

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

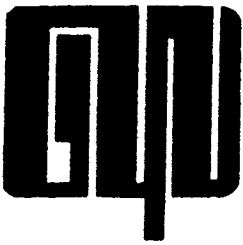
**Financial Statements with Accompanying  
Information for the Year Ended June 30, 2004 and  
Independent Auditors' Report**

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

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## INDEPENDENT AUDITORS' REPORT

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 year ended June 30, 2004, which collectively comprise the AG's basic financial statements, as listed in the foregoing table of contents. These financial statements are the responsibility of the AG's management. Our responsibility is to express 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 year ended June 30, 2004. 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, 2004.

As discussed in Note 1 to the basic financial statements, 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. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2004, and the changes in the financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

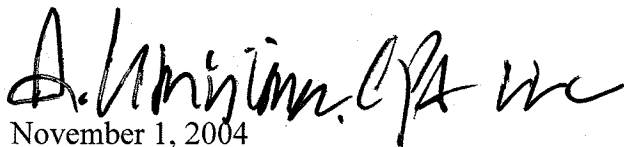
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to reconcile the financial activities of the Child Support Enforcement Agency bank accounts to the child support subsidiary ledgers as discussed in the third paragraph, the 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, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 1, 2004 on our consideration of the AG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 considering the results of our audit.

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 required supplementary information. However, we did not audit the information and express no such opinion on it.

Our audit was made 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

  
November 1, 2004

**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Management's Discussion and Analysis**

**June 30, 2004**

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

As management of the AG, we offer readers of these basic financial statements this narrative overview and analysis of the financial activities of the AG for the year ended June 30, 2004. This discussion and analysis is designed to assist the reader in the analysis of the AG's financial activities based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

**Financial Highlights**

**Government-Wide Financial Statement Highlights**

The assets of the AG exceeded its liabilities at June 30, 2004 by \$11,212,695 (net assets). Of this amount, \$4,524,445 was invested in capital assets and \$7,648,815 was restricted for various purposes. Net assets of the AG increased by \$4,580,854 or 69% from the prior fiscal year.

Total revenue decreased by \$3,699,000 or 5% in fiscal 2004 due to a decrease in operating grants and contributions to the child support enforcement program. However, the change in net assets increased from \$(6,125,329) in the prior fiscal year to \$4,580,854 in the current fiscal year, due to a reduction in general administrative and legal services.

**Fund Financial Statement Highlights**

At June 30, 2004, the AG's governmental funds reported combined ending fund balances of \$10,211,694, an increase of \$4,832,567 or 90% from the prior fiscal year. Of this amount, \$2,562,879 or 25% of the total fund balances were available for spending at the AG's discretion (unreserved fund balance) and the remaining \$7,648,815 represents amounts reserved for specific purposes.

**Overview of the Basic Financial Statements**

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

## **Government-Wide Financial Statements**

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

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

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

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The AG uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the AG can be divided into two categories: (1) governmental funds; and (2) agency funds.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of the 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 government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-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 government-wide financial statements.

The AG maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, child support enforcement and legal services, each of which is considered to be a major fund. Data from the remaining governmental funds are combined into a single aggregated presentation.

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

### Agency Funds (Fiduciary Funds)

Agency funds are used to account for resources held for the benefit of parties outside the AG. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the AG's own programs.

### Notes to Basic Financial Statements

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

### Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the AG's financial position. The AG's restricted net assets increased from \$4,809,054 at June 30, 2003 to \$7,648,815 at June 30, 2004 primarily due to the increase in the change in net assets. While the invested in capital assets balance remained comparable at \$4,878,916 at June 30, 2003 to \$4,524,445 at June 30, 2004, the unrestricted net assets deficit balance decreased from \$(3,056,129) at June 30, 2003 to \$(960,565) at June 30, 2004 due to the overall increase in the change in net assets in fiscal year 2004. The AG reflected a decrease in general administrative and legal services from the prior fiscal year due to a reduction in legislative relief expense of \$14 million in 2003 to \$6 million in 2004.

The AG's condensed financial information for the fiscal years 2004 and 2003 include:

<b>Statements of Net Assets</b>	<b>2004</b>	<b>2003</b>
Current and other assets	\$ 27,759,347	\$ 18,992,598
Capital assets, net of accumulated depreciation	4,524,445	4,878,916
Total assets	<u>32,283,792</u>	<u>23,871,514</u>
Current liabilities	18,152,113	14,315,327
Noncurrent liabilities	2,918,984	2,924,346
Total liabilities	<u>21,071,097</u>	<u>17,239,673</u>
Net assets:		
Invested in capital assets	4,524,445	4,878,916
Restricted for various purposes	7,648,815	4,809,054
Unrestricted	<u>(960,565)</u>	<u>(3,056,129)</u>
Total net assets	<u>\$ 11,212,695</u>	<u>\$ 6,631,841</u>

