

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
YEAR ENDED JUNE 30, 2002

## PART I

### INTRODUCTORY SECTION

December 16, 2002

To the Attorney General  
State of Hawaii

We have completed our financial audit of the Department of the Attorney General of the State of Hawaii as of and for the fiscal year ended June 30, 2002. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

## **OBJECTIVES OF THE AUDIT**

The objectives of our audit were:

1. To provide a basis for an opinion on the fairness of the financial statements of the Department of the Attorney General (AG).
2. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the AG is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government.
3. To determine whether the AG's internal control is adequate in assuring that there is effective control over the proper accounting of revenues, expenditures, assets, and liabilities.
4. To determine whether the AG has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable laws and regulations.
5. To determine whether the AG has complied with the laws and regulations that may have a material effect on the financial statements and on each major federal financial assistance program of the AG.

## SCOPE OF THE AUDIT

Our audit was performed in accordance with generally accepted auditing standards as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the AG for the fiscal year ended June 30, 2002.

## ORGANIZATION OF THE REPORT

This report is organized into six parts:

- |      |       |  |
|------|-------|--|
| PART | I -   | presents the introduction.   |
| PART | II -  | presents the financial statements and the auditors' report on such statements and required supplementary information.  |
| PART | III - | presents other supplementary financial data.   |
| PART | IV -  | contains the report on compliance and on internal control over financial reporting and the report on compliance with requirements applicable to each major program and internal control over compliance. |
| PART | V -   | contains the schedule of findings and questioned costs and provides the status of prior audit findings.  |
| PART | VI -  | contains the AG's response to our findings.  |

\* \* \* \* \*

At this time, we wish to express our sincere appreciation for the excellent cooperation and assistance extended to us by the personnel of the AG. We shall be pleased to respond to any questions that you may have on this report.

Very truly yours,

OHATA CHUN YUEN LLP

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## PART II

### FINANCIAL SECTION

## INDEPENDENT AUDITORS' REPORT

To the Attorney General  
State of Hawaii

We have audited the accompanying financial statements of the Department of the Attorney General of the State of Hawaii (AG), as of and for the fiscal year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the AG's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 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 opinion.

The AG has not reconciled its Child Support Enforcement Agency bank accounts to the child support subsidiary ledgers for several years including the fiscal year ended June 30, 2002. As a result, we were unable to satisfy ourselves concerning the amount of cash for the Child Support Enforcement Agency that should be reflected as due to specific parties at June 30, 2002.

As discussed in Note 13 to the financial statements, the Child Support Enforcement Agency of the AG has reported its share of TANF collection revenues in an agency fund although a fiduciary agreement does not exist. In our opinion, generally accepted accounting principles require revenues of this type to be reported in a special revenue fund.

As discussed in Note 1, the financial statements of the AG are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of Hawaii that is attributable to the transactions of the AG.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to reconcile the financial activities of the Child Support Enforcement Agency bank accounts to the child support subsidiary ledgers as discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the AG as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the AG has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2002.

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information the Government Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 16, 2002 on our consideration of the AG's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. 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 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OHATA CHUN YUEN LLP

Honolulu, Hawaii  
December 16, 2002





**STATE OF HAWAII**  
**DEPARTMENT OF THE ATTORNEY GENERAL**  
425 QUEEN STREET  
HONOLULU, HAWAII 96813  
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## Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) offers readers of the Department of the Attorney General's (AG) financial statements a narrative overview and analysis of the AG's financial activities for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with the basic financial statements and notes to the financial statements.

The implementation of the new financial reporting requirements under GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, makes the AG's financial report for the fiscal year ended June 30, 2002, different than those of previous fiscal years. New features include this MD&A, the government-wide Statement of Net Assets, the government-wide Statement of Activities, and the concept of major fund reporting.

## Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the AG's basic financial statements. The AG's basic financial statements are comprised of three components: (1) entity-wide financial statements, (2) fund financial statements, and notes to basic financial statements. Fund and account definitions as well as accounting treatment are further explained in Note 1, Summary of Significant Accounting Policies, of the notes to the financial statements.

## Entity-Wide Financial Statements

The entity-wide financial statements are designed to provide readers with a broad overview of the AG's finances. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the fiscal year's revenues and expenses are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, assets, liabilities, and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

- The Statement of Net Assets presents all of the AG's assets and liabilities, with difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator to determine whether the financial position of the AG is improving or deteriorating.

- The Statement of Activities presents information showing the AG's revenues and expenses for the fiscal year. Functional activities are highlighted in this statement, whereby direct and indirect functional costs are shown net of related program revenue. This statement shows the extent to which the various functions depend on general taxes and non-program revenues 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, like other state agencies, 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: Governmental Funds and Agency Funds.

#### **Governmental Funds**

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the entity-wide financial statements. However, unlike the entity-wide 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 entity-wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the entity-wide 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 entity-wide financial statements.

#### **Agency Funds**

Agency Funds (*Fiduciary Funds*) are used to account for resources held for the benefit of parties outside the State and the AG. Agency Funds are not reflected in the entity-wide financial statements because the resources of those funds are not available to support the State or the AG's own programs.

### Notes to Basic Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the entity-wide and fund financial statements.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Statement Of Net Assets  
June 30, 2002

| ASSETS   | Governmental<br><u>Activities</u> | <u>Total</u>               |
|--|-----------------------------------|----------------------------|
| Current Assets   |                                   |                            |
| Cash   | \$ 16,304,876                     | \$16,304,876               |
| Due from other state agencies  | 389,933                           | 389,933                    |
| Due from agency funds  | 6,164,943                         | 6,164,943                  |
| Due from grantor   | 5,106,719                         | 5,106,719                  |
| Due from subgrantees   | 74,584                            | 74,584                     |
| Settlements receivable   | <u>416,785</u>                    | <u>416,785</u>             |
| Total current assets   | 28,457,840                        | 28,457,840                 |
| Capital Assets   |                                   |                            |
| Buildings and improvements, net of<br>accumulated depreciation of \$4,290,954    | 4,826,496                         | 4,826,496                  |
| Office, furniture and equipment, net of accumulated<br>depreciation of \$681,595 | <u>177,447</u>                    | <u>177,447</u>             |
| Total capital assets   | <u>5,003,943</u>                  | <u>5,003,943</u>           |
| Total Assets   | <u><u>\$33,461,783</u></u>        | <u><u>\$33,461,783</u></u> |
| LIABILITIES  |                                   |                            |
| Current Liabilities  |                                   |                            |
| Legislative relief payable   | \$ 3,817,071                      | \$ 3,817,071               |
| Accounts payable   | 1,113,498                         | 1,113,498                  |
| Accrued wages and employee benefits payable                                      | 1,171,864                         | 1,171,864                  |
| Due to State of Hawaii   | 4,940,135                         | 4,940,135                  |
| Deferred revenues  | <u>5,184,943</u>                  | <u>5,184,943</u>           |
| Total current liabilities  | 16,227,511                        | 16,227,511                 |
| Long-Term Liabilities  |                                   |                            |
| Accrued vacation   | <u>4,477,102</u>                  | <u>4,477,102</u>           |
| Total Liabilities  | <u>20,704,613</u>                 | <u>20,704,613</u>          |
| NET ASSETS   |                                   |                            |
| Invested In Capital Assets   | 5,003,943                         | 5,003,943                  |
| Restricted For Various Purposes  | 8,723,336                         | 8,723,336                  |
| Unrestricted   | <u>(970,109)</u>                  | <u>(970,109)</u>           |
| Total Net Assets   | <u>12,757,170</u>                 | <u>12,757,170</u>          |
| Total Liabilities And Net Assets   | <u><u>\$33,461,783</u></u>        | <u><u>\$33,461,783</u></u> |

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

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Statement Of Activities  
Year Ended June 30, 2002

| <u>Functions/Programs</u>                 | <u>Expenses</u>      | <u>Program Revenues</u>         |   | Net (Expense)<br>Revenue and<br>Changes<br>in Net<br>Assets |
|---|----------------------|---------------------------------|---|---|
|   |                      | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants<br/>and<br/>Contributions</u> |   |
| Governmental Activities:                  |                      |                                 |   |   |
| General administrative and legal services | \$ 83,135,673        | \$ 996,254                      | \$45,365,971  | \$(36,773,448)  |
| Child support enforcement                 | 12,032,520           | -                               | 12,292,460  | 259,940   |
| Drug control and crime prevention         | 7,648,794            | -                               | 7,558,074   | (90,720)  |
| Criminal history and state identification | 3,975,389            | 1,567,115                       | 2,318,349   | (89,925)  |
| Others                                    | <u>32,354</u>        | <u>-</u>                        | <u>-</u>  | <u>(32,354)</u>   |
| Total governmental activities             | <u>\$106,824,730</u> | <u>\$ 2,563,369</u>             | <u>\$67,534,854</u>                                   | <u>\$(36,726,507)</u>                                       |
|   |                      | General revenues                |   | <u>-</u>  |
|   |                      | Change in net assets            |   | (36,726,507)  |
|   |                      | Net assets - beginning          |   | <u>49,483,677</u>   |
|   |                      | Net assets - ending             |   | <u>\$ 12,757,170</u>  |

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, 2002

|                               | General<br>Fund    | Child Support<br>Enforcement | Legal<br>Services  | Crime<br>Prevention And<br>Justice<br>Assistance | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|-------------------------------|--------------------|------------------------------|--------------------|--|--------------------------------|--------------------------------|
| ASSETS                        |                    |                              |                    |  |                                |                                |
| Cash                          | \$5,970,461        | \$ 871,475                   | \$6,783,938        | \$195,611  | \$2,483,391                    | \$16,304,876                   |
| Due from other state agencies | -                  | -                            | 389,933            | -  | -                              | 389,933                        |
| Due from other funds          | -                  | 6,170,768                    | -                  | -  | -                              | 6,170,768                      |
| Due from grantor              | -                  | 4,254,085                    | 7,637              | -  | 15,174                         | 4,276,896                      |
| Due from subgrantees          | 360,732            | -                            | -                  | -  | -                              | 360,732                        |
| Settlements receivable        | -                  | -                            | 416,785            | -  | -                              | 416,785                        |
| Total Assets                  | <u>\$6,331,193</u> | <u>\$11,296,328</u>          | <u>\$7,598,293</u> | <u>\$195,611</u>                                 | <u>\$2,498,565</u>             | <u>\$27,919,990</u>            |

