STATE OF HAWAII

BASIC FINANCIAL STATEMENTS, SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND OMB CIRCULAR A-133 COMPLIANCE REPORTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Prepared by Accounting Division
Department of Accounting and General Services

Independent Audit Contracted and Administered by
Office of the State Auditor

STATE OF HAWAII

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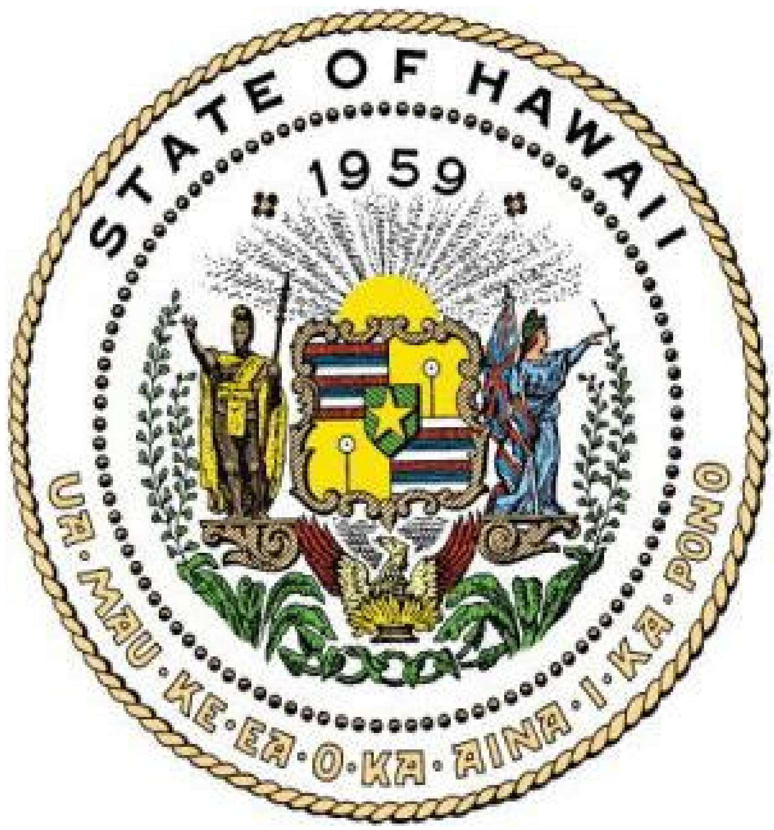
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INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2011, which collectively comprise the State of Hawaii's basic financial statements (pages 24 – 129) as listed in the accompanying table of contents. These financial statements are the responsibility of the State of Hawaii's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Department of Transportation – Airports and Harbors Divisions, which are major enterprise funds, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, which are nonmajor enterprise funds, and the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation which are discretely presented component units. These financial statements that we did not audit reflect the following percentages of total assets and program revenues or additions for the indicated opinion units.

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Program Revenues / Additions
Governmental Activities	0%	0%
Business-Type Activities	98%	61%
Aggregate Discretely Presented Component Units	100%	100%
Fiduciary Funds	52%	6%

Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Transportation – Airports and Harbors Divisions, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, is based solely on the reports of the other auditors.

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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Hawaii's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective net assets or financial position of the governmental activities, business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2011, and the respective changes in financial position (and respective cash flows where applicable), thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2012 on our consideration of the State of Hawaii's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As discussed in Note 1 to the financial statements, during fiscal year 2011, the State adopted GASB Statement No. 54 ("GASB 54"), *Fund Balance Reporting and Governmental Fund Type Definitions*.

The management's discussion and analysis (pages 3-22) and Schedule of Revenue and Expenditures – Budget and Actual and Schedules of Funding Progress (pages 105-109 and 116-121) are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the State of Hawaii's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise the State of Hawaii's basic financial statements. The combining and individual fund statements and schedules (pages 112-115 and 123-129) and the supplemental information presented in the Schedule of Expenditures of Federal Awards are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments and Nonprofit Organizations* and are not a required part of the basic financial statements. This supplementary information is the responsibility of the State of Hawaii's management. The combining and individual fund statements and schedules and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte + Touche LLP

February 16, 2012

As management of the State of Hawaii (the "State"), we offer readers of the State's basic financial statements this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2011.

Financial Highlights

Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2011 by $4.9 billion (net assets). Unrestricted net assets which may be used to meet the State's ongoing obligations to citizens and creditors was a negative $1.8 billion, a decrease of $991.3 million from the previous year. Net assets of governmental activities and business-type activities decreased by $607.3 million and increased by $126.7 million, respectively. The combined decrease to the State was $480.6 million from the prior fiscal year.

Fund Highlights

At June 30, 2011, the State's Governmental Funds reported combined ending fund balances of $751.4 million, a decrease of $199.2 million from the prior fiscal year. Of this amount, $557 million, or 74.1%, of total fund balances was in the General Fund, and the remaining $194.4 million represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net assets at June 30, 2011, of $3 billion, an increase of $126.7 million during the fiscal year.

Long-Term Liabilities

The State's long-term liabilities increased during the current fiscal year to $9.3 billion, an increase of $612.2 million. During fiscal 2011, the State's Department of Transportation issued Revenue bonds in the amount of $164.3 million, for the purpose of financing capital projects to the Harbors Systems, and $37.5 million to advance refund $38.9 million of previously issued outstanding revenue bonds. In accordance with GASB No. 45, the State increased the liability for *Postemployment Benefits Other Than Pension,* to $2 billion, an increase of $636.0 million for the fiscal year ended June 30, 2011.

Overview of the Basic Financial Statements

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

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and unused vacation leave).

Both of the Government-Wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues ("governmental activities") from other functions that are intended to recover all or a significant portion of their costs through user fees and charges ("business-type activities"). The governmental activities of the State include general government, public safety, conservation of natural resources, highways, health, welfare, education, culture and recreation, urban redevelopment and housing, economic development and assistance, and interest on long-term debt. The business-type activities of the State include the Department of Transportation – Airports Division ("Airports"), Department of Transportation – Harbors Division ("Harbors"), and the Unemployment Compensation Fund, which are considered to be major funds, while the remaining business-type activities are combined into a single aggregate presentation.

The Government-Wide financial statements include not only the State itself (known as the "Primary Government"), but also the activities of seven legally separate Component Units: the Hawaii Community Development Authority, the Hawaii Health Systems Corporation, the Hawaii Housing Finance and Development Corporation, the Hawaii Hurricane Relief Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, and the University of Hawaii, comprised of the State's public institutions of higher education, for which the State is financially accountable. Financial information for these Component Units is reported separately from the financial information presented for the Primary Government itself. The Component Units issue separate financial statements containing management's discussion and analysis.

The Government-Wide financial statements can be found on pages 24 – 26 of this report.

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 State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State can be divided into three categories: (1) Governmental Funds, (2) Proprietary Funds, and (3) Fiduciary 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 Funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State'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 State's near-term financing decisions. Both the Governmental Funds balance sheet and the Governmental Funds 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.

Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Projects Fund, and Med-Quest Special Revenue Fund, each of which is considered to be a major fund. Data from the other Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor Governmental Funds is provided in the form of combining financial statements in the supplementary information section of this report.

The State adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison schedule has been provided for the General Fund and each Special Revenue Fund to demonstrate compliance with this budget. The budgetary comparison schedule for the General Fund is located in the required supplementary information and the budgetary comparison statements for each of the Special Revenue Funds are located in the supplementary information section of this report.

The basic Governmental Funds financial statements can be found on pages 27 – 30 of this report.

Proprietary Funds

Proprietary Funds are used to show activities that operate more like those of commercial enterprises. They are known as Enterprise Funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the Government-Wide financial statements. The State uses Enterprise Funds to account for the operations of Airports, Harbors, the Unemployment Compensation Fund, and its other business-type activities.

Proprietary Funds provide the same type of information as the Government-Wide financial statements, only in more detail. The Proprietary Funds financial statements provide separate information for Airports, Harbors, and the Unemployment Compensation Fund, each of which are considered to be major funds of the State. Conversely, the other business-type activities are combined into a single, aggregate presentation in the Proprietary Funds financial statements.

The basic Proprietary Funds financial statements can be found on pages 31 – 35 of this report.

Fiduciary Funds

Fiduciary Funds are used to account for resources held for the benefit of parties outside the State. Fiduciary Funds are not reflected in the Government-Wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for Fiduciary Funds is much like that used for Proprietary Funds.

The basic Fiduciary Funds financial statements can be found on page 37 of this report.

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. The notes to basic financial statements can be found on pages 44 – 102 of this report.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents the combining financial statements referred to earlier in connection with nonmajor Governmental and Fiduciary Funds. These statements are presented immediately following the notes to basic financial statements. The total columns of these combining financial statements carry to the applicable fund financial statements.

Government-Wide Financial Analysis

The following financial analysis focuses on the Primary Government (governmental and business-type activities of the State). Separate financial statements for each of the State's Component Units, including their respective management's discussion and analysis, can be obtained from the Department of Accounting and General Services.

Net assets are a useful indicator of a government's financial position. For the State, total assets exceed liabilities by $4.9 billion as of June 30, 2011, and net assets decreased $480.6 million, or 9%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by $607.3 million, or 24.6%, and business-type activities had an increase of $126.7 million, or 4.4%. The following table was derived from the Government-Wide statement of net assets.

Summary Schedule of Net Assets

June 30, 2011 and 2010
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	$ 2,422,652	$ 2,676,980	$ 2,312,526	$ 2,042,890	$ 4,735,178	$ 4,719,870
Capital assets, net	8,792,934	8,740,404	2,409,685	2,380,609	11,202,619	11,121,013
Total assets	11,215,586	11,417,384	4,722,211	4,423,499	15,937,797	15,840,883
Liabilities:						
Long-term liabilities	7,811,543	7,331,670	1,508,606	1,373,070	9,320,149	8,704,740
Other liabilities	1,544,255	1,618,586	201,192	164,744	1,745,447	1,783,330
Total liabilities	9,355,798	8,950,256	1,709,798	1,537,814	11,065,596	10,488,070
Net assets:						
Invested in capital assets, net of related debt	3,326,245	3,118,606	1,476,136	1,469,676	4,802,381	4,588,282
Restricted	917,730	655,238	956,894	922,846	1,874,624	1,578,084
Unrestricted	(2,384,187)	(1,306,716)	579,383	493,163	(1,804,804)	(813,553)
Total net assets	$ 1,859,788	$ 2,467,128	$ 3,012,413	$ 2,885,685	$ 4,872,201	$ 5,352,813

Analysis of Net Assets

By far the largest portion of the State's net assets ($4.8 billion or 98.5%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets ($1.9 billion or 38.5%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets (negative $1.8 billion or negative 37%) may be used to meet the State's ongoing obligations to citizens and creditors.

At June 30, 2011, the State is able to report positive balances in two of the categories of net assets for governmental activities and all three categories for business-type activities. The negative balance of unrestricted net assets for governmental activities is primarily attributed to the State's other postemployment benefit liability of $2 billion.

Changes in Net Assets

The State's net assets decreased by $480.6 million, or 9%, during the fiscal year ended June 30, 2011. Approximately 49.7% of the State's total revenues came from taxes, while 31.7% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 17.6% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, and unemployment compensation.

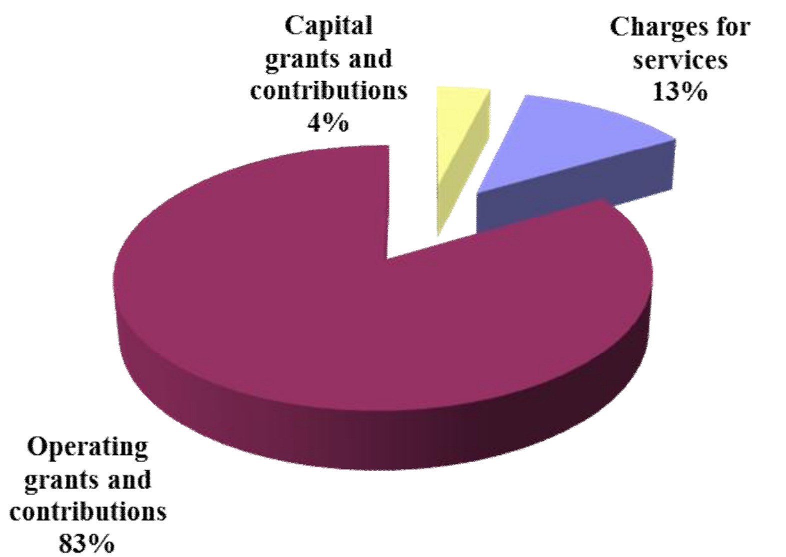
The following financial information was derived from the Government-Wide statement of activities and reflects how the State's net assets changed during the fiscal year.