<b>Changes in Net Assets</b>	<b>2004</b>	<b>2003</b>
Program revenues:		
Charges for services	\$ 3,809,177	\$ 2,825,031
Operating grants and contributions	34,368,595	32,195,781
General revenues	28,626,001	35,482,175
	<u>66,803,773</u>	<u>70,502,987</u>
Expenses:		
General administrative and legal services	37,598,851	51,347,782
Child support enforcement	14,036,463	13,509,127
Drug control and crime prevention	6,196,322	6,820,141
Criminal history and State identification	4,391,283	4,951,266
	<u>62,222,919</u>	<u>76,628,316</u>
Changes in net assets	4,580,854	(6,125,329)
Net assets - beginning of year	6,631,841	12,757,170
Net assets - end of year	<u>\$ 11,212,695</u>	<u>\$ 6,631,841</u>

### **Capital Assets**

At June 30, 2004 and 2003, the AG's investment in capital assets amounted to \$4,524,445 and \$4,878,916, respectively, net of accumulated depreciation, representing a decrease of approximately \$354,000 or 7%. Capital assets include buildings, improvements, furniture and equipment.

### **Requests for Information**

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



**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Statement of Net Assets**

**June 30, 2004**

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	<b>Governmental</b>	
	<b>Activities</b>	<b>Total</b>
	<u>                    </u>	<u>                    </u>
<b>ASSETS:</b>		
Current assets:		
Cash	\$ 20,542,803	\$ 20,542,803
Due from grantor	6,295,902	6,295,902
Due from other agencies	457,087	457,087
Due from subgrantee	319,755	319,755
Settlement receivables	143,800	143,800
	<u>27,759,347</u>	<u>27,759,347</u>
Total current assets		
Noncurrent assets:		
Capital assets - net of accumulated depreciation	<u>4,524,445</u>	<u>4,524,445</u>
Total noncurrent assets	<u>4,524,445</u>	<u>4,524,445</u>
Total assets	<u><u>\$ 32,283,792</u></u>	<u><u>\$ 32,283,792</u></u>

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

**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Statement of Net Assets**

**June 30, 2004**

	<b>Governmental</b>	
	<b>Activities</b>	<b>Total</b>
	<u>          </u>	<u>          </u>
<b>LIABILITIES:</b>		
Current liabilities:		
Legislative relief payable	\$ 6,167,726	\$ 6,167,726
Due to State of Hawaii	5,932,939	5,932,939
Accrued vacation - current	1,566,495	1,566,495
Vouchers and contracts payable	1,445,925	1,445,925
Accrued wages and employee benefits payable	1,245,920	1,245,920
Deferred revenue	985,530	985,530
Due to subgrantees	631,751	631,751
Due to agency funds	175,827	175,827
	<u>18,152,113</u>	<u>18,152,113</u>
<b>Total current liabilities</b>		
	<u>18,152,113</u>	<u>18,152,113</u>
Long-term liabilities:		
Accrued vacation	2,918,984	2,918,984
<b>Total long-term liabilities</b>	<u>2,918,984</u>	<u>2,918,984</u>
	<u>2,918,984</u>	<u>2,918,984</u>
<b>Total liabilities</b>	<u>21,071,097</u>	<u>21,071,097</u>
	<u>21,071,097</u>	<u>21,071,097</u>
<b>NET ASSETS:</b>		
Invested in capital assets	4,524,445	4,524,445
Restricted for various purposes	7,648,815	7,648,815
Unrestricted	(960,565)	(960,565)
	<u>11,212,695</u>	<u>11,212,695</u>
<b>Total net assets</b>	<u>11,212,695</u>	<u>11,212,695</u>
	<u>11,212,695</u>	<u>11,212,695</u>
<b>Total liabilities and net assets</b>	<u>\$ 32,283,792</u>	<u>\$ 32,283,792</u>
	<u>\$ 32,283,792</u>	<u>\$ 32,283,792</u>

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

**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Statement of Activities**

**Year Ended June 30, 2004**

<b>FUNCTIONS/PROGRAMS</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	
Governmental activities:				
General administrative and legal service	\$ 37,598,851	\$ 60,333	\$ 17,959,325	\$ (19,579,193)
Child support enforcement	14,036,463	1,960,000	9,109,682	(2,966,781)
Drug control and crime prevention	6,196,322	-	6,065,925	(130,397)
Criminal history and State identification	4,391,283	1,788,844	1,233,663	(1,368,776)
<b>Total governmental activities</b>	<b>\$ 62,222,919</b>	<b>\$ 3,809,177</b>	<b>\$ 34,368,595</b>	<b>(24,045,147)</b>
				General revenues - State allotted appropriations
				28,626,001
				Change in net assets
				4,580,854
				Net assets - beginning of year
				6,631,841
				Net assets - end of year
				\$ 11,212,695

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

DEPARTMENT OF THE ATTORNEY GENERAL  
 STATE OF HAWAII  
 Balance Sheet  
 Governmental Funds

June 30, 2004

	General Fund	Child Support Enforcement	Legal Services	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>					
Cash	\$ 7,674,215	\$ 3,300,036	\$ 7,288,762	\$ 2,279,790	\$ 20,542,803
Due from grantor	-	4,702,116	-	631,751	5,333,867
Due from other state agencies	-	-	457,087	-	457,087
Due from subgrantee	319,755	-	-	-	319,755
Settlement receivables	-	-	143,800	-	143,800
Due from other funds	-	5,813	-	3,053	8,866
<b>Total assets</b>	<b>\$ 7,993,970</b>	<b>\$ 8,007,965</b>	<b>\$ 7,889,649</b>	<b>\$ 2,914,594</b>	<b>\$ 26,806,178</b>