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, 2002

|  | General<br>Fund    | Child Support<br>Enforcement | Legal<br>Services  | Crime<br>Prevention And<br>Justice<br>Assistance | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------------|------------------------------|--------------------|--|--------------------------------|--------------------------------|
| LIABILITIES AND FUND BALANCES                  |                    |                              |                    |  |                                |                                |
| LIABILITIES                                    |                    |                              |                    |  |                                |                                |
| Legislative relief payable                     | \$3,817,071        | \$ -                         | \$ -               | \$ -   | \$ -                           | \$ 3,817,071                   |
| Accounts payable                               | 450,462            | 352,385                      | 61,536             | 44,878   | 204,237                        | 1,113,498                      |
| Accrued wages and employee<br>benefits payable | 637,675            | 204,416                      | 287,266            | 15,748   | 26,759                         | 1,171,864                      |
| Due to grantor                                 | -                  | -                            | -                  | 154,299  | -                              | 154,299                        |
| Due to other funds                             | 5,825              | -                            | -                  | -  | -                              | 5,825                          |
| Due to State of Hawaii                         | 26,400             | 3,773,359                    | 1,140,376          | -  | -                              | 4,940,135                      |
| Due to subgrantees                             | -                  | -                            | -                  | 286,148  | -                              | 286,148                        |
| Deferred revenues                              | -                  | <u>5,184,943</u>             | -                  | -  | -                              | <u>5,184,943</u>               |
| Total Liabilities                              | <u>4,937,433</u>   | <u>9,515,103</u>             | <u>1,489,178</u>   | <u>501,073</u>                                   | <u>230,996</u>                 | <u>16,673,783</u>              |
| FUND BALANCES                                  |                    |                              |                    |  |                                |                                |
| Reserved for encumbrances                      | 5,944,061          | -                            | -                  | -  | -                              | 5,944,061                      |
| Unreserved, reported in -                      |                    |                              |                    |  |                                |                                |
| General fund                                   | (4,550,301)        | -                            | -                  | -  | -                              | (4,550,301)                    |
| Special revenue funds                          | -                  | <u>1,781,225</u>             | <u>6,109,115</u>   | <u>(305,462)</u>                                 | <u>2,267,569</u>               | <u>9,852,447</u>               |
| Total Fund Balances                            | <u>1,393,760</u>   | <u>1,781,225</u>             | <u>6,109,115</u>   | <u>(305,462)</u>                                 | <u>2,267,569</u>               | <u>11,246,207</u>              |
| Total Liabilities And Fund Balances            | <u>\$6,331,193</u> | <u>\$11,296,328</u>          | <u>\$7,598,293</u> | <u>\$ 195,611</u>                                | <u>\$2,498,565</u>             |                                |

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 5,003,943

Long-term liabilities, including accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds. (3,492,980)

Net assets of governmental activities \$12,757,170

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  
Year Ended June 30, 2002

|  | General<br>Fund     | Child Support<br>Enforcement | Legal<br>Services   | Crime<br>Prevention And<br>Justice<br>Assistance | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|------------------------------|---------------------|--|--------------------------------|--------------------------------|
| Revenues   |                     |                              |                     |  |                                |                                |
| State allotted appropriations                        | \$35,442,910        | \$ -                         | \$ -                | \$ -   | \$ -                           | \$ 35,442,910                  |
| Special fund revenues                                | -                   | -                            | 13,087,654          | -  | -                              | 13,087,654                     |
| Intergovernmental                                    | -                   | 2,437,089                    | 1,055,550           | 7,216,204  | 627,952                        | 11,336,795                     |
| Share of TANF collections                            | -                   | 5,660,000                    | -                   | -  | -                              | 5,660,000                      |
| Incentive payment revenues                           | -                   | 1,960,000                    | -                   | -  | -                              | 1,960,000                      |
| Fees and others                                      | -                   | -                            | -                   | 19,135   | 1,567,115                      | 1,586,250                      |
| Litigation settlements                               | -                   | -                            | 996,254             | -  | -                              | 996,254                        |
| Total Revenues                                       | <u>35,442,910</u>   | <u>10,057,089</u>            | <u>15,139,458</u>   | <u>7,235,339</u>                                 | <u>2,195,067</u>               | <u>70,069,863</u>              |
| Expenditures   |                     |                              |                     |  |                                |                                |
| Current:   |                     |                              |                     |  |                                |                                |
| General administrative and legal services            | 24,810,173          | -                            | 57,894,838          | -  | -                              | 82,705,011                     |
| Child support enforcement                            | 2,155,773           | 9,832,015                    | -                   | -  | -                              | 11,987,788                     |
| Drug control and crime prevention                    | 350,000             | -                            | -                   | 7,216,204  | -                              | 7,566,204                      |
| Criminal history and State identification            | 1,831,368           | -                            | -                   | -  | 2,058,333                      | 3,889,701                      |
| Others   | -                   | -                            | -                   | 32,354   | -                              | 32,354                         |
| Capital expenditures                                 | <u>29,600</u>       | <u>-</u>                     | <u>-</u>            | <u>-</u>   | <u>25,837</u>                  | <u>55,437</u>                  |
| Total Expenditures                                   | <u>29,176,914</u>   | <u>9,832,015</u>             | <u>57,894,838</u>   | <u>7,248,558</u>                                 | <u>2,084,170</u>               | <u>106,236,495</u>             |
| Excess (Deficiency) Of Revenues Over<br>Expenditures | 6,265,996           | 225,074                      | (42,755,380)        | (13,219)   | 110,897                        | (36,166,632)                   |
| Other Financing Sources (Uses)                       | <u>-</u>            | <u>-</u>                     | <u>-</u>            | <u>-</u>   | <u>-</u>                       | <u>-</u>                       |
| Net Change In Fund Balances                          | 6,265,996           | 225,074                      | (42,755,380)        | (13,219)   | 110,897                        | (36,166,632)                   |
| Fund Balances - Beginning                            | <u>(4,872,236)</u>  | <u>1,556,151</u>             | <u>48,864,495</u>   | <u>(292,243)</u>                                 | <u>2,156,672</u>               | <u>47,412,839</u>              |
| Fund Balances - Ending                               | <u>\$ 1,393,760</u> | <u>\$ 1,781,225</u>          | <u>\$ 6,109,115</u> | <u>\$ (305,462)</u>                              | <u>\$ 2,267,569</u>            | <u>\$ 11,246,207</u>           |

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

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Reconciliation Of The Statement Of Revenues, Expenditures  
And Changes In Fund Balances Of Governmental Activities  
Year Ended June 30, 2002

|  |                |
|--|----------------|
| Net change in fund balances - total governmental funds | \$(36,166,632) |
|--|----------------|

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

|                      |                 |           |
|----------------------|-----------------|-----------|
| Depreciation expense | \$335,851       |           |
| Capital outlays      | <u>(55,437)</u> | (280,414) |

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(279,461)

|   |                              |
|---|------------------------------|
| Change in net assets of governmental activities | <u><u>\$(36,726,507)</u></u> |
|---|------------------------------|

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



DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Statement Of Assets And Liabilities  
Agency Funds  
June 30, 2002

|                                       | Total Agency<br>Funds      |
|---------------------------------------|----------------------------|
| <b>ASSETS</b>                         |                            |
| Cash                                  | \$15,375,112               |
| Due from other state agencies         | <u>39,511</u>              |
| Total Assets                          | <u><u>\$15,414,623</u></u> |
| <b>LIABILITIES</b>                    |                            |
| Due to and held for agency recipients | \$ 9,241,631               |
| Due to State of Hawaii                | 8,049                      |
| Due to others                         | <u>6,164,943</u>           |
| Total Liabilities                     | <u><u>\$15,414,623</u></u> |

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

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Notes To The Financial Statements  
June 30, 2002

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 generally accepted accounting principles (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.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:
  - A Management Discussion and Analysis (MD&A) section providing an analysis of the AG's overall financial position and results of operations.
  - Financial statements prepared using full accrual accounting for all of the AG's activities, including capital assets.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

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Financial Reporting Entity

The AG is part of the executive branch of the State. 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 results of operations of the following divisions of the AG:

Administrative Services Office - This office provides management, accounting, data processing and other administrative services to the AG. Also included in this office is activity related to certain federal financial assistance programs.

Office Of Child Support Hearings - This office establishes, modifies, enforces, suspends, and terminates support obligations owed to dependent children by parents, through an administrative process in accordance with state and federal laws.

Child Support Enforcement Agency - This agency is responsible for formulating and implementing the State Child Support Enforcement Plan as required under Title IV-D of the Social Security Act and administering Hawaii Revised Statutes (HRS) Chapter 576D in accordance with Title IV-D and applicable state laws.

Hawaii Criminal Justice Data Center - The center manages the criminal justice information system and the criminal justice telecommunications network, provides statistical information and coordinates criminal identification resources in support of the criminal justice process in the State. The center also manages the State's Civil Identification Program.

Investigation Division - This division provides criminal, civil and administrative investigative services. It investigates the non-conformance or non-adherence to statutes or regulations of municipal and state agencies; investigates fraud and abuse directed against the State Medical Assistance (Medicaid) Program; investigates matters involving the disposition of persons convicted of criminal offenses which are submitted to the Office of the Governor through the board of pardons, parole or independent channels; and provides security services to the Governor, his immediate family, other state officials and visiting officials as required.

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Crime Prevention And Justice Assistance Division - This division serves as a central agency for the maintenance of information regarding financial (federal and state funds) and nonfinancial resources that may be available to assist in improving the coordination of programs of the criminal justice and juvenile justice systems and agencies.