Summary Schedule of Changes in Net Assets
For the Fiscal Years Ended June 30, 2011 and 2010
(Amounts in thousands)

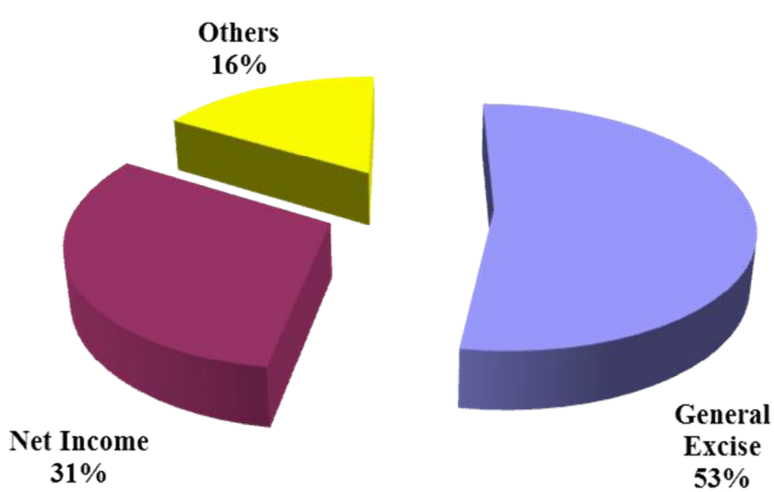
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	$ 428,772	$ 441,471	$ 1,264,434	$ 1,155,942	$ 1,693,206	$ 1,597,413
Operating grants and contributions	2,837,464	2,598,141	-	-	2,837,464	2,598,141
Capital grants and contributions	132,825	144,445	75,324	98,099	208,149	242,544
General revenues:						
Taxes	4,774,934	4,368,686	-	-	4,774,934	4,368,686
Interest and investment income	55,852	124,518	33,587	68,950	89,439	193,468
Other	-	(3,036)	-	-	-	(3,036)
Total revenues	8,229,847	7,674,225	1,373,345	1,322,991	9,603,192	8,997,216
Expenses:						
General government	535,434	421,327	-	-	535,434	421,327
Public safety	471,459	538,110	-	-	471,459	538,110
Highways	450,548	466,322	-	-	450,548	466,322
Conservation of natural resources	89,021	81,561	-	-	89,021	81,561
Health	816,525	858,476	-	-	816,525	858,476
Welfare	2,553,829	2,348,190	-	-	2,553,829	2,348,190
Lower education	2,545,980	2,616,768	-	-	2,545,980	2,616,768
Higher education	707,381	700,335	-	-	707,381	700,335
Other education	14,018	14,034	-	-	14,018	14,034
Culture and recreation	108,697	108,247	-	-	108,697	108,247
Urban redevelopment and housing	66,144	101,505	-	-	66,144	101,505
Economic development and assistance	238,315	209,611	-	-	238,315	209,611
Interest expense	239,836	210,243	-	-	239,836	210,243
Airports	-	-	354,368	336,127	354,368	336,127
Harbors	-	-	80,355	68,291	80,355	68,291
Unemployment compensation	-	-	561,548	686,141	561,548	686,141
Nonmajor proprietary fund	-	-	250,346	256,205	250,346	256,205
Total expenses	8,837,187	8,674,729	1,246,617	1,346,764	10,083,804	10,021,493
Change in net assets	(607,340)	(1,000,504)	126,728	(23,773)	(480,612)	(1,024,277)
Net assets – beginning of year – as previously reported	2,467,128	3,467,632	2,885,685	2,907,211	5,352,813	6,374,843
Adjustments	-	-	-	2,247	-	2,247
Net assets – beginning of year – as restated	2,467,128	3,467,632	2,885,685	2,909,458	5,352,813	6,377,090
Net assets – end of year	$ 1,859,788	$ 2,467,128	$ 3,012,413	$ 2,885,685	$ 4,872,201	$ 5,352,813

The following charts depict revenues of the governmental activities for the fiscal year:

Program Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2011



Tax Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2011



Analysis of Changes in Net Assets

The State's net assets decreased by $480.6 million during the current fiscal year. This is explained in the governmental and business-type activities discussion below, and is primarily due to decrease in net assets of governmental activities of $607.3 million with a decrease in net assets of Unemployment Compensation Fund of $25.9 million, offset by increases in net assets of Airports, Harbors and Nonmajor Proprietary Funds of $87.9 million, $20.9 million and $43.9 million, respectively.

Governmental Activities

Governmental activities decreased the State's net assets by $607.3 million. The elements of this decrease are reflected below:

	Governmental Activities (Amounts in thousands)	
	2011	**2010**
General revenues:		
Taxes	$ 4,774,934	$ 4,368,686
Interest and investment income and other	55,852	121,482
Total general revenues	4,830,786	4,490,168
Expenses, net of program revenues:		
General government	(239,420)	(140,251)
Public safety	440,026	502,629
Highways	260,142	250,122
Conservation of natural resources	22,043	26,944
Health	604,013	559,827
Welfare	829,081	693,873
Lower education	2,241,881	2,331,537
Higher education	707,381	700,335
Other education	14,018	12,829
Culture and recreation	106,539	106,781
Urban redevelopment and housing	17,664	54,066
Economic development and assistance	194,922	181,737
Interest expense	239,836	210,243
Total governmental activities expenses, net of program revenues	5,438,126	5,490,672
Decrease in governmental activities net assets	$ (607,340)	$ (1,000,504)

Tax revenues increased by $406.2 million, or 9.3%, from the previous fiscal year. The increase was primarily due to increases in general excise taxes of $228.7 million, in individual and corporate income taxes of $68.7, in taxes on premiums of insurance companies of $34.7 million, in transient accommodations taxes of $28.2 million, offset by a decrease in public service company taxes of $39.7 million.

Interest and investment income decreased by $65.6 million from the previous year. This decrease is primarily attributed to a smaller increase in the fair market value of investments in the State's investment pool. The fair market value of the investments in fiscal 2011 increased $43.2 million, compared to an increase of $103.2 million in fiscal 2010.

General government net revenues increased $99.2 million, or 70.7%, from the previous fiscal year due mainly to the $111 million cash transferred in from the Hawaii Hurricane Relief Fund.

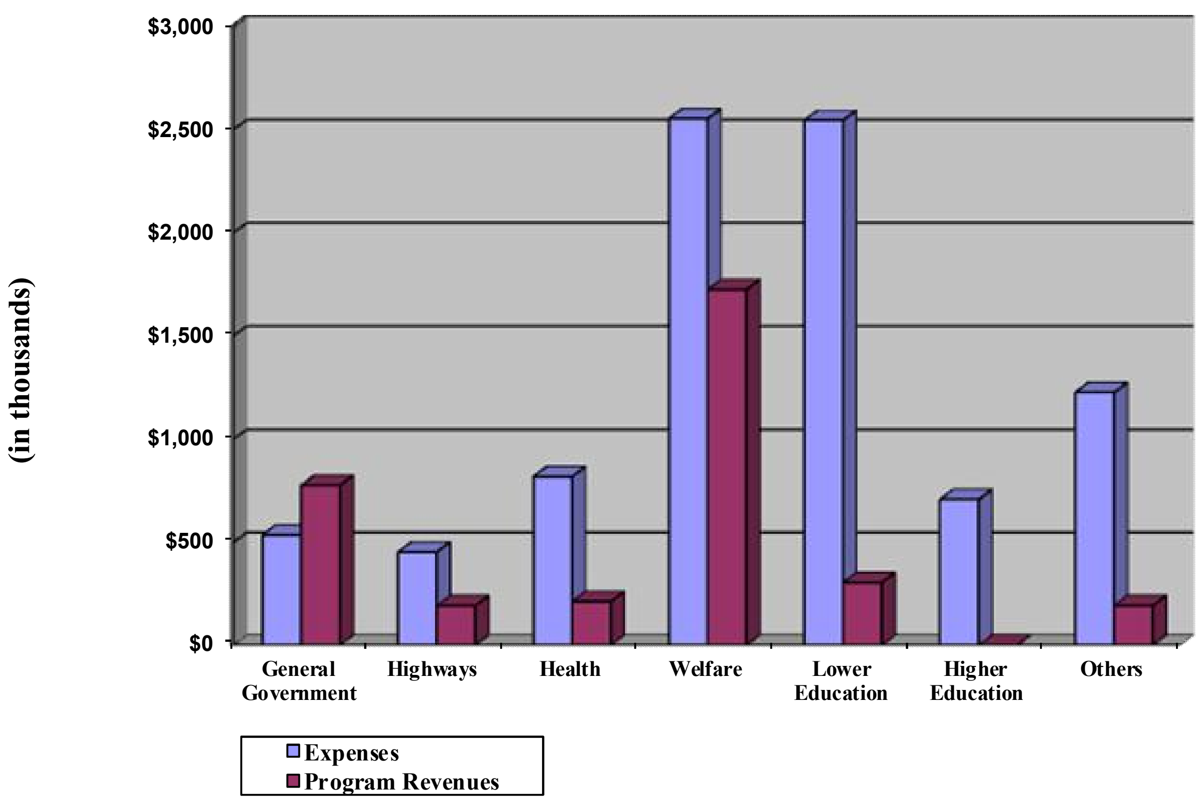
Public safety net expenses decreased $62.6 million, or 12.5%. This decrease is primarily attributed to a decrease in the cost related to the State's correctional facilities.

Welfare net expenses increased $135.2 million or 19.5%. This increase is primarily due to an increase in expenditures for medical assistance programs funded by general and federal grant funds.

Lower education net expenses decreased $89.7 million or 3.8% from the previous fiscal year due to a decrease in the amount expended for school facilities repairs in fiscal 2011.

A comparison of the cost of services by function of the State's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State:

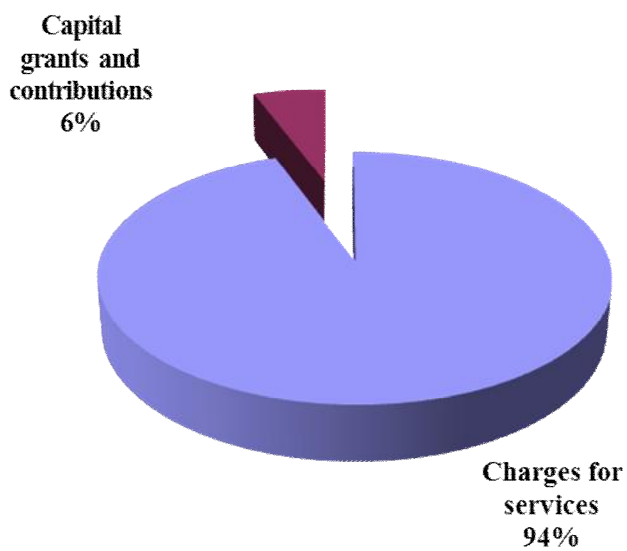
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ended June 30, 2011



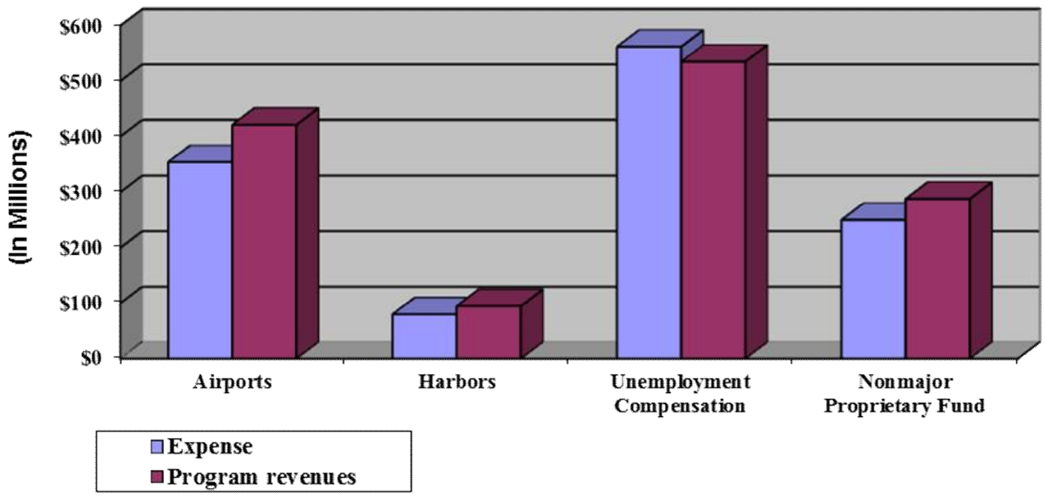
Business-Type Activities

The following charts depict revenues and expenses of the business-type activities for the fiscal year:

Program Revenues by Source – Business-Type Activities
Fiscal Year Ended June 30, 2011



Expenses and Program Revenues – Business-Type Activities
Fiscal Year Ended June 30, 2011



Business-type activities increased the State's net assets by $126.7 million in fiscal 2011, compared to a decrease of $21.5 million in fiscal 2010. Key elements of this increase are as follows:

- Airport's net assets increased $87.9 million compared to an increase of $75.8 million in the prior fiscal year. Charges for current services increased by $62.9 million primarily due to an increase in rental car customer facility charges. Interest income decreased by $18.4 million due to a smaller increase in the fair market value of investments in the State's treasury investment pool realized in fiscal year 2011 as compared to fiscal year 2010. The fair market value of investments increased $13.1 million in fiscal year 2011 compared to an increase of 31.0 million in fiscal year 2010. Expenses increased by $18.2 million.

