

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
YEAR ENDED JUNE 30, 2003

PART I
INTRODUCTORY SECTION

December 16, 2003

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, 2003. 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, 2003.

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. |
| 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 governmental activities, major funds and the aggregate remaining fund information of the Department of the Attorney General of the State of Hawaii (AG), as of and for the fiscal year ended June 30, 2003, which collectively comprise the AG's basic financial statements, 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, 2003. 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, 2003.

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 governmental activities, major funds and the aggregate remaining fund information of the AG as of June 30, 2003 and the changes in financial position of those activities and funds and the respective budgetary comparisons for the general fund and the major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the AG's basic financial statements. 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.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 16, 2003 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. The reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

OHATA CHUN YUEN LLP

Honolulu, Hawaii
December 16, 2003



STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
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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, 2003. We encourage readers to consider the information presented here in conjunction with the basic financial statements and notes to the financial statements.

The MD&A is a new element of required supplementary information specified in the Governmental Accounting and Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. 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 MD&A 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, 2003

ASSETS	<u>Governmental Activities</u>	<u>Total</u>
Current Assets		
Cash	\$ 11,832,374	\$11,832,374
Due from other state agencies	142,968	142,968
Due from grantor	6,283,923	6,283,923
Settlements receivable	<u>733,333</u>	<u>733,333</u>
Total current assets	18,992,598	18,992,598
Capital Assets		
Buildings and improvements, net of accumulated depreciation of \$4,586,911	4,530,539	4,530,539
Office, furniture and equipment, net of accumulated depreciation of \$699,991	<u>348,377</u>	<u>348,377</u>
Total capital assets	<u>4,878,916</u>	<u>4,878,916</u>
Total Assets	<u>\$23,871,514</u>	<u>\$23,871,514</u>
 LIABILITIES		
Current Liabilities		
Legislative relief payable	\$ 263,042	\$ 263,042
Accounts payable	1,168,504	1,168,504
Accrued wages and employee benefits payable	1,583,060	1,583,060
Due to agency funds	175,827	175,827
Due to State of Hawaii	7,260,713	7,260,713
Due to subgrantees	444,410	444,410
Deferred revenues	<u>1,887,152</u>	<u>1,887,152</u>
Total current liabilities	12,782,708	12,782,708
Long-Term Liabilities		
Accrued vacation	<u>4,456,965</u>	<u>4,456,965</u>
Total Liabilities	<u>17,239,673</u>	<u>17,239,673</u>
 NET ASSETS		
Invested In Capital Assets	4,878,916	4,878,916
Restricted For Various Purposes	4,809,054	4,809,054
Unrestricted	<u>(3,056,129)</u>	<u>(3,056,129)</u>
Total Net Assets	<u>6,631,841</u>	<u>6,631,841</u>
Total Liabilities And Net Assets	<u>\$23,871,514</u>	<u>\$23,871,514</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, 2003

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental Activities:				
General administrative and legal services	\$51,347,782	\$1,053,222	\$45,049,410	\$(5,245,150)
Child support enforcement	13,509,127	-	13,766,049	256,922
Drug control and crime prevention	6,820,141	-	6,712,058	(108,083)
Criminal history and state identification	<u>4,951,266</u>	<u>1,771,809</u>	<u>2,150,439</u>	<u>(1,029,018)</u>
Total governmental activities	<u>\$76,628,316</u>	<u>\$2,825,031</u>	<u>\$67,677,956</u>	<u>(6,125,329)</u>
			General revenues	<u>-</u>
			Change in net assets	(6,125,329)
			Net assets - beginning	<u>12,757,170</u>
			Net assets - ending	<u>\$ 6,631,841</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, 2003

	<u>General Fund</u>	<u>Child Support Enforcement</u>	<u>Legal Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash	\$1,171,613	\$4,112,892	\$4,583,339	\$1,964,530	\$11,832,374
Due from other state agencies	-	-	142,968	-	142,968
Due from other funds	-	5,813	-	3,053	8,866
Due from grantor	-	4,963,584	17,346	503,384	5,484,314
Due from subgrantees	189,504	-	-	-	189,504
Settlements receivable	<u>-</u>	<u>-</u>	<u>733,333</u>	<u>-</u>	<u>733,333</u>
Total Assets	<u>\$1,361,117</u>	<u>\$9,082,289</u>	<u>\$5,476,986</u>	<u>\$2,470,967</u>	<u>\$18,391,359</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, 2003

	<u>General Fund</u>	<u>Child Support Enforcement</u>	<u>Legal Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Legislative relief payable	\$ 263,043	\$ -	\$ -	\$ -	\$ 263,043
Accounts payable	586,946	337,334	71,699	172,525	1,168,504
Accrued wages and employee benefits payable	978,077	236,649	326,385	41,949	1,583,060
Due to grantor	-	-	-	31,154	31,154
Due to agency funds	-	175,827	-	-	175,827
Due to other funds	5,813	-	3,053	-	8,866
Due to State of Hawaii	25,400	4,361,982	2,873,330	-	7,260,712
Due to subgrantees	-	-	-	633,914	633,914
Deferred revenues	<u>-</u>	<u>1,887,152</u>	<u>-</u>	<u>-</u>	<u>1,887,152</u>
Total Liabilities	<u>1,859,279</u>	<u>6,998,944</u>	<u>3,274,467</u>	<u>879,542</u>	<u>13,012,232</u>
FUND BALANCES					
Reserved for encumbrances	1,146,213	-	-	-	1,146,213
Unreserved, reported in - General fund	(1,644,375)	-	-	-	(1,644,375)
Special revenue funds	<u>-</u>	<u>2,083,345</u>	<u>2,202,519</u>	<u>1,591,425</u>	<u>5,877,289</u>
Total Fund Balances	<u>(498,162)</u>	<u>2,083,345</u>	<u>2,202,519</u>	<u>1,591,425</u>	<u>5,379,127</u>
Total Liabilities And Fund Balances	<u>\$1,361,117</u>	<u>\$9,082,289</u>	<u>\$5,476,986</u>	<u>\$2,470,967</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.	4,878,916
Long-term liabilities, including accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds	<u>(3,626,202)</u>
Net assets of governmental activities	<u>\$6,631,841</u>