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

**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Balance Sheet  
Governmental Funds**

**June 30, 2004**

	<u>General Fund</u>	<u>Child Support Enforcement</u>	<u>Legal Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>LIABILITIES AND FUND BALANCES:</u></b>					
<b>Liabilities:</b>					
Legislative relief payable	\$ 6,167,726	\$ -	\$ -	\$ -	\$ 6,167,726
Due to State of Hawaii	25,400	4,702,115	1,205,424	-	5,932,939
Accounts payable	660,381	311,608	263,627	210,309	1,445,925
Accrued wages and employee benefits payable	629,554	234,461	342,704	39,201	1,245,920
Deferred revenues	-	985,530	-	-	985,530
Due to subgrantees	-	-	-	631,751	631,751
Due to agency funds	-	175,827	-	-	175,827
Due to other funds	5,813	-	3,053	-	8,866
<b>Total liabilities</b>	<b><u>7,488,874</u></b>	<b><u>6,409,541</u></b>	<b><u>1,814,808</u></b>	<b><u>881,261</u></b>	<b><u>16,594,484</u></b>
<b>Fund balances:</b>					
Reserved for encumbrances	7,648,815	-	-	-	7,648,815
Unreserved, reported in					
General fund	(7,143,719)	-	-	-	(7,143,719)
Special funds	-	1,598,424	6,074,841	2,033,333	9,706,598
<b>Total fund balances</b>	<b><u>505,096</u></b>	<b><u>1,598,424</u></b>	<b><u>6,074,841</u></b>	<b><u>2,033,333</u></b>	<b><u>10,211,694</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 7,993,970</u></b>	<b><u>\$ 8,007,965</u></b>	<b><u>\$ 7,889,649</u></b>	<b><u>\$ 2,914,594</u></b>	<b><u>\$ 26,806,178</u></b>

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

**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Reconciliation of the Governmental Funds Balance Sheet to the  
Statement of Net Assets**

**June 30, 2004**

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Total fund balance - governmental funds \$ 10,211,694

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. 4,524,445

Long-term liabilities, including accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds. (3,523,444)

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Net assets of governmental activities \$ 11,212,695

The accompanying notes are an integral part of the basic 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, 2004

	General Fund	Child Support Enforcement	Legal Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
State allotted appropriations	\$ 33,189,013	\$ -	\$ -	\$ -	\$ 33,189,013
Fees and others	-	2,029,996	7,289,606	1,862,914	11,182,516
Intergovernmental	-	-	1,253,361	7,482,298	8,735,659
Special fund revenues	-	3,825,497	2,221,948	-	6,047,445
Share of TANF collections	-	5,214,189	-	-	5,214,189
Litigation settlements	-	-	3,408,333	-	3,408,333
Total revenues	<u>33,189,013</u>	<u>11,069,682</u>	<u>14,173,248</u>	<u>9,345,212</u>	<u>67,777,155</u>
<b>Expenditures:</b>					
General administrative and legal service	27,559,613	-	9,923,451	-	37,483,064
Child support enforcement	2,494,037	11,554,603	-	-	14,048,640
Drug control and crime prevention	-	-	-	6,086,467	6,086,467
Criminal history and State identification	1,786,078	-	-	2,552,636	4,338,714
Capital expenditures	6,900	-	-	7,421	14,321
Total expenditures	<u>31,846,628</u>	<u>11,554,603</u>	<u>9,923,451</u>	<u>8,646,524</u>	<u>61,971,206</u>
Excess of revenues over (under) expenditures	<u>1,342,385</u>	<u>(484,921)</u>	<u>4,249,797</u>	<u>698,688</u>	<u>5,805,949</u>
Other financing uses	<u>(339,127)</u>	<u>-</u>	<u>(377,475)</u>	<u>(256,780)</u>	<u>(973,382)</u>
Net change in fund balances	1,003,258	(484,921)	3,872,322	441,908	4,832,567
Fund balances - beginning	<u>(498,162)</u>	<u>2,083,345</u>	<u>2,202,519</u>	<u>1,591,425</u>	<u>5,379,127</u>
Fund balances - ending	<u>\$ 505,096</u>	<u>\$ 1,598,424</u>	<u>\$ 6,074,841</u>	<u>\$ 2,033,333</u>	<u>\$ 10,211,694</u>

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

**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures, and Changes in Fund Balances to the Statement of  
Activities**

**Year Ended June 30, 2004**

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Net change in fund balances - total governmental funds \$ 4,832,567

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

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 were:

Capital outlays	\$	14,321	
Depreciation expense		(368,792)	
Excess of depreciation expense over capital outlays		(354,471)	(354,471)

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 an expenditure in governmental funds.