- Harbor's net assets increased $20.9 million in fiscal 2011 compared to an increase of $18.8 million in fiscal 2010. Charges for current services increased by $12.6 million offset by an increase in expenses of $12.1 million.

- The Unemployment Compensation Fund's net assets decreased $25.9 million compared to a decrease of $193.4 million in the prior fiscal year. The change was primarily due to a decrease in unemployment benefits paid of $124.6 million offset by an increase in unemployment tax revenues of $48.8 million.

- Nonmajor Proprietary Fund's net assets increased $43.9 million in fiscal 2011 compared to an increase of $77.4 million in fiscal 2010. The aggregate Nonmajor Proprietary Fund revenues decreased by $29.9 million, primarily due to a decrease of $10.0 million of premium insurance revenues of the EUTF and a decrease in capital contributions for the Drinking Water Treatment Revolving Fund by $10.9 million. Also contributing to the decrease was a $5.4 million decrease in interest income earned by the Water Pollution Control Revolving

Fund in fiscal 2011.

Key elements of the State's business-type activities for the fiscal years ended June 30, 2011 and 2010 are as follows:

Business-Type Activities
(Amounts in thousands)

	Program Revenues									
	Charges for Services		Operating/Capital Grants and Contributions		Total		Expenses		Program Revenues Net of Expenses	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Airports	$ 387,484	$ 324,577	$ 33,695	$ 47,863	$ 421,179	$ 372,440	$ 354,368	$ 336,127	$ 66,811	$ 36,313
Harbors	85,920	73,340	9,426	3,865	95,346	77,205	80,355	68,291	14,991	8,914
Unemployment compensation	535,243	486,476	-	-	535,243	486,476	561,548	686,141	(26,305)	(199,665)
Nonmajor proprietary funds	255,787	271,549	32,203	46,371	287,990	317,920	250,346	256,205	37,644	61,715
Total	$ 1,264,434	$ 1,155,942	$ 75,324	$ 98,099	$ 1,339,758	$ 1,254,041	$ 1,246,617	$ 1,346,764	$ 93,141	$ (92,723)

Financial Analysis of the State's Individual Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In fiscal 2011, the State implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement which applies to governmental funds, provides new fund balance classifications that comprise a hierarchy based primarily on the extend the State is bound to honor constraints on the specific purpose for which amounts can be spent. The previous reserved and unreserved classifications have been replaced with restricted, committed, and unassigned. Additional information on fund balance classifications is found in Note 1.

At the end of the fiscal year, the State's Governmental Funds reported combined ending fund balances of $751.4 million. Of this amount, $21.6 million is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $600.1 million has been committed to specific purposes. An additional $549.5 million has been assigned to specific purposes by management. The unassigned or unrestricted fund balance, normally a positive amount, was a negative $419.8 million at fiscal year end. This deficit is the result of a negative unrestricted fund balance of $766.7 million in the Capital Projects Fund.

The General Fund is the chief operating fund of the State. At the end of the fiscal year, the total fund balance of the General Fund was $557.0 million compared to $32.9 million in fiscal 2010. This increase is mainly attributed to the increase in tax revenues and cost savings measures implemented by the State such as employee furloughs and pay reductions as well as spending restrictions. Also contributing to the increase was transfers from special funds of $126.7 million and from the Hawaii Hurricane Relief fund of $111.0 million. The fund balance of the State's Capital Projects Fund decreased $656.9 million during the fiscal year. This deficit is the result of the State's policy of recording expenditures upon the allotment of general obligation bond appropriations expended by component units and incurring general obligation bond expenditures in excess of cash available. The deficit caused by the recording of expenditures when funds are allotted is $523.3 million and is reflected on the balance sheet as "Due to Component Units". Insufficient cash from general obligation proceeds required a cash loan of $186.2 million from the Department of Transportation- Harbors Division, a proprietary fund. The cash borrowed from the Department of Transportation- Harbors Division was paid back in December 2011 when the State issued $800 million of general obligation bonds. The fund balance of the Med-Quest Special Fund and other Nonmajor Governmental Funds decreased $32.4 million and $34.0 million, respectively.

Proprietary Funds

The State's Proprietary Funds provide the same type of information found in the Government-Wide financial statements, but in more detail. At the end of the current fiscal year, Airports had an increase in net assets of $87.9 million, Harbors had an increase in net assets of $20.9 million, the Unemployment Compensation Fund had a decrease in net assets of $25.9 million, and the Nonmajor Proprietary Funds had an increase in net assets of $43.9 million. Other factors concerning the finances of Airports, Harbors, the Unemployment Compensation Fund, and the Nonmajor Proprietary Funds have already been addressed in the discussion of the State's business-type activities.

General Fund Budgetary Highlights

The General Fund revenues were $243.9 million, or 5.1%, more than the final budget. The increase was attributed to higher tax revenues $56.5 million, which was comprised of increases in general excise taxes of $71.3 million, tax on premium of insurance companies of $19.1 million, conveyance taxes of $18.2 million, and franchise taxes of $12.5 million, offset by lower public service companies taxes of $66.5 million. Other revenues collected exceeded the budgeted amount by $187.5 million due primarily to the transfer of $111.0 million from the Hurricane Relief Fund and reimbursements from federal welfare programs of $39.4 million.

The difference between the final budget and actual expenditures on a budgetary basis was $263.5 million. This large positive variance was the result of spending restrictions on executive branch departments and debt restructuring. The positive variance in general government is mostly due to savings from debt restructuring of $73.6 million and $68.7 million for health premium and retirement benefits not incurred because of delayed cost increases. The positive variance in general government was also due to $15.6 million of appropriations made to the State Legislature that was carried over to the next fiscal year. Positive variances in public safety, health and welfare resulted from spending restrictions. As in previous fiscal years, the positive variance in lower education resulted when the Department of Education carried over $34.2 million of unencumbered appropriations into the next fiscal year. The Department of Education is allowed by statute to carry up to 5% of its unencumbered appropriations.

Capital Asset and Debt Administration

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounted to $11.2 billion (net of accumulated depreciation of $8.9 billion), an increase of $81.6 million from fiscal 2010. The increase is primarily due to $507.1 million of additions to construction in progress in fiscal 2011. This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2011, included the following:

- $27.6 million for various projects including concourse, support and maintenance facilities at the Honolulu International Airport.
- $40.0 million for various capital improvement projects at airports, statewide.
- $37.1 million for various highway projects throughout the State.
- $44.9 million for additions and renovations for the Information Technology Center at the University of Hawaii.
- $142.5 million for the Cancer Research Center at the University of Hawaii.
- $287.9 million for various construction, maintenance and renovation projects at all University of Hawaii campuses.
- $174.3 million for various capital improvement projects and for repairs and maintenance of public school facilities throughout the State.
- $25.6 million for various construction, maintenance and renovation projects at state community hospitals.
- $127.1 million for State Educational Facilities Improvements.

Additional information on the State's capital assets can be found in Note 3 of the notes to the basic financial statements.

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of $6.8 billion. Of this amount, $5.0 billion comprises debt backed by the full faith and credit of the State and $1.8 billion (i.e., revenue bonds), is revenue bonded debt that is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

Long-Term Debt
June 30, 2011 and 2010
(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
General obligation bonds	$ 4,987,544	$ 5,157,198	$ 36,221	$ 37,362	$ 5,023,765	$ 5,194,560
Revenue bonds	378,625	400,215	1,410,624	1,285,792	1,789,249	1,686,007
Total	$ 5,366,169	$ 5,557,413	$ 1,446,845	$ 1,323,154	$ 6,813,014	$ 6,880,567

The State's total long-term debt decreased by $67.6 million, or 1.0%, during the current fiscal year. The decrease resulted from declining principal balances offset by the issuance of $164.3 million of revenue bonds for financing capital projects to the Harbor Systems (see Note 4 to the basic financial statements).

As of June 30, 2011, the State's underlying general obligation bond ratings were Moody's Investors Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA) based on the credit of the State.

The State Constitution limits the amount of general obligation bonds that may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit. The legal debt margin at June 30, 2011 was $305 million.

Additional information on the State's long-term debt can be found in notes 4, 5 and 6 to the basic financial statements.

Other Post-Employment Benefits (OPEB)

The State implemented provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for fiscal year ended June 30, 2008.

The latest actuarial valuation studies were completed as of July 1, 2009 for the Employer-Union Health Benefits Trust Fund (EUTF), Hawaii Voluntary Employee's Beneficiary Association Trust (VEBA), and the University of Hawaii. These studies determined the State's combined unfunded actuarial accrued liability to be approximately $15.9 billion. The State's combined annual OPEB cost for fiscal 2011 was $1.1 billion and its OPEB contributions were $268.7 million, resulting in an increase in the net OPEB obligation of $788.1 million. The total net OPEB obligation balance at fiscal year end increased to $2.5 billion. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis for the near term while it analyzes alternative strategies that could be implemented to manage the high cost of providing retiree health benefits.

Economic Factors and Next Year's Budget

The statewide seasonally adjusted unemployment rate for December 2011 was 6.3%. One year ago, the State's seasonally adjusted unemployment rate stood at 6.6% while the seasonally adjusted national unemployment rate was 9.4%.

The Council of Revenues in January 2012 lowered the State's General Fund tax revenue growth rate for fiscal 2012 from 14.5% to 11.5% while keeping the growth forecast for fiscal 2013, 2014 and 2015 at 6.5%, 3.0% and 5.0%, respectively. The growth rate for fiscal 2016 was lowered from 5.0% to 3.0%.

Cumulative general fund tax revenues for the first five months of fiscal 2012 was $1.9 billion, an increase of $108.6 million from the same period last fiscal year. This increase is net of an estimated $184 million of individual income tax refunds that were delayed and paid in early fiscal 2011. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, increased 8.0%.

Because of the lower estimated general fund revenue growth in fiscal year 2012, the Governor has imposed a 1.5% spending restriction on discretionary operating expenses of general funds for all departments and agencies of the Executive Branch.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, Department of Accounting and General Services, P.O. Box 119, Honolulu, Hawaii 96810-0119. General information about the State can be found at the State's website, http://www.hawaii.gov.

BASIC FINANCIAL STATEMENTS

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	Primary Government			
ASSETS	**Governmental Activities**	**Business-Type Activities**	**Total**	**Component Units**
CASH AND CASH EQUIVALENTS	$ 588,018	$ 758,333	$ 1,346,351	$ 461,203
RECEIVABLES:				
Taxes	356,975	86,750	443,725	-
Accounts and accrued interest — net	-	38,362	38,362	181,800
Notes, loans, mortgages, and contributions — net	85,261	-	85,261	68,282
Federal government	82,880	17,441	100,321	5,598
Premium	-	31,332	31,332	-
Other — net	68,127	2,972	71,099	64,339
Total receivables	593,243	176,857	770,100	320,019
INTERNAL BALANCES	(184,596)	184,596	-	-
DUE FROM COMPONENT UNITS	409,222	-	409,222	-
DUE FROM PRIMARY GOVERNMENT	-	-	-	106,263
INVESTMENTS	890,251	-	890,251	384,219
INVENTORIES:				
Developments in progress and dwelling units	-	-	-	24,038
Materials and supplies	-	476	476	31,714
Total inventories	-	476	476	55,752
RESTRICTED ASSETS	-	742,873	742,873	310,285
OTHER ASSETS:				
Prepaid expenses	5,702	12,577	18,279	15,089
Bond issue and deferred costs — net	83,668	8,202	91,870	1,449
Note receivable	-	381,473	381,473	360,340
Due from Primary Government	-	-	-	432,080
Investments	-	-	-	726,429
Other	37,144	47,139	84,283	33,043
Total other assets	126,514	449,391	575,905	1,568,430
CAPITAL ASSETS:				
Land and land improvements	2,182,065	585,215	2,767,280	460,048
Infrastructure	8,720,586	-	8,720,586	144,627
Construction in progress	793,166	343,723	1,136,889	335,073
Buildings, improvements, and equipment	4,034,685	3,397,641	7,432,326	3,533,555
Accumulated depreciation	(6,937,568)	(1,916,894)	(8,854,462)	(1,847,700)
Total capital assets — net	8,792,934	2,409,685	11,202,619	2,625,603
TOTAL	$ 11,215,586	$ 4,722,211	$ 15,937,797	$ 5,831,774