Legal Services -

- Administration Division: This division provides legal services to the judiciary, the Office of the Governor, the Office of the Lieutenant Governor, the State Department of Accounting and General Services, the State Department of Budget and Finance, the State Department of Education, and the University of Hawaii.
- Commerce and Economic Development/Antitrust Division:  
This division provides legal services to the State Department of Business Economic Development and Tourism and the State Department of Commerce and Consumer Affairs. The Antitrust Section is responsible for mediating, investigating and prosecuting violations of antitrust laws.
- Criminal Justice Division: This division reviews and prosecutes, if appropriate, cases referred to the AG for criminal actions which involve a state official or a state agency, or cases which have statewide impact.

In addition, it provides assistance to the Office of the Prosecuting Attorney in each county, coordinates investigations and prosecutions of crimes occurring in more than one county and develops special prosecution units to investigate and prosecute selected crimes.

- Employment Law Division: This division is responsible for advising, counseling and representing the State in all matters arising out of its activities as an employer.
- Labor Division: This division assists the State Department of Labor and Industrial Relations (DLIR) in the interpretation of state statutes and their application to factual situations, many of which arise in the context of decision-making under programs such as workers' compensation, unemployment insurance, occupational safety and health, wage and hour, and fair employment practices. It also advises the DLIR with regard to the interpretation of federal statutes and federal common law.
- Land/Transportation Division: This division provides legal services on all matters relating to the State Department of Land and Natural Resources and the State Department of Transportation, including the preparation of deeds, leases, easements, grants and litigation such as injunctions, condemnations, and quiet title cases which are to be handled by the Litigation Division.

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- Litigation Division: This division provides legal services to all state departments and agencies which are sued in personal injury/tort cases.
- Medicaid Fraud Division: This division is responsible for planning, supervising and coordinating the investigations of provider fraud and abuse in the Medicaid Program.
- Family Law Division: This division provides representation at Family Court for the State Department of Human Services in child abuse and neglect cases and provides legal services for other State agencies.
- Special Assignment Division: This division provides legal services on any special assignment as determined by the attorney general, or assistant attorney general.
- Tax Division: This division performs and provides all legal services to the State Department of Taxation. These services include furnishing written and oral opinions; preparing of memoranda and responses to requests for legal determinations; appearing in the trial and appellate courts (federal and state courts) as necessary to prosecute or to defend matters in which the State Department of Taxation is a party, reviewing and, at times, preparing contract documents; and assisting in the collection of delinquent taxes. In addition to these legal services, the Tax Division also renders administrative services, including drafting appropriate rules, tax information releases, and tax memoranda; drafting replies for the director of taxation upon request; responding to the Governor's referrals for the director of taxation; responding to legislative requests and conferring with legislators in connection with those requests to address legislative concerns; responding to inquiries made by other state agencies; assisting county agencies in matters involving real property taxation; attending legislative hearings; and performing a myriad of other services when called upon by the State Department of Taxation.
- Health and Human Services Division: This division furnishes legal services to the Department of Health and the Department of Human Services except for Family Court matters.
- 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, unpaid traffic fines, 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.

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- Education Division: This division provides legal services to the Board of Education, state educational institutions, the Department of Education, and the Department of Health as it relates to *Felix* matters, Office Of Elections, Judiciary, as well as the Legislature.
- Public Safety, Hawaiian Homelands and Housing Division: This division provides legal services to the Department of Public Safety (except for civil litigation matters), the Department of Hawaiian Home Lands, and the Hawaii Community Development Corporation of Hawaii.

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.

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

Basis Of Accounting

Entity - Wide Financial Statements

The entity-wide 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 entity-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. But this approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the entity-wide statements and the statements for governmental funds. The primary effect of internal activity has been eliminated from the entity-wide financial statements.

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The entity-wide 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 business segment is self-financing or draws from the general revenues of the State.

Net assets should be 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. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

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

#### 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. Non-major funds are aggregated and presented in a single 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 Revenue 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, and then unrestricted resources as they are needed.

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Revenue Recognition

Under 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 to liquidate liabilities existing at the end of the fiscal year. Revenues susceptible to accrual include funds appropriated by the State Legislature and allotted by the Governor.

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 are recorded when the related fund liability is incurred. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Fiduciary Funds

The AG has four agency fiduciary funds. These funds are purely custodial and thus cannot be said to 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.

Cash And Cash Equivalents - The AG's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.



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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 buildings with a cost greater than \$100,000, are capitalized at historical cost or estimated historical cost, and depreciated using the straight-line method. 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 the range of estimated lives as follows:

|                                | <u>Range of Estimated<br/>Useful Lives</u> |
|--------------------------------|--|
| Buildings and improvements     | 30 years                                   |
| Office furniture and equipment | 7 years                                    |

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

Appropriations - 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.

Accumulated Vacation And Sick Leave - Employees' vested annual vacation and sick leave are recorded as expenditures 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 represents a reconciling item between the governmental funds and entity-wide financial statement presentations.

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*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 upon consolidation.

*Grants* - Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred.

*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 the loss is reasonably estimable.

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 revenues are those estimates as compiled by the AG and 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 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 Budgetary Comparison Schedule which is included in the Supplemental Section as Required Supplementary Information. 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 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) special revenue fund program grant accruals and deferrals.

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Interfund Transactions

As of June 30, 2002, the General Fund and another governmental fund of the AG reflected interfund receivables and payables for expense reimbursements owed between funds. The Child Support Enforcement Agency's (CSEA) expendable trust fund reflected a receivable of \$278,878 which is owed by CSEA's federally funded special revenue fund. In addition, CSEA's special revenue fund reflected a receivable of \$5,825 which is owed by the AG's General Fund.

3. Cash

The State maintains a cash pool that is available for all funds. Each fund type's portion of this pool (reported as cash in the State Treasury) is displayed on the statement of net assets or balance sheet as "Cash." Those funds are pooled with funds from other state departments and agencies and deposited in approved financial institutions by the director of the State Department of Budget and Finance. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians.

The AG also maintains cash in banks and time certificates of deposit, which are held separately from cash in the State Treasury. As of June 30, 2002, the carrying amount of total bank deposits including time certificates of deposit was approximately \$10,483,414 and the corresponding bank balances which are represented were approximately \$15,267,687. Those deposits not covered by federal deposit insurance are also fully collateralized by government securities held in the name of the State by third party custodians.

4. Capital Assets And Depreciation

Capital asset activity for the year ended June 30, 2002 was as follows:

|                              | <u>Beginning<br/>Balance</u> | <u>Increase</u>    | <u>Decrease</u> | <u>Ending<br/>Balance</u> |
|------------------------------|------------------------------|--------------------|-----------------|---------------------------|
| Buildings and improvements - |                              |                    |                 |                           |
| Cost                         | \$ 9,117,450                 | \$ -               | \$ -            | \$ 9,117,450              |
| Accumulated depreciation     | <u>(3,994,997)</u>           | <u>(295,957)</u>   | <u>-</u>        | <u>(4,290,954)</u>        |
| Net                          | <u>\$ 5,122,453</u>          | <u>\$(295,957)</u> | <u>\$ -</u>     | <u>\$4,826,496</u>        |

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|                                  | <u>Beginning<br/>Balance</u> | <u>Increase</u>  | <u>Decrease</u> | <u>Ending<br/>Balance</u> |
|----------------------------------|------------------------------|------------------|-----------------|---------------------------|
| Office furniture and equipment - |                              |                  |                 |                           |
| Cost                             | \$ 849,212                   | \$ 55,437        | \$(45,607)      | \$ 859,042                |
| Accumulated depreciation         | <u>(687,308)</u>             | <u>(39,894)</u>  | <u>45,607</u>   | <u>(681,595)</u>          |
| Net                              | <u>\$ 161,904</u>            | <u>\$ 15,543</u> | <u>\$ -</u>     | <u>\$ 177,447</u>         |

Depreciation was charged to functions as follows:

Governmental activities:

|   |                |
|---|----------------|
| General administrative and legal services | \$ 166,067     |
| Child support enforcement                 | 1,594          |
| Criminal history and state identification | 58,335         |
| Drug control and crime prevention         | <u>109,855</u> |

|  |                   |
|--|-------------------|
| Total governmental activities depreciation expense | <u>\$ 335,851</u> |
|--|-------------------|

5. 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 charged to the AG's operating funds. These costs, totaling \$2,857,842 for the fiscal year ended June 30, 2002, have been reported as revenues and expenditures of the AG's general fund.

6. Related Party Transactions

Certain AG employees perform services for other state departments and agencies. Accordingly, the AG receives payroll reimbursements from those departments and agencies. Reimbursements have been recorded as revenues in the special revenue fund to which the payroll costs were actually charged. Reimbursements totaled approximately \$5,128,402 for the fiscal year ended June 30, 2002.

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7. Lease Commitments

The AG leases office facilities and computer equipment on a long-term basis, the expenditures of which are reported in the general and special revenue funds. The following is a schedule of minimum future rentals on noncancellable operating leases expiring through June 2007:

| Fiscal Year<br><u>Ending June 30,</u> | <u>Amount</u>      |
|---------------------------------------|--------------------|
| 2003                                  | \$ 540,300         |
| 2004                                  | 320,400            |
| 2005                                  | 155,800            |
| 2006                                  | 93,200             |
| 2007                                  | <u>12,600</u>      |
|                                       | <u>\$1,122,300</u> |

Total rent expense for the fiscal year ended June 30, 2002, including rent paid to the State of Hawaii for office space in the Kapolei State Office Building, was approximately \$807,000.

8. 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 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 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.

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Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new non-contributory option 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 non-contributory option. The non-contributory option 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 non-contributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and non-contributory options, respectively.

Both options 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.

Funding Policy - Most covered employees of the contributory option 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. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 19 years from July 1, 1997.

The State's contribution requirements as of June 30, 2002, 2001 and 2000 were approximately \$113,984,000, \$7,690,000 and \$7,320,000, respectively. The State contributed 100% of its required contributions for those years. Covered payroll for the fiscal year ended June 30, 2002 was approximately \$1,733,613,000.

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Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than ten years of credited service.

