conducts crime prevention programs, as well as researches and analyzes crime issues. The Juvenile Justice Information System, which tracks youths from arrest to parole, is also a responsibility of the division.

Legal Services –

- **Administration Division:** The Administration Division is principally responsible for commercial- and financial-related legal issues. The division provides legal advice and litigation support to various departments and offices, including the Office of the Governor; the Office of the Lieutenant Governor; the Department of Accounting and General Services (including the State Foundation on Culture and the Arts, the Stadium Authority, and the State Procurement Office); the Department of Budget and Finance (including advice regarding bond matters and advice to the Employees’ Retirement System, the Employer-Union Health Benefits Trust Fund, and the Office of the Public Defender); the Judiciary (including the Commission of Judicial Conduct, the Office of Disciplinary Counsel, the Judiciary Personnel Appeals Board, the Judicial Selection Commission; general consultation with and advice to the staff attorney’s office, and representation of judges in writs and civil lawsuits); the Hawaii State Land Use Commission; the Hawaii State Commission on the Status of Women; the Campaign Spending Commission; and the Office of Elections.
- **Civil Recoveries Division:** This division systematically recovers and collects monies ranging from accounts receivable, dishonored checks, delinquent loans, salary and benefit overpayments, complex delinquent child support cases, civil judgments, delinquent patient accounts, property damage claims, lease rents, construction litigation, contract disputes and miscellaneous fees owed to the State and its agencies. In addition, it represents the State in major contract or construction disputes.

DEPARTMENT OF THE ATTORNEY GENERAL

STATE OF HAWAII

Notes to financial statements

June 30, 2012

- **Civil Rights Litigation:** This division provides legal defense to all State departments and agencies that are sued for monetary damages in cases that may involve an element of personal injury, but primarily arise from allegations of constitutional/civil rights violations.
- **Commerce and Economic Development Division:** The Commerce and Economic Development Division provides legal services and litigation support to the Department of the Commerce and Consumer Affairs (including the Professional and Vocational Licensing Boards), the Department of Business, Economic Development, and Tourism (including the Aloha Tower Development Corporation, the Hawaii Strategic Development Corporation, the Hawaii Tourism Authority, the High Technology Development Corporation, and the Natural Energy Laboratory of Hawaii Authority), and the Department of Agriculture (including the Agribusiness Development Corporation). The division also enforces the antitrust laws, administers the laws providing for the commissioning of notaries public, and provides legal services to the Board of Trustees of the State's Deferred Compensation Plan and to other state agencies involved in administering tax deferral programs.
- **Commission To Promote Uniform Legislation:** This commission was placed in the AG to provide advice on matters relating to the promotion of uniform legislation in accordance with HRS Chapter 3 (Uniformity of Legislation) and Section 26-7. The commission consists of five members appointed by the Governor and confirmed by the State Senate, who serve without compensation for a term of four years.
- **Criminal Justice Division:** The Criminal Justice Division performs prosecutorial functions on behalf of the State in areas such as welfare fraud, tax fraud, unemployment fraud, unauthorized practice of law, and public corruption. The division is also responsible for prosecuting Internet crimes against children, high technology crimes, Medicaid fraud and elder abuse, violations of State tobacco laws, drug nuisance, environmental crimes, cold homicide cases, and conflict cases from the four county prosecutor's offices. The Missing Child Center-Hawaii is administratively attached to this division, and is Hawaii's only clearinghouse assisting in the recovery of missing or abducted children.
- **Education Division:** The Education Division principally provides legal advice and support to the Department of Education and the Board of Education. Other clients include the Charter School Administrative Office and the Charter Schools; the Hawaii Teacher Standards Board; the Research Corporation of the University of Hawaii; and the Hawaii State Public Library System.
- **Employment Law Division:** The Employment Law Division provides legal representation and advice to the Department of Human Resources Development and to all State departments and agencies on employment-related issues. The division represents all State employers in mandatory arbitration hearings, administrative agency hearings, and civil litigation involving disputes over employment matters with the State's employees.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Notes to financial statements
June 30, 2012

- **Family Law Division:** The Family Law Division handles all State litigation under the jurisdiction of Family Court, such as child and adult protection, guardianships, truancy, adolescent mental health cases, and involuntary civil mental commitment hearings. Clients include the Department of Health, the Department of Human Services, the Department of Education, and the Office of the Public Guardian. The division also provides support to the Child Support Enforcement Agency.
- **Health and Human Services Division:** The Health and Human Services Division provides the principal legal services and support to the Department of Health and the Department of Human Services. The division enforces the State's environmental laws, provides legal advice to all Department of Health and Department of Human Services programs, takes appeals to circuit court from administrative decisions, defends actions against the State in both State and Federal court, and handles some appeals in both the State and Federal appellate systems.
- **Labor Division:** The Labor Division provides legal services and litigation support to the Department of Labor and Industrial Relations and boards and agencies administratively attached to that department, including the State Fire Council. In connection with its enforcement of the various labor laws, the division also collects penalties, fines, and reimbursements.
- **Land/Transportation Division:** The Land/Transportation Division provides legal services to both the Department of Land and Natural Resources (DLNR) and the Department of Transportation (DOT). These assignments include servicing all divisions of the DLNR (Aquatic Resources, Boating, Conservation and Resources Enforcement, Forestry and Wildlife, Land, State Historic Preservation, State Parks, and Water Resource Management) and the DOT (Airports, Harbors, and Highways). The division also provides services to the following attached commissions, boards, or agencies: Kaho'olawe Island Reserve Commission, Natural Area Reserves System Commission, Bureau of Conveyances, the four island Burial Councils, Hawaii Historic Places Review Board, Hawaii Invasive Species Council, Commission on Transportation, State Highway Safety Council, and Medical Advisory Board. Most tort litigation involving the DLNR or the DOT is handled by another division, but the Land/Transportation Division handles a number of cases involving the State as a landlord and as a source of permits or as regulator. The division is responsible for all quiet title actions involving the State and virtually all State eminent domain actions, the bulk of which are done on behalf of the State highways program. The division prepares land disposition documents for the DLNR and the DOT and prepares office leases for the Department of Accounting and General Services when State agencies rent private property as tenants. The division reviews for legality its clients' contracts and administrative rules. The litigation that the division handles includes enforcement actions for violations of the State Historic Preservation law and the law governing land use in conservation districts and actions for damage to natural resources of the State. The division works on the DOT's complex construction cases.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Notes to financial statements