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
LIABILITIES:				
Vouchers and contracts payable	$ 381,003	$ 51,098	$ 432,101	$ 150,876
Other accrued liabilities	274,406	124,032	398,438	117,615
Prepaid airport use charge fund	-	2,500	2,500	-
Due to Component Units	538,343	-	538,343	-
Due to Primary Government	-	-	-	409,222
Due to federal government	22,800	-	22,800	-
Deferred revenue	22,706	4,078	26,784	59,715
Estimated future costs of land sold	-	-	-	35,209
Unamortized bond premium	223,756	-	223,756	-
Premiums payable	-	19,484	19,484	-
Other	81,241	-	81,241	6,771
Long-term liabilities:				
Due within one year:				
Payable from restricted assets —				
Revenue bonds payable — net	-	33,876	33,876	-
General obligation bonds payable	286,331	1,609	287,940	-
Notes, mortgages, and installment contracts payable	-	-	-	9,302
Accrued vacation and retirement benefits payable	62,619	3,584	66,203	40,487
Revenue bonds payable — net	22,410	-	22,410	69,961
Reserve for losses and loss adjustment costs	26,361	1,201	27,562	7,536
Capital lease obligations	5,180	-	5,180	7,811
Deferred commitment fees	-	-	-	121
Due in more than one year:				
General obligation bonds payable	4,701,213	34,612	4,735,825	-
Notes, mortgages, and installment contracts payable	-	-	-	32,160
Accrued vacation and retirement benefits payable	152,980	8,696	161,676	71,456
Revenue bonds payable — net	356,215	1,376,748	1,732,963	1,029,392
Reserve for losses and loss adjustment costs	127,159	3,670	130,829	20,861
Capital lease obligations	95,340	-	95,340	17,433
Premium on bond payable	-	-	-	6,621
Other postemployment benefit liability	1,975,409	34,808	2,010,217	471,824
Other	326	9,802	10,128	63,456
TOTAL LIABILITIES	9,355,798	1,709,798	11,065,596	2,627,829
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	3,326,245	1,476,136	4,802,381	1,910,846
RESTRICTED FOR:				
Capital maintenance projects	39,417	-	39,417	-
Health and welfare	178,676	-	178,676	-
Natural resources	106,281	-	106,281	-
Hawaiian programs	238,467	-	238,467	-
Budget stabilization	9,667	-	9,667	-
Other purposes	345,113	-	345,113	-
Bond requirements and other	109	956,894	957,003	1,110,618
UNRESTRICTED	(2,384,187)	579,383	(1,804,804)	182,481
TOTAL NET ASSETS	$ 1,859,788	$ 3,012,413	$ 4,872,201	$ 3,203,945

See accompanying notes to basic financial statements.

(Concluded)

STATE OF HAWAII

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
PRIMARY GOVERNMENT:								
Governmental Activities:								
General government	$ 535,434	$ 270,078	$ 504,776	$ -	$ 239,420	$ -	$ 239,420	
Public safety	471,459	31,433	-	-	(440,026)	-	(440,026)	
Highways	450,548	5,894	51,687	132,825	(260,142)	-	(260,142)	
Conservation of natural resources	89,021	24,094	42,884	-	(22,043)	-	(22,043)	
Health	816,525	46,215	166,297	-	(604,013)	-	(604,013)	
Welfare	2,553,829	108	1,724,640	-	(829,081)	-	(829,081)	
Lower education	2,545,980	41,779	262,320	-	(2,241,881)	-	(2,241,881)	
Higher education	707,381	-	-	-	(707,381)	-	(707,381)	
Other education	14,018	-	-	-	(14,018)	-	(14,018)	
Culture and recreation	108,697	-	2,158	-	(106,539)	-	(106,539)	
Urban redevelopment and housing	66,144	4,784	43,696	-	(17,664)	-	(17,664)	
Economic development and assistance	238,315	4,387	39,006	-	(194,922)	-	(194,922)	
Interest expense	239,836	-	-	-	(239,836)	-	(239,836)	
Total governmental activities	8,837,187	428,772	2,837,464	132,825	(5,438,126)	-	(5,438,126)	
Business-Type Activities:								
Airports	354,368	387,484	-	33,695	-	66,811	66,811	
Harbors	80,355	85,920	-	9,426	-	14,991	14,991	
Unemployment compensation	561,548	535,243	-	-	-	(26,305)	(26,305)	
Nonmajor proprietary funds	250,346	255,787	-	32,203	-	37,644	37,644	
Total business-type activities	1,246,617	1,264,434	-	75,324	-	93,141	93,141	
TOTAL PRIMARY GOVERNMENT	10,083,804	1,693,206	2,837,464	208,149	(5,438,126)	93,141	(5,344,985)	
COMPONENT UNITS:								
University of Hawaii	1,520,543	368,715	502,414	-				(649,414)
Hawaii Housing Finance and Development Corporation	75,602	40,562	54,349	-				19,309
Hawaii Public Housing Authority	123,655	20,442	70,821	24,242				(8,150)
Hawaii Health Systems Corporation	600,193	488,383	1,667	29,629				(80,514)
Hawaii Tourism Authority	113,684	12,462	-	-				(101,222)
Hawaii Community Development Authority	6,791	8,424	-	-				1,633
Hawaii Hurricane Relief Fund	4	-	-	-				(4)
Total component units	2,440,472	938,988	629,251	53,871				(818,362)
GENERAL REVENUES:								
Taxes:								
General excise tax					2,507,980	-	2,507,980	-
Net income tax — corporations and individuals					1,477,624	-	1,477,624	-
Public service companies tax					117,940	-	117,940	-
Transient accommodations tax					60,839	-	60,839	-
Tobacco and liquor taxes					173,851	-	173,851	-
Liquid fuel tax					91,265	-	91,265	-
Tax on premiums of insurance companies					140,586	-	140,586	-
Vehicle weight and registration tax					59,476	-	59,476	-
Rental motor/tour vehicle surcharge tax					43,892	-	43,892	-
Franchise tax					33,682	-	33,682	-
Other tax					67,799	-	67,799	-
Interest and investment income					55,852	33,587	89,439	56,261
Payments from the State — net					-	-	-	818,698
Other expense					-	-	-	(6,935)
Total general revenues					4,830,786	33,587	4,864,373	868,024
CHANGE IN NET ASSETS					(607,340)	126,728	(480,612)	49,662
NET ASSETS — Beginning of year					2,467,128	2,885,685	5,352,813	3,154,283
NET ASSETS — End of year					$ 1,859,788	$ 3,012,413	$ 4,872,201	$ 3,203,945

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
CASH AND CASH EQUIVALENTS	$ 106,420	$ 57,949	$ 4,702	$ 418,947	$ 588,018
RECEIVABLES:					
Taxes	356,975	-	-	-	356,975
Notes and loans — net	2,906	-	-	82,355	85,261
Federal government	-	-	82,880	-	82,880
Other	10,050	-	-	31,953	42,003
DUE FROM OTHER FUNDS	138,352	-	-	8,409	146,761
DUE FROM PROPRIETARY FUNDS	-	1,597	-	-	1,597
DUE FROM COMPONENT UNITS	102,304	-	-	-	102,304
INVESTMENTS	169,838	60,153	7,670	652,590	890,251
OTHER ASSETS	37,144	-	-	-	37,144
TOTAL ASSETS	$ 923,989	$ 119,699	$ 95,252	$ 1,194,254	$ 2,333,194
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Vouchers and contracts payable	$ 100,685	$ 78,694	$ 69,061	$ 132,563	$ 381,003
Other accrued liabilities	219,554	(34)	-	55,260	274,780
Due To Federal Government	-	-	-	22,800	22,800
Due to other funds	109	98,200	35,604	12,848	146,761
Due to Proprietary funds	-	186,193	-	-	186,193
Due to Component Units	1,261	523,311	-	-	524,572
Deferred revenue	45,334	-	-	-	45,334
Payable from restricted assets — matured bonds and interest payable	-	-	-	326	326
TOTAL LIABILITIES	366,943	886,364	104,665	223,797	1,581,769
FUND BALANCES:					
Restricted	-	-	-	21,582	21,582
Committed	-	-	-	600,125	600,125
Assigned	210,164	-	(9,413)	348,750	549,501
Unassigned	346,882	(766,665)	-	-	(419,783)
Total fund balances	557,046	(766,665)	(9,413)	970,457	751,425
TOTAL	$ 923,989	$ 119,699	$ 95,252	$ 1,194,254	$ 2,333,194

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

TOTAL FUND BALANCE — Governmental Funds	$ 751,425
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. Those assets consist of:	
Land and land improvements	2,182,065
Infrastructure	8,720,586
Construction in progress	793,166
Buildings, improvements, and equipment	4,034,685
Accumulated depreciation	(6,937,568)
	8,792,934
Accrued interest and other payables are not recognized in Governmental Funds	(304,997)
Other assets are not available to pay for current-period expenditures and are deferred, or not recognized, in Governmental Funds, such as deferred revenue and settlement receivables	138,497
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds payable	(4,987,544)
Accrued vacation payable	(215,599)
Revenue bonds payable	(378,625)
Reserve for losses and loss adjustment costs	(153,520)
Other postemployment benefit liability	(1,975,409)
Long-term transactions with component units	293,146
Capital lease obligations	(100,520)
	(7,518,071)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 1,859,788

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
General excise tax	$ 2,507,980	$ -	$ -	$ -	$ 2,507,980
Net income tax — corporations and individuals	1,473,188	-	-	-	1,473,188
Public service companies tax	117,940	-	-	-	117,940
Transient accommodations tax	59,839	-	-	1,000	60,839
Tobacco and liquor taxes	154,190	-	-	19,661	173,851
Liquid fuel tax	-	-	-	91,265	91,265
Tax on premiums of insurance companies	139,090	-	-	1,496	140,586
Vehicle weight and registration tax	-	-	-	59,476	59,476
Rental motor/tour vehicle surcharge tax	-	-	-	43,892	43,892
Franchise tax	31,682	-	-	2,000	33,682
Other	43,601	-	-	24,198	67,799
Total taxes	4,527,510	-	-	242,988	4,770,498
Interest and investment income	24,485	-	-	31,369	55,854
Charges for current services	109,048	-	-	239,060	348,108
Intergovernmental	13,096	-	1,057,797	1,496,373	2,567,266
Rentals	462	-	-	22,857	23,319
Fines, forfeitures, and penalties	23,944	-	-	10,768	34,712
Licenses and fees	7,179	-	-	34,378	41,557
Revenues from private sources	14,172	-	-	40,685	54,857
Other	208,208	-	1,917	133,193	343,318
Total revenues	4,928,104	-	1,059,714	2,251,671	8,239,489
EXPENDITURES:					
Current:					
General government	353,124	56,737	-	77,987	487,848
Public safety	259,086	9,317	-	155,313	423,716
Highways	-	180,757	-	196,023	376,780
Conservation of natural resources	28,119	8,123	-	57,358	93,600
Health	461,894	38,380	-	257,208	757,482
Welfare	761,208	474	1,102,294	662,767	2,526,743
Lower education	1,694,529	146,916	-	366,858	2,208,303
Higher education	502,424	204,956	-	-	707,380
Other education	5,299	-	-	8,719	14,018
Culture and recreation	38,682	42,601	-	36,023	117,306
Urban redevelopment and housing	82	5,927	-	67,780	73,789
Economic development and assistance	22,997	6,468	-	128,639	158,104
Housing	20,758	40,594	-	-	61,352
Other	6,722	-	-	5,501	12,223
Debt service	-	-	-	457,981	457,981
Total expenditures	4,154,924	741,250	1,102,294	2,478,157	8,476,625
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	773,180	(741,250)	(42,580)	(226,486)	(237,136)
OTHER FINANCING SOURCES (USES):					
Other financing sources — other	37,889	-	-	-	37,889
Transfers in	126,695	115,230	12,761	666,747	921,433
Transfers out	(413,652)	(30,865)	(2,610)	(474,306)	(921,433)
Total other financing (uses) sources	(249,068)	84,365	10,151	192,441	37,889
NET CHANGE IN FUND BALANCES	524,112	(656,885)	(32,429)	(34,045)	(199,247)
FUND BALANCES — Beginning of year	32,934	(109,780)	23,016	1,004,502	950,672
FUND BALANCES — End of year	$ 557,046	$ (766,665)	$ (9,413)	$ 970,457	$ 751,425

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2011 (Amounts in thousands)

TOTAL NET CHANGE IN FUND BALANCES — Governmental Funds	$ (199,247)
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 are:	
Capital outlay — net of disposals	415,818
Depreciation expense	(363,288)
Excess of capital outlay over depreciation expense	52,530
Debt proceeds provide current financial resources to Governmental Funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, this is the amount of proceeds received from capital lease financing transactions	(37,889)
Repayment of long-term debt is reported as an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:	
Bond principal retirement	191,244
Capital lease payments	1,754
Total long-term debt repayment	192,998
Revenue timing differences result in greater revenue in the Government-Wide financial statements.	(9,637)
Bond issue and deferred costs reflected as other financing uses in Governmental Funds and reported in the statement of net assets — net of amortization.	24,954
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds:	
Change in postemployment liability	(629,734)
Change in accrued vacation payable	(3,496)
Change in HHFDC long-term liability	3,989
Change in reserve for losses and loss adjustment costs	(1,808)
	(631,049)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (607,340)