For employees hired after June 30, 1996, and who retire with fewer 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 retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

There are currently approximately 22,500 state retirants receiving such benefits. Free life insurance coverage for retirants and free dental coverage for dependents under age 19 are also available. Retirants covered by the medical portion of Medicare are eligible to receive a partial reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you go basis. During fiscal 2002, expenditures of \$119,247,000 were recognized for post-retirement health care and life insurance benefits, approximately \$29,416,000 of which is attributable to the State's component units.

Cost of Retirement Benefits

The AG's general fund share of the expense for post-retirement benefits for the year ended June 30, 2002 are paid from the State General Fund and is not reflected in the AG's financial statements. The AG's special revenue fund share of post-retirement benefits expense for the fiscal year ended June 30, 2002 was approximately \$582,300 and is included in the special revenue funds' financial statements.

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9. 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.

Torts - The AG is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the AG's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State's General Fund.

Property and Liability Insurance - The State has purchased property damage insurance for losses that may occur for substantially all state facilities, including those of the AG. The policies provide for coverage of \$25,000,000 per occurrence with a \$250,000 deductible. The deductible for windstorm coverage is 2% of loss subject to a \$250,000 minimum per occurrence. Included in the property damage insurance is hurricane, earthquake and flood insurance for coverage up to \$10,000,000 per occurrence with a deductible of 2% of loss subject to the \$250,000 deductible. In addition, the State is the owner of a general liability insurance policy with an annual aggregate of \$15,000,000 per occurrence, subject to a \$2,000,000 deductible.

Claims under \$10,000 are handled by the risk management office of the State Department of Accounting and General Services. Losses not covered by property and liability insurance are paid from legislative appropriations of the State's General Fund.

Workers' Compensation Policy - The State has a self-insured workers' compensation policy. Expenditures for workers' compensation are appropriated annually from the State's General Fund. The AG is covered by the State's self-insured Workers' Compensation Program for medical expenses of injured employees. However, temporary wage loss replacement benefits to those employees are paid by the AG. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred as of June 30, 2002, and the amount of those claims are reasonably estimable. Those liabilities include an amount for claims that have been incurred but not reported. In the opinion of management, the AG has adequately reserved for such claims.



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10. Commitments And Contingencies

Accumulated Sick Leave - Employees generally 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, 2002 approximated \$12,066,744.

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 unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject to the claims of the State's general creditors. Participants' rights under the plan are equal to those of the State's general creditors in an amount equal to the fair value of the deferred account for each participant.

11. 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.

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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.

12. 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.

13. Deferred Revenues

The CSEA receives child support payments on behalf of custodial parents receiving financial aid under the TANF program from the State Department of Human Services. Under PRWORA, CSEA is entitled to retain a percentage of the collections to fund its operations. The deferred revenues of \$5,184,943, which represents CSEA's unspent collections as of June 30, 2002, is also included as a receivable in "Due from agency funds" as the collections are held in CSEA's agency bank accounts.

14. Allowance Of Non-Title IV-D Program Expenses

Prior to October 1998, non-Title IV-D expenses, or non-program expenses, of CSEA were not subject to federal reimbursement. With the enactment of PRWORA, October 1, 1998 became the effective date for states to meet certain requirements in regards to the State Case Registry (Registry) and State Disbursement Unit (SDU). Accordingly, retroactive to that date, administrative expenses related to the processing of non-Title IV-D cases through the Registry and SDU were includible as costs claimed for federal funding. CSEA had met such requirements in regards to its Registry and SDU as of the required date.

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15. Automated Child Support Enforcement System

In July 1998, the AG placed its new automated Child Support Enforcement System (KEIKI) into service. In June 2001, the AG's KEIKI was granted a conditional certification by the U.S. DHHS. The AG must implement certain PRWORA child support system requirements before KEIKI will be granted unconditional certification.

16. Litigation

The AG is a defendant in a class action lawsuit alleging the CSEA of improperly delaying the disbursement of child support payments. In October 2002, the Circuit Court of the First Circuit of the State of Hawaii determined that while CSEA initially encountered problems when KEIKI was placed into service in 1998, the CSEA has been disbursing the "overwhelming majority of child support payments" within required time frames. However, the CSEA is required to provide the court an accounting of its outstanding child support payment checks as of December 31, 2002, as well as of checks returned to CSEA due to bad addresses. The CSEA will be required to disburse these amounts and any remaining unpaid funds will be set aside to establish a "common fund" to be used for the benefit of those plaintiffs who have brought the class action suit. The AG is opposed to the establishment of a common fund since these funds represent monies belonging to custodial parents. The court did not grant any other monetary relief to the plaintiffs.

## REQUIRED SUPPLEMENTARY INFORMATION

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Budgetary Comparison Schedule  
Year Ended June 30, 2002

|   | Budgeted Amounts  |                   | Actual Amounts<br>(Budgetary<br>Basis) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------|-------------------|--|---|
|   | Original          | Final             |  |   |
| <u>General Fund</u>                       |                   |                   |  |   |
| Budgetary fund balance at July 1, 2001    | \$ -              | \$ -              | \$ -                                   | \$ -  |
| Resources (inflows):                      |                   |                   |  |   |
| State allotted appropriations             | <u>32,874,154</u> | <u>33,529,046</u> | <u>33,529,046</u>                      | <u>-</u>  |
| Charges to appropriations (outflows):     |                   |                   |  |   |
| General administrative and legal services | 29,271,478        | 29,758,073        | 28,962,011                             | 796,062   |
| Child support enforcement                 | 1,780,382         | 1,889,865         | 1,868,120                              | 21,745  |
| Criminal history and state identification | 1,472,294         | 1,531,108         | 1,531,087                              | 21  |
| Drug control and crime prevention         | <u>350,000</u>    | <u>350,000</u>    | <u>350,000</u>                         | <u>-</u>  |
| Total charges to appropriations           | <u>32,874,154</u> | <u>33,529,046</u> | <u>32,711,218</u>                      | <u>817,828</u>  |
| Budgetary fund balance at June 30, 2002   | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ 817,828</u>                      | <u>\$ 817,828</u>                                       |
| <u>Child Support Enforcement</u>          |                   |                   |  |   |
| Budgetary fund balance at July 1, 2001    | \$ -              | \$ 294,234        | \$ 294,234                             | \$ -  |
| Resources (inflows):                      |                   |                   |  |   |
| Intergovernmental                         | 13,596,307        | 13,959,573        | 9,096,646                              | (4,862,927)   |
| Incentive payments                        | <u>2,645,885</u>  | <u>2,667,312</u>  | <u>1,711,201</u>                       | <u>(956,111)</u>  |
| Amounts available for appropriation       | <u>16,242,192</u> | <u>16,921,119</u> | <u>11,102,081</u>                      | <u>(5,819,038)</u>                                      |
| Charges to appropriations (outflows):     |                   |                   |  |   |
| Child support enforcement                 | <u>16,242,192</u> | <u>16,921,119</u> | <u>10,589,581</u>                      | <u>6,331,538</u>  |
| Budgetary fund balance at June 30, 2002   | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ 512,500</u>                      | <u>\$ 512,500</u>                                       |
| <u>Legal Services</u>                     |                   |                   |  |   |
| Budgetary fund balance at July 1, 2001    | \$ -              | \$ -              | \$ -                                   | \$ -  |
| Resources (inflows):                      |                   |                   |  |   |
| Intergovernmental                         | 940,678           | 1,261,259         | 1,102,864                              | (158,395)   |
| Special fund revenues                     | 16,599,121        | 16,774,073        | 14,043,016                             | (2,731,057)   |
| Litigation settlements                    | <u>618,000</u>    | <u>48,818,000</u> | <u>43,547,720</u>                      | <u>(5,270,280)</u>                                      |
| Amounts available for appropriation       | <u>18,157,799</u> | <u>66,853,332</u> | <u>58,693,600</u>                      | <u>(8,159,732)</u>                                      |
| Charges to appropriations (outflows):     |                   |                   |  |   |
| General administrative and legal services | <u>18,157,799</u> | <u>66,853,332</u> | <u>61,148,246</u>                      | <u>5,705,086</u>  |
| Budgetary fund balance at June 30, 2002   | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ (2,454,646)</u>                  | <u>\$ (2,454,646)</u>                                   |

See accompanying note to budgetary comparison schedule.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Budgetary Comparison Schedule  
Year Ended June 30, 2002

|  | <u>Budgeted Amounts</u> |                  | Actual Amounts       | Variance with                          |
|--|-------------------------|------------------|----------------------|--|
|  | <u>Original</u>         | <u>Final</u>     | (Budgetary<br>Basis) | Final Budget<br>Positive<br>(Negative) |
| <u>Crime Prevention And Justice Assistance</u> |                         |                  |                      |  |
| Budgetary fund balance at July 1, 2001         | \$ -                    | \$ -             | \$ -                 | \$ -                                   |
| Resources (inflows):                           |                         |                  |                      |  |
| Intergovernmental                              | 7,829,522               | 8,469,480        | 7,518,168            | (951,312)                              |
| Fees and others                                | <u>-</u>                | <u>-</u>         | <u>19,135</u>        | <u>19,135</u>                          |
| Amounts available for appropriation            | <u>7,829,522</u>        | <u>8,469,480</u> | <u>7,537,303</u>     | <u>(932,177)</u>                       |
| Charges to appropriations (outflows):          |                         |                  |                      |  |
| Drug control and crime prevention              | <u>7,829,522</u>        | <u>8,469,480</u> | <u>7,468,778</u>     | <u>1,000,702</u>                       |
| Budgetary fund balance at June 30, 2002        | <u>\$ -</u>             | <u>\$ -</u>      | <u>\$ 68,525</u>     | <u>\$ 68,525</u>                       |

See accompanying note to budgetary comparison schedule.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Note To Budgetary Comparison Schedule  
Year Ended June 30, 2002