June 30, 2012

- **Legislative Division:** The Legislative Division provides legal services on matters pertaining to legislation and to proposed administrative rules. The division coordinates the preparation and review of all legislative bills proposed by the executive branch agencies and coordinates the review, monitoring, and evaluation of all legislative bills during and after each session of the Legislature. In addition, the division coordinates, monitors, and reviews the preparation of administrative rules of the Department of the Attorney General. This division also performs the final review of the formal opinions issued by the Attorney General and performs the initial review of complaints involving the Sunshine Law.
- **Medicaid Fraud Division:** This division is responsible for planning, supervising and coordinating the investigations of provider fraud and abuse in the Medicaid Program.
- **Public Safety, Hawaiian Home Lands, and Housing Division:** The Public Safety, Hawaiian Home Lands, and Housing Division provides legal services and support to the Department of Public Safety, the Department of Hawaiian Home Lands, the Hawaii Public Housing Authority, and the Hawaii Community Development Agency. The division is responsible for reviewing pardon applications and extradition documents, and responding to petitions for release from inmates under Rule 40 of the Hawaii Rules of Penal Procedure.
- **Tax Division:** The Tax Division provides legal representation and advice to the Department of Taxation and other State departments and agencies, primarily in the areas of tax litigation, legislation, rules, investigations, and opinions and advice. The division includes an informal bankruptcy unit devoted to handling all bankruptcy cases for the Department of Taxation, and occasionally assists other agencies in bankruptcy matters. The division represents the Attorney General in the oversight and enforcement of laws pertaining to charitable trusts, public charities, public benefit corporations, and private foundations. The division is also responsible for the department's registration and bonding function for professional solicitors and professional fundraising counsels under HRS Chapter 467B, and enforcement of the State's charitable solicitation laws. The division is the custodian of certifications by charities that issue charitable gift annuities under HRS § 431:204(b).
- **Tort Litigation Division:** The Tort Litigation Division provides legal defense to personal injury lawsuits and claims made against the State and its departments and agencies. The division does not have primary responsibility for giving advice and counsel to any State department or agency, to provide representation in criminal matters, or to collect monies owed to the State. In general, the services provided by the division include accepting service of legal complaints for the Attorney General, answering legal complaints made against State departments and agencies, investigating claims, conducting discovery on claims, and representing State interests in arbitrations, mediations, and trials.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII

Notes to financial statements

June 30, 2012

Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The AG's general and special revenue funds are grouped into one broad fund category for financial statement presentation purposes - the Governmental Fund (Fund). The AG also has four fiduciary agency funds.

Basis of Accounting

Departmental Financial Statements

The departmental financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the department.

The departmental statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the departmental financial statements and the financial statements for governmental funds. The primary effect of internal activity has been eliminated from the departmental financial statements.

The departmental Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or segment is self-financing or draws from the general revenues of the State.

Net assets on the departmental financial statements are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. There were no net assets restricted by enabling legislation at June 30, 2012.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the departmental financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Notes to financial statements
June 30, 2012

Fund Financial Statements

Fund financial statements report detailed information about the AG. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus.

The following is a description of the governmental funds of the AG:

- General Fund – This is the AG’s primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.
- Special Funds – These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

When both restricted and unrestricted resources are available for use, it is the AG’s policy to use restricted resources first, followed by unrestricted resources as they are needed.

When expenditures are incurred for purposes for which any of the unrestricted fund balances can be used, it is the AG's policy to use committed funds first followed by assigned funds before unassigned funds are used.

Revenue Recognition

The governmental financial statements are prepared using the modified accrual basis of accounting. Revenues and related current assets are recognized in the accounting period when they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. Measurable means that the amount of the transactions can be determined. Available means that the amount is collected in the current fiscal year or soon enough after fiscal year-end (60 days) to liquidate liabilities existing at the end of the fiscal year.

The departmental financial statements are prepared using the accrual basis of accounting.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and recorded when the related fund liability is incurred. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

DEPARTMENT OF THE ATTORNEY GENERAL

STATE OF HAWAII

Notes to financial statements

June 30, 2012

Agency Funds

The AG has four agency funds. These funds are purely custodial and thus do not have a measurement focus. Agency funds use the accrual basis of accounting to recognize receivables and payables and report only assets and liabilities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. In accordance with the State's "New Statewide Capitalization Policy" (Policy), furniture and equipment purchased or acquired with a cost greater than \$5,000 and building with a cost greater than \$100,000, are capitalized at historical cost or estimated historical cost, and depreciated using the straight-line method over their estimated useful lives. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

In accordance with the Policy, the AG provides for depreciation using estimated useful lives as follows:

	<u>Estimated Useful Lives</u>
Buildings and improvements	30 years
Office furniture and equipment	7 years

Departments of the State sharing the same building and improvements report their allocated share of the cost as determined by the State's Department of Accounting and General Services (DAGS).

Appropriations

Appropriations are an authorization granted by the State Legislature permitting a State agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year or as specified in the enacted legislation.

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Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at fiscal year end are included in fund balances since they do not constitute expenditures or liabilities.

Accumulated Vacation and Sick Leave

Employees' vested annual vacation and sick leave are recorded as expenditures on the governmental fund financial statements when actually taken. The employees of the AG are entitled to receive cash payment for accumulated vacation leave upon termination. The liability for such accumulated vacation leave pay is maintained separately and recorded only in the departmental financial statements and represents a reconciling item between the governmental funds and departmental financial statement presentations.

Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements. Other interfund activity, such as loans, are reported as interfund receivables and payables as appropriate and are subject to elimination in the departmental financial statements.

Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when available and when 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 and funds are available.

Risk Management

The AG is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss is reasonably estimable.

Fund Balances

Effective July 1, 2010, the Department of the Attorney General implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 provides clearer fund balance classifications and clarifies the existing governmental fund type

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definitions. This new hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent.

The governmental fund financial statement reports fund balances as follows:

- a. Nonspendable – Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – Represents amounts that are restricted to specific purposes due to constraints placed on the use of resources that are either:
 - a) Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or
 - b) Imposed by law through constitutional provisions or enabling legislation.
- c. Committed – Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature. Unlike restricted amounts, committed amounts may be redeployed for other purposes by the State Legislature.
- d. Assigned – Represents amounts that are neither restricted nor committed but are constrained by management as to use by the government’s intent to use the monies for specific purposes.
- e. Unassigned – Represents the residual classification of the general fund that has not been assigned to other funds and that has not been restricted, committed, or assigned.

At June 30, 2012, the Department of the Attorney General did not have any fund balances that were classified as nonspendable.

2. Compliance and Accountability

Budget Requirements, Accounting and Reporting

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Budgeted expenditures are derived primarily from acts of the State Legislature and from other authorizations contained in other specific appropriation acts in various Session Laws of the State of Hawaii.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations.

Summarization of the budgets adopted by the State Legislature for the general and special revenue funds is presented in the Statements of Fund Revenues and Expenditures – Budget and Actual. For purposes of budgeting, the AG’s budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with generally accepted accounting

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principles (GAAP). The AG's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to (1) the encumbrance of purchase order and contract obligations, and (2) the budgeting of salaries and wages.