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 494,704	$ 109,557	$ 3,466	$ 150,606	$ 758,333
Restricted assets — cash and short-term investments	-	29,290	-	-	29,290
Receivables:					
Taxes	-	-	86,750	-	86,750
Accounts and accrued interest (net of allowance for doubtful accounts of $4,142)	29,403	7,942	-	1,017	38,362
Promissory note receivable (net of allowance for doubtful accounts of $7,917)	7	-	-	32,015	32,022
Federal government	11,227	6,214	-	-	17,441
Restricted assets — passenger facility charges	-	-	-	-	-
Other	405	375	-	2,192	2,972
Premiums	-	-	-	31,332	31,332
Due from Capital Projects Fund	-	186,193	-	-	186,193
Restricted assets — investments — repurchase agreements and certificates of deposit	67,737	-	-	-	67,737
Materials and supplies inventory	226	250	-	-	476
Prepaid expenses and other assets	-	825	-	11,752	12,577
Total current assets	603,709	340,646	90,216	228,914	1,263,485
NONCURRENT ASSETS:					
Capital assets:					
Land and land improvements	326,930	258,285	-	-	585,215
Construction in progress	301,021	42,702	-	-	343,723
Buildings and improvements	2,524,254	614,890	-	-	3,139,144
Equipment	226,332	17,318	-	14,847	258,497
	3,378,537	933,195	-	14,847	4,326,579
Less accumulated depreciation	(1,665,736)	(243,756)	-	(7,402)	(1,916,894)
Net capital assets	1,712,801	689,439	-	7,445	2,409,685
Investments	96,893	-	-	-	96,893
Bond issue costs — net	4,334	3,868	-	-	8,202
Promissory note receivable	-	-	-	349,451	349,451
Restricted assets — net direct financing leases	32,052	-	-	-	32,052
Restricted assets — other, cash, and investments	438,909	77,992	-	-	516,901
Other	8,603	552	-	37,984	47,139
Total noncurrent assets	2,293,592	771,851	-	394,880	3,460,323
TOTAL ASSETS	$ 2,897,301	$ 1,112,497	$ 90,216	$ 623,794	$ 4,723,808

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
LIABILITIES					
CURRENT LIABILITIES:					
Vouchers and contracts payable	$ 22,270	$ 8,830	$ 19,113	$ 885	$ 51,098
Payable from restricted assets — contracts payable, accrued interest, and other	41,900	28,297	-	-	70,197
Other accrued liabilities	11,019	-	-	1,423	12,442
Due to primary government	-	1,597	-	-	1,597
Benefit claims payable	-	-	-	41,393	41,393
Prepaid airport use charge fund	2,500	-	-	-	2,500
Deferred revenue	4,078	-	-	-	4,078
General obligation bonds payable, current portion	-	1,609	-	-	1,609
Reserve for losses and loss adjustment costs	1,010	191	-	-	1,201
Accrued vacation, current portion	2,942	574	-	68	3,584
Payable from restricted assets — revenue bonds payable	26,205	7,671	-	-	33,876
Premiums payable	-	-	-	19,484	19,484
Total current liabilities	111,924	48,769	19,113	63,253	243,059
NONCURRENT LIABILITIES:					
General obligation bonds payable	-	34,612	-	-	34,612
Accrued vacation	6,382	1,799	-	515	8,696
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding)	1,004,315	372,433	-	-	1,376,748
Reserve for losses and loss adjustment costs	2,990	680	-	-	3,670
Other postemployment benefit liability	26,963	6,289	-	1,556	34,808
Other	9,802	-	-	-	9,802
Total long-term liabilities	1,050,452	415,813	-	2,071	1,468,336
TOTAL LIABILITIES	1,162,376	464,582	19,113	65,324	1,711,395
NET ASSETS					
INVESTED IN CAPITAL ASSETS — Net of related debt	968,350	500,342	-	7,444	1,476,136
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	315,273	81,301	-	560,320	956,894
UNRESTRICTED	451,302	66,272	71,103	(9,294)	579,383
TOTAL NET ASSETS	$ 1,734,925	$ 647,915	$ 71,103	$ 558,470	$ 3,012,413

See accompanying notes to basic financial statements. (Concluded)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES:					
Concession fees	$ 132,166	$ -	$ -	$ -	$ 132,166
Unemployment compensation tax	-	-	535,243	-	535,243
Aviation fuel tax	4,141	-	-	-	4,141
Airport use charges	60,097	-	-	-	60,097
Rentals	105,814	25,358	-	-	131,172
Services and others	711	58,655	-	-	59,366
Administrative fees	-	-	-	9,566	9,566
Premium revenue - self insurance	-	-	-	243,324	243,324
Other	9,023	1,907	-	2,897	13,827
Total operating revenues	311,952	85,920	535,243	255,787	1,188,902
OPERATING EXPENSES:					
Personnel services	122,858	14,815	-	2,034	139,707
Depreciation and amortization	94,739	18,362	-	1,619	114,720
Repairs and maintenance	29,172	2,657	-	24	31,853
Airports operations	46,185	-	-	-	46,185
Harbors operations	-	13,955	-	-	13,955
Fireboat operations	-	1,917	-	-	1,917
General administration	16,854	6,223	-	6,246	29,323
Unemployment compensation	-	-	561,548	-	561,548
Claims	-	-	-	240,392	240,392
Other	308	-	-	31	339
Total operating expenses	310,116	57,929	561,548	250,346	1,179,939
Operating (loss) income	1,836	27,991	(26,305)	5,441	8,963
NONOPERATING REVENUES (EXPENSES):					
Interest and investment income	21,080	5,890	386	6,231	33,587
Interest expense	(43,734)	(20,303)	-	-	(64,037)
Federal grants	5,034	-	-	-	5,034
Loss on disposal of capital assets	(518)	(2,123)	-	-	(2,641)
Passenger facility charges	31,374	-	-	-	31,374
Other	44,158	-	-	-	44,158
Total nonoperating revenues (expenses)	57,394	(16,536)	386	6,231	47,475
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	59,230	11,455	(25,919)	11,672	56,438
CAPITAL CONTRIBUTIONS	28,661	9,426	-	32,203	70,290
CHANGE IN NET ASSETS	87,891	20,881	(25,919)	43,875	126,728
NET ASSETS — Beginning of year	1,647,034	627,034	97,022	514,595	2,885,685
NET ASSETS — End of year	$ 1,734,925	$ 647,915	$ 71,103	$ 558,470	$ 3,012,413

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	$ 300,872	$ 88,907	$ -	$ -	$ 389,779
Cash received from taxes	-	-	250,443	-	250,443
Cash received from employer and employees for premiums and benefits	-	-	-	241,282	241,282
Cash paid to suppliers	(144,263)	(24,915)	-	(3,588)	(172,766)
Cash paid to employees	(63,071)	(14,164)	-	(3,732)	(80,967)
Cash paid for unemployment compensation	-	-	(562,048)	-	(562,048)
Cash paid for premiums and benefits payable	-	-	-	(228,816)	(228,816)
Reserves returned by insurance carriers	-	-	-	618	618
Interest income from notes receivable	-	-	-	3,409	3,409
Administrative loan fees	-	-	-	4,075	4,075
Principal repayments on notes receivable	-	-	-	30,031	30,031
Disbursement of note receivable proceeds	-	-	-	(42,857)	(42,857)
Other cash receipts	-	-	262,730	-	262,730
Net cash provided by (used in) operating activities	93,538	49,828	(48,875)	422	94,913
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
State capital contributions	-	-	-	5,872	5,872
Proceeds from federal operating grants	6,047	-	-	26,270	32,317
Disbursements of federal operating grants	-	-	-	(14,292)	(14,292)
Other	-	-	18,231	-	18,231
Net cash provided by noncapital financing activities	6,047	-	18,231	17,850	42,128
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(62,875)	(31,584)	-	-	(94,459)
Repayment of general obligation and revenue bonds principal	(23,615)	(51,431)	-	-	(75,046)
Payment for loan to primary government	-	(186,193)	-	-	(186,193)
Proceeds from bond issuance	-	201,390	-	-	201,390
Net premiums received on bonds	-	256	-	-	256
Bond issuance costs paid	-	(1,897)	-	-	(1,897)
Interest paid on bonds	(44,293)	(14,933)	-	-	(59,226)
Other interest paid	-	(125)	-	-	(125)
Proceeds from passenger facility charges program	31,766	-	-	-	31,766
Proceeds from rental car customer facility charges program	40,634	-	-	-	40,634
Payments from rental car customer facility charges program	(10,705)	-	-	-	(10,705)
Payments from passenger facility charges program	(44,890)	-	-	-	(44,890)
Proceeds from federal, state, and capital grants	30,783	9,426	-	-	40,209
Net cash used in capital and related financing activities	(83,195)	(75,091)	-	-	(158,286)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	(290,679)	-	-	-	(290,679)
Proceeds from sales and maturities of investments	290,679	-	-	-	290,679
Interest from and change in fair value of investments	20,746	7,257	386	7,801	36,190
Net cash provided by investing activities	20,746	7,257	386	7,801	36,190
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,136	(18,006)	(30,258)	26,073	14,945
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — beginning of the year	964,214	234,845	33,724	124,533	1,357,316
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — end of year	$ 1,001,350	$ 216,839	$ 3,466	$ 150,606	$ 1,372,261

(Continued)

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ 1,836	$ 27,991	$ (26,305)	$ 5,441	$ 8,963
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Provision for uncollectible accounts	-	(2,922)	-	-	(2,922)
Depreciation	94,739	18,224	-	1,619	114,582
Other Amortization	-	138	-	-	138
Bad debt expense	(2,409)	-	-	-	(2,409)
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	5,047	-	-	-	5,047
Premium reserves held by insurance companies	-	-	-	(229)	(229)
Decrease (increase) in assets:	-	-	-	-	-
Receivables	(7,890)	(4,520)	(22,072)	(20,031)	(54,513)
Inventory of materials and supplies	2	(4)	-	-	(2)
Prepaid expenses	-	(801)	-	(61)	(862)
Increase (decrease) in liabilities:					
Vouchers and contracts payable	(1,256)	2,187	(498)	406	839
Other accrued liabilities	9,773	1,344	-	10,218	21,335
Prepaid airport use charge fund	(4,055)	-	-	-	(4,055)
Deferred revenue	(2,249)	-	-	-	(2,249)
Due to the Airports Division	-	8,191	-	-	8,191
Accrued interest on loans receivable	-	-	-	3,059	3,059
Net cash provided by (used in) operating activities	$ 93,538	$ 49,828	$ (48,875)	$ 422	$ 94,913
Supplemental Information					
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:					
Amortization of bond discount, bond issue costs, bond premium, and deferred loss on refunding	$ (249)	$ (356)	$ -	$ -	$ (605)
Principal payments relating to special facility revenue bonds	1,685	-	-	-	1,685
Interest payments relating to special facility revenue bonds	2,031	-	-	-	2,031
Development capital assets from other sources	-	9,426	-	-	9,426
Purchase of capital assets included in contracts payable	17,625	-	-	-	17,625
Capitalized interest	9,584	-	-	-	9,584
Write off of property, plant, and equipment	8,710	-	-	-	8,710

See accompanying notes to basic financial statements.

(Concluded)

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STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	Agency Funds
ASSETS:	
Cash and cash equivalents	$ 391,666
Receivables — taxes	8,584
Due from individuals, businesses, and counties	83,061
Investments	110,261
Total assets	$ 593,572
LIABILITIES AND NET ASSETS:	
Vouchers payable	$ 71,357
Due to individuals, businesses, and counties	522,215
Total liabilities	$ 593,572

See accompanying notes to basic financial statements.