1. Budget-to-Actual Reconciliation

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

|   | <u>General<br/>Fund</u> | <u>Child Support<br/>Enforcement</u> | <u>Legal<br/>Services</u> | <u>Crime<br/>Prevention And<br/>Justice<br/>Assistance</u> |
|---|-------------------------|--------------------------------------|---------------------------|--|
| Sources/inflows of resources:   |                         |                                      |                           |  |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule                     | \$33,529,046            | \$11,102,081                         | \$58,693,600              | \$7,537,303  |
| Differences-budget to GAAP:   |                         |                                      |                           |  |
| The fund balance at the beginning of the year is a budgetary resource but is not revenue for financial reporting purposes | -                       | (294,234)                            | -                         | -  |
| Revenues for financial reporting purposes which are not budgetary resources   | 2,857,842               | -                                    | -                         | 148,077  |
| Budgetary resources not revenues for financial reporting purposes   | (943,978)               | (167,752)                            | (42,841,345)              | (450,041)  |
| Adjustments for prior receivables for financial reporting purposes which are budgetary resources                          | <u>-</u>                | <u>(583,006)</u>                     | <u>(712,797)</u>          | <u>-</u>   |
| Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds   | <u>\$35,442,910</u>     | <u>\$10,057,089</u>                  | <u>\$15,139,458</u>       | <u>\$7,235,339</u>   |

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Note To Budgetary Comparison Schedule  
Year Ended June 30, 2002

|   | <u>General<br/>Fund</u>    | <u>Child Support<br/>Enforcement</u> | <u>Legal<br/>Services</u>  | <u>Crime<br/>Prevention And<br/>Justice<br/>Assistance</u> |
|---|----------------------------|--------------------------------------|----------------------------|--|
| Uses/outflows of resources:   |                            |                                      |                            |  |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule   | \$32,711,218               | \$10,589,581                         | \$61,148,246               | \$7,468,778  |
| Differences-budget to GAAP:   |                            |                                      |                            |  |
| Reserve for encumbrances at year-end are outflows of budgetary resources but are not expenditures for financial reporting purposes                      | (5,944,061)                | -                                    | -                          | -  |
| Expenditures for liquidation of prior years' encumbrances are not outflows of budgetary resources but are expenditures for financial reporting purposes | 2,716,126                  | -                                    | -                          | -  |
| Prior year accrued expenses which are outflows of budgetary resources but are not expenditures for financial reporting purposes                         | (180,219)                  | (612,696)                            | (14,567,221)               | (287,645)  |
| Outflows of budgetary resources which are not expenditures for financial reporting purposes   | (126,150)                  | (167,752)                            | (169,804)                  | (17,501)   |
| Other expenditures for financial reporting purposes which are not outflows of budgetary resources   | <u>-</u>                   | <u>22,882</u>                        | <u>11,483,617</u>          | <u>84,926</u>  |
| Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds                             | <u><u>\$29,176,914</u></u> | <u><u>\$ 9,832,015</u></u>           | <u><u>\$57,894,838</u></u> | <u><u>\$7,248,558</u></u>                                  |



PART III

SUPPLEMENTAL SECTION

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Schedule Of Expenditures Of Federal Awards  
Fiscal Year Ended June 30, 2002

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u>               | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through<br/>Entity Identifying<br/>Number</u>                                     | <u>Federal<br/>Expenditures</u>                   |
|---|------------------------------------|---|---|
| U. S. Department of Commerce  |                                    |   |   |
| Telecommunications and Information<br>Infrastructure Assistance Program | 11.552                             | 15-60-98042   | \$ <u>30,801</u>                                  |
| Total U. S. Department of Commerce                                      |                                    |   | <u>30,801</u>                                     |
| U. S. Department of Justice   |                                    |   |   |
| Internet Crimes Against Children Task<br>Force Program                  | 16.543                             | 2000-MC-CX-K010   | <u>223,923</u>                                    |
| State Justice Statistics Program for<br>Statistical Analysis Centers    | 16.550                             | 98-MU-MU-K003   | <u>23,050</u>                                     |
| National Criminal History Improvement Program                           | 16.554                             | 95-RU-RX-K045<br>2000-RG-CX-K011  | 515,830<br><u>288,770</u>                         |
|   |                                    |   | <u>804,600</u>                                    |
| Hawaii Sex Offender Registry Assistance                                 | 16.555                             | 98-NR-CX-K053   | <u>295,312</u>                                    |
| Crime Victim Assistance   | 16.575                             | 98-VA-GX-0015<br>1999-VA-GX-0015<br>2000-VA-GX-0015<br>2001-VA-GX-0015<br>2002-VA-GX-0015 | 503,898<br>645,503<br>250,325<br>31,400<br>-      |
|   |                                    |   | <u>1,431,126</u>                                  |
| Crime Victim Compensation   | 16.576                             | 1999-VC-GX-0015<br>2000-VC-GX-0015<br>2001-VC-GX-0015                                     | 345,799<br>-<br><u>18,822</u>                     |
|   |                                    |   | <u>364,621</u>                                    |
| Byrne Formula Grant Program   | 16.579                             | 98-DB-MU-0015<br>1999-DB-BX-0015<br>2000-DB-MU-0015<br>2001-DB-BX-0015<br>2002-DB-BX-0015 | 528,895<br>654,720<br>1,037,038<br>1,026,428<br>- |
|   |                                    |   | <u>3,247,081</u>                                  |

See notes to the schedule of expenditures of federal awards.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Schedule Of Expenditures Of Federal Awards  
Fiscal Year Ended June 30, 2002

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u>  | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through<br/>Entity Identifying<br/>Number</u> | <u>Federal<br/>Expenditures</u> |
|--|------------------------------------|---|---------------------------------|
| U. S. Department of Justice (continued)  |                                    |   |                                 |
| Violence Against Women Formula Grants  | 16.588                             | 96-WF-NX-0015   | \$ 3,618                        |
|  |                                    | 97-WF-VX-0015   | 23,783                          |
|  |                                    | 98-WF-VX-0015   | 130,754                         |
|  |                                    | 1999-WF-VX-0015                                       | 416,161                         |
|  |                                    | 2000-WF-VX-0023                                       | 584,255                         |
|  |                                    | 2001-WF-BX-0026                                       | 31,725                          |
|  |                                    | 2002-WF-BX-0041                                       | <u>-</u>                        |
|  |                                    |   | <u>1,190,296</u>                |
| Grants to Encourage Arrest Policies  | 16.588                             | 98-WE-VX-0017   | <u>5,815</u>                    |
| Rural Domestic Violence and Child<br>Victimization Enforcement   | 16.589                             | 97-WR-VX-0027   | 299,486                         |
|  |                                    | 1997-WR-VX-0060                                       | <u>71,574</u>                   |
|  |                                    |   | <u>371,060</u>                  |
| Residential Substance Abuse Treatment for<br>State Prisoners   | 16.593                             | 97-RT-VX-0015   | 9,870                           |
|  |                                    | 98-RT-VX-0015   | 100,914                         |
|  |                                    | 99-RT-VX-0015   | 106,326                         |
|  |                                    | 2000-RT-VX-0039                                       | -                               |
|  |                                    | 2001-RT-BX-0037                                       | -                               |
|  |                                    | 2002-RT-BX-0018                                       | <u>-</u>                        |
|  |                                    |   | <u>217,110</u>                  |
| State Identification System Formula Grant  | 16.598                             | 99-SY-BX-0015   | <u>163,155</u>                  |
| Bulletproof Vest Partnership Program   | 16.607                             | 15-0404-0-1-754                                       | <u>10,408</u>                   |
| Subtotal Direct Program  |                                    |   | <u>8,347,557</u>                |
| Pass-Through Program From:   |                                    |   |                                 |
| State of Hawaii, Department of<br>Human Services, Office of Youth Services -<br>Juvenile Accountability Incentive<br>Block Grant | 16.523                             | DHS-01-OYS-9202                                       | <u>58,600</u>                   |
| Total U. S. Department of Justice  |                                    |   | <u>8,406,157</u>                |

See notes to the schedule of expenditures of federal awards.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Schedule Of Expenditures Of Federal Awards  
Fiscal Year Ended June 30, 2002

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through<br/>Entity Identifying<br/>Number</u> | <u>Federal<br/>Expenditures</u> |
|---|------------------------------------|---|---------------------------------|
| U. S. Department of Health and Human Services             |                                    |   |                                 |
| Child Support Enforcement (Title IV-D)                    | 93.563                             | G-01-04-HI-4004                                       | \$ 1,543,930                    |
|   |                                    | G-02-04-HI-4004                                       | <u>1,859,000</u>                |
|   |                                    |   | <u>3,402,930</u>                |
| State Medicaid Fraud Control Units                        | 93.775                             | 01-0101-HI-5050                                       | 190,493                         |
|   |                                    | 01-0201-HI-5050                                       | <u>635,817</u>                  |
|   |                                    |   | <u>826,310</u>                  |
| Total U. S. Department of Health and Human<br>Services    |                                    |   | <u>4,229,240</u>                |
| TOTAL FEDERAL EXPENDITURES                                |                                    |   | <u>\$12,666,198</u>             |

See notes to the schedule of expenditures of federal awards.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Notes To The Schedule Of Expenditures Of Federal Awards  
Fiscal Year Ended June 30, 2002

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. Subrecipients

Of the federal expenditures presented in the schedule, the AG provided federal awards to subrecipients as follows:

| <u>Program Title</u>   | <u>Federal<br/>CFDA<br/>Number</u> | <u>Amount<br/>Provided to<br/>Subrecipients</u> |
|--|------------------------------------|---|
| Crime Victim Assistance                                      | 16.575                             | \$1,164,401                                     |
| Crime Victim Compensation                                    | 16.576                             | 364,621   |
| Byrne Formula Grant Program                                  | 16.579                             | 2,911,112                                       |
| Violence Against Women Formula Grants                        | 16.588                             | 1,313,405                                       |
| Residential Substance Abuse<br>Treatment for State Prisoners | 16.593                             | 333,662   |
| State Identification System<br>Formula Grant                 | 16.598                             | <u>163,155</u>                                  |
|  |                                    | <u><u>\$6,250,356</u></u>                       |

3. Federal Share Of TANF Collections Expended

Expenditures reported under the U. S. DHHS Child Support Enforcement (CFDA No. 93.563) grant award includes only expenditures directly charged to the grant. It does not include the AG's expenditures of its net federal share of child support collections received on behalf of recipients who receive financial aid from the State's Title IV-A agency. The net federal share of collections expended amounted to \$5,028,189 which would result in an adjusted "Total Federal Expenditures" of \$17,694,387.