102,758

Change in net assets of governmental activities

\$ 4,580,854

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



**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Budgetary Comparison Statement**

**Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
<b>General Fund</b>				
Budgetary fund balance at July 1, 2003	\$ -	\$ -	\$ 50,429	\$ 50,429
Resources (inflows):				
State allotted appropriations	23,604,488	23,604,488	23,604,488	-
Charges to appropriations (outflows):				
General administrative and legal services	18,812,692	18,812,692	18,713,704	(98,988)
Child support enforcement	3,105,686	3,105,686	2,876,969	(228,717)
Criminal history and State identification	1,686,110	1,686,110	1,674,687	(11,423)
Total charges to appropriations	23,604,488	23,604,488	23,265,360	(339,128)
Budgetary fund balance at June 30, 2004	\$ -	\$ -	\$ 389,557	\$ 389,557
<b>Child Support Enforcement</b>				
Budgetary fund balance at July 1, 2003	\$ -	\$ -	\$ 868,277	\$ 868,277
Resources (inflows):				
Special fund revenues	16,406,623	16,406,623	8,844,086	(7,562,537)
Others	2,703,228	2,703,228	2,175,276	(527,952)
Amounts available for appropriation	19,109,851	19,109,851	11,887,639	(7,222,212)
Charges to appropriations (outflows):				
Child support enforcement	19,109,851	19,109,851	12,944,336	(6,165,515)
Budgetary fund balance at June 30, 2004	\$ -	\$ -	\$ (1,056,697)	\$ (1,056,697)
<b>Legal Services</b>				
Budgetary fund balance at July 1, 2003	\$ -	\$ -	\$ (1,577,930)	\$ (1,577,930)
Resources (inflows):				
Special fund revenues	3,845,830	3,845,830	2,263,728	(1,582,102)
Intergovernmental	1,348,644	1,348,644	886,834	(461,810)
Other	7,526,219	7,526,209	7,204,006	(322,203)
Amounts available for appropriation	12,720,693	12,720,683	8,776,638	(3,944,045)
Charges to appropriations (outflows):				
General administrative and legal services	12,720,693	12,720,683	9,268,621	(3,452,062)
Budgetary fund balance at June 30, 2004	\$ -	\$ -	\$ (491,983)	\$ (491,983)

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

**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Statement of Assets and Liabilities  
Agency Funds**

**June 30, 2004**

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	<u>Total Agency Funds</u>
<b>ASSETS:</b>	
Cash	\$ 4,778,494
Due from governmental funds	<u>175,827</u>
Total assets	<u><u>\$ 4,954,321</u></u>
<b>LIABILITIES:</b>	
Due to and held for agency recipients	\$ 4,951,046
Due to others	<u>3,275</u>
Total liabilities	<u><u>\$ 4,954,321</u></u>

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

# DEPARTMENT OF THE ATTORNEY GENERAL STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2004

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### 1. Summary of Significant Accounting Policies

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

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

#### **Financial Reporting Entity**

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

The accompanying financial statements reflect the financial position and results of operations of the following divisions of the AG:

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

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

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

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

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

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

#### **Legal Services –**

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

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

- **Employment Law Division:** This division is responsible for advising, counseling and representing the State in all matters arising out of its activities as an employer.
- **Labor Division:** This division assists the State Department of Labor and Industrial Relations (DLIR) in the interpretation of state statutes and their application of 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.
- **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 it relates to *Felix* matters, Office Of Elections, Judiciary, as well as the Legislature.
- **Public Safety, Hawaiian Homelands and Housing Division:** This division provides legal services to the Department of Public Safety (except for civil litigation matters), the Department of Hawaiian Home Lands, and the Hawaii Community Development Corporation of Hawaii.

- **Commission to Promote Uniform Legislation:** This commission was placed in the AG to provide advice on matters relating to the promotion of uniform legislation in accordance with HRS Chapter 3 (Uniformity of Legislation) and Section 26-7. The commission consists of five members appointed by the Governor and confirmed by the State Senate, who serve without compensation for a term of four years.

### **Basis Of Presentation – Fund Accounting**

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

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

### **Basis of Accounting**

#### **Government–Wide Financial Statements**

The government-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 AG.

The government-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 government-wide statements and the statements for governmental funds. The primary effect of internal activity has been eliminated from the government-wide financial statements.

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

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Separate financial statements are provided for governmental funds and agency funds, even though the latter are excluded from the government-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.

## **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.

## **Agency Funds**

The AG has four agency 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.

As of June 30, 2004, the balance reflected in the financial statements for cash maintained in two bank accounts held outside of the State Treasury was changed from the bank balance to the book balance. The effect of this change was to increase the Child Support Enforcement other revenues account by \$24,031 and decrease the Agency Fund due to and held for agency recipients’ account by \$2,197,217.

**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 government-wide financial statement presentations.



### **Intrafund and Interfund Transactions**

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

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

	<u>General Fund</u>	<u>Child Support Enforcement</u>	<u>Legal Services</u>
Sources/inflows of resources:			
Actual amounts (budgetary basis) "amounts available for appropriation" from the budgetary comparison schedule	\$ 23,604,488	\$ 11,887,639	\$ 8,776,638
Differences - budget to GAAP:			
The fund (balance) deficit at the beginning of the year affects budgetary resources but not revenues for financial reporting purposes	-	(868,277)	1,577,930
Revenues for financial reporting purposes which are not budgetary resources	10,730,738	50,320	4,237,189
Budgetary resources not revenues for financial reporting purposes	(1,146,213)	-	-
Adjustments for prior receivables for financial reporting purposes which are not budgetary resources	-	-	(418,509)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 33,189,013</u>	<u>\$ 11,069,682</u>	<u>\$ 14,173,248</u>