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

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Statement Of Revenues, Expenditures And Changes In Fund Balances
Governmental Funds
Year Ended June 30, 2003

	<u>General Fund</u>	<u>Child Support Enforcement</u>	<u>Legal Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
State allotted appropriations	\$40,041,093	\$ -	\$ -	\$ -	\$40,041,093
Intergovernmental	-	-	8,246,141	-	8,246,141
Special fund revenues	-	2,284,702	1,087,742	6,968,730	10,341,174
Share of TANF collections	-	6,747,711	-	-	6,747,711
Fees and others	-	1,960,000	-	-	1,960,000
Incentive payment revenues	-	469,710	-	1,797,295	2,267,005
Litigation settlements	-	-	<u>1,053,223</u>	-	<u>1,053,223</u>
 Total Revenues	 <u>40,041,093</u>	 <u>11,462,123</u>	 <u>10,387,106</u>	 <u>8,766,025</u>	 <u>70,656,347</u>
Expenditures					
Current:					
General administrative and legal services	37,213,447	-	14,293,702	-	51,507,149
Child support enforcement	2,477,847	10,873,855	-	13,351,702	-
Drug control and crime prevention	-	-	-	6,725,009	6,725,009
Criminal history and State identification	2,117,859	-	-	2,586,210	4,704,069
Capital expenditures	<u>123,862</u>	-	-	<u>111,636</u>	<u>235,498</u>
 Total Expenditures	 <u>41,933,015</u>	 <u>10,873,855</u>	 <u>14,293,702</u>	 <u>9,422,855</u>	 <u>76,523,427</u>
 Excess (Deficiency) Of Revenues Over Expenditures	 (1,891,922)	 588,268	 (3,906,596)	 (656,830)	 (5,867,080)
 Other Financing Sources (Uses)	 -	 -	 -	 -	 -
 Net Change In Fund Balances	 (1,891,922)	 588,268	 (3,906,596)	 (656,830)	 (5,867,080)
 Fund Balances - Beginning	 <u>1,393,760</u>	 <u>1,495,077</u>	 <u>6,109,115</u>	 <u>2,248,255</u>	 <u>11,246,207</u>
 Fund Balances - Ending	 <u>\$ (498,162)</u>	 <u>\$ 2,083,345</u>	 <u>\$ 2,202,519</u>	 <u>\$ 1,591,425</u>	 <u>\$ 5,379,127</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, 2003

Net change in fund balances - total governmental funds		\$(5,867,080)
<p>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:</p>		
Depreciation expense	\$ 352,460	
Capital outlays	<u>(235,498)</u>	(116,962)
<p>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.</p>		
		(133,222)
<p>Losses resulting from the disposal of capital assets do not require the use of current financial resources and therefore, are not expenditures in governmental funds.</p>		
		<u>(8,065)</u>
Change in net assets of governmental activities		<u><u>\$(6,125,329)</u></u>

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

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Budgetary Comparison Schedule
Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>General Fund</u>				
Budgetary fund balance at July 1, 2002	\$ -	\$ -	\$ -	\$ -
Resources (inflows):				
State allotted appropriations	<u>34,173,380</u>	<u>35,672,541</u>	<u>35,672,541</u>	<u>-</u>
Charges to appropriations (outflows):				
General administrative and legal services	31,061,088	32,189,150	32,152,380	36,770
Child support enforcement	1,675,395	1,907,159	1,895,977	11,182
Criminal history and state identification	<u>1,436,897</u>	<u>1,576,232</u>	<u>1,573,755</u>	<u>2,477</u>
Total charges to appropriations	<u>34,173,380</u>	<u>35,672,541</u>	<u>35,622,112</u>	<u>50,429</u>
Budgetary fund balance at June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,429</u>	<u>\$ 50,429</u>
<u>Child Support Enforcement</u>				
Budgetary fund balance at July 1, 2002	\$ -	\$ 512,500	\$ 512,500	\$ -
Resources (inflows):				
Intergovernmental	13,492,082	14,106,623	8,659,301	(5,447,322)
Incentive payments	2,645,228	2,703,228	2,035,618	(667,610)
Others	<u>-</u>	<u>-</u>	<u>469,710</u>	<u>469,710</u>
Amounts available for appropriation	<u>16,137,310</u>	<u>17,322,351</u>	<u>11,677,129</u>	<u>(5,645,222)</u>
Charges to appropriations (outflows):				
Child support enforcement	<u>16,137,310</u>	<u>17,322,351</u>	<u>10,808,852</u>	<u>6,513,499</u>
Budgetary fund balance at June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 868,277</u>	<u>\$ 868,277</u>
<u>Legal Services</u>				
Budgetary fund balance at July 1, 2002	\$ -	\$ (2,454,646)	\$ (2,454,646)	\$ -
Resources (inflows):				
Special fund revenues	11,151,081	11,573,371	8,923,669	(2,649,702)
Intergovernmental	1,486,737	1,568,782	1,073,735	(495,047)
Litigation settlements	<u>618,000</u>	<u>618,000</u>	<u>171,903</u>	<u>(446,097)</u>
Amounts available for appropriation	<u>13,255,818</u>	<u>11,305,507</u>	<u>7,714,661</u>	<u>(3,590,846)</u>
Charges to appropriations (outflows):				
General administrative and legal services	<u>13,255,818</u>	<u>11,305,507</u>	<u>9,292,591</u>	<u>2,012,916</u>
Budgetary fund balance at June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,577,930)</u>	<u>\$ (1,577,930)</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, 2003

	<u>Total Agency Funds</u>
ASSETS	
Cash	\$8,221,180
Due from governmental funds	<u>175,827</u>
Total Assets	<u><u>\$8,397,007</u></u>
LIABILITIES	
Due to and held for agency recipients	\$8,383,709
Due to State of Hawaii	9,583
Due to others	<u>3,715</u>
Total Liabilities	<u><u>\$8,397,007</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, 2003

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.