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with GAAP are as follows:

	General Fund	Child Support Enforcement	Legal Services
Excess (deficiency) of revenues over (under) expenditures - actual on a budgetary basis	\$ 6,824,310	\$ (2,384,811)	\$ (733,813)
Reserve for encumbrances at June 30, 2012	581,738	31,667	691,699
Reserve for encumbrances at June 30, 2011	(495,045)	(105,267)	(684,156)
Fiscal 2012 salaries and wages funded by fiscal 2013 budget	(1,179,325)	(458,734)	(774,519)
Fiscal 2011 salaries and wages funded by fiscal 2012 budget	1,065,980	469,982	755,386
Decrease in carrying value of cash in State Treasury	-	-	(5,600)
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	\$ 6,797,658	\$ (2,447,163)	\$ (751,003)

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	Crime Prevention and Justice Assistance	Criminal Justice Data Center	Total
Excess (deficiency) of revenues over (under) expenditures - actual on a budgetary basis	\$ (833,883)	\$ (852,177)	\$ 2,019,626
Reserve for encumbrances at June 30, 2012	-	616,120	1,921,224
Reserve for encumbrances at June 30, 2011	(269,269)	(476,815)	(2,030,552)
Fiscal 2012 salaries and wages funded by fiscal 2013 budget	(28,111)	(140,402)	(2,581,091)
Fiscal 2011 salaries and wages funded by fiscal 2012 budget	51,001	143,173	2,485,522
Decrease in carrying value of cash in State Treasury	(16,390)	-	(21,990)
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	\$ (1,096,652)	\$ (710,101)	\$ 1,792,739

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3. Cash

AG's cash at June 30, 2012 consisted of the following:

	<u>Governmental Funds</u>	<u>Agency Funds</u>
Cash in State Treasury	\$ 13,907,423	\$ 724,744
Cash held outside of State Treasury	4,672,317	8,505,203
	\$ 18,579,740	\$ 9,229,947

The AG's cash held in State Treasury are pooled with cash from other State agencies and departments. Cash that is not required for immediate payments are invested by the Department of Budget and Finance, State of Hawaii. Cash accounts that participate in the investment pool accrue interest based on average weighted cash balances.

At June 30, 2012, the State's cash investments included student loan auction rate securities. Liquidity for student loan auction rate securities was 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. In 2008, the auctions failed. Investors without the ability to hold such securities until maturity realized significant losses. In the event of 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 of Hawaii is able to sell the securities to third parties. The student loan auction rate securities are reported by the State of Hawaii at estimated fair value, which is generally calculated using the present value of projected cash flows methodology.

In fiscal years prior to 2010, the State recorded significant losses on its auction rate securities investment due to declines in fair value. At June 30, 2012, the AG had recorded cumulative losses of \$37,398 for the auction rate securities which represented its allocated share of the State's total estimated cumulative losses. The securities depreciated in value during the year ended June 30, 2012 and AG recorded a net decrease of \$21,990 in the carrying value of its cash held in State Treasury. The net decrease in the carrying value of AG's cash held in State Treasury has been reflected as a decrease in revenue in the various funds of AG, as follows:

Legal Services	\$ 5,600
Crime Prevention and Justice Assistance	16,390
	\$ 21,990

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On November 23, 2010, the State of Hawaii and Citigroup Global Markets Inc. (CGMI) entered into an agreement to reach a resolution concerning the State's previous purchase of auction rate securities from CGMI. The settlement agreement principally provides for the following:

1) In June 2015, the State will have the option to require CGMI to purchase some or all of the State's remaining auction rate securities portfolio at par as well as to have CGMI make up the difference between liquidation price and par on any of the State's auction rate securities which have been previously involuntarily liquidated below par.

2) Starting in 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 the securities, at market value, with the difference between that market value and par payable by CGMI in July 2015.

3) The State has released potential claims against CGMI and any affiliated entities or individuals in connection with its investments in auction rate securities, and CGMI has admitted no wrongdoing.

Citigroup Inc., parent of CGMI, has provided a guarantee agreement for CGMI's obligations under the settlement agreement.

Over the years the State of Hawaii has been reducing portions of its holdings of auction rate securities. In 2013 CGMI has agreed to purchase all of the State's remaining balance of auction rate securities at full face value ahead of the originally agreed upon June 2015 date.

Detailed information relating to cash and investments held in the State Treasury and related insurance, collateral and risks relating to interest rate, credit, custodial and concentration are further described in the State of Hawaii Comprehensive Annual Financial Report (CAFR).

The AG also maintains certain funds in two non-interest bearing accounts in a Hawaii bank which are held separately from the State Treasury. One bank account is used primarily for CSEA agency transactions. As of June 30, 2012, the carrying amount of this account was \$8,505,203 and was reflected in "Cash" of the Agency Fund's Statement of Fiduciary Net Assets (Liabilities).

The second bank account, opened in fiscal year 2003, is used solely to account for the Federal share of child support payment collections retained by CSEA under Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) and the Temporary Assistance for Needy Families (TANF) program. As the use of these funds are for CSEA's benefit, this account is reflected in "Cash" of the Governmental Fund Balance Sheet under the special fund for Child Support Enforcement. As of June 30, 2012, the carrying amount of this bank account was \$4,672,317.

With respect to the cash held outside the State Treasury, the Federal Deposit Insurance Corporation (FDIC) provided temporary full insurance coverage on non-interest bearing transaction accounts from December 31, 2010 through December 31, 2012. Effective January 1, 2013, FDIC insurance coverage is limited to \$250,000 per depositor.

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4. Capital Assets and Depreciation

Capital assets activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Deductions and Other	Ending Balance
Building and improvements				
Cost	\$ 10,253,588	\$ -	\$ -	\$ 10,253,588
Accumulated depreciation	(7,059,851)	(282,645)	-	(7,342,496)
Building and improvements - net	3,193,737	(282,645)	-	2,911,092
Office furniture and equipment				
Cost	3,285,458	1,613,212	13,356	4,912,026
Accumulated depreciation	(1,319,647)	(673,260)	(2,849)	(1,995,756)
Office furniture and equipment - net	1,965,811	939,952	10,507	2,916,270
Capital assets - net	<u>\$ 5,159,548</u>	<u>\$ 657,307</u>	<u>\$ 10,507</u>	<u>\$ 5,827,362</u>

Depreciation expense was charged to functions of the AG in the departmental statement of activities as follows:

Governmental activities:

General administrative and legal services	\$ 252,968
Crime prevention and justice assistance	144,522
Criminal history and State identification	358,597
Child support enforcement	199,818
Total governmental activities depreciation expense	<u>\$ 955,905</u>

5. Accrued Vacation

Effective July 1, 2004, eligible employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end. The departmental financial statements present the cost of accumulated vacation leave as a liability. Liabilities for vacation pay are inventoried at the end of each accounting period and adjusted to current salary levels.

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For the year ended June 30, 2012, changes in accrued vacation liabilities were as follows:

Balance at July 1, 2011	\$ 6,355,641
Net decrease	<u>98,746</u>
Balance at June 30, 2012	6,256,895
Less current portion	<u>2,918,500</u>
Non-current portion	<u><u>\$ 3,338,395</u></u>

6. Non-Imposed Employee Fringe Benefits

Payroll fringe benefit costs of the AG's employees funded by State appropriations (general fund) are assumed by the State and are not paid by the AG's operating funds. These costs, totaling \$6,753,139 for the year ended June 30, 2012, have been reported as revenues and expenditures of the AG's General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and in the departmental statement of activities.