	<u>General Fund</u>	<u>Child Support Enforcement</u>	<u>Legal Services</u>
Sources/inflows of resources:			
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 23,265,360	\$ 12,944,336	\$ 9,268,621
Differences - budget to GAAP:			
Reserve for encumbrances at year-end are outflows for budgetary resources but are not expenditures for financial reporting purposes	(1,481,089)	(2,365,712)	-
Adjustments for accrued expenses which are not outflows of budgetary resources but are expenditures for financial reporting purposes	10,062,357	(351,966)	(1,585,407)
Other expenditures for financial reporting purposes which are not outflows of budgetary resources	-	1,327,945	2,240,237
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 31,846,628</u>	<u>\$ 11,554,603</u>	<u>\$ 9,923,451</u>

### **Interfund Transactions**

As of June 30, 2004, 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 \$175,827 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 agencies and departments 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 certain funds in two bank accounts held separately from the State Treasury. One bank account is used primarily for CSEA agency transactions. As of June 30, 2004, the carrying amount of this account was \$4,552,446 and was reflected in "Cash" of the Agency Fund's Statement of Assets and Liabilities.

The second bank account, opened in fiscal year 2003, is used solely to account for the federal share of child support payment collections retained by CSEA under PRWORA and the TANF program. As the use of these funds are for CSEA's benefit, this account is reflected in "Cash" of the Governmental Fund's Balance Sheet under the special revenue fund for Child Support Enforcement. As of June 30, 2004, the carrying amount of this TANF bank account was \$2,022,996.

#### 4. Capital Assets And Depreciation

Capital assets activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Buildings and improvements:				
Cost	\$ 9,117,450	\$ -	\$ -	\$ 9,117,450
Accumulated depreciation	(4,586,911)	(295,957)	-	(4,882,868)
Building and improvements - net	<u>\$ 4,530,539</u>	<u>\$ (295,957)</u>	<u>\$ -</u>	<u>\$ 4,234,582</u>
Office furniture and equipment:				
Cost	\$ 1,048,368	\$ 14,321	\$ (48,728)	\$ 1,013,961
Accumulated depreciation	(699,991)	(72,835)	48,728	(724,098)
Office furniture and equipment - net	<u>\$ 348,377</u>	<u>\$ (58,514)</u>	<u>\$ -</u>	<u>\$ 289,863</u>
Capital assets - net	<u>\$ 4,878,916</u>	<u>\$ (354,471)</u>	<u>\$ -</u>	<u>\$ 4,524,445</u>

Depreciation expense was charged to the following governmental activities of the AG as follows:

Governmental activities:	
General administration and legal services	\$ 182,322
Drug control and crime prevention	109,855
Criminal history and State identification	71,884
Child support enforcement	4,731
	<hr/>
Total governmental activities depreciation expense	<u>\$ 368,792</u>

**5. Accrued Vacation**

For the year ended June 30, 2004, changes in accrued vacation, were as follows:

Balance at July 1, 2003	\$ 4,456,965
Net increase	<u>28,514</u>
Balance at June 30, 2004	<u>\$ 4,485,479</u>

**6. Non-Imposed Employee Fringe Benefits**

Payroll fringe benefit costs of the AG's employees funded by state appropriations (general fund) are assumed by the State and are not charged to the AG's operating funds. These costs, totaling approximately \$4,563,000 for the year ended June 30, 2004, 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 \$6,381,000 for the year ended June 30, 2004.

**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:

Year ending June 30,	
2005	\$ 238,400
2006	172,300
2007	93,600
2008	<u>24,000</u>
	<u>\$ 528,300</u>

Total rent expense for the year ended June 30, 2004, including rent paid to the State of Hawaii for office space in the Kapolei State Office Building, was approximately \$744,000.

**9. Employee Benefits**

**Employees' Retirement System**

**Plan Description** - All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be

amended by legislative action. The ERS issues a Comprehensive Annual Financial Report (CAFR) that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory 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 noncontributory option. The noncontributory 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 noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory 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 26 years from June 30, 2003.

The State is required to contribute to both the contributory and noncontributory options at an actuarially determined rate. The State's contribution requirement for the years ended June 30, 2004, 2003, and 2002, were approximately \$181,614,000, \$158,622,000, and \$113,984,000, respectively. The State contributed 100% of its required contribution for those years. Act 233, Session Laws of Hawaii 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, Session Laws of Hawaii 2001, provided an increase in pension benefits effective 2003 to retirees with military service. Covered payroll for the year ended June 30, 2004 was approximately \$2,021,447,000.

#### **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 10 or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than 10 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 24,200 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 year 2004, expenditures of approximately \$151,851,000 were recognized for post-retirement health care and life insurance benefits, approximately \$35,136,000 of which is attributable to the State's component units.

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, 2004 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 health insurance benefits expense for the year ended June 30, 2004 was approximately \$788,000 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 deductible is \$250,000 per occurrence. The deductible for windstorm coverage is 3% of loss subject to a \$250,000 minimum. The limit of loss per occurrence is \$100,000,000, except for flood and earthquake which is \$25,000,000. This policy also includes terrorism coverage whose limit of loss per occurrence is \$50,000,000 with a deductible of \$250,000 per occurrence.