## PART IV

### COMPLIANCE AND INTERNAL CONTROL SECTION

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

To the Attorney General  
State of Hawaii

We have audited the financial statements of the Department of the Attorney General of the State of Hawaii (AG), as of and for the fiscal year ended June 30, 2002, and have issued our report thereon dated December 16, 2002. 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.

## **Compliance**

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 grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 02-1 and 02-2.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the AG's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the AG's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 02-1 and 02-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 02-1 and 02-2 to be material weaknesses.

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

OHATA CHUN YUEN LLP

Honolulu, Hawaii  
December 16, 2002



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Attorney General  
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 are applicable to each of its major federal programs for the fiscal year ended June 30, 2002. The AG's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the 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 on the AG's compliance with those requirements.

As described in items 02-1 through 02-4 in the accompanying schedule of findings and questioned costs, the AG did not comply with the requirements regarding effective control and accountability for its funds in regards to the Child Support Enforcement Program and State Medicaid Fraud Control Unit. Compliance with such requirements is 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 requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2002.

### **Internal Control Over Compliance**

The 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 requirements that could have a direct and material effect on a major federal program in order to determine our 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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the AG's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 02-1 through 02-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 02-1 and 02-2 to be material weaknesses.

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

OHATA CHUN YUEN LLP

Honolulu, Hawaii  
December 16, 2002

PART V

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Schedule Of Findings And Questioned Costs  
Fiscal Year Ended June 30, 2002

**Section I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: Qualified

Internal control over financial reporting:

Material weaknesses identified? ☒ yes ☐ no

Reportable conditions identified that are not  
considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements  
noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

Material weaknesses identified? ☒ yes ☐ no

Reportable conditions identified that are not  
considered to be material weaknesses? ☒ yes ☐ none reported

Type of auditors' 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 Circular A-133? ☒ yes ☐ no

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

16.579

Byrne Formula Grant Program

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: \$530,000

Auditee qualified as low-risk auditee ☐ yes ☒ no

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Schedule Of Findings And Questioned Costs  
Fiscal Year Ended June 30, 2002

**Section II - FINANCIAL STATEMENT FINDINGS**

Ref.

No.

**Reportable Conditions**

02-1

**Reconcile Amounts Claimed On Form OCSE-396A to Federal Funds Drawn**

The Child Support Enforcement Agency (CSEA) prepares and submits Form OCSE-396A, Child Support Enforcement Program Financial Report, to the U.S. Department of Health and Human Services (U.S. DHHS). One of the purposes of Form OCSE-396A is to report actual expenditures for a quarter, net of program income earned.

Until June 30, 2001, the AG's fiscal office was responsible for requesting draw downs from the U.S. DHHS and for paying the CSEA's obligations. Draw downs are based upon invoices processed for payment through the Financial Accounting And Management Information System (FAMIS), the State's computerized accounting system. The AG's fiscal office relied upon the CSEA's personnel to ensure that all expenditures were properly reported and claimed for reimbursement.

The AG's fiscal office did not review the calculation of actual and estimated expenditures reported on Form OCSE-396A because it was not always provided with a copy of Form OCSE-396A with the supporting worksheets prepared by the CSEA. Based upon our prior reviews of CSEA's financial records, the AG's fiscal office needed to review Form OCSE-396A to ensure that funds were not drawn in excess of net costs incurred.

Effective July 2001, CSEA assumed responsibility of requesting the draw downs to enable the agency to reconcile its draw downs with reported expenditures in a more accurate and timely manner, which otherwise was not being accomplished.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Schedule Of Findings And Questioned Costs  
Fiscal Year Ended June 30, 2002

Ref.  
No.

**Condition**

**1. Fees Charged To CSEA**

During our review of the CSEA's financial records, we noted that fees charged to the CSEA by the U.S. DHHS were reported on Form OCSE-396A, but were not properly offset against expenditures claimed for federal reimbursement. Periodically, the CSEA is billed a service fee by the U.S. DHHS for services performed by the Federal Parent Locator Service (FPLS), Child Support Enforcement Net (CSEN) and for processing Pre-Offset Notices (PON) for the Federal tax refund offset program.

The CSEN and PON fees amounting to \$20,212 are reportable as claimed expenditures as well as a reduction of the federal share of expenditures on Form OCSE-396A. FPLS fees amounting to \$21,575 are only reportable as a reduction of the federal share of expenditures. CSEA incorrectly included the FPLS fees in its claims for reimbursement and also did not reduce the claims by the total service fees.

**2. Tax Intercept Service Fees**

Our review of CSEA's financial reports and worksheets indicated that the CSEA is charged service fees by the Internal Revenue Service (IRS) for tax refund intercepts remitted to the State. The IRS intercepts tax refunds for non-custodial parents who have delinquent child support obligations and processes an electronic funds transfer to deposit these tax refunds into the CSEA's bank account, net of the tax intercept service fees.

The fees were reported on Form OCSE-396A and claimed for reimbursement. However, the reimbursements were not paid back to the agency fund to reimburse the account for the service fees charged. For the fiscal year ended June 30, 2002, the tax intercept service fees amounted to \$132,850.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Schedule Of Findings And Questioned Costs  
Fiscal Year Ended June 30, 2002

Ref.  
No.

**3.     Indirect Costs**

The CSEA incurs indirect costs and are invoiced for computer charges (KOMAND billings) by the State Department of Accounting and General Services, Information and Communication Services Division (ICSD). These costs are claimable for federal reimbursement. However, we noted that indirect costs and KOMAND billings amounting to \$886,063 for the fiscal year ended June 30, 2002 were not claimed for reimbursement.

In September 2002, the CSEA was notified of the indirect cost rate applicable for the fiscal year ended June 30, 2002. The effect was a increase in the indirect costs claimable for the June 2002 fiscal year from \$670,485 to \$886,063; an increase of \$215,578. CSEA reported the indirect costs on Form OCSE-396A and it plans to report the appropriate adjustments during the fiscal year ending June 30, 2003.

In addition, in another prior year, an adjustment was made to the KOMAND billings claimed for reimbursement. The adjustment amounted to \$87,632 in underclaimed ICSD charges and to date, the costs have not been claimed for reimbursement.

During the year ended June 30, 1999, the CSEA received corrected KOMAND billings for various computer charges amounting to \$403,639 for the fiscal years ended June 30, 1999 and 1998. However, CSEA reported billings amounting to \$6,524,094 on Form OCSE-396A, a difference of \$6,120,455. Also, CSEA had already reported a portion of the additional charges in the amount of \$105,184 thereby increasing the difference to \$6,225,639. CSEA received approval to report the corrections on Form OCSE-396A over a two-year period (8 quarters) beginning with the quarter ended June 2002.

DEPARTMENT OF THE ATTORNEY GENERAL  
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Schedule Of Findings And Questioned Costs  
Fiscal Year Ended June 30, 2002

Ref.  
No.

**Criteria**

45 CFR Part 74.21(b) (3) requires that "Recipients' financial management systems shall provide for . . . effective control over and accountability for all funds, property and other assets . . ." The CSEA has not exercised "effective control over and accountability for all funds" since the above adjustments to expenditures were not properly recorded when requesting federal funds.

**Effect of Condition**

1. Fees for the Federal Parent Locator Service, Child Support Enforcement Net and Pre-Offset Notice service amounted to \$21,575, \$15,384, and \$4,828, respectively, for the fiscal year ended June 30, 2002. Accordingly, claims for reimbursement of expenditures were not reduced by these fees.

The Child Support Enforcement Net and Pre-Offset Notice service fees are allowable costs claimed for reimbursement at 66% which amounted to \$13,340. However, the FPLS fees were also incorrectly claimed for reimbursement at 66% which amounted to \$14,240. The result was total federal funds overdrawn in the amount of \$42,687.

2. Because the tax intercept service fees were claimed for reimbursement, the CSEA's agency fund should be reimbursed for the service fees charged. For the fiscal year ended June 30, 2002, the reimbursement to the agency fund would amount to \$87,681 (66% of \$132,850).
3. The unclaimed indirect costs and KOMAND billings for the fiscal year ended June 30, 2002 of \$886,063 would amount to a reimbursement of \$584,801. The reimbursement for the underclaimed prior year charges would total \$87,632.

The adjustment reportable on Form OCSE-396A resulting from the adjusted indirect cost rate for June 2002 would amount to an increase of \$142,282 in the federal share of expenditures reported.

4. Reporting errors or differences on Form OCSE-396A relating to prior indirect costs reflects an overstatement of total federal share of expenditures in the amount of \$3,869,726.



DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Schedule Of Findings And Questioned Costs  
Fiscal Year Ended June 30, 2002

Ref.  
No.

**Recommendation**

The CSEA should do the following:

1. To ensure that service fees are properly included in reimbursement claims and that federal funds are not drawn in excess of net costs incurred, the CSEA should review the accuracy and reasonableness of its reimbursement calculations.
2. Reimburse the agency fund for grant drawdowns attributed to the federal share of the tax intercept fees. Instead of drawing down on the grant for these fees, the CSEA should consider whether it should charge the federal share of the fees to its TANF collections already retained and held in its agency bank account.
3. Claim reimbursement for the indirect costs and KOMAND billings. Also, 45 CFR Part 95.7 states that a claim for reimbursement has to be filed within two years after the calendar quarter in which the State agency made the expenditure. However, 45 CFR Part 95.19 states that time limits do not apply to "any claim for an adjustment to prior year costs." Accordingly, the underclaimed costs of \$87,632 should be submitted for reimbursement. Instead of drawing down on its grant, the CSEA should also consider whether it should charge the federal share of the indirect costs to its TANF collections already held.
4. On a quarterly basis, the CSEA should reconcile amounts claimed on Form OCSE-396A to federal funds drawn and resolve any differences.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Schedule Of Findings And Questioned Costs  
Fiscal Year Ended June 30, 2002

Ref.  
No.