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.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2003

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.

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.

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- 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.
- 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.

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- 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.
- 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 its 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.

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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.

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.

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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 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. 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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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 Fund</u>	<u>Child Support Enforcement</u>	<u>Legal Services</u>
Sources/inflows of resources:			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$35,672,541	\$11,677,129	\$ 7,714,661
Differences-budget to GAAP:			
The fund (balance) deficit at the beginning of the year affects budgetary resources but not revenues for financial reporting purposes	-	(512,500)	2,454,646
Revenues for financial reporting purposes which are not budgetary resources	4,558,918	-	-
Budgetary resources not revenues for financial reporting purposes	(190,366)	(109,530)	(37,636)
Adjustments for prior receivables for financial reporting purposes which are not budgetary resources	<u>-</u>	<u>407,024</u>	<u>255,435</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$40,041,093</u>	<u>\$11,462,123</u>	<u>\$10,387,106</u>

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	<u>General Fund</u>	<u>Child Support Enforcement</u>	<u>Legal Services</u>
Uses/outflows of resources:			
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$35,622,112	\$10,808,852	\$ 9,292,591
Differences-budget to GAAP:			
Reserve for encumbrances at year-end are outflows of budgetary resources but are not expenditures for financial reporting purposes	(1,146,213)	-	-
Expenditures for liquidation of prior years' encumbrances are not outflows of budgetary resources but are expenditures for financial reporting purposes	5,944,061	-	-
Adjustments for accrued expenses which are not outflows of budgetary resources but are expenditures for financial reporting purposes	1,652,991	17,182	49,281
Outflows of budgetary resources which are not expenditures for financial reporting purposes	(139,936)	(76,219)	(100,430)
Other expenditures for financial reporting purposes which are not outflows of budgetary resources	<u>-</u>	<u>124,040</u>	<u>5,052,260</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$41,933,015</u>	<u>\$10,873,855</u>	<u>\$14,293,702</u>

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Interfund Transactions

As of June 30, 2003, the General Fund and other governmental funds 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 \$226,376 which is owed by CSEA's federally funded special revenue fund. In addition, CSEA's special revenue fund reflected a receivable of \$5,813 which is owed by the AG's General Fund. The legal services special revenue fund reflected a payable of \$3,053 owed to a nonmajor special revenue 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 which are held separately from cash in the State Treasury. As of June 30, 2003, the carrying amount of total bank deposits was approximately \$8,347,113 and the corresponding bank balances which are represented were approximately \$11,428,727. 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.

These funds held separately from cash in the State Treasury include a new bank account opened by CSEA during the year, which is used solely to account for the federal share of child support payment collections retained by CSEA under PRWORA and the TANF program. As the use of these funds are for CSEA's benefit, this account is reflected in "Cash" under the special revenue fund for Child Support Enforcement. As of June 30, 2003, the carrying amount of the TANF bank account was approximately \$3,512,689 and the corresponding bank balance was approximately \$3,749,686.

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4. Capital Assets And Depreciation

Capital asset activity for the year ended June 30, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Buildings and improvements -				
Cost	\$ 9,117,450	\$ -	\$ -	\$ 9,117,450
Accumulated depreciation	<u>(4,290,954)</u>	<u>(295,957)</u>	<u>-</u>	<u>(4,586,911)</u>
Net	<u>\$ 4,826,496</u>	<u>\$(295,957)</u>	<u>\$ -</u>	<u>\$ 4,530,539</u>
Office furniture and equipment -				
Cost	\$ 859,042	\$ 235,498	\$(46,172)	\$ 1,048,368
Accumulated depreciation	<u>(681,595)</u>	<u>(56,503)</u>	<u>38,107</u>	<u>(699,991)</u>
Net	<u>\$ 177,447</u>	<u>\$ 178,995</u>	<u>\$(8,065)</u>	<u>\$ 348,377</u>
Depreciation was charged to functions as follows:				
Governmental activities:				
General administrative and legal services				\$ 174,831
Child support enforcement				3,162
Criminal history and state identification				64,612
Drug control and crime prevention				<u>109,855</u>
Total governmental activities depreciation expense				<u>\$ 352,460</u>

5. Long-Term Liabilities

For the year ended June 30, 2003, changes in long-term liabilities, which consisted solely of accrued vacation, were as follows:

Balance at July 1, 2002	\$4,477,102
Net decrease	<u>(20,137)</u>
Balance at June 30, 2003	<u>\$4,456,965</u>

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6. Non-Imposed Employee Fringe Benefits

Payroll fringe benefit costs of the AG's employees funded by state appropriations (general fund) are assumed by the State and are not charged to the AG's operating funds. These costs, totaling \$4,558,918 for the fiscal year ended June 30, 2003, have been reported as revenues and expenditures of the AG's general fund.

7. 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 \$6,039,431 for the fiscal year ended June 30, 2003.

8. 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 2008:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Amount</u>
2004	\$ 377,700
2005	231,900
2006	172,300
2007	93,600
2008	<u>23,900</u>
	<u>\$ 899,400</u>

Total rent expense for the fiscal year ended June 30, 2003, including rent paid to the State of Hawaii for office space in the Kapolei State Office Building, was approximately \$840,000.

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9. Employee Benefits

Employees' Retirement System

Plan Description - All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the 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.

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 27 years from June 30, 2002.

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The State's contribution requirements as of June 30, 2003, 2002 and 2001 were approximately \$158,622,000, \$113,984,000 and \$7,690,000, respectively. The State contributed 100% of its required contributions for those years. Changes in salary growth assumptions and investment earnings pursuant to Act 100, SLH of 1999, decreased the June 30, 2002 and 2001 required contributions. Act 233, SLH of 2002, increased the 2003 contribution by providing a one-time lump-sum pensioner bonus to retirees who were 70 years and older with at least 20 years of credited service as of June 30, 2002. Also Act 284, SLH of 2001, provided an increase in the pension benefits effective 2003 to retirees with military service. Covered payroll for the fiscal year ended June 30, 2003 was approximately \$1,972,441,000.