The State also has a crime insurance policy for various types of coverages with a minimum limit of loss of \$1,000,000 per occurrence and a maximum limit of \$10,000,000 with \$250,000 deductibles. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

Claims under \$10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the AG. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a \$4,000,000 deductible per occurrence. The annual aggregate per occurrence is \$10,000,000.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriation of the State's General Funds.

**Self-Insured Risks** - The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses.

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. As of June 30, 2004, there were no liabilities recorded for such claims in the accompanying financial statements. In the opinion of AG's management, there were no claims which needed to be reserved for as of June 30, 2004.

## **11. Commitments And Contingencies**

**Accumulated Sick Leave** - Employees earn sick leave credits at the rate of one and three-quarters working days for each month of service without limit. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave as of June 30, 2004 was approximately \$12,516,000.

**Deferred Compensation Plan** - The State has a deferred compensation plan ("Plan") that enables State employees to defer a portion of their compensation. The Plan's Board of Trustees has the fiduciary responsibility of administering the Plan. The amounts deferred are not available to employees until termination, retirement, death, or an unforeseeable emergency. All amounts deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust outside the State treasury in accordance with section 457 of the Internal Revenue Code for the exclusive benefit of Plan participants and their beneficiaries.

## **12. Criminal Forfeiture Revolving Fund**

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

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



### **13. Welfare Reform Act**

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

### **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 \$985,530 represents CSEA's unspent collections as of June 30, 2004.

### **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. Department of Health and Human Services for meeting all the requirements of PRWORA.

### **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 had 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 has appealed this decision. As of June 30, 2004, the case is currently pending in the Hawaii Supreme court and no amounts have been paid out on the Judgment.



# G. USHIJIMA CPA LLC

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

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 year ended June 30, 2004, and have issued our report thereon dated November 1, 2004. 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 04-1.


### **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 basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the

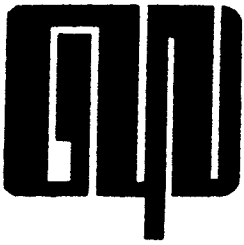
design or operation of the internal control over financial reporting that in our judgment could adversely affect the AG's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 04-1.

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 believe that none of the reportable conditions described above is a material weaknesses.

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

A handwritten signature in black ink, appearing to read "Allison CFS LLC". The signature is written in a cursive, flowing style.

November 1, 2004



# G. USHIJIMA CPA LLC

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

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 year ended June 30, 2004. 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.

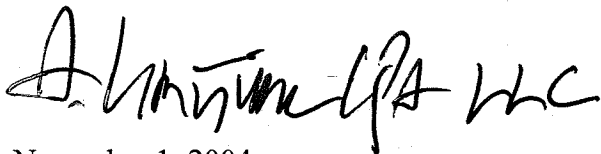
In our opinion, the AG complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

## Internal Control Over Compliance

The management of the AG is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use 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.



November 1, 2004

**Department of the Attorney General  
State of Hawaii  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Number	Expenditures
<u>U.S. Department of Justice</u>			
Safe Havens: Supervised Visitation and Safe Exchange Grant Program	16.527	2003-CW-BX-0019	\$ 103,809
Hawaii Internet Crimes Against Children Task Force Program	16.543	2000-MC-CX-K101	161,366
Hawaii State Justice Statistics Program for Statistical Analysis	16.550	2002-BJ-CX-K006	43,995
Hawaii National Criminal History Improvement Program	16.554	2000-RG-CX-K011	464,533
FY2002 Paul Coverdale National Forensic Sciences Improvement Act	16.560	2003-DN-BX-0015	27,616
Crime Victim Assistance	16.575	2000-VA-GX-0015	581,410
		2001-VA-GX-0015	849,174
		2002-VA-GX-0015	173,549
		2003-VA-GX-0021	-
		2004-VA-GX-0051	-
			<u>1,604,133</u>
Byrne Formula Grant Program (Drug Control and Systems Improvement)	16.579	2000-DB-MU-0015	203,623
		2001-DB-BX-0015	619,349
		2002-DB-BX-0015	807,410
		2003-DB-BX-0027	338,189
		2004-DB-BX-0038	210
			<u>1,968,781</u>
STOP Violence Against Women Formula Grants	16.588	1999-WF-VX-0015	15,536
		2000-WF-VX-0023	5,801
		2001-WF-BX-0026	450,752
		2002-WF-BX-0041	289,094
		2003-WF-BX-0218	12,792
		2004-WF-AX-0036	1,186
			<u>775,161</u>
Grants to Encourage Arrest Policies	16.588	1998-WE-VX-0017	3,103
Rural Domestic Violence and Child Victimization Enforcement Program	16.589	1997-WR-VX-0027	5,394
		1999-WR-VX-0060	283,081
		2002-WR-BX-0005	110,718
			<u>399,193</u>
Grants to Encourage Arrest Policies	16.590	2002-WE-BX-0049	24,939
		2003-WE-BX-0020	58,239
			<u>83,178</u>

See notes to schedule of expenditures of federal awards.