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
ASSETS				
CASH AND CASH EQUIVALENTS	$ 71,709	$ 223,418	$ 53,200	$ 63,026
RECEIVABLES:				
Accounts and accrued interest (net of allowance for doubtful accounts of $52,471)	97,720	11,462	770	70,894
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts)	13,090	55,192	-	-
Federal government	-	-	5,598	-
Other	-	2,724	1,894	7,255
DUE FROM PRIMARY GOVERNMENT	794	6,500	39,289	57,542
INVESTMENTS	330,936	761	-	-
INVENTORIES:				
Developments in progress and dwelling units	-	24,038	-	-
Materials and supplies	12,954	-	912	17,848
PREPAID EXPENSES AND OTHER ASSETS	10,686	327	1,767	-
	537,889	324,422	103,430	216,565
RESTRICTED ASSETS:				
Cash and cash equivalents	-	36,009	-	1,871
Investments	-	231,709	-	-
Deposits, funded reserves, and other	-	470	5,829	-
Total restricted assets	-	268,188	5,829	1,871
CAPITAL ASSETS:				
Land and land improvements	102,154	43,355	25,340	6,484
Infrastructure	101,502	-	-	-
Construction in progress	264,415	-	36,341	21,486
Buildings, improvements, and equipment	2,040,854	158,515	562,379	537,206
Less accumulated depreciation	(995,788)	(99,298)	(325,452)	(274,073)
Total capital assets — net	1,513,137	102,572	298,608	291,103
OTHER ASSETS				
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts $7,931)	29,020	326,902	1,879	-
Due from Primary Government	418,309	13,771	-	-
Investments	719,557	6,872	-	-
Other assets	29,359	1,449	594	2,709
Total other assets	1,196,245	348,994	2,473	2,709
TOTAL ASSETS	$ 3,247,271	$ 1,044,176	$ 410,340	$ 512,248

See accompanying notes to the basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 10,361	$ 34,802	$ 4,687	$ 461,203
-	458	496	181,800
-	-	-	68,282
-	-	-	5,598
10,233	-	42,233	64,339
-	2,138	-	106,263
5,787	-	46,735	384,219
-	-	-	24,038
-	-	-	31,714
754	1,555	-	15,089
27,135	38,953	94,151	1,342,545
11,737	-	-	49,617
22,660	-	-	254,369
-	-	-	6,299
34,397	-	-	310,285
131,497	151,218	-	460,048
-	43,125	-	144,627
-	12,831	-	335,073
215,344	19,257	-	3,533,555
(104,566)	(48,523)	-	(1,847,700)
242,275	177,908	-	2,625,603
-	2,539	-	360,340
-	-	-	432,080
-	-	-	726,429
-	381	-	34,492
-	2,920	-	1,553,341
$ 303,807	$ 219,781	$ 94,151	$ 5,831,774

(Continued)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
LIABILITIES				
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 64,430	$ 1,082	$ 7,734	$ 72,071
Other accrued liabilities	101,102	11,995	4,147	-
Due to Primary Government	6,151	-	-	2,500
Deferred revenue	35,905	23,729	-	-
Estimated future costs of land sold	-	35,209	-	-
Notes, mortgages, and installment contracts payable	-	56	-	9,246
Accrued vacation and retirement benefits payable	24,674	-	-	15,604
Revenue bonds payable -- Net	13,755	56,206	-	-
Reserve for losses and loss adjustment costs	4,225	-	-	3,311
Capital lease obligations	-	-	-	7,811
Deferred commitment fees	-	121	-	-
Other liabilities	-	1,782	2,555	2,044
Total current liabilities	250,242	130,180	14,436	112,587
NONCURRENT LIABILITIES:				
Notes, mortgages, and installment contracts payable	-	5,637	-	26,523
Accrued vacation and retirement benefits payable	44,301	-	-	26,524
Revenue bonds payable --Net	623,290	406,102	-	-
Reserve for losses and loss adjustment costs	8,963	-	-	11,898
Premium on bonds payable	6,621	-	-	-
Capital lease obligations	-	-	-	17,433
Other liabilities	9,185	2,485	1,663	24,394
Due to Primary Government	881	-	-	20,800
Other postemployment benefit liability	318,143	1,811	7,032	143,025
Total noncurrent liabilities	1,011,384	416,035	8,695	270,597
TOTAL LIABILITIES	1,261,626	546,215	23,131	383,184
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	1,182,287	29,920	298,608	238,189
RESTRICTED	797,852	252,224	50,200	903
Unrestricted (DEFICIT)	5,506	215,817	38,401	(110,028)
TOTAL NET ASSETS	$ 1,985,645	$ 497,961	$ 387,209	$ 129,064

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 4,829	$ 727	$ 3	$ 150,876
157	214	-	117,615
19,060	-	73,004	100,715
-	81	-	59,715
-	-	-	35,209
-	-	-	9,302
122	87	-	40,487
-	-	-	69,961
-	-	-	7,536
-	-	-	7,811
-	-	-	121
-	390	-	6,771
24,168	1,499	73,007	606,119
-	-	-	32,160
362	269	-	71,456
-	-	-	1,029,392
-	-	-	20,861
-	-	-	6,621
-	-	-	17,433
-	25,729	-	63,456
286,826	-	-	308,507
1,009	804	-	471,824
288,197	26,802	-	2,021,710
312,365	28,301	73,007	2,627,829
(16,066)	177,908	-	1,910,846
7,508	1,931	-	1,110,618
-	11,641	21,144	182,481
$ (8,558)	$ 191,480	$ 21,144	$ 3,203,945

(Concluded)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
EXPENSES	$ 1,520,543	$ 75,602	$ 123,655	$ 600,193
PROGRAM REVENUES:				
Charges for services	368,715	40,562	20,442	488,383
Operating grants and contributions	502,414	54,349	70,821	1,667
Capital grants and contributions	-	-	24,242	29,629
Total program revenues	871,129	94,911	115,505	519,679
Net program (expenses) revenues	(649,414)	19,309	(8,150)	(80,514)
GENERAL REVENUES (EXPENSES):				
Interest and investment income	47,307	4,125	-	450
Payments from (to) the State	725,416	35,514	21,990	81,967
Other	16,389	-	(17,927)	(1,696)
Net general revenues	789,112	39,639	4,063	80,721
Change in net assets	139,698	58,948	(4,087)	207
NET ASSETS — Beginning of year	1,845,947	439,013	391,296	128,857
NET ASSETS — End of year	$ 1,985,645	$ 497,961	$ 387,209	$ 129,064

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 113,684	$ 6,791	$ 4	$ 2,440,472
12,462	8,424	-	938,988
-	-	-	629,251
-	-	-	53,871
12,462	8,424	-	1,622,110
(101,222)	1,633	(4)	(818,362)
430	1,361	2,588	56,261
121,783	1,659	(169,631)	818,698
(2,750)	(951)	-	(6,935)
119,463	2,069	(167,043)	868,024
18,241	3,702	(167,047)	49,662
(26,799)	187,778	188,191	3,154,283
$ (8,558)	$ 191,480	$ 21,144	$ 3,203,945

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the State of Hawaii (the "State") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The State's significant accounting policies are described below.

Reporting Entity — The accompanying basic financial statements present the financial activity of the State ("Primary Government") and its Component Units, entities for which the Primary Government is considered to be financially accountable. Discretely presented Component Units are legally separate organizations for which the Primary Government is financially accountable or for which the nature and significance of their relationship to the Primary Government are such that exclusion would cause the State's reporting entity to be misleading or incomplete.

Primary Government — The following branches and departments are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

Executive:
- Accounting and General Services
- Agriculture
- Attorney General
- Budget and Finance
- Business, Economic Development and Tourism
- Commerce and Consumer Affairs
- Defense
- Education
- Hawaiian Home Lands
- Health
- Human Resources Development
- Human Services
- Labor and Industrial Relations
- Land and Natural Resources
- Public Safety
- Taxation
- Transportation

Judicial

Legislative

Discretely Presented Component Units — The Component Units column in the basic financial statements includes the financial data of the State's discretely presented Component Units. They are reported in a separate column to emphasize that they are legally separate from the State. The governing bodies of these discretely presented Component Units are appointed by the Governor of the State ("Governor"). The discretely presented Component Units are as follows:

University of Hawaii — The University of Hawaii (UH) is Hawaii's sole public higher education system and is governed by a Board of Regents consisting of fifteen members appointed by the Governor of the State of Hawaii. The University system is comprised of ten campuses with approximately 60,000 students and 10,000 faculty and staff. The University provides a broad range of 278 degree programs from baccalaureate to post-doctoral level, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on Oahu, Hawaii, Maui, and Kauai, the University offers more than 190 certificate and associate degree programs and in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the University system houses more than a hundred centers with research and service activities at hundreds of Hawaii schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries. Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of the UH.

Hawaii Housing Finance and Development Corporation — Hawaii Housing Finance and Development Corporation (HHFDC) is a corporate body placed within the Department of Business, Economic Development and Tourism (DBEDT) for administrative purposes. The HHFDC is tasked with developing and financing low and moderate income housing projects and administering home-ownership programs. HRS 201H states that the HHFDC shall be a public body and a body corporate and politic and be headed by a board of directors comprised of nine voting members. The nine members consist of the following:

- Six shall be public members appointed by the Governor:
  - At least four of the public members shall have knowledge and expertise in public or private financing and development of affordable housing.
  - Public members shall be appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai.
  - At least one public member shall represent community advocates for low-income housing, affiliated with private nonprofit organizations that serve the residents of low-income housing.
  - The public members of the board of directors shall serve four-year staggered terms; provided that the initial appointments shall be as follows:
    - Two members to be appointed for four years;
    - Two members to be appointed for three years; and
    - Two members to be appointed for two years.
- The Director of DBEDT or a designated representative,
- The Director of Finance or a designated representative, and
- A representative of the Governor's office.

Hawaii Public Housing Authority — Act 196, SLH 2005, as amended by Act 180, SLH 2006, created the Hawaii Public Housing Authority (the Authority).

The Authority's mission is to provide safe, decent and sanitary dwelling for low and moderate income residents of Hawaii and to operate its housing program in accordance with federal and state of Hawaii laws and regulations.

HRS Chapter 356D states that the HPHA shall be a public body and a body corporate and politic and be headed by a board of directors comprised of 11 members. The 11 members consist of the following:

- Nine public members appointed by the Governor (four appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai, and five appointed at large);
- The Director of Human Services, as an Ex Officio voting member; and
- The Representative of the Governor's Office, as an Ex Officio voting member.

Hawaii Health Systems Corporation — The Hawaii Health Systems Corporation (HHSC) is a public body corporate and politic and an instrumentally and agency of the State of Hawaii. HHSC is managed by a chief executive officer under the control of a 13-member board of directors.

In June 1996, the Legislature of the State passed Act 262, S.B. 2522. The Act, which became effective in fiscal year 1997, transferred all facilities under the administration of the Department of Health – Division of Community Hospitals to HHSC. HHSC operates the following facilities:

East Hawaii Region:
Hilo Medical Center
Hale Ho'ola Hamakua
Ka'u Hospital
Yukio Okutsu Veterans Care Home

West Hawaii Region:
Kona Community Hospital
Kohala Hospital

Kauai Region:
Kauai Veterans Memorial Hospital
Samuel Mahelona Memorial Hospital

Maui Region:
Maui Memorial Medical Center
Kula Hospital
Lanai Community Hospital

Oahu Region:
Leahi Hospital
Maluhia
Kahuku Medical Center

Act 262 also amended a previous act to exempt all facilities from the obligation to pay previously allocated central service and departmental administration expenses by the State.

HHSC is considered to be administratively attached to the Department of Health of the State and is a component unit of the State. Hawaii Health Systems Foundation (HHSF) and Alii Community Care, Inc. (Alii) are nonprofit organizations of which HHSC is the sole member. The purpose of HHSF is to raise funds and obtain gifts and grants on behalf of HHSC. The purpose of Alii is to own, manage, and operate assisted living and other healthcare facilities in the State.

In June 2007, the State legislature passed Act 29, S.B. 1792. This Act, which became effective July 1, 2007, required the establishment of a seven to 15 member regional system board of directors for each of the five regions of the HHSC system. Each regional board was given custodial control and responsibility for management of the facilities and other assets in their respective regions. This Act also restructured the 13-

member HHSC board of directors to 15 members, comprised of 10 members appointed by the governor from nominees submitted by legislative leadership, two at-large members at the governor's discretion, two physician members selected by the HHSC board, and the State Director of Health.

Act 290 also exempted the regions from the requirements of the State procurement code and other exemptions from State agency laws, such as tax clearance certificate requirements, the concession law, and the sunshine law.

In 2009, the Legislature passed Act 182, S.B. 1673, effective July 1, 2009, which allowed the individual facilities or regions of HHSC to transition into a new legal entity in any form recognized under the laws of the State of Hawaii, including but not limited to a nonprofit corporation, a for-profit corporation, a municipal facility, a public benefit corporation, or a combination of the above. The act also amended the requirement for maintenance of services to outline a process that must be followed in order for a facility to substantially reduce or eliminate a direct patient care service. Further, the Act reconstituted the HHSC board of directors to a 12-member board of directors which includes the five regional chief executive officers, one representative each appointed by the East Hawaii, West Hawaii, Kauai, and Oahu regional boards, two members appointed by the Maui regional board, and the Director of the Department of Health as an ex-officio non-voting member.

In June 2011, the Legislature passed Act 126, S.B. 1300, effective July 1, 2011, which reconstituted the HHSC board of directors to a 13-member board of directors by adding an at-large voting member appointed by the governor of the State of Hawaii and changing the voting status of the Director of the Department of Health from non-voting to voting member.

Hawaii Tourism Authority — The Hawaii Tourism Authority (HTA) was established on January 1, 1999, by Act 156, SLH of 1998 and was placed within DBEDT for administrative purposes. The HTA is responsible for developing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan as it relates to the State's tourism industry, employment, taxes, and lesser known and underutilized destinations. In addition, effective July 1, 2000, control and management of the Hawaii Convention Center (the "Center") was transferred to the HTA from the Convention Center Authority (CCA) by Executive Order No. 3817. Effective July 1, 2002, the Center, by statute, became the responsibility of the HTA. The Center, which opened to the general public in June 1998, is used for a variety of events including conventions and trade shows, public shows, and spectator events. The Center offers approximately 350,000 square feet of rentable space including 51 meeting rooms.