7. Related Party Transactions

Certain AG employees perform services for other State departments and agencies. The AG bills those departments and agencies for such services and records revenues in the special fund to which the payroll costs were actually charged. Revenues totaled approximately \$7,683,369 for the fiscal year ended June 30, 2012.

8. Lease Commitments

The AG leases office facilities and office equipment on a long-term basis, the expenditures of which are reported in the general and special funds. The following is a schedule of minimum future rentals on noncancellable operating leases expiring through January 2022:

<u>Year ending June 30,</u>	
2013	\$ 597,000
2014	491,000
2015	417,000
2016	308,000
2017	120,000
Thereafter	<u>379,000</u>
	<u><u>\$ 2,312,000</u></u>

In addition to the minimum rent certain leases also provide for the payment of operating costs and general excise taxes.

Total rent expense including rents under short-term leases for the fiscal year ended June 30, 2012 was approximately \$621,000.

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9. Employee 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 Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer 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 (CAFR) 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 option 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. Approximately 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. 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.

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Post-Retirement Benefits

Plan description – The State contributes to the Hawaii Employer-Union Health Benefit Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003, pursuant to Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for State and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are as follows.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 or more years 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 a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with 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 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 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.

State policy – The actuarial valuation of the EUTF does not provide other post-employment benefits (OPEB) information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of the State's Annual Required Contribution (ARC), interest, and any adjustments to the ARC, to component units and proprietary funds that are reported separately in the State's Comprehensive Annual Financial Report (CAFR) or in stand alone department financial statements. The basis for the allocation is the proportionate share of contributions made by each component unit and proprietary fund for retiree health benefits.

The State's CAFR includes the required footnote disclosures and required supplementary information on the State's OPEB plans. The State's CAFR can be found at the Department of Accounting and General Services' website: <http://hawaii.gov/dags/rpts>.

10. Risk Management

The State is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State has property, crime and other

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liability insurance policies in force through various outside insurance carriers to mitigate this risk. The State generally retains the risk of losses up to deductible amounts per occurrence, and for amounts over the coverage limits. Insurance coverage is subject to various exclusions as specified in the insurance policies. Losses not covered by the insurance policies are paid by DAGS' Risk Management Fund or through legislative appropriation.

Insurance coverage for the policy year December 1, 2011 through December 1, 2012, are summarized below.

The State has real and personal property insurance covering risk of direct physical loss including fire, named windstorms, flood, tsunami, and earthquakes with a limit of loss of \$225,000,000 per occurrence except for flood and earthquake which each has a \$225,000,000 aggregate loss. Deductibles are 3% of loss subject to a \$1,000,000 minimum per occurrence for windstorm, flood, tsunami, and earthquake. For other losses, the deductible is \$1,000,000 per occurrence.

The State has terrorism insurance with a limit of loss of \$50,000,000 with a \$25,000 per occurrence deductible and subject to the limitations of the Federal Terrorism Risk Insurance Act.

The State has liability insurance covering bodily injury and property damage, personal injury, automobile and watercraft liability, public errors and omissions liability, employment practices, dam and terrorism liability. Coverage limits are \$15,000,000 in aggregate with a \$4,000,000 per occurrence deductible.

The State has crime insurance for various types of coverage with a loss limit of \$10,000,000 per occurrence, with a \$500,000 deductible per occurrence.

The State is self-insured for its automobile no fault, worker compensation and unemployment benefits for its employees. These benefits are administered by other State departments.

DAGS' Risk Management Office handles tort, property, and automobile claims of \$10,000 or less for most departments of the State. Claims over \$10,000 are handled by the State's Department of the Attorney General. Losses of \$10,000 or less are paid from DAGS' Risk Management Fund. Losses in excess of \$10,000 are paid through legislative appropriation to the Department of the Attorney General.

At June 30, 2012, losses for legal claims against the State in the amount of \$7,613,922 have been accrued on the Department's statement of net assets and the governmental funds balance sheet. A corresponding amount of appropriation revenue was accrued as of June 30, 2012 for the legal claim settlements. The appropriations had been enacted in fiscal 2012 and allotted in fiscal 2013.

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Notes to financial statements
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11. Commitments and Contingencies

Accumulated Sick Leave – Employees earn sick leave credits at the rate of one and three-quarters working days for each month of service without limit. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave as of June 30, 2012 was approximately \$19,189,000.

Supplemental Time Off Without Pay –

During fiscal 2012 the State implemented the Supplemental Time Off Without Pay (STOWOP) program. Under this program employees received a 5% pay reduction and were allowed to take an equivalent 13 days off during the year. Unused time off days at June 30, 2012 were carried forward to 2013 and will be charged to the 2013 AG appropriation. The program expires on June 30, 2013 at which time any unused time off days are forfeited.

Deferred Compensation Plan – The State has a deferred compensation plan which enables State employees to defer a portion of their compensation. The State Department of Human Resources Development has the fiduciary responsibility of administering the plan. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and income earned thereon are held in trust outside the State Treasury for exclusive benefit of participants and their beneficiaries.

12. Criminal Forfeiture Revolving Fund

The AG is the coordinating agency for the Hawaii Omnibus Criminal Forfeiture Act (Act). Pursuant to this Act, the AG is mandated to process petitions for administrative forfeiture of personal property and to distribute administratively or judicially forfeited property, or its proceeds, to law enforcement agencies according to a specified formula.

Forfeited property is recorded as revenue in a special revenue fund at the time of forfeiture, and the funds may be used for specified purposes only. Currency seized by a law enforcement agency and held by the AG pending a forfeiture decision is recorded in an agency fund. Any bonds posted in connection with judicial forfeitures are similarly recorded.

13. Welfare Reform Act

The enactment of Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), implemented changes in the availability of Federal funding and in the information required to compute State grant awards. PRWORA made effective the Temporary Assistance for Needy Families (TANF) Program under Title IV-A of the Social Security Act and repealed the Aid to Families With Dependent Children (AFDC) Program under Title IV-A of the Act.

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14. Litigation

The AG was a defendant in a class action lawsuit alleging that the Child Support Enforcement Agency (CSEA) had improperly delayed the disbursement of child support payments. In October 2002, the Circuit Court of the First Circuit of the State of Hawaii (Court) determined that CSEA had been disbursing the “overwhelming majority of child support payments” within required time frames. However, the Court required CSEA to provide an accounting of its outstanding child support payment checks as of December 31, 2002, and of checks returned due to bad addresses, and to disburse these amounts. Any remaining unpaid funds would be set aside to establish a common fund to be used for the benefit of those plaintiffs who brought the class action suit. In July 2003, the Court issued its Final Judgment regarding the lawsuit. Included in the Final Judgment was a requirement for CSEA to solicit claims from those individuals whose names are included on the lists and to disburse all uncashed and bad addresses checks to those individuals who subsequently filed claims. CSEA had until March 31, 2004 to disburse the funds. In accordance with the establishment of a common fund, any remaining funds were to be used to pay for the plaintiffs’ attorney’s fees and costs, which amounted to approximately \$503,000. The AG is opposed to the establishment of such a fund since any remaining unpaid funds represent monies belonging to custodial parents. The Court did not grant any other monetary relief to the plaintiffs. There have not been any further developments relating to this matter.