**Department of the Attorney General  
State of Hawaii  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Number	Expenditures
Hawaii Residential Substance Abuse Treatment for State Prisoners	16.593	1998-RT-VX-0015	199
		1999-RT-VX-0015	406
		2000-RT-VX-0039	316,515
		2001-RT-BX-0037	-
		2002-RT-BX-0018	-
		2003-RT-BX-0006	-
			<u>317,120</u>
Bulletproof Vest Partnership Program	16.607		<u>31,224</u>
Project Safe Neighborhoods Research Partner/Crime Analyst Program	16.609	2001-RG-CX-K011	<u>35,755</u>
HI National Incident-Based Reporting	16.733	2001-RG-CX-K011	<u>129,724</u>
Total U.S. Department of Justice			<u>6,148,691</u>
<u>U.S. Department of Health and Human Services</u>			
Child Support Enforcement (Title IV-D)	93.563	G-02-04-HI-4004	-
		G-03-04-HI-4004	8,707,131
			<u>8,707,131</u>
State Medicaid Fraud Control Units	93.775	01-0301-HI-5050	226,366
		01-0401-HI-5050	643,641
			<u>870,007</u>
Total U.S. Department of Health and Human Services			<u>9,577,138</u>
Total Expenditures of Federal Awards			<u>\$ 15,725,829</u>

See notes to schedule of expenditures of federal awards.

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2004**

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**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:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Byrne Formula Grant Program	16.579	\$ 1,968,781
Crime Victim Assistance	16.575	1,604,133
Violence Against Women Formula Grants	16.588	614,996
Residential Substance Abuse Treatment for State Prisoners	16.593	297,019
HI National Incident-Based Reporting	16.733	129,724
Paul Coverdale National Forensic Sciences Improvement Act	16.560	27,616
		<u>\$ 4,642,269</u>

**3. Federal Share of TANF Collections Expended**

Expenditures reported under the U.S. Department of Health and Human Services Child Support Enforcement (CFDA No. 93.563) grant award includes only expenditures directly charged to the grant. It does not include the AG's expenditures of its net federal share of child support collections received on behalf of recipients who receive financial aid from the State's Title IV-A agency. The net federal share of collections expended amounted to \$5,214,188, which would result in an adjusted "Total Federal Expenditures" of \$20,940,017.



**State of Hawaii**  
**Department of the Attorney General**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2004**

**Section I – Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued: qualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes  no
- Reportable condition(s) identified that are not considered to be material weaknesses?  
 yes \_\_\_\_\_ none reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes  no

Federal Awards

Internal controls over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes  no
- Reportable condition(s) identified that are not considered to be material weaknesses?  
\_\_\_\_\_ yes  none reported

Type of auditors' report issued on compliance for major programs: unqualified

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(s)</u>	<u>Name of Federal Program or Cluster</u>
16.575	Crime Victim Assistance
16.579	Bryne Formula Grant Program
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: \$500,000

Auditee qualifies as low-risk auditee? \_\_\_\_\_ yes  no

**State of Hawaii**  
**Department of the Attorney General**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2004**

**Section II – Financial Statement Findings**

Ref. No.: 04-1

Program: Child Support Enforcement (Title IV-D)

Federal CFDA Number: 93.563

**Criteria:** 45 CFR Part 74.21(b)(3) requires that “Recipients’ financial management systems shall provide for...effective control over and accountability for all funds, property and other assets...”.

**Condition:** The Child Support Enforcement Agency bank accounts were not reconciled to the child support subsidiary ledgers for several years, including the year ended June 30, 2004. A reconciliation was prepared for the year ended June 30, 2004, however, reconciling items were not adjusted for and there were still unreconciled differences in the reconciliation.

**Questioned Costs:** The balance of the bank account referred to above was \$6,575,442 as of June 30, 2004.

**Effect:** Due to the lack of reconciliations referred to above, the reliability of the KEIKI system has been questioned and additional procedures are performed to ensure the information shown for Federal reporting purposes is complete and accurate.

**Cause:** The initial implementation of the KEIKI system did not produce the reports needed to facilitate such reconciliations. In addition, CSEA did not have the adequate resources to resolve the identified differences on a timely basis.

**Recommendation:** Continue to perform reconciliations on a quarterly basis. Estimate the necessary resources needed to completely resolve all identified differences and determine the most feasible plan to eliminate this condition in the future.

**State of Hawaii**  
**Department of the Attorney General**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2004**

**Section III – Federal Award Findings and Questioned Costs**

There were no current year findings related to the federal awards.

STATE OF HAWAII  
DEPARTMENT OF THE ATTORNEY GENERAL  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004

Section IV - Prior Year Audit Findings

Ref. No.	Recommendation	Status
<b>FINANCIAL STATEMENT FINDINGS</b>		
<b>Reportable Conditions</b>		
<b>03-1</b>	<b>Reconcile Amounts Claimed on Form OCSE-396A to Federal Funds Drawn</b>	
	1. Reimburse the agency fund for the federal share of the tax intercept fee	Issue is resolved as corrective action has been taken.
	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.	Issue is partially resolved. CSEA has claimed a portion of the reimbursements for the indirect and KOMAND billings during fiscal year 2004 and has verbally worked out a plan with grantor agency to clear up the remaining unreimbursed costs by the end of fiscal 2005.
	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.	Issue is resolved as corrective action has been taken.
	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.	Issue is resolved as corrective action has been taken.
	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.	Issue is resolved as corrective action has been taken.