The HTA is governed by a board of directors comprised of 12 voting members.

Hawaii Community Development Authority — The Hawaii Community Development Authority (HCDA) was established as a body corporate and a public instrumentality of the State of Hawaii which is attached to DBEDT for administrative purposes. The HCDA was established to supplement traditional community renewal methods by promoting and coordinating public and private sector community development. The HCDA has redevelopment responsibility for the Kaka`ako, Kalaeloa, and He'eia Community Development Districts.

The Hawaii Community Development Authority (HCDA) was established by HRS Chapter 206E, to join the strengths of private enterprise, public development and regulation into a form capable of long-term planning and implementation of improved community development in urban areas in the State of Hawaii (State).

The HCDA is comprised of 21 (13 regular members, five and three members who vote only on Kalaeloa and He'eia matters, respectively) voting members who, as a body, oversees the HCDA's operations and establishes policies to implement its legislative objectives. The board is required to report annually to the State Legislature and the Governor. The 21 member board is comprised of the following:

- 13 members that vote on issues related to Kaka`ako and Kalaeloa:
  - Two members appointed by the Governor from a list of names submitted by the President of the Senate and the Speaker of the House of Representatives;
  - Three members appointed by the Governor from a list of names submitted by the Honolulu City Council;
  - Four at-large members appointed by the Governor;
  - The Director of Budget and Finance, as an Ex Officio voting member;
  - The Director of DBEDT, as an Ex Officio voting member;
  - The Comptroller of the Department of Accounting and General Services, an Ex Officio voting member; and
  - The Director of Transportation, as an Ex Officio voting member.
- Five members appointed by the Governor that vote only on issues related to Kalaeloa:
  - The Chairperson of the Hawaiian Homes Commission;
  - The Director of the City and County of Honolulu Department of Planning and Permitting;
  - Two members from the surrounding community, one of which is selected by the Mayor of the City and County of Honolulu; and
  - One member who is a Hawaiian Cultural Specialist.
- Three members appointed by the Governor that vote only on issues related to He'eia:
  - All three members shall be residents of the He'eia district or the Koolaupoko district

Hawaii Hurricane Relief Fund — The Hawaii Hurricane Relief Fund (HHRF) was organized pursuant to, and operates in accordance with, HRS Chapter 431P. The HHRF, which began its operations on July 1, 1993, was established as a public body and a body corporate and politic to be placed within the Department of Commerce and Consumer Affairs for administrative purposes. The HHRF was primarily organized to provide hurricane property insurance policies in Hawaii in the event the private insurance market does not make such policies readily available to consumers in Hawaii.

Due to the increase in the availability of hurricane property insurance coverage from the private sector, the HHRF ceased writing hurricane property insurance policies effective December 1, 2000.

Although the HHRF no longer functions in its capacity to provide hurricane property insurance coverage subsequent to November 2001, it has been determined at this time that the HHRF should not be dissolved in the event it may need to reenter the insurance market.

The HHRF is administered and operated by a board of directors. The board of directors consists of the following seven members:

- The Insurance Commissioner, as an Ex Officio voting member, appointed by the Governor; and
- Six members appointed by the Governor with the advice and consent of the Senate:
    - Two members appointed by the Governor;
    - Two members appointed by the Governor from a list of nominations submitted by the President of the Senate; and
    - Two members appointed by the Governor from a list of nominations submitted by the Speaker of the House of Representatives.

Information for obtaining financial statements for the discretely presented Component Units may be obtained from the Department of Accounting and General Services (DAGS), 1151 Punchbowl Street, Room 400, Honolulu, Hawaii 96813.

The Employees' Retirement System of the State of Hawaii (ERS), which is administered on behalf of public employees for both the State and county governments, and the Office of Hawaiian Affairs (OHA), which exists for the betterment of the conditions of native Hawaiians, are excluded from the State's reporting entity because those agencies, based on the fiscal independence and/or separate legal entity status, are not accountable to the State.

Government-Wide and Fund Financial Statements — The Government-Wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Primary Government and its Component Units. For the most part, the effect of interfund activity has been removed from these Government-Wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from the legally separate Component Units for which the Primary Government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when legally enforceable enabling legislation places restrictions or when restrictions are externally imposed by citizens and/or public interest groups. Additionally, restricted net assets are reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the government has other cause for reconsideration. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for Governmental Funds, Proprietary Funds, Fiduciary Funds, and major Component Units. However, the Fiduciary Funds are not included in the Government-Wide financial statements. Major individual Governmental Funds and major individual Proprietary Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation —

Government-Wide Financial Statements — The Government-Wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Funds Financial Statements — The Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include taxpayer-assessed tax revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. Other revenues which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits, and franchises.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements — The financial statements of the Proprietary Funds, Fiduciary Funds, and Component Units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the Government-Wide financial statements described above. Agency Funds do not have a measurement focus and report only assets and liabilities.

In accordance with the GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the State has elected not to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fund Accounting — The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the State that are reported in the accompanying fund financial statements have been classified into the following major and nonmajor Governmental and Proprietary Funds. In addition, a description of the Fiduciary Funds and Component Units are as follows:

Governmental Fund Types — The State reports the following major Governmental Funds:

- General Fund — This fund is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- Capital Projects Fund — This fund accounts for substantially all of the financial resources obtained and used for the acquisition or construction of the State's capital assets and facilities. Such resources are derived principally from proceeds of general obligation and revenue bond issues, federal grants, and transfers from the Special Revenue Funds.

- Med-Quest Special Revenue Fund – This fund accounts for the State's Medicaid program through which healthcare is provided to the low-income population. The Medicaid program is jointly financed by the State and the federal government.

The nonmajor Governmental Funds are comprised of the following:

- Special Revenue Funds — These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.

- Debt Service Fund — This fund accounts for the financial resources obtained and used for the payment of principal and interest on general and revenue long-term bond obligations. This fund also accounts for financial resources obtained and used to refund existing debt.

Proprietary Fund Type — Enterprise Funds — The major Enterprise Funds are comprised of the following:

- Department of Transportation — Airports Division ("Airports") — Airports operates the State's airports and air navigation facilities and is responsible for general supervision of aeronautics within the State.

- Department of Transportation — Harbors Division (“Harbors”) — Harbors maintains and operates the State’s commercial harbors system.

- Unemployment Compensation Fund — This fund accounts for the unemployment compensation benefits to qualified recipients.

The nonmajor Enterprise Funds are comprised of, the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), the Water Pollution Control Revolving Fund (WPCF), and the Drinking Water Revolving Treatment Loan Fund (DWTLF). The EUTF accounts for the benefits relating to active employees and beneficiaries, which includes medical, dental, and life insurance coverage. The WPCF accounts for loans to county agencies for the construction of wastewater treatment facilities. The DWTLF accounts for loans to county agencies for construction of drinking water treatment facilities.

Fiduciary Fund Types —

- Agency Funds — Agency Funds account for retiree healthcare benefits, which includes medical, dental, and life insurance coverage as well as, various taxes, deposits, and property held by the State, pending distribution to other governments and individuals.

Component Units — Component Units are comprised of (1) the UH, which is comprised of the State’s public institutions of higher education; (2) the HHFDC, which finances housing programs for residents of the State; (3) the HPHA, which manages state housing programs; (4) the HHSC, which was established to provide quality health care for all of the people of the State; (5) the HTA, which manages the State’s convention center as well as markets the State’s visitor industry; (6) the HCDA, which coordinates private and public community development for residents of the State; and (7) the HHRF, which funds, assesses, and provides, when necessary, hurricane property insurance to residents of the State.

Cash and Cash Equivalents — Cash and cash equivalents include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and time certificates of deposit. For purposes of the statement of cash flows, the State has defined cash equivalents to be all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Receivables and Payables — Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the Government-Wide financial statements as internal balances.

All tax and other receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

Investments — Investments in U.S. government securities and time certificates of deposit are carried at fair value based on quoted market prices. Investments in repurchase agreements are carried at cost. Investments in student loan auction rate securities are reported at fair value, which is generally calculated using the present value of projected cash flows methodology.

Inventories — Inventories of developments in progress and units available for sale are stated at the lower of cost or estimated net realizable value, with cost being determined by the specific-identification method. All estimated carrying costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Units available for sale include constructed units, developed lots, and repurchased units available for sale. Developments in progress include construction in progress and land held for future development.

Materials and supplies inventories are stated at the lower of cost or market, with cost being determined principally using the first-in, first-out method.

Inventories in the Governmental Funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets — Revenue bond indentures authorize the State's trustees to invest monies in time certificates of deposit, money market funds, and investment securities, including U.S. government or agency obligations, certain municipal bonds, and repurchase agreements. Uninsured time certificates of deposit are required to be collateralized by investment securities of an equal or greater market value. The underlying securities for repurchase agreements are required to be U.S. government or agency obligations of an equal or greater market value held by the State's agent in the State's name.

Capital Assets — Capital assets, which include land and land improvements, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), buildings and improvements, and equipment, are reported in the applicable governmental and business-type activities columns, as well as the Component Units column, in the Government-Wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed to the extent the State's capitalization thresholds are met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned, on the invested proceeds over the same period.

The State's capitalization thresholds are $5,000 for equipment, and $100,000 for land and land improvements, infrastructure, and buildings and improvements. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities.

Capital assets of the Primary Government, as well as the Component Units, are depreciated or amortized using the straight-line method over the following estimated useful lives:

Infrastructure	12–50 years
Buildings and improvements	15–30 years
Equipment	5–7 years

Works of art and historical treasures held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are capitalized. These items are protected, kept encumbered, conserved, and preserved by the State. It is the State's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

Compensated Absences — It is the State's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the Government-Wide, Proprietary Funds, and Component Units financial statements. A liability for these amounts is reported in the Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations — In the Government-Wide financial statements, Proprietary Fund financial statements, and Component Unit financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, Proprietary Fund, or Component Units statement of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, Governmental Funds recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets and Fund Balance — In the Government-Wide financial statements and Proprietary Funds and Component Units financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the State (such as citizens, public interest groups, or the judiciary), or imposed by law through enabling legislation, and include unspent proceeds of bonds issued to acquire or construct capital assets.

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Effective July 1, 2010, the State implemented GASB Statement No. 54 ("GASB 54"), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 provides clearer fund balance classifications and clarifies the existing governmental fund type definitions. The new hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

- *Restricted* — Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

- *Committed* — Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the state legislature.

- *Assigned* — Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.

- *Unassigned* — Residual balances that are not contained in the other classifications.

Nonexchange Transactions — The Enterprise Funds and Component Units recognize contributed capital as nonoperating revenues.

Medicare and Medicaid Reimbursements — Revenues from services reimbursed under Medicare and Medicaid programs are recorded at the estimated reimbursable amounts. Final determination of the amounts earned is subject to review by the fiscal intermediary or a peer review organization. The State has the opinion that adequate provision has been made for any adjustments that may result from such reviews.

Risk Management — The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first $1 million per occurrence of property losses, the first $4,000,000 with respect to general liability claims, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $225,000,000, except for flood and earthquake, which individually is a $225,000,000 aggregate loss, and terrorism, which is $50,000,000 per occurrence. The annual aggregate for general liability losses and losses due to crime per occurrence is $15,000,000 each. The State also has an insurance policy to cover medical malpractice risk in the amount of $25,000,000 per occurrence and $29,000,000 in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

Deferred Compensation Plan — The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.

Use of Estimates — The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

New Accounting Pronouncements

GASB Statement No. 57 — The GASB issued Statement No. 57, *OPEB Measurements by Agent Employers, and Agent Multiple-Employer Plans*. The provisions related to the use and reporting of the alternative measurement method were adopted and had no impact to the State's financial statements. The State is currently evaluating the impact of the provisions related to the frequency and timing of measurements which are effective for periods beginning after June 15, 2011.

GASB Statement No. 59 — The GASB issued Statement No. 59, *Financial Instruments Omnibus*, effective June 15, 2009. This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The State has determined that the provision does not have a significant impact to the State's financial statements.

GASB Statement No. 60 — The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which will be effective for years beginning after December 15, 2011. This Statement improves financial reporting by addressing issues related to service concession arrangements. The State does not expect this Statement will have a material effect on its financial statements.

GASB Statement No. 61 — The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34,* which will be effective for years beginning after June 15, 2012. This Statement modifies certain requirements for inclusion of Component Units in the financial reporting entity. The State is currently evaluating the impact that GASB Statement No. 61 will have on its financial statements.

GASB Statement No. 62 — The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* is effective for reporting periods beginning after December 15, 2011. The objective of this Statement is to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 63 — The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which will become effective for financial statements for periods beginning after December 15, 2011. GASB Statement No. 63 provides financial statement presentation guidance for these elements; however, it does not identify any additional items that should be recognized within these element classifications. GASB Statement No. 63 only will apply to items that have been specifically identified by the GASB as deferred outflows of resources or deferred inflows of resources. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 64 — The GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53,* which will become effective for financial statements for periods beginning after June 15, 2011. The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The State does not expect that this Statement will have a material effect on its financial statements.