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Notes to the financial statements
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15. Fund Balances

At June 30, 2012, the Department of the Attorney General's governmental fund financial statements reported fund balances as follows:

	General Fund	Child Support Enforcement	Legal Services	Crime Prevention and Justice Assistance	Criminal Justice Data Center	Total
Restricted for:						
Federal grants	\$ -	\$ 5,213,790	\$ 1,774,943	\$ 3,979,226	\$ 147,147	\$ 11,115,106
Committed to:				-		
Medicaid investigation recovery fund	-	-	1,157,873		-	1,157,873
DNA Registry	-	-	735,862	-	-	735,862
Enforcement for charitable solicitations	-	-	787,037	-	-	787,037
Criminal forfeiture fund	-	-	366,815	-	-	366,815
State identification revolving fund	-	-	-	-	1,013,756	1,013,756
Criminal history record revolving fund	-	-	-	-	758,300	758,300
Other	-	-	247,482	-	-	247,482
	-	-	3,295,069	-	1,772,056	5,067,125
Assigned to:						
Encumbrances	581,738	-	-	-	-	581,738
Unassigned	(2,359,364)	-	-	-	-	(2,359,364)
Total Fund Balance	<u>\$ (1,777,626)</u>	<u>\$ 5,213,790</u>	<u>\$ 5,070,012</u>	<u>\$ 3,979,226</u>	<u>\$ 1,919,203</u>	<u>\$ 14,404,605</u>

Encumbrances and other commitments at June 30, 2012 amounted to:

General Fund	\$ 581,738
Child Support Enforcement	31,667
Legal Services	691,699
Criminal Justice Data Center	616,120
	<u>\$ 1,921,224</u>

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Notes to the Schedule of Expenditures of Federal Awards
June 30, 2012

16. Fiduciary Net Liabilities

The net excess of liabilities over assets of \$2,817,423 in the Statement of Fiduciary Net Assets (Liabilities) result from the Child Support Enforcement program and are due to Internal Revenue Service intercept fees on collections of child support payments from delinquent non-custodial parents, uncollected recoupments due from custodial parents resulting from overpayments, and uncollected non-sufficient fund (NSF) payments due from non-custodial parents.

The Department has requested funding from the Legislature to cover the deficit in the CSEA Agency Fund.

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Schedule of Expenditures of Federal Awards
For the year ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Grant Number	Federal Expenditures
<u>U.S. Department of Justice</u>			
Sexual Assault Services Formula Program	16.017	2009-KF-AX-0022	\$ 104,543
		2010-KF-AX-0051	113,113
		2011-KF-AX-0050	91
			<u>217,747</u>
Services for Trafficking Victims	16.320	2010-VT-BX-0013	<u>27,894</u>
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	2005-JL-FX-K038	<u>310,643</u>
Internet Crimes Against Children	16.543	2008-MC-CX-K027	212,620
		2011-MC-CX-K008	152,670
			<u>365,290</u>
Anti-Gang Initiative	16.744	2007-PG-BX-0099	<u>73,840</u>
State Justice Statistics Program for Statistical Analysis Center	16.550	2010-BJ-CX-K037	<u>21,953</u>
Passed through the State Department of Transportation: National Criminal History Improvement Program (NCHIP)	16.554	2008-RU-BX-K017	10,380
		2009-RU-BX-K023	89,176
		2008-ID-MX-0016	226,386
		2000-RG-CX-K011	334
			<u>326,276</u>
Crime Victim Assistance (VOCA)	16.575	2008-VA-GX-0040	775,937
		2009-VA-GX-0062	911,823
			<u>1,687,760</u>
SMART Grand Sex Offender ID	16.580	2010-AW-BX-0019	<u>201,536</u>
ARRA - Stop Violence Against Women Formula Grant Stop Violence Against Women Formula Grant	16.588	2009-EF-S6-0021	244,243
		2008-WF-AX-0038	194,773
		2007-WF-AX-0049	71,654
		2009-WF-AX-0049	382,149
		2010-WF-AX-0065	11,764
		<u>904,583</u>	
Residential Substance Abuse Treatment for State Prisoners	16.593	2007-RT-BX-0009	44,101
		2008-RT-BX-0003	27,859
		2010-RT-BX-0058	870
			<u>72,830</u>
Project Safe Neighborhoods	16.609	2008-GP-CX-0040	31,154
		2009-CP-CX-0064	67,399
		2007-GP-CX-0094	29,309
			<u>127,862</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Schedule of Expenditures of Federal Awards
For the year ended June 30, 2012 (continued)

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
ARRA - Public Safety Partnership and Community Policing Services Grant	16.710	2010-CK-WX-0492	\$ 460,294
		2009-CK-WX-0179	378,221
			<u>838,515</u>
Edward Byrne Memorial Justice Assistance Grant (JAG)	16.738	2009-DJ-BX-0672	728,822
		2008-DJ-BX-0728	44,202
		2008-DJ-BX-0009	16,887
		2007-DJ-BX-0061	235,967
		2010-DJ-BX-0404	198,655
			<u>1,224,533</u>
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	2008-CD-BX-0012	551
		2009-CD-BX-0004	20,332
		2010-CD-BX-0024	121,606
		2011-CD-BX-0014	23,296
			<u>165,785</u>
ARRA - Internet Crimes Against Children Task Force Program	16.800	2009-SN-B9-K004	<u>119,516</u>
ARRA - State Victim Assistance Formula Grant Program	16.801	2009-SG-B9-0138	<u>54,001</u>
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG)	16.803	2009-SU-B9-0044	<u>2,056,694</u>
John R. Justice Grant Program	16.816	2010-RJ-BX-0021	<u>78,253</u>
Total U.S. Department of Justice			<u>8,875,511</u>
<u>U.S. Department of Health and Human Services</u>			
Child Support Enforcement Title IV-D	93.563	G-11-04-HI-4004	10,745,935
		G-12-04-HI-4004	88,462
			<u>10,834,397</u>
State Medicaid Fraud Control Units	93.775	01-1101-HI-5050	254,579
		01-1201-HI-5050	723,832
			<u>978,411</u>
Total U.S. Department of Health and Human Services			<u>11,812,808</u>
Total Expenditures of Federal Awards			<u>\$ 20,688,319</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII**

Notes to the Schedule of Expenditures of Federal Awards
June 30, 2012

1. Basis of Presentation

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the Department of the Attorney General of the State of Hawaii (AG) and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2. Sub-recipients

Of the Federal expenditures presented in the schedule, expenditures by sub-recipients were as follows:

Program Title	Federal CFDA Number	Amount
Sexual Assault Services Formula Program	16.017	\$ 217,556
Services for Trafficking Victims	16.320	13,728
Crime Victim Assistance (VOCA)	16.575	1,615,517
ARRA - Stop Violence Against Women Formula Grants	16.588	792,627
Project Safe Neighborhoods	16.609	118,595
Residential Substance Abuse Treatment for State Prisoners	16.593	71,960
Edward Byrne Memorial Justice Assistance Grant (JAG)	16.738	1,004,123
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	155,369
Anti-Gang Initiative	16.744	67,141
ARRA - State Victim Assistance Formula Grant Program	16.801	50,371
ARRA - Edward Bryne Memorial Justice Assistance Grant (JAG)	16.803	1,145,154
		<u>\$ 5,252,141</u>

PART II
COMPLIANCE AND INTERNAL CONTROL

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

INDEPENDENT AUDITOR'S 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*

The Auditor
Office of the Auditor
State of Hawaii

We have audited the financial statements of the governmental activities and each fund of the Department of the Attorney General of the State of Hawaii (AG), as of and for the year ended June 30, 2012, which collectively comprise the AG's basic financial statements and have issued our report thereon dated March 25, 2013. 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.