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 23,300 state retirees receiving such benefits. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis. During fiscal 2003, expenditures of \$127,827,000 were recognized for post-retirement health care and life insurance benefits, approximately \$33,630,125 of which is attributable to the State's component units.

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Effective July 1, 2003, the Hawaii Employer-Union Health Benefit Trust Fund (EUTF) replaced the Hawaii Public Employees Health Fund under Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county employees, retirees, and their dependents.

Cost of Retirement Benefits

The AG's general fund share of the expense for post-retirement benefits for the year ended June 30, 2003 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, 2003 was approximately \$801,453 and is included in the special revenue funds' financial statements.

10. 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 and also include terrorism insurance which provides for coverage of \$10,000,000 per occurrence. The deductible for windstorm coverage is 3% of value subject to a \$250,000 minimum per occurrence. Included in the property damage insurance is hurricane, earthquake and flood insurance with a deductible of 3% of value subject to the \$250,000 deductible. In addition, the State is the owner of a general liability insurance policy with an annual aggregate of \$7,000,000 per occurrence, subject to a \$3,000,000 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.

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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, 2003, 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.

11. 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, 2003 approximated \$11,924,671.

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.

12. Criminal Forfeiture Revolving Fund

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

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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.

13. Welfare Reform Act

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

14. 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 \$1,887,152 represents CSEA’s unspent collections as of June 30, 2003.

15. 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.

16. Automated Child Support Enforcement System

In July 1998, the AG placed its new automated Child Support Enforcement System (KEIKI) into service. In February 2003, the AG’s KEIKI was granted a full certification by the U.S. DHHS for meeting all the requirements of PRWORA.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2003

17. Litigation

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

PART III
SUPPLEMENTAL SECTION

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Schedule Of Expenditures Of Federal Awards
Fiscal Year Ended June 30, 2003

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U. S. Department of Commerce			
Telecommunications and Information Infrastructure Assistance Program	11.552	15-60-98042	\$ <u>135,678</u>
Total U. S. Department of Commerce			<u>135,678</u>
U. S. Department of Justice			
Internet Crimes Against Children Task Force Program	16.543	2000-MC-CX-K010	<u>174,435</u>
State Justice Statistics Program for Statistical Analysis Centers	16.550	98-MU-MU-K003 2002-BJ-CX-K006	(634) <u>3,251</u>
			<u>2,617</u>
National Criminal History Improvement Program	16.554	2000-RG-CX-K011	<u>186,728</u>
Crime Victim Assistance	16.575	98-VA-GX-0015 1999-VA-GX-0015 2000-VA-GX-0015 2001-VA-GX-0015 2002-VA-GX-0015 2003-VA-GX-0021	48,866 229,423 1,076,024 530,602 - -
			<u>1,884,915</u>
Byrne Formula Grant Program	16.579	97-DB-MU-0015 98-DB-MU-0015 1999-DB-BX-0015 2000-DB-MU-0015 2001-DB-BX-0015 2002-DB-BX-0015 2003-DB-BX-0027	5,188 41,032 297,267 752,012 802,385 557,546 -
			<u>2,455,430</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, 2003

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U. S. Department of Justice (continued)			
Violence Against Women Formula Grants	16.588	96-WF-NX-0015	\$ 7,414
		98-WF-VX-0015	11,834
		1999-WF-VX-0015	(2,556)
		2000-WF-VX-0023	308,528
		2001-WF-BX-0026	432,092
		2002-WF-BX-0041	32,021
		2003-WF-BX-0218	<u>-</u>
			<u>789,333</u>
Grants to Encourage Arrest Policies	16.588	2002-WE-BX-0049	<u>8,699</u>
Rural Domestic Violence and Child Victimization Enforcement	16.589	97-WR-VX-0027	158,532
		1999-WR-VX-0060	242,277
		2002-WR-BX-0005	<u>38,311</u>
			<u>439,120</u>
Residential Substance Abuse Treatment for State Prisoners	16.593	98-RT-VX-0015	26,876
		99-RT-VX-0015	253,426
		2000-RT-VX-0039	45,000
		2001-RT-BX-0037	-
		2002-RT-BX-0018	-
		2003-RT-BX-0006	<u>-</u>
			<u>325,302</u>
Bulletproof Vest Partnership Program	16.607	15-0404-0-1-754	<u>4,165</u>
Project Safe Neighborhoods Research/Partner Crime Analyst Program	16.609	2003-GP-CX-0039	<u>22,677</u>
Total U. S. Department of Justice			<u>6,293,421</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, 2003

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U. S. Department of Health and Human Services			
Child Support Enforcement (Title IV-D)	93.563	G-02-04-HI-4004 G-03-04-HI-4004	\$ 650,000 <u>1,227,679</u>
			<u>1,877,679</u>
State Medicaid Fraud Control Units	93.775	01-0201-HI-5050 01-0301-HI-5050	216,847 <u>688,078</u>
			<u>904,925</u>
Total U. S. Department of Health and Human Services			<u>2,782,604</u>
TOTAL FEDERAL EXPENDITURES			<u>\$ 9,211,703</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, 2003

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 CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Crime Victim Assistance	16.575	\$1,730,888
Byrne Formula Grant Program	16.579	1,690,880
Violence Against Women Formula Grants	16.588	709,729
Residential Substance Abuse Treatment for State Prisoners	16.593	<u>298,523</u>
		<u>\$4,430,020</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 \$7,184,458 which would result in an adjusted "Total Federal Expenditures" of \$16,396,161.

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, 2003, and have issued our report thereon dated December 16, 2003. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 03-1.

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. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 03-1.

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, we consider the reportable condition item 03-1 described above, to be a material weakness.