STATE OF HAWAII  
DEPARTMENT OF THE ATTORNEY GENERAL  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004

Section IV - Prior Year Audit Findings

Ref. No.	Recommendation	Status
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**FEDERAL AWARDS FINDINGS**

**03-02    Improve Controls Over Federal Report Preparation**

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

- Continue efforts to reconcile amounts reported on OCSE-34A to the bank statement to ensure that KEIKI is providing accurate child support collection information.
- Rely only on current and reconciled supporting records to improve the reliability of the information provided on Form OCSE-34A

Issue is partially resolved as reconciliations are being performed on a timely basis during the current fiscal year. However, identified reconciliation differences, relating primarily to the implementation of KEIKI, are still being investigated and resolved, as time and resources permit.

CSEA should do the following:

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

Issue is resolved as corrective action has been taken.

**03-03    Improve Controls Over Monitoring of Subgrantees**

The Crime Prevention and Justice Assistance Division (CPJA) of the AG 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.

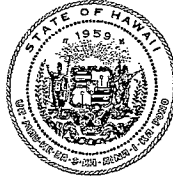
Issue is resolved as corrective action has been taken.

STATE OF HAWAII  
DEPARTMENT OF THE ATTORNEY GENERAL  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004

Section IV - Prior Year Audit Findings

<u>Ref. No.</u>	<u>Recommendation</u>	<u>Status</u>
03-04	<b>Improve Controls Over Federal Report Preparation</b>  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.	Issue is resolved as corrective action has been taken.
03-05	<b>Improve Controls Over Monitoring of Subgrantees</b>  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.	Issue is resolved as corrective action has been taken.
<b>Other Prior Financial Statement Findings</b>		
	1. Resolve Insurance Settlement Deposited to the Trust Fund  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.	Issue is resolved as corrective action has been taken.

LINDA LINGLE  
GOVERNOR



MARK J. BENNETT  
ATTORNEY GENERAL

LISA M. GINOZA  
FIRST DEPUTY ATTORNEY GENERAL

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DEPARTMENT OF THE ATTORNEY GENERAL  
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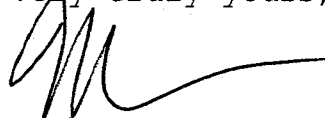
April 1, 2005

Mr. Gerald Ushijima  
G. Ushijima CPA's, LLC  
1110 University Avenue, Unit 507  
Honolulu, HI 96826

Dear Mr. Ushijima:

We have enclosed our response to the schedule of findings and questioned costs on the Financial Audit Report for fiscal year ended June 30, 2004.

Very truly yours,



Mark J. Bennett  
Attorney General

Enclosures

**Department of the Attorney General**  
**Fiscal Year Ended June 30, 2004**  
**Response to Schedule of Findings and Questioned Costs**

**Current Year Audit Findings**

**Ref. No: 04-1** The Child Support Enforcement Agency bank accounts were not reconciled to the child support subsidiary ledgers for several years, including the year ended June 30, 2004. A reconciliation was prepared for the year ended June 30, 2004, however, reconciling items were not adjusted for and there were still unreconciled differences in the reconciliation.

**Response:** The agency will continue preparing the monthly bank reconciliation between the bank account balance and the subsidiary ledgers (i.e. the accounting records showing all the collected support payments that have not yet been disbursed at the time of the reporting.) The existing reconciliation format will also be modified to reflect the adjustment for all the reconciling items.

The auditors also recommend that the agency estimate the necessary resources to settle all the identified differences on the bank reconciliation. However, the agency disagrees with this recommendation. There were no records or subsidiary ledgers available during the transition from the Judiciary or the Department of Human Services to the agency. As a result, some of the reconciling items can never be completely resolved even with additional resources available.

**Prior Year Audit Findings**

**Ref. No: 03-1 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.

Auditors deem the above issue partially resolved. They noted that CSEA has claimed a portion of the reimbursements for the indirect costs and KOMAND billings during fiscal year 2004 and has verbally worked out a plan with grantor agency to clear up the remaining unreimbursed costs by the end of fiscal year 2005.

**Response:** CSEA has reached an agreement with the grantor to progressively claim the remaining unreimbursed costs for a period of eight quarters starting from the quarter ended December 31, 2004.



**Ref. No: 03-02** Improve Controls Over Federal Report Preparation -  
So that the proper information is reported on Form OCSE-34A, the  
CSEA should:

- Continue efforts to reconcile amounts reported on OCSE-34A to the bank statement to ensure that KEIKI is providing accurate child support collection information.
- Rely only on current and reconciled supporting records to improve the reliability of the information provided on Form OCSE-34A.

Auditors consider the above finding as partially resolved as reconciliations are being performed on a timely basis during the current fiscal year. However, identified reconciliation differences, relating primarily to the implementation of KEIKI, are still being investigated and resolved, as time and resources permit.

**Response:** This issue is identical to the current year finding. Please see the agency's response to the current year finding on Page 1.