Internal Control Over Financial Reporting

Management of the Department of the Attorney General 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 AG'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 the AG's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the AG's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AG's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws,

regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103 D of the Hawaii Revised Statutes), and procurement rules, directives and circulars, 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs, as item 2012-1.

We also noted certain other matters that we reported to management of the AG in a separate letter dated March 25, 2013.

The AG's response to the finding identified in our audit is described in the accompanying Response of the Department of the Attorney General. We did not audit the AG's response and, accordingly, we express no opinion on it.

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

Akamine, Oyadomari & Kosaki CPAs, Inc.

Honolulu, Hawaii
March 25, 2013

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

INDEPENDENT AUDITOR'S 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

The Auditor
Office of the Auditor
State of Hawaii

Compliance

We have audited the compliance of the Department of the Attorney General of the State of Hawaii (AG), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the AG's major federal programs for the year ended June 30, 2012. The AG's major federal programs are identified in the summary of auditor's 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 AG's management. Our responsibility is to express an opinion on the AG's compliance based on our audit.

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 AG's 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 AG's compliance with those requirements.

As described in items SA-2012-1 and SA-2012-2 in the accompanying Schedule of Findings and Questioned Costs, the AG did not comply with requirements for the monitoring of sub-recipients that are applicable to Stop Violence Against Women Formula Grant (CDFA 16.588), Edward Byrne Memorial Justice Assistance Grant (CDFA16.738) and the Crime Victim Assistance Grant (CDFA16.575). The AG also did not comply with the requirement to maintain documentation supporting grant expenditures that are applicable to the Public Safety Partnership and Community Policing Services Grant (CFDA 16.710). Compliance with such requirements are necessary, in our opinion, for the AG to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the AG 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.

Internal Control Over Compliance

Management of the AG 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 AG's 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 AG's 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 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 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.

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 SA-2012-1 and SA-2012-2 to be significant deficiencies.

The AG's response to the findings identified in our audit is described in the accompanying Response of the Department of the Attorney General. We did not audit the AG's response and, accordingly, we express no opinion on the response.

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

Alkammi, Oyadornani & Uwalu CPAs, Inc.

Honolulu, Hawaii
March 25, 2013

PART III
FINDINGS AND QUESTIONED COSTS

**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

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? _____ yes no
- Significant deficiency(ies) identified? _____ yes none reported
- Noncompliance material to financial statements noted? yes _____ no

Federal Awards

Internal controls over major programs:

- Material weakness(es) identified? _____ yes no
- Significant deficiency(ies) identified? yes _____ none reported

Type of Auditor’s report issued on compliance for major programs: qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes _____ no

Identification of major programs:

<u>CFDA No.</u>	<u>Name of Federal Program or Cluster</u>
16.575	Crime Victim Assistance
16.588	ARRA - Stop Violence Against Women Formula Grants
16.710	ARRA - Public Safety Partnership and Community Policing
16.738	Edward Byrne Memorial Justice Assistance Grant
16.800	ARRA - Internet Crimes Against Children Task Force
16.803	ARRA - Edward Byrne Memorial Justice Assistance Grant
93.563	Child Support Enforcement Title IV-D
93.775	State Medicaid Fraud Control Units

Dollar threshold used to distinguish between type A and type B programs: \$620,000
Auditee qualifies as low-risk auditee? _____ yes no

**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section II – Financial Statement Findings and Other Matters

2012-1 Deficit in CSEA Agency Fund should be addressed and resolved.

Criteria:

The Department of the Attorney General (AG) maintains four agency funds including an Agency Fund for the Child Support Enforcement Agency (CSEA), a division of the Department of the Attorney General, which provides for a system of collections, disbursements, and enforcement of court ordered child support payments. Amounts collected for child support are custodial in nature and are under the control of the CSEA as a fiduciary and are not available for use in government operations.

Condition:

Cash receipts collected from non-custodial parents are deposited into the CSEA bank account for disbursement to custodial parents. Transactions are recorded in the CSEA Agency Fund.

At June 30, 2012 the balance sheet of the CSEA Agency Fund comprised:

Cash, net of outstanding checks of \$2,924,000 of which \$2,248,000 were over one year old	\$ 8,505,000
Liability to agency recipients	<u>11,322,000</u>
Deficit	<u><u>\$ 2,817,000</u></u>

The deficit of \$2,817,000 is comprised of the following:

Unrecovered nonsufficient funds support payments from non-custodial parents	\$ 1,072,000
Uncollected amounts due from custodial parents resulting from overpayment of child support payments	1,009,000
State's portion of IRS tax intercept fees to enforce collecting child support payments	498,000
Other	<u>238,000</u>
	<u><u>\$ 2,817,000</u></u>

**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Federal regulations provide for child support payments from the non-custodial parent to be remitted to the custodial parent within two business days upon receipt by the CSEA. Certain support payments, however, are held and not immediately disbursed due to payments received with insufficient information to identify the intended custodial parent, child support payment checks returned as undeliverable to the custodial parent, amounts intercepted and withheld from the delinquent non-custodial parent's income tax return refund which are subject to challenge, prepaid child support payments made by the non-custodial parent not yet due to the custodial parent, and amounts held for overpayments for public assistance to the custodial parent.

The total support payments held was approximately \$11,322,000 at June 30, 2012. CSEA has over the years accumulated a deficit of \$2,817,000 in the Agency Fund at June 30, 2012. Since the child support moneys are custodial in nature, the Agency Fund should not be operating with a deficit.

Cause:

The deficit was caused by the following.

Since Federal regulations require disbursement of child support payments to custodial parents within two business days of receipt, CSEA disbursed amounts received without knowing whether the non-custodial parent had sufficient funds at the bank. Nonsufficient funds (NSF) checks rejected by the bank result in amounts due from non-custodial parents. Recovery of such funds were dependent on collecting from the non-custodial parent and not by reducing future child support payments to the custodial parent.

Errors in the payment process gave rise to uncollected recoupments due from the custodial parent resulting from overpayment of child support payments. CSEA's ability to collect such overpayment from the custodial parent by reducing future child support payments was limited.

CSEA enforcement actions against delinquent non-custodial parents included intercepting tax return refunds. The IRS assessed a fee for the intercept. While two thirds of the intercept fees were paid by CSEA federal grant funds, the remaining one third is the responsibility of the CSEA. This portion represents the State's matching portion under the federal grant and is not recoverable from the custodial parent.