**02-2      Reporting Of Program Income On Form SF-269 And Federal Funds Drawn**

**Condition**

During our review of the State Medicaid Fraud Control Unit's (MID) financial records, we noted that program income received and reported by MID lacked adequate documentation.

**Investigative Costs**

A reimbursement of MID's costs of investigation included in a provider fraud settlement awarded to the AG, is considered program income to MID. Such program income is required to be reported on Form 269, Financial Status Report and spent in the Federal fiscal year the amount was awarded. For the AG's fiscal year ended June 30, 2002, MID reported program income of \$48,913 as part of its nonfederal matching requirement. Of this amount, \$24,375 was not supported by available records.

**Criteria**

45 CFR Part 74.21 (b) (1) and (7) requires that "Recipients' financial management systems shall provide for . . . accurate, current and complete disclosure of the financial results" of the federally funded program and . . . "accounting records, including cost accounting records, that are supported by source documentation." In this case, MID's accounting records did not provide for accurate and complete disclosure of financial results.

**Effect of Condition**

If program income is not accurately reported, MID will not be able to ensure that it is properly using nonfederal funds to meet its state matching requirements.

**Recommendation**

MID should establish and maintain sufficient time or other job cost records to ensure that program income is accurately and completely reported.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Schedule Of Findings And Questioned Costs  
Fiscal Year Ended June 30, 2002

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Grantor - U.S. Department of Health and Human Services

Program - Child Support Enforcement (Title IV-D)

CFDA No. - 93.563

Pass-through Entity

Identifying No. - G-01-04-HI-4004

G-02-04-HI-4004

Ref.

No.

**02-3    Improve Controls Over Federal Report Preparation**

**a.    Form OCSE-34A, Child Support Enforcement Program Quarterly Report of Collections**

**Condition**

KEIKI generates Form OCSE-34A for CSEA based on the payments and cases processed. The report only reflects collections and disbursements processed on IV-D cases. However, the amounts reported are not reconciled to the bank statement.

**Criteria**

Actual collections are required to be reported on Form OCSE-34A.

**Effect of Condition**

As long as reliance is placed on unreconciled records, the information reported on the Form OCSE-34A remains questionable.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Schedule Of Findings And Questioned Costs  
Fiscal Year Ended June 30, 2002

Ref.  
No.

**Recommendation**

So that the proper information is reported on Form OCSE-34A, the CSEA should:

1. Monitor the progress of the computer system, KEIKI, and ensure that the system provides accurate child support collection information.
2. Rely only on current and reconciled supporting records to improve the reliability of the information provided on Form OCSE-34A.

**b. Form OCSE-396A, Child Support Enforcement Program Financial Report**

Refer to Finding 02-1 in Section II of the "Schedule Of Findings And Questioned Costs" regarding the need to improve controls over the preparation of reports to the grantor agency and in the requests for reimbursements.

**c. Form OCSE-157, Child Support Enforcement Annual Data Report**

Under PRWORA, Congress enacted a new incentive funding system for States, based on program performance. State agencies administering child support enforcement programs under Title IV-D of the Social Security Act are now required to submit information regarding program performance on Form OCSE-157. The completeness and reliability of the data submitted by a State is to be determined annually based on a "Data Reliability Audit" (DRA) of the performance indicator data. The new incentive provisions are to be phased in over a three-year period. Under the previous method, incentives were determined based on collections and expenditures information presented on Forms OCSE-34A and OCSE-396A.

The Administration for Children and Families, Office of Child Support Enforcement (OCSE) of the U.S. DHHS, issued its DRA report, dated June 24, 2002, on OCSE-157 submitted by CSEA for the federal fiscal year ended September 2001.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Schedule Of Findings And Questioned Costs  
Fiscal Year Ended June 30, 2002

Ref.  
No.

**Condition**

The report disclosed that inaccurate data was being reported in the performance indicators for paternity establishment and collections due and distributed. In addition, it was disclosed that there were “major deficiencies” since the performance indicators in those areas did not meet the 95-percent efficiency rate standard established for these categories.

**Criteria**

Accurate and reliable data produced by KEIKI will allow for accurate calculations of the performance indicators.

**Effect of Condition**

Inaccurate information could be a determining factor in the efficiency rate not meeting the standard in the areas of paternity establishment and collections due and distributed. Form OCSE-157 should reflect accurate and reliable data.

**Recommendation**

CSEA needs to ensure that the appropriate programming changes are made to KEIKI so that calculation of incentives are based on an accurate and reliable Form OCSE-157.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Schedule Of Findings And Questioned Costs  
Fiscal Year Ended June 30, 2002

Grantor - U.S. Department of Health and Human Services

Program - State Medicaid Fraud Control Units

CFDA No. - 93.775

Pass-through Entity

Identifying No. - 01-0101-HI 5050

01-0201-HI-5050

Ref.

No.

02-4     **Reporting Of Program Income On Form SF-269 And Federal Funds Drawn**

Refer to Finding 02-2 in Section II of the "Schedule Of Findings And Questioned Costs" regarding the reporting of program income by the State Medicaid Fraud Control Unit.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Summary Schedule Of Prior Audit Findings  
Fiscal Year Ended June 30, 2002

This section contains the current status of the prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2001.

| <u>Ref. No.</u>                     | <u>Recommendations</u>   | <u>Status</u>  |
|-------------------------------------|--|--|
| <b>FINANCIAL STATEMENT FINDINGS</b> |  |  |
| 01-1                                | <p>Program - Child Support Enforcement<br/>(Title IV-D), CFDA 93.563</p> <p><b>Child Support Enforcement Agency<br/>Account Reconciliations</b></p> <p><b>Child Support Subsidiary<br/>Ledgers (pages 37-38)</b></p> <p>To fulfill its duties as trustee, the CSEA should:</p> <ol style="list-style-type: none"> <li>1. Review and correct, if necessary, the balances for each child support subsidiary ledger, and file the necessary court orders to establish the amount of child support owed by the non-custodial parent.</li> <li>2. Continue to work towards reconciling the child support subsidiary ledgers to the reconciled cash balances.</li> </ol> | <p>Issue pending final resolution of court decision related to class action lawsuit.</p> |
| 01-2                                | <p><b>Reconcile Amounts Claimed On Form OCSE-396A to Federal Funds Drawn (pages 39-43)</b></p> <p>The CSEA should do the following:</p>  | <p>Partially accomplished.<br/>See Ref. No. 02-1.</p>                                    |

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Summary Schedule Of Prior Audit Findings  
Fiscal Year Ended June 30, 2002

| <u>Ref. No.</u> | <u>Recommendations</u>  | <u>Status</u> |
|-----------------|---|---------------|
| 1.              | To ensure that federal funds are not drawn in excess of net costs incurred, the CSEA should identify any expenditures which are not recorded in FAMIS but are included on Form OCSE-396A and account for those expenditures when computing amounts due from the U.S. DHHS.  |               |
| 2.              | Claim the tax intercept service fees, Child Support Enforcement Net and Pre-Offset Notice service fees and bank service charges for reimbursement. The agency fund should be replenished for reimbursements received on the tax intercept fees and bank charges.  |               |
| 3.              | The CSEA should claim reimbursement for the indirect costs and KOMAND billings. Also, 45 CFR Part 95.7 states that a claim for reimbursement has to be filed within two years after the calender quarter in which the State agency made the expenditure. However, 45 CFR Part 95.19 states that time limits do not apply to "any claim for an adjustment to prior year costs." Accordingly, the underclaimed costs of \$87,632 should be submitted for reimbursement. |               |
| 4.              | On a quarterly basis, the AG's fiscal office should reconcile amounts claimed on Form OCSE-396A to federal funds drawn and resolve any differences.   |               |



DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Summary Schedule Of Prior Audit Findings  
Fiscal Year Ended June 30, 2002

| <u>Ref. No.</u> | <u>Recommendations</u>   | <u>Status</u>   |
|-----------------|--|---|
|                 | <p>5. To ensure that reports prepared by the CSEA are “accurate, current and complete”, the reports should be reviewed for accuracy prior to filing with the U.S. DHHS. Differences should be resolved and corrections or adjustments made in a timely manner.</p>   |   |
| 01-3            | <p><b>Reporting Of Program Income On Form OCSE-396A And Federal Funds Drawn (pages 44-46)</b></p> <p>The CSEA should do the following:</p> <ol style="list-style-type: none"> <li>1. Identify the amount of program income and properly account for the income to be offset against claimed expenditures.</li> <li>2. On a quarterly basis, the CSEA should reconcile amounts claimed on Form OCSE 396A to federal funds drawn and resolve any differences.</li> </ol> | <p>Issue is resolved. No similar findings were noted in 2002 audit.</p> |
| 01-4            | <p><b>CSEA’s Net Federal Share Of TANF Payment Collections (pages 46-47)</b></p> <p>The CSEA should continue to work toward a solution with the grantor on how to administer the funds.</p>  | <p>Issue is resolved.</p>   |

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Summary Schedule Of Prior Audit Findings  
Fiscal Year Ended June 30, 2002

| <u>Ref. No.</u> | <u>Recommendations</u>  | <u>Status</u>  |
|-----------------|---|--|
| 01-5            | <b>Indirect Cost Rate Proposal by Consultant<br/>(page 47)</b><br><br>The AG should obtain an understanding of how the indirect cost rate proposal is prepared. Before final payment for services is made to the consultant, the AG should review the indirect cost rate proposal for propriety. Any discrepancies should be investigated and resolved.   | Issue is resolved. No similar finding were noted in 2002 audit.      |
| 01-6            | <b>KEIKI Disbursement To CSEA<br/>(pages 48-49)</b><br><br>1. The CSEA should work toward implementing procedures that will enable the agency to fully utilize KEIKI's disbursement functions as it relates to its federal funding.<br><br>2. Deposit the checks from KEIKI in a timely manner so that the CSEA has the reported federal funding available for its use.<br><br>If the accuracy of payments disbursed by KEIKI to CSEA is in question, then this problem needs to be resolved as soon as possible. | Issue is resolved. No similar findings were noted in the 2002 audit. |