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, 2003

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, 2003. 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 03-1 through 03-2 in the accompanying schedule of findings and questioned costs, the AG did not comply with the requirements regarding accurate reporting and effective control and accountability for its funds in regards to the Child Support Enforcement Program. Also, as described in items 03-3 through 03-5, the AG did not comply with the requirements regarding its responsibility to monitor its grant and subgrant supported activities of both the Crime Victim Assistance and Violence Against Women Grant Programs and also did not comply with reporting requirements of the Violence Against Women Grant Program. 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, 2003.

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 03-1 through 03-5.

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 03-1 through 03-3 and 03-5 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, 2003

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, 2003

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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
16.575	Crime Victim Assistance
16.588	Violence Against Women Formula Grants
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: \$492,000

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, 2003

Section II - FINANCIAL STATEMENT FINDINGS

Ref.
No.

Reportable Conditions

03-1 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, 2003

Ref.
No.

Condition

1. 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 agency fund bank account, net of the tax intercept service fees.

The service fees are allowable program expenditures and subject to reimbursement. CSEA properly reported the fees on Form OCSE-396A, however, the agency fund was not reimbursed for the federal share of the fees charged. It is CSEA's intention to use its TANF collections to reimburse the agency fund for the federal share of the tax intercept service fees. For the fiscal year ended June 30, 2003, the fees amounted to \$84,554.

2. 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 \$891,854 for the fiscal year ended June 30, 2003 were not claimed for reimbursement.

Reimbursements have not been claimed for the indirect costs attributed to payroll and computer charges since the fiscal year ended June 1997. For the period beginning with the fiscal years ended June 1998 through June 2002, unclaimed indirect costs amounted to \$5,577,954 with a federal share of \$3,686,039. In addition, for the June 1997 fiscal 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 also not been claimed for reimbursement.

DEPARTMENT OF THE ATTORNEY GENERAL
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Schedule Of Findings And Questioned Costs
Fiscal Year Ended June 30, 2003

Ref.
No.

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.

3. Overstatement of Expenses

CSEA overstated its expenses on Form OCSE-396A by incorrectly reporting amounts for nonimposed fringe benefits related to General Fund salaries and wages and blood test expenses of \$143,675 (\$134,227 in fringe benefits and \$9,448 in blood tests).

Criteria

1. 45 CFR Part 74.21(b)(1) requires that "Recipients' financial management systems shall provide for ...accurate, current and complete disclosure of the financial results" of the federally funded program.
2. 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 . . ."
3. In general, subject to exceptions to time limits that may apply, 45 CFR Part 95.7 states that a reimbursement for a State agency expenditure will be made ". . .only if the State files a claim with us for that expenditure within 2 years after the calendar quarter in which the State agency made the expenditure. . ."

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
Fiscal Year Ended June 30, 2003

Effect of Condition

1. Because the tax intercept service fees are to be charged against CSEA's TANF collections, CSEA's agency fund should be reimbursed for the service fees charged. For the fiscal year ended June 30, 2003, the reimbursement to the agency fund would amount to \$55,806 (66% of \$84,554).
2. The unclaimed indirect costs and KOMAND billings for the fiscal year ended June 30, 2003 of \$891,854 would amount to a reimbursement of \$588,624.

As of the fiscal year ended June 30, 2002, the unreimbursed federal share of indirect costs for payroll and computer charges amounted to \$3,773,329 which includes the underclaimed charges of \$87,632 for the June 1997 fiscal year.

3. 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 \$1,815,266.
4. CSEA has overstated its net federal share of expenditures by an additional \$97,093 (66% of \$134,227 plus 90% of \$9,448) by incorrectly calculating expenses related to fringe benefits and blood tests.

Recommendation

The CSEA should do the following:

1. Reimburse the agency fund for the federal share of the tax intercept fees.
2. CSEA should claim reimbursement for the indirect costs and KOMAND billings on a timely basis. Also, although time limits apply to a State agency's claims for reimbursements, CSEA should resolve with the grantor agency the matter regarding the accumulated unreimbursed indirect costs.
3. 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.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
Fiscal Year Ended June 30, 2003

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.
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.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
Fiscal Year Ended June 30, 2003

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-02-04-HI-4004

G-03-04-HI-4004

Ref.

No.

03-2 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. In prior years, the amounts reported were not reconciled to the bank statement. CSEA has attempted to and is still in the process of reconciling the OCSE-34A report 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, 2003

Ref.
No.

Recommendation

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

1. Continue efforts to reconcile amounts reported on OCSE-34A to the bank statement to ensure that KEIKI is providing 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 03-1 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 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. 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 August 12, 2003, on Form OCSE-157 submitted by CSEA for the federal fiscal year ended September 2002. Subsequently, in a letter dated November 13, 2003, the Administration for Children and Families informed CSEA of a reduction to its incentive payments based on Form OCSE-157. Earlier, in a letter dated November 12, 2002, CSEA was informed of a similar reduction based on Form OCSE-157 filed for 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, 2003

Ref.
No.

Condition

1. Data Reliability Report

As in the prior year, the DRA disclosed that inaccurate data was being reported in the performance indicators for paternity establishment. This was attributed to “insufficient or inaccurate data in the State’s automated system.” Accordingly, this was disclosed as a “major deficiency” since the performance indicators in this area did not meet the established 95-percent efficiency rate standard. A “major deficiency” was also disclosed in regards to collections due and distributed since performance indicators did not meet the 95-percent standard; however, since OCSE was “unable to conclude with at least 95-percent confidence that Hawaii failed to meet the standard,” Hawaii was considered to have met the standard.

2. Performance Measures

OCSE determined that CSEA’s performance levels in the areas of “Paternity Establishment” and “Arrearage Payment” did not warrant incentives. No incentive base was provided for paternity establishment because data was determined to be incomplete or unreliable. In the area of arrearage payments, OCSE determined that CSEA failed to meet either the required current year performance level or improvement level from the previous year.