Over the years the Agency trust fund moneys have been used by CSEA to pay for all of the above items and as of June 30, 2012 obligations exceeded cash, resulting in a \$2,817,000 deficit in the CSEA Agency Fund. The present deficit is being funded by the "float" created by outstanding uncashed checks (\$2,248,000 over one year old) and from obligations due to parents not being immediately payable. Any recovery from parents for either NSF payments or overpayments of support is problematic.

Effect: As a result of the deficit there is presently not enough cash in the Agency Fund to pay all of the Agency Fund obligations.

Recommendation: We continue to recommend that the AG resolve the deficit position in its Agency Fund.

**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section III – Federal Award Findings and Questioned Costs

SA-2012-1 Controls over compliance with sub-recipient monitoring program should be implemented.

Criteria:

Federal regulations provide that grantees are responsible for monitoring sub-recipients of grants to assure compliance with applicable Federal requirements. Crime Prevention Justice Assistance (CPJA) monitoring program includes review of progress reports from sub-recipients and on-site visits of the sub-recipients.

Condition:

We noted that semi-annual progress reports due from sub-recipients within 30 days after the end of the reporting period were not received by the CPJA as follows:

	CFDA #16.588 Stop Violence Against Women Formula Grant	CFDA #16.738 Edward Byrne Memorial Justice Assistance Grant
Sub-recipient	Prosecuting Attorney, City and County of Honolulu 09-EF-07	Maui County Police Department 09-DJ-07
Progress reporting period	4/1/2011-9/30/2011 10/1/2011-3/31/2011	1/1/2012-6/30/2012

During our review of the CPJA on-site monitoring program we noted that there was no on-site monitoring visit conducted for Hawaii Pacific Health (09-WF-02) a sub-recipient for the CDFA #16.588 Stop Violence Against Women Formula Grant.

On-site visits were conducted by the CPJA for CDFA #16.575 Crime Victim Assistance Grant but the results of the visits were not documented in project monitoring reports in a timely manner as follows:

**Department of the Attorney General
State of Hawaii**

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

<u>Sub-recipient</u>	<u>Sub-recipient #</u>	<u>Date of on-site visit</u>	<u>Project monitoring report date</u>
Prosecuting Attorney, City and County of Honolulu	08-VA-02	10/28/2010	10/12/2012
Prosecuting Attorney, County of Kauai	08-VA-03	4/23/2012	10/12/2012
Prosecuting Attorney, County of Hawaii	08-VA-04	10/7/2010	10/12/2012

Cause:

The CPJA did not have controls in place to insure compliance with its monitoring program for receipt of sub-recipient status reports, on-site visits of sub-recipients, and for the timely completion of project monitoring reports for on-site visits.

Effect:

Failure to properly monitor sub-recipients could lead to sub-recipients noncompliance with the applicable federal grant requirements.

Recommendation:

We recommend that the CPJA implement controls to insure compliance with its sub-recipient monitoring program.

Department of the Attorney General
State of Hawaii

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SA-2012-2 Documentation of expenditures should be properly maintained.

Criteria:

Federal regulations provide that grantees are responsible for maintaining documentation of expenditures charged to grant funds.

Condition:

In our testing of expenditures for Federal grants at Hawaii Criminal Justice Data Center (HCJDC), we noted two expenditures out of forty selected in our sample did not have proper supporting documentation. Neither summary warrant vouchers nor the related invoices for the expenditures could be located by HCJDC personnel. Both the expenditures were with vendor Commerce Solutions, Inc. in the amount of \$5,863.76 and \$5,673.46 charged to CFDA #16.710 Public Safety Partnership and Community Oriented Policing Services (COPS) grant. We were not able to ascertain whether expenditures were authorized, supported by an invoice, and properly chargeable to the federal grant.

Cause:

HCJDC believes that the summary warrant voucher and related invoices were misplaced.

Effect:

Expenditures paid with Federal grant funds could be disallowed by the U.S. Department of Justice, the grantor, in the absence of proper documentation.

Recommendation:

We recommend that HCJDC implement the necessary procedures and controls to provide for the proper retention of expenditure documentation.

Department of the Attorney General
State of Hawaii
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section IV – Prior Year Audit Findings

Internal Control over Financial Reporting

Finding 2011-1 Deficit in CSEA Agency Fund should be addressed and resolved

Condition:

The deficit in the CSEA Agency Fund amounted to \$2,401,000 at June 30, 2011.

Recommendation:

We recommended that the Department address and resolve the deficit position of the CSEA Agency fund.

Current status:

The deficit in the CSEA Agency Fund amounted to \$2,817,000 at June 30, 2012. See finding 2012-1 for further current details relating to this matter.

Federal Award Findings and Questioned Costs

Finding SA-2011-1 Controls should be implemented over draw downs of Federal grants and expenditures charged to grants.

Condition:

Funds from a grant draw down in August 2008 by HCJDC was not being tracked by the Division. As a result the funds remained in the State's bank accounts until May 2010. During fiscal 2011 the HCJDC expended the grant funds after the grant had long expired. The expenditures were also unrelated to the grant's original purpose.

Recommendation:

We recommended that appropriate procedures and controls be implemented to ascertain that all draw downs on grants have been received on a timely basis and that all expenditures charged to the related grant are appropriate and timely. We also recommended that HCJDC make a determination of the proper disposition of expenditures made after the grant expiration as well as any unspent grant monies.

**Department of the Attorney General
State of Hawaii**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012**

Current Status:

Controls have been implemented. No similar findings were noted during the 2012 audit. The grantor has been reimbursed for the inappropriate expenditures charged to the grant as well as unspent grant funds.

SA-2011-2 Controls over monitoring sub-recipients should be implemented.

Condition:

During over 2011 audit we noted that there was no written documentation to evidence monitoring of certain sub-recipients by the CPJA.

Recommendation:

We recommended that the CPJA implement the necessary procedures and controls to provide for proper monitoring of all sub-recipients.

Current status:

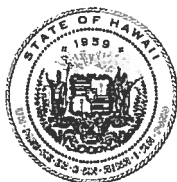
Exceptions continue to be noted during our 2012 audit. See current audit Finding SA-2012-1.

PART IV

RESPONSE OF THE DEPARTMENT OF THE ATTORNEY GENERAL

STATE OF HAWAII

NEIL ABERCROMBIE
GOVERNOR



DAVID M. LOUIE
ATTORNEY GENERAL

RUSSELL A. SUZUKI
FIRST DEPUTY ATTORNEY GENERAL

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
425 QUEEN STREET
HONOLULU, HAWAII 96813
(808) 586-1500

DEPARTMENT OF THE ATTORNEY GENERAL
FISCAL YEAR ENDED JUNE 30, 2012
RESPONSE TO SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2012-1 Deficit in CSEA Agency Fund should be addressed and resolved

Condition and Effect

Cash receipts collected from non-custodial parents are deposited into the CSEA bank account for disbursement to custodial parents. Transactions are recorded in the CSEA Agency Fund. CSEA has over the years accumulated a deficit of \$2,817,000 in the Agency Fund at June 30, 2012. As a result of the deficit there is presently not enough cash in the Agency Fund to pay all of the Agency Fund obligations.