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Summary Schedule Of Prior Audit Findings  
Fiscal Year Ended June 30, 2002

| <u>Ref. No.</u> | <u>Recommendations</u>   | <u>Status</u>                                   |
|-----------------|--|---|
| 01-7            | <p>Program - State Medicaid Fraud Control Unit,<br/>CFDA 93.775</p> <p><b>Reporting Of Program Income On Form SF-269<br/>And Federal Funds Drawn (pages 49-50)</b></p> <p>MID should maintain sufficient records to ensure<br/>that program income is accurately and completely<br/>reported.</p> <p><b>FEDERAL AWARD FINDINGS</b></p> <p>Program - Child Support Enforcement<br/>(Title IV-D), CFDA 93.563</p>  | <p>Not accomplished.<br/>See Ref. No. 02-2.</p> |
| 01-8            | <p><b>Improve Controls Over Federal Report<br/>Preparation</b></p> <p><b>a. Form OCSE-34A, Child Support<br/>Enforcement Program Quarterly Report<br/>of Collections (pages 51-52)</b></p> <p>So that the proper information is reported on<br/>Form OCSE-34A, the CSEA should:</p> <ol style="list-style-type: none"> <li>1. Monitor the progress of the new computer<br/>system, KEIKI, and ensure that the system<br/>will be able to provide accurate child support<br/>collection information.</li> <li>2. Rely only on current and reconciled<br/>supporting records to improve the<br/>reliability of the information provided on<br/>Form OCSE-34A.</li> </ol> | <p>Not accomplished.<br/>See Ref. No. 02-3.</p> |

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Summary Schedule Of Prior Audit Findings  
Fiscal Year Ended June 30, 2002

| <u>Ref. No.</u> | <u>Recommendations</u>  | <u>Status</u>                                 |
|-----------------|---|---|
|                 | <p><b>b. Form OCSE-396A, Child Support Enforcement Program Financial Report (page 52)</b></p> <p>Refer to Findings 01-2 and 01-3 regarding a lack of controls over the preparation of reports to the grantor agency.</p>  | Partially accomplished.<br>See Ref. No. 02-1. |
|                 | <p><b>c. Form OCSE-157, Child Support Enforcement Annual Data Report (pages 52-53)</b></p> <p>CSEA needs to ensure that the appropriate programming changes are made to KEIKI so that calculations of incentives are based on an accurate and reliable Form OCSE-157.</p>   | Not accomplished.<br>See Ref. No. 02-3.       |
| 01-9            | <p><b>CSEA's Net Federal Share Of TANF Payment Collections (page 53)</b></p> <p>Refer to Finding 01-4 regarding the reporting of TANF payment collections as "Federal Share of Collections" and amounts claimed for reimbursement.</p>                                      | Issue is resolved.                            |
| 01-10           | <p>Program - State Medicaid Fraud Control Unit, CFDA 93.775</p> <p><b>Reporting Of Program Income On Form SF-269 And Federal Funds Drawn (page 54)</b></p> <p>Refer to Finding 01-7 regarding the reporting of program income by the State Medicaid Fraud Control Unit.</p> | Not accomplished.<br>See Ref. No. 02-4.       |

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Summary Schedule Of Prior Audit Findings  
Fiscal Year Ended June 30, 2002

| <u>Ref. No.</u> | <u>Recommendations</u>   | <u>Status</u>   |
|-----------------|--|---|
| 01-11           | <p>Program - Byrne Formula Grant Program,<br/>CFDA 16.579</p> <p><b>Improve Controls Over Monitoring Of<br/>Subgrantees (pages 55-57)</b></p> <p>CPJA needs to ensure that subgrantees are in compliance with the requirements of the subgrant awards or contracts with timely follow-up on issues of noncompliance and documentation of site visits.</p> <p><b>Other Prior Financial Statement Findings</b></p> <ol style="list-style-type: none"> <li>1. Strengthen Controls Over Petty Cash Funds (page 65)</li> </ol> <p>The AG's fiscal office should resolve the difference between the petty cash balance and the authorized petty cash amount and any cash overages and shortages as soon as possible.</p> <ol style="list-style-type: none"> <li>2. Resolve Insurance Settlement Deposited to the Trust Fund (page 65)</li> </ol> <p>The AG's fiscal office and the CSEA should determine whether the U.S. DHHS and the State are due any portion of an insurance settlement received as a result of water damage to its equipment. The settlement was received during the fiscal year ended June 30, 1996.</p> | <p>Issue is resolved.<br/>No similar findings were noted in 2002 audit.</p> <p>Issue is resolved. No similar findings were noted in the 2002 audit.</p> <p>Not accomplished.<br/>The fiscal office and the CSEA should resolve this matter.</p> |

PART VI

AGENCY'S RESPONSE

LINDA LINGLE  
GOVERNOR



MARK J. BENNETT  
ATTORNEY GENERAL

RICHARD T. BISSEN, JR.  
FIRST DEPUTY ATTORNEY GENERAL

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

June 23, 2003

Mr. Chris Yuen  
Ohata Chun Yuen CPAs  
3684 Waialae Avenue  
Honolulu, HI 96816

Dear Mr. Yuen:

We have enclosed our responses to the schedule of findings and questioned costs on the Financial Audit Report for fiscal year ended June 30, 2002.

Very truly yours,

A handwritten signature in cursive script, reading "Richard T. Bissen".

Mark J. Bennett  
Attorney General

Enclosures

**DEPARTMENT OF THE ATTORNEY GENERAL  
FISCAL YEAR ENDED JUNE 30, 2002  
RESPONSE TO SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**02-1 Reconcile Amounts Claimed On Form OCSE-369A to Federal Funds Drawn**

**Condition**

1. Fees Charged to CSEA: CSEA incorrectly included the FPLS fees in its claims for reimbursement and also did not reduce the claims by the total service fees.
2. Tax Intercept Service Fees: The fees were reported on Form OCSE-396A and claimed for reimbursement. However, the reimbursements were not paid back to the agency fund to reimburse the account for the service fee charged.
3. Indirect Costs: Indirect costs and KOMAND billings amounting to \$886,063 for the fiscal year ended June 30, 2002 were not claimed for reimbursement.

**Response**

*For Conditions #1 and #2 listed above, the agency is in the process of implementing procedures to meet the auditors' recommendations.*

*As to Condition #3, the agency disagrees with the auditors' finding. The agency reports the indirect costs on Form OCSE-396A for reimbursement. Of the reported amounts, 34% is paid by the State and 66% is retained by the agency for its operational expenditures. This practice has not violated any Federal or State regulations. However, the CSEA will provide procedures to reimburse any applicable indirect costs.*

**02-2 Reporting of Program Income On Form SF-269A and Federal Funds**  
**02-4 Drawn**

**Condition**

During our review of the State Medicaid Fraud Control Unit's (MID) financial records, we noted that program income received and reported by MID lacked adequate documentation.

**Response**

*The Medicaid Investigations Division (MID) acknowledges and accepts the recommendation presented in the audit. MID has implemented policies and procedures requiring MID personnel to keep complete and accurate records related to program income cost for MID investigations. Time sheets and records related to investigative cost are now kept for each investigation to ensure that program income is accurately and completely reported.*



*Note: The condition identified in Reference No. 02-2 occurred only in MID investigations that were settled prior to January 2002. MID investigations completed prior January 2002 were previously identified as "lacking adequate documentation" in the June 30, 2001 audit, but continued to produce program income during the fiscal year ending June 30, 2002. Also, the Department of Health and Human Services has accepted and determined that the actions taken constitute final resolutions to the FY 2001 finding on this same matter – see attached letter.*

**02-3 Improve Controls Over Federal Report Preparation**

**Condition**

1. KEIKI generates Form OCSE-34A for CSEA based on the payments and cases processed. The report only reflects collections and disbursements processed on IV-D cases. However, the amounts reported are not reconciled to the bank statement.
2. The ACF's report on the agency's Form OCSE-157 disclosed that inaccurate data was being reported in the performance indicators for paternity establishment and collections due and distributed. In addition, it was disclosed that there were "major deficiencies" since the performance indicators in those areas did not meet the 95-percent efficiency rate standard established for these categories.

**Response**

*The programmers of the Agency's Information Technology Office are in the process of producing a report to facilitate the reconciliation between the information reported on Form OCSE-34A and the bank statement.*

*Regarding the auditor's findings of Form OCSE-157, the agency is also working on improving its performance in the areas of paternity establishment and arrearage collections, which currently negatively impacts the agency's annual incentive payments. The improvement process requires the Agency to manually correct the existing case files for errors accumulated over the last 16 years.*



MAY 28 2003

Thomas R. Keller  
Acting Attorney General  
State of Hawaii  
425 Queen Street  
Honolulu, Hawaii 96813

Dear Mr. Keller:

We have reviewed Audit Report No. A09-03-73112 dated November 8, 2002 on the Hawaii Department of the Attorney General for the year ended June 30, 2001. Ohata Chun Yuen, Certified Public Accountants, prepared the audit report. We believe that your comments as included in the audit report and as submitted by your office on December 10, 2002, satisfy all of the recommendations cited in the report for which we have resolution responsibility--those recommendations listed on the Attachment to the audit transmittal letter with an Agency designation of HHS/OARCP. The other audit findings and recommendations are the responsibility of another component of our Department, who either already has or will notify you of their determination.

Your independent auditors will determine, in your next financial and compliance review, the effectiveness of the actions taken by your organization. The auditors should specifically describe any additional improvements considered necessary.

Thank you for your cooperation. If we can be of any further assistance, please contact Harold Greenberg of my staff at (202)401-2753.

Sincerely yours,

Jean Augustine  
Director  
Office of Audit Resolution and Cost Policy,  
Office of Finance