Criteria

1. 45 CFR 305.61(a) (1) (i) states that a State will be subject to a financial penalty and amounts payable to the State under Title IV-A of the Act will be reduced if “the State’s program failed to achieve the paternity establishment percentages, as defined.”
2. 45 CFR 305.61 (a) (1) (2) states that the financial penalty will also apply if “with respect to the immediately succeeding fiscal year, the State failed to take sufficient corrective action to achieve the appropriate performance levels or compliance or the data submitted by the State are still incomplete and unreliable.”

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
Fiscal Year Ended June 30, 2003

Ref.
No.

3. Incentive payments earned by the State will depend on achievement of, or failure to achieve defined performance levels.
4. Accurate and reliable data produced by KEIKI will allow for accurate calculations of the performance levels.

Effect of Condition

1. If the State's data is determined to be incomplete and unreliable, or fails to achieve defined paternity establishment performance levels, this may be considered a failure to meet IV-D requirements.
2. The penalty for failure to meet IV-D requirements under 45 CFR 305.61 would be assessed against the State Family Assistance Grant under the TANF program, which is administered by the State's IV-A agency, the State Department of Human Services (DHS). The penalty can range from one to five percent of the grant amount.
3. Incentives returned by CSEA for failure to achieve defined performance levels amounted to \$986,799 and \$620,417 based on Forms OCSE-157 filed for the federal fiscal years ended 2002 and 2001, respectively. These adjustments were recorded as reductions to CSEA's grant award.

Recommendation

CSEA should do the following:

1. Ensure that the appropriate corrective actions are taken regarding KEIKI so that calculation of incentives are based on accurate and reliable data.
2. Work toward achieving the defined performance levels, especially in the area of paternity establishment.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
Fiscal Year Ended June 30, 2003

Grantor - U.S. Department of Justice

Program - Crime Victim Assistance Grant Program

CFDA No. - 16.575

Pass-through Entity

Identifying No. - 98-VA-GX-0015

1999-VA-GX-0015

2000-VA-GX-0015

2001-VA-GX-0015

2002-VA-GX-0015

2003-VA-GX-0021

Ref.

No.

03-3 Improve Controls Over Monitoring Of Subgrantees

The Crime Victim Assistance Grant Program is administered by the Crime Prevention and Justice Assistance Division (CPJA) of the AG.

Condition

Our review of the Crime Victim Assistance Grant Program indicated that CPJA was not documenting its monitoring of subgrantees on a timely basis.

CPJA conducts site visits and prepares project monitoring reports. The reports are filed in the subgrantee's file and the subgrantee is also provided a copy of the completed report. However, our review of various subgrantee project files revealed that CPJA's documentation on the status of site visits was not being completed in a timely manner. For example, reports on site visits that took place in December 2002 and January 2003 reflected completion dates in October 2003. In another case, the report on a site visit that took place in June 2001 was dated in December 2002.

Criteria

28 CFR Part 66.40 (a) states that "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. . ."

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
Fiscal Year Ended June 30, 2003

Ref.
No.

Effect of Condition

1. Untimely completed documentation of site visits may prevent CPJA from properly monitoring its subgrantees to ensure both “compliance with applicable Federal requirements and that performance goals are being achieved. . .”
2. Problems, if any, that may exist at the subgrantee level and which are not resolved in a timely manner, may make it more difficult for CPJA to fulfill its own responsibilities to the grantor.

Recommendation

CPJA should implement procedures to ensure that documentation of site visits is completed in a timely manner. This will allow CPJA to properly monitor its subgrantees for compliance with the requirements of subgrant awards or contracts and at the same time, enable CPJA to meet its own requirements as the grantee.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
Fiscal Year Ended June 30, 2003

Grantor - U.S. Department of Justice

Program - Violence Against Women Formula Grant Program

CFDA No. - 16.588

Pass-through Entity

Identifying No. - 96-WF-NX-0015

98-WF-VX-0015

1999-WF-VX-0015

2000-WF-VX-0023

2001-WF-BX-0026

2002-WF-BX-0041

2003-WF-BX-0218

Ref.

No.

03-4 **Improve Controls Over Federal Report Preparation**

The Violence Against Women Formula Grant Program is administered by the Crime Prevention and Justice Assistance Division (CPJA) of the AG.

Condition

Our review of the Violence Against Women (VAWA) Formula Grant Program's records indicated that CPJA did not exercise sufficient control to ensure that all required reports were filed.

States are required to submit annual statewide performance reports for each federal fiscal year, due no later than December 31 of each year. CPJA did not file a report for the federal fiscal year ended September 2002. The report was not filed because the program specialist felt that at the time the report was due, a complete report could not be filed since CPJA was still in the subgrant award process. There was no request for an extension of time to file the report nor was the grantor agency informed of the reasons for the nonfiling.

Criteria

VAWA requires all states to submit performance reports that assess whether stated goals and objectives were achieved and that evaluate the effectiveness of activities carried out with funding made available to carry out the program.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
Fiscal Year Ended June 30, 2003

Ref.
No.

Effect of Condition

CPJA has not met the filing requirements associated with the VAWA grant program.

Recommendation

CPJA should implement procedures to not only ensure that all required reports are submitted in accordance with the conditions set forth with the federal grant award but also to make sure the grantor agency is advised as to late or nonfiling of required reports.

03-5 **Improve Controls Over Monitoring Of Subgrantees**

Condition

Our review of the VAWA grant program indicated that in some cases, CPJA was not documenting its monitoring of subgrantees on a timely basis.

CPJA conducts site visits and prepares project monitoring reports. The reports are filed in the subgrantee's file and the subgrantee is also provided a copy of the completed report. However, our review of various subgrantee project files revealed that CPJA's documentation on the status of site visits was not being completed in a timely manner. For example, reports on site visits that took place between March 2002 and August 2002 reflected completion dates in October 2003.

Criteria

28 CFR Part 66.40 (a) states that "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. . ."

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
Fiscal Year Ended June 30, 2003

Ref.
No.