The deficit of \$2,817,000 is comprised of the following:

Unrecovered nonsufficient funds support payments from non-custodial parents	\$1,072,000
Uncollected amounts due from custodial parents resulting from overpayment of child support payments	\$1,009,000
State's portion of IRS tax intercept fees to enforce collecting child support payments	\$ 498,000
Other	<u>\$ 238,000</u>
	\$2,817,000

Cause

The deficit was caused by the following.

Since Federal regulations require disbursement of child support payments to custodial parents within two business days of receipt, CSEA disbursed amounts received without knowing whether the non-custodial parent has sufficient funds at the bank. Nonsufficient funds (NSF) checks rejected by the bank result in amounts due from non-custodial parents. Recovery of such funds were dependent on collecting from non-custodial parent and not by reducing future benefit payments to the custodial parent.

Errors in the payment process gave rise to uncollected recoupments due from the custodial parent resulting from overpayment of child support payments. CSEA's ability to collect such overpayment from the custodial parent by reducing future benefit payments was limited.

CSEA enforcement actions against delinquent non-custodial parents included intercepting tax returns refunds. The IRS assessed a fee for the intercept. While two thirds of the intercept fees were paid by CSEA federal grants funds, the remaining one third is the responsibility of the CSEA. This portion represents the State's matching portion under the federal grant and is not recoverable from the custodial parent.

Over the years the Agency trust fund moneys have been used by CSEA to pay for all of the above items and as of June 30, 2012 obligations exceeded cash, resulting in a \$2,817,000 deficit in the CSEA Agency Fund. The present deficit is being funded by the "float" created by outstanding uncashed checks (\$2,248,000 over one year old) and from obligations due to parents not being immediately payable. Any recovery from parents for either NSF payments or overpayments of support is problematic.

Recommendation:

We continue to recommend the AG resolve the deficit position in its Agency Fund.

Response:

The AG concurs with the recommendation and CSEA has taken the following measures to reduce the deficit in the collections account:

- *The agency has implemented a rule that a disbursement will not be made within the normal two business days for any check amount in excess of \$3,000 until the check clears the bank. Although this requires more manpower to monitor the check status, it helps the agency to avoid potential non-sufficient fund situations.*
- *Since 2007 the agency has designated an accountant to make collection calls to non-custodial parents and employers who issued checks with insufficient funds. The success rate of collection has been steadily increased and the percentage as of February 2013 is 80%.*
- *Once a person or an employer bounces a check, the child support enforcement system generates an alert on the case. Before the non-sufficient fund is repaid, we only will accept a money order or cashier check unless the sender makes an electronic fund transfer.*
- *The agency has records of custodial parents with overpayments and is working on a project to recoup from them.*
- *State tax refund intercepts are usually disbursed within two business days. Until recently when a non-debtor spouse contacted the agency and demanded a refund, the agency used to oblige the request and pursued the recoupment from the custodial parent afterwards. This practice inevitably attributes to the deficit. However, the agency's current position is to advise the non-debtor spouse that*

the claim will be processed after the custodial parent returns the fund. The agency will have discussions with the State Department of Taxation to implement procedures regarding the non-debtor spouse claim on the tax refund intercept to rectify the afore-mentioned problem.

- *The agency will continue to submit requests for the State portion of the IRS offset fees to the next legislative session. Furthermore, the agency will continue to make additional funding requests to reduce the deficit resulting from issues from the past.*

SA 2012-1 Controls over compliance with sub-recipient monitoring program should be implemented.

Condition and Effect

The CPJA monitoring program did not show any on-site monitoring visit conducted for Hawaii Pacific Health (09-WF-02) a sub-recipient for CDFA #16.588 Stop Violence Against Women Formula Grant. On-site visits conducted by CPJA for CDFA #16.575 Crime Victim Assistance Grant but the results of the visits were not documented in project monitoring reports in a timely manner. Failure to monitor sub-recipients could lead to noncompliance with the applicable federal program requirements.

Recommendation:

We recommend that the CPJA implement controls to insure compliance with its sub-recipient monitoring program.

Response:

The Crime Prevention and Justice Assistance Division (CPJAD) concurs with these findings.

CPJAD is working to improve the grant monitoring policy to match federal requirements. According to the 2011 OJP Financial Guide, Post award Requirements, Sub recipient Monitoring Procedures: "As the award recipient, you are required to during the project period to monitor the subrecipient's use of Federal Funds. The methods of monitoring may vary: some of the factors you may want to consider in determining the nature, timing, and extent of the monitoring are as follows:

- *Programs with complex compliance requirements have a higher risk of non-compliance. The larger the percentage of program awards passed through, the greater the need for subrecipient monitoring.*
- *Larger dollar awards are of greater risk.*
- *Subrecipients may be evaluated as higher risk or lower risk to determine the need for closer monitoring. Generally, new subrecipients may require closer monitoring. For existing subrecipients, based on results of during-the-award monitoring and subrecipient audits, a subrecipient may warrant closer monitoring (e.g., the subrecipient has a history of non-compliance as either a recipient or subrecipient, new personnel, or new or substantial changed systems)."*

CPJAD is currently in the process of drafting and completing a risk assessment instrument that will assist the division with effectively deploying resources to the riskiest and most problematic subrecipients. Currently, the policy is that all subrecipients are monitored in the same manner. A change in policy will allow CPJAD to better allocate its resources, improve the monitoring of federal funds, and closely track subrecipients compliance with reporting requirements. CPJAD anticipates having an improved monitoring process in place by May 31, 2013.

Effective April 1, 2013, CPJAD will monitor sub-recipient activities by:

- *Reviewing monthly financial reports submitted by the sub-recipient;*
- *Reviewing performance reports submitted by the sub-recipient;*
- *Communicating regularly with the sub-recipient and making appropriate inquiries concerning program activities that will be documented and filed in the sub-recipient project file.*

Desk monitoring activities, which includes telephone and e-mail contact with the sub-recipient, will also be documented and filed in the sub-recipient project file.

The Grants and Planning Branch Chief will be responsible for developing a system to ensure that the Planning Specialists are conducting the above monitoring activities.

SA 2012-2 Documentation of expenditures should be properly maintained.

Condition and Effect:

The HCJDC did not have proper supporting documentation for two expenditures out of forty selected samples. Neither summary warrant vouchers nor related invoices for the expenditures could be located by HCJDC personnel. Expenditures paid with Federal grant funds could be disallowed by the U.S. Department of Justice, the grantor, in the absence of proper documentation.

Recommendation:

We recommend that HCJDC implement the necessary procedures and controls to provide for the proper retention of expenditures documentation.

Response:

The HCJDC Division concurs with the recommendation and to prevent this from happening again, the procedures and controls was implemented so that as soon as any payment is made from a grant account, copies of the purchase order (PO), invoice and voucher are made for filing in the grant file. In addition, a copy is kept in the division's appropriation file. This is also done for any TDR or JV relating to the grant account.