Effect of Condition

1. Untimely completed documentation of site visits may prevent CPJA from properly monitoring its subgrantees to ensure both “compliance with applicable Federal requirements and that performance goals are being achieved. . .”
2. Problems, if any, that may exist at the subgrantee level and which are not resolved in a timely manner, may make it more difficult for CPJA to fulfill its own responsibilities to the grantor.

Recommendation

CPJA should implement procedures to ensure that documentation of site visits is completed in a timely manner. This will allow CPJA to properly monitor its subgrantees for compliance with the requirements of subgrant awards or contracts and at the same time, enable CPJA to meet its own requirements as the grantee.

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Summary Schedule Of Prior Audit Findings
Fiscal Year Ended June 30, 2003

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, 2002.

Ref. No.	Recommendations	Status
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FINANCIAL STATEMENT FINDINGS

Program - Child Support Enforcement
(Title IV-D), CFDA 93.563

02-1	Reconcile Amounts Claimed On Form OCSE-396A to Federal Funds Drawn (pages 45-49)	
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- | | | |
|--|---|--|
| | <ol style="list-style-type: none"> 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 draw-downs 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. | <p>Not accomplished.
 See Ref. No. 03-1.</p> |
|--|---|--|

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Summary Schedule Of Prior Audit Findings
Fiscal Year Ended June 30, 2003

<u>Ref. No.</u>	<u>Recommendations</u>	<u>Status</u>
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 under-claimed 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
Summary Schedule Of Prior Audit Findings
Fiscal Year Ended June 30, 2003

Ref. No.	Recommendations	Status
02-2	<p>Program - State Medicaid Fraud Control Unit, CFDA 93.775</p> <p>Reporting Of Program Income On Form SF-269 And Federal Funds Drawn (page 50)</p> <p>MID should maintain sufficient records to ensure that program income is accurately and completely reported.</p>	<p>Issue is resolved.</p>
FEDERAL AWARD FINDINGS		
02-3	<p>Program - Child Support Enforcement (Title IV-D), CFDA 93.563</p> <p>Improve Controls Over Federal Report Preparation</p> <p>a. Form OCSE-34A, Child Support Enforcement Program Quarterly Report of Collections (pages 51-52)</p>	<p>Not accomplished. See Ref. No. 03-2.</p>
	<p>So that the proper information is reported on Form OCSE-34A, the CSEA should:</p> <ol style="list-style-type: none"> 1. Monitor the progress of the new computer system, KEIKI, and ensure that the system will be able to provide 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. 	

DEPARTMENT OF THE ATTORNEY GENERAL
STATE OF HAWAII
Summary Schedule Of Prior Audit Findings
Fiscal Year Ended June 30, 2003

<u>Ref. No.</u>	<u>Recommendations</u>	<u>Status</u>
	<p>b. Form OCSE-396A, Child Support Enforcement Program Financial Report (page 52)</p> <p>Refer to Finding 02-1 regarding the need to improve controls over the preparation of reports to the grantor agency and in the requests for reimbursements.</p>	<p>Not accomplished. See Ref. No. 03-2.</p>
	<p>c. Form OCSE-157, Child Support Enforcement Annual Data Report (pages 52-53)</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>	<p>Not accomplished. See Ref. No. 03-2.</p>
02-4	<p>Program - State Medicaid Fraud Control Unit, CFDA 93.775</p> <p>Reporting Of Program Income On Form SF-269 And Federal Funds Drawn (page 54)</p> <p>Refer to Finding 02-2 regarding the reporting of program income by the State Medicaid Fraud Control Unit.</p>	<p>Issue is resolved.</p>
	<p>Other Prior Financial Statement Findings</p> <p>1. Resolve Insurance Settlement Deposited to the Trust Fund (page 61)</p> <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>Not accomplished. 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

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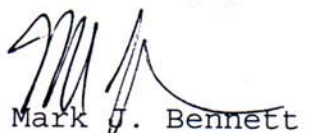
March 25, 2004

Mr. Chris Yuen
Ohata Chun Yuen LLC CPAs
3684 Waiialae 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, 2003.

Very truly yours,



Mark J. Bennett
Attorney General

Enclosures

**DEPARTMENT OF THE ATTORNEY GENERAL
FISCAL YEAR ENDED JUNE 30, 2003
RESPONSE TO SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

03-1 Reconcile Amounts Claimed on Form OCSE-396A to Federal Funds Drawn

1. Tax Intercept Service Fees

Condition - The service fees are allowable program expenditures and subject to reimbursement. CSEA properly reported the fees on Form OCSE-396A, however, the agency fund was not reimbursed for the federal share of the fees charged. It is CSEA's intention to use its TANF collections to reimburse the agency fund for the federal share of the tax intercept service fees. For the fiscal year ended June 30, 2003, the fees amounted to \$84,554.

Response - On November 14, 2003, the CSEA agency fund (bank checking account) was reimbursed for the federal share of the tax intercept fees from fiscal years 1999 through 2003.

2. Indirect Costs

Condition - Reimbursements have not been claimed for the indirect costs attributed to payroll and computer charges since the fiscal year ended June 1997. For the period beginning with the fiscal years ended June 1998 through June 2002, unclaimed indirect costs amounted to \$5,577,954 with a federal share of \$3,686,039. In addition, for the June 1997 fiscal 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 also not been claimed for reimbursement.

Response - CSEA concurs with this finding. The error can be attributed to two circumstances: First, the duties for reporting and claiming federal reimbursements were handled as split responsibilities. The reporting of expenses was and continues to be processed directly through CSEA while the actual draw-down of federal monies was handled by the fiscal office of the Department of the Attorney General. CSEA is now fully responsible for both the reporting of expenditures and the request for federal funding. The new procedure, implemented in July 2001, provides consistency

in the accounting process. The new procedure also calls for a summary report to the fiscal office for final notification/confirmation.

Second, the KOMAND billings, or costs related to the sharing of the State of Hawaii computer, were (initially) grossly overstated, and adjustments to the State's billings had to be made by the Department of Accounting and General Services. These adjustments did not take place until several years later.

This audit finding basically calls for CSEA to claim the unreimbursed expenses for KOMAND and payroll charges from the federal government. CSEA has met with the fiscal agency of the federal government to discuss and determine the accuracy of our claim. CSEA is required to provide the federal government with a year-by-year reconciliation of expenditures reported and reimbursements received since 1997. This reconciliation should provide confirmation of our claim. We anticipate that the federal government will adjust our grants on a quarterly basis to allow for this reimbursement if our findings prove accurate. The aggregate total should equal \$3.6 million less any performance incentive adjustments for fiscal years 2002 and 2003. We estimate that the reconciliation process will be completed in mid-April 2004.

3. Overstatement of Expenses

Condition - CSEA overstated its expenses on Form OCSE-396A by incorrectly reporting amounts for nonimposed fringe benefits related to General Fund salaries and wages and blood test expenses of \$143,675 (\$134,227 in fringe benefits and \$9,448 in blood tests).

Response - These overstated expenditures were corrected and shown as Prior Quarters' Adjustments on OCSE-396A report for the quarter ended September 30, 2003.

03-2 Improve Controls Over Federal Report Preparation

1. 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. In prior years, the amounts reported were not reconciled to the bank statement. CSEA has attempted to and is still in the process of reconciling the OCSE-34A report to the bank statement.

Response - The purpose of this audit finding is to validate that all the IV-D collections and disbursements are completely reflected in the OCSE-34A report. The auditors recommend that CSEA perform the reconciliation between the aforementioned federal report and the pertinent bank statements on a quarterly basis. To facilitate such reconciliation requires an additional report to be programmed. The required report was successfully generated for the quarter ended June 30, 2003. The agency also submitted the result of its first attempt at the reconciliation to the auditors for the same quarter. The reconciliation process will be continuously fine-tuned by CSEA, and we anticipate full compliance by state Fiscal Year 2004.

2. Data Reliability Report and Performance Measures

Condition - As in the prior year, the DRA disclosed that inaccurate data was being reported in the performance indicators for paternity establishment. This was attributed to "insufficient or inaccurate data in the State's automated system." Accordingly, this was disclosed as a "major deficiency" since the performance indicators in this area did not meet the established 95-percent efficiency rate standard. A "major deficiency" was also disclosed in regards to collections due and distributed since performance indicators did not meet the 95-percent standard; however, since OCSE was "unable to conclude with at least 95-percent confidence that Hawaii failed to meet the standard," Hawaii was considered to have met the standard.

OCSE determined that CSEA's performance levels in the areas of "Paternity Establishment" and "Arrearage Payment" did not warrant incentives. No incentive base was provided for paternity establishment because data was determined to be incomplete or unreliable. In the area of arrearage payments, OCSE determined that CSEA failed to meet either the required current year performance level or improvement level from the previous year.

Response - CSEA concurs with this finding. To improve CSEA's performance for reliability standards for Paternity Establishment, CSEA has requested and received approval from the federal government to use state paternity information collected by the State of Hawaii Department of Health Office of Health Status Monitoring. CSEA submitted paternity establishment data for federal Fiscal Year 2003 and was informed by the federal auditor that the data submitted for paternity performance measures were evaluated to be reliable. The results are preliminary and the official report is expected in April 2004. The State of Hawaii is also appealing the federal government's finding for federal Fiscal Year 2002.

CSEA has implemented programs such as increased Order of Income Withholding "tack-on" to help increase the number of cases with arrears balances collected. CSEA submitted arrearage collection figures for federal Fiscal Year 2003, which show that CSEA has met the minimum standard of performance of 40.0%. CSEA will continue to focus on programs such as OIW tack-on, TANF arrears write-off, and case closures to improve the ratio of the number cases with arrears collected to the total number of cases with arrears.

03-3 Improve Controls Over Monitoring of Subgrantees
03-5

Condition - Crime Prevention and Justice Assistance Division's (CPJA) documentation on the status of site visits was not being completed in a timely manner for the Crime Victim Assistance (VOCA) and Violence Against Women (VAWA) Formula Grant programs.

Response - CPJA concurs with these findings. It should be noted, however, that CPJA remains within monitoring parameters established by the federal administering agencies for the VOCA and VAWA grants.

In order to obtain monitoring reports in a timely manner, an electronic tracking system of individual specialists' projects will be set up that will be accessible to the individual specialists, the branch chief, and the division administrator. For each project, data elements will include project name and number, dates of the duration of the project, dates of monitoring, due dates of the report,

dates of completion of the reports, and comments. The standard for completion of each project shall be a maximum of 15 working days. If an extension is required to complete the report, the specialist shall document the reason for the extension in the comments section and indicate when the report will be completed. On a monthly basis, the Branch Chief will review and discuss the status of each specialist's monitoring and reports with the specialist. If there is a pattern of late submittals, the review will be scheduled on a more frequent basis. The form will be created and procedures established in March 2004, and will be effective April 1, 2004.

The division administrator will review the timeliness of the reports with the branch chief on a quarterly basis.

03-4 Improve Controls Over Federal Report Preparation

Condition - States are required to submit annual statewide performance reports for each federal fiscal year, due no later than December 31 of each year. CPJA did not file a report for the federal fiscal year ended September 2002. The report was not filed because the program specialist felt that at the time the report was due, a complete report could not be filed since CPJA was still in the subgrant award process. There was no request for an extension of time to file the report nor was the grantor agency informed of the reasons for the nonfiling.

Response - CPJA concurs with this finding. The report recommendation is to implement procedures to ensure that required reports are submitted, and to advise the grantor agency as to late or non-filing of required reports. CPJA concurs with the recommendation.

A matrix of due dates for performance reports of all active grants will be made and maintained by the Branch Chief. The matrix will make it easier for the Branch Chief to check on the status of pending reports with the assigned specialist. Checks will be done quarterly.

Staff was reminded that federal performance reports need to be submitted even if to indicate that there was no implementation activity during the reporting period. If an extension is required, a written request will be made to the federal agency.