2. CASH AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Primary Government based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, auction rate securities, and repurchase agreements with federally-insured financial institutions.

Cash — The State maintains approximately 20 bank accounts for various purposes at locations throughout the State and the nation. Bank deposits are under the custody of the Director of Finance. For financial statement reporting purposes, cash and cash equivalents consist of cash, time certificates of deposit, and money market accounts. Cash and cash equivalents also include repurchase agreements and U.S. government securities with original maturities of three months or less.

The carrying amount of the State's unrestricted and restricted deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2011, was $1,346,351,000 and $742,873,000, respectively, for the Primary Government and unrestricted cash for the Fiduciary Funds as of June 30, 2011, was $391,666,000.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the Primary Government and Fiduciary Funds amounted to $2,116,754,000 at June 30, 2011. Of that amount, $2,116,643,000 represents bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State. Bank balances of $2,636,000 represent deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized and the Special Revenue Funds' and Proprietary Funds' cash in bank, which was uninsured and uncollateralized. The Special Revenue Funds' and Proprietary Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

Investments — The State holds investments both for its own benefit and as an agent for other parties.

Further, the State pools all excess funds into an investment pool that is administered by the State Department of Budget and Finance. The pool's investment options are limited to investments listed in the Hawaii Revised Statutes. As of June 30, 2011, the State had material investments in repurchase agreements. According to the Department of Budget and Finance, the repurchase agreement investment contracts are valued on the cost basis.

At the end of each year the Department of Budget and Finance ("Budget and Finance") allocates the investment pool amount to each of the participants including those participants who are part of the proprietary fund and fiduciary fund. The allocation is based on the average monthly investment balance of each participant in the investment pool.

The following tables present the State's investments and maturities at June 30, 2011 (amounts expressed in thousands).

		Maturity (in years)		
	Fair Value	Less than 1	1–5	>5
Investments — Primary Government:				
Student loan auction rate securities	$ 231,465	$ -	$ -	$ 231,465
Certificates of deposit	169,148	169,148	-	-
U.S. government securities	382,808	298,590	76,562	7,656
Repurchase agreements	106,830	106,830	-	-
	$ 890,251	$ 574,568	$ 76,562	$ 239,121
Investments — Fiduciary Funds:				
Student loan auction rate securities	$ 28,668	$ -	$ -	$ 28,668
Certificates of deposit	20,950	20,950	-	-
U.S. government securities	47,412	36,982	9,482	948
Repurchase agreements	13,231	13,231	-	-
	$ 110,261	$ 71,163	$ 9,482	$ 29,616

Interest Rate Risk — As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk — The State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating.

The State's investments include auction rate securities collateralized by student loans issued by the federal government. Liquidity for these auction rate securities is typically provided by an auction process which allows holders to sell their notes and reset the applicable interest rate at predetermined intervals of 7 to 28 days. Beginning in 2009 and throughout 2010, auctions failed and investors without the ability to hold such securities until maturity have taken significant losses. The auction failures appear to have been attributable to inadequate buyers and/or buying demand. In the event that there is a failed auction, the indenture governing the security generally requires the issuer to pay interest at a default rate that is generally above market rates for similar instruments. The securities for which auctions have failed will continue to accrue interest at the predetermined rate and be auctioned periodically until the auction succeeds, the issuer calls the securities, they mature, or the State is able to sell the securities to third parties. During 2011, the State recorded a fair value adjustment of $38,800,000 to increase the carrying value of the State investment pool's auction rate securities to their fair value at June 30, 2011.

On November 23, 2010, the State and Citigroup Global Market Inc. ("Citi") reached an agreement whereby in June 2015, the State will have the option to require Citi to purchase some or all of the State's remaining investments in auction rate securities. The agreement also provides that starting July 2012, the State will have the ability to obtain interim liquidity on its auction rate securities portfolio of up to $150 million worth of securities, at market value, with the difference between that market value and par paid by Citi in July 2015.

As of June 30, 2011, the State's auction rate securities portfolio had a cost of $558,500,000 and an estimated fair value of $545,400,000. The estimated fair value is comprised of $523,700,000 attributable to the auction rate securities and $21,700,000 million attributable to the fair value of the Citi settlement agreement.

Custodial Risk — For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms, which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping, certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

Concentration of Credit Risk — The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

3. CAPITAL ASSETS

For the fiscal year ended June 30, 2011, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

	Governmental Activities			
	Balance, July 1, 2010	Additions	Deductions	Balance, June 30, 2011
Capital assets not being depreciated:				
Land and land improvements	$ 2,128,686	$ 53,568	$ (189)	$ 2,182,065
Construction in progress	689,729	360,893	(257,456)	793,166
Total capital assets not being depreciated	2,818,415	414,461	(257,645)	2,975,231
Capital assets being depreciated:				
Infrastructure	8,654,609	65,977	-	8,720,586
Buildings and improvements	3,501,653	172,347	(477)	3,673,523
Equipment	350,164	23,904	(12,906)	361,162
Total capital assets being depreciated	12,506,426	262,228	(13,383)	12,755,271
Less accumulated depreciation:				
Infrastructure	(4,456,796)	(232,774)	-	(4,689,570)
Buildings and improvements	(1,845,837)	(107,927)	234	(1,953,530)
Equipment	(281,804)	(22,587)	9,923	(294,468)
Total accumulated depreciation	(6,584,437)	(363,288)	10,157	(6,937,568)
Total capital assets	$ 8,740,404	$ 313,401	$ (260,871)	$ 8,792,934

	Business-Type Activities			
	Balance, July 1, 2010	Additions	Deductions	Balance, June 30, 2011
Capital assets not being depreciated:				
Land and land improvements	$ 585,015	$ 8,391	$ (8,191)	$ 585,215
Construction in progress	252,298	146,163	(54,738)	343,723
Total capital assets not being depreciated	837,313	154,554	(62,929)	928,938
Capital assets being depreciated:				
Buildings and improvements	3,102,176	39,404	(2,436)	3,139,144
Equipment	251,219	15,351	(8,073)	258,497
Total capital assets being depreciated	3,353,395	54,755	(10,509)	3,397,641
Less accumulated depreciation:				
Buildings and improvements	(1,639,840)	(102,340)	1,406	(1,740,774)
Equipment	(170,259)	(12,242)	6,381	(176,120)
Total accumulated depreciation	(1,810,099)	(114,582)	7,787	(1,916,894)
Total capital assets	$ 2,380,609	$ 94,727	$ (65,651)	$ 2,409,685

Depreciation expense for the fiscal year ended June 30, 2011, was charged to functions/programs of the Primary Government as follows:

	2011
Governmental activities:	
Highways	$ 218,013
Lower education	64,358
General government	24,287
Public safety	13,295
Urban redevelopment and housing	20,092
Conservation of natural resources	9,479
Health	6,073
Economic development and assistance	4,383
Welfare	2,217
Culture and recreation	1,091
Total depreciation expense — governmental activities	$ 363,288
Business-type activities:	
Airports	$ 94,739
Harbors	18,224
DWTLF	72
EUTF	1,547
Total depreciation expense — business-type activities	$ 114,582

4. GENERAL OBLIGATION BONDS PAYABLE

The State issues general obligation bonds primarily to provide for the acquisition and construction of major capital facilities. Although certain general obligation debt are being retired from the resources of the Proprietary Funds - Airports and Harbors and are recorded in those funds, all general obligation bonds are backed solely by the full faith and credit of the State.

All issues, except Series BW, issued March 1, 1992; Series BZ, issued October 1, 1992; Series CA, issued January 1, 1993; Series CH, issued November 1, 1993; Series CM, issued December 1, 1996; Series CY, issued February 15, 2002; Series DL and DM, issued May 20, 2008; Series DO and DP, issued December 16, 2008; Series DR, issued June 23, 2009; Series DT, DU, DV and DW, issued November 24, 2009 and Series DY, issued February 18, 2010, contain call provisions. Stated interest rates range from .2% to 8%.

The State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunding bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State’s basic financial statements. At June 30, 2011, $610,965,000 of bonds outstanding is considered defeased.

At June 30, 2011, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	$ 3,873,620
Noncallable	1,150,145
Total general obligation bonds outstanding	5,023,765
Less amount recorded as a liability of:	
Proprietary Funds — Harbors	(36,221)
Amount recorded in the governmental activities of the Primary Government	$ 4,987,544

A summary of general obligation bonds outstanding by series as of June 30, 2011, is as follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount	Amount Outstanding
BW	March 1, 1992	6.250%	March 1, 2012	$ 100,000	$ 5,555
BZ	October 1, 1992	6.000%	October 1, 2012	200,000	1,535
CA	January 1, 1993	5.500%–8.000%	January 1, 2012–2013	90,000	10,000
CH	November 1, 1993	4.750%	November 1, 2011–2013	250,000	41,655
CM	December 1, 1996	6.000-6.500%	December 1, 2012–2016	150,000	41,650
CV	August 1, 2001	4.800%–5.500%	August 1, 2011–2021	300,000	67,790
CW	August 1, 2001	4.300%–5.500%	August 1, 2011–2015	156,750	68,240
CX	February 15, 2002	4.300%–5.500%	February 1, 2012–2022	250,000	90,955
CY	February 15, 2002	5.500%–5.750%	February 1, 2012–2015	319,290	160,500
CZ	November 26, 2002	3.500%–5.500%	July 1, 2011–2022	300,000	46,305
DA	September 16, 2003	3.750%–5.250%	September 1, 2011–2023	225,000	178,870
DB	September 16, 2003	4.000%–5.250%	September 1, 2011–2016	188,650	127,410
DD	May 13, 2004	3.700%–5.250%	May 1, 2012–2024	225,000	169,885
DE	November 10, 2004	3.000%–5.000%	October 1, 2011–2024	225,000	205,085
DF	June 15, 2005	3.250%–5.000%	July 1, 2011–2025	225,000	206,600
DG	June 15, 2005	5.000%	July 1, 2011–2017	722,575	588,860
DI	March 23, 2006	3.800%–5.500%	March 1, 2013–2026	350,000	306,490
DJ	April 12, 2007	3.625%–5.000%	April 1, 2012–2027	350,000	320,990
DK	May 20, 2008	3.000%–5.000%	May 1, 2012–2028	375,000	373,920
DL	May 20, 2008	3.000%–5.000%	May 1, 2012–2018	29,010	29,010
DM	May 20, 2008	4.260%–4.670%	May 1, 2012–2014	25,000	13,200
DN	December 16, 2008	3.000%–5.500%	August 1, 2012–2028	100,000	100,000
DO	December 16, 2008	3.000%–5.000%	August 1, 2011–2018	101,825	101,825
DP	December 16, 2008	4.150%–5.680%	August 1, 2011–2016	26,000	26,000
DQ	June 23, 2009	3.000%–5.000%	June 1, 2013–2029	500,000	490,220
DR	June 23, 2009	3.000%–5.000%	June 1, 2014–2019	225,410	203,910
DS	November 5, 2009	0.200%–1.450%	September 15, 2014–2024	32,000	32,000
DT	November 24, 2009	2.250%–5.000%	November 1, 2014–2019	204,140	204,140
DU	November 24, 2009	4.000%	November 1, 2011	6,260	6,260
DV	November 24, 2009	2.000%–5.000%	November 1, 2012	46,855	46,855
DW	November 24, 2009	2.250%–5.000%	November 1, 2013	36,425	36,425
DX	February 18, 2010	3.000%–5.530%	February 1, 2015–2030	500,000	500,000
DY	February 18, 2010	3.000%–5.000%	February 1, 2015–2020	221,625	221,625
					$ 5,023,765

The general obligation bonds outstanding financed the Hawaiian Homes Lands Trust settlement and the acquisition, construction, extension, or improvement of various public improvement projects, including public buildings and facilities, public schools, community college and university facilities, public libraries and parks, and for other public purposes.

A summary of the bond premium activities for fiscal year 2011 is as follows (amounts expressed in thousands):

Balance — July 1, 2010	$ 252,387
Current-year amortization	(37,972)
Balance — June 30, 2011	$ 214,415

A summary of debt service requirements to maturity on the governmental activities' general obligation bonds is as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2012	$ 286,331	$ 238,059	$ 524,390
2013	369,552	223,167	592,719
2014	384,967	205,746	590,713
2015	434,911	187,798	622,709
2016	407,688	166,696	574,384
2017–2021	1,650,509	561,176	2,211,685
2022–2026	1,056,990	248,416	1,305,406
2027–2030	396,596	43,154	439,750
	$4,987,544	$ 1,874,212	$6,861,756

A summary of debt service requirements to maturity on the business-type activities' general obligation bonds are as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2012	$ 1,609	$ 1,772	$ 3,381
2013	1,678	1,702	3,380
2014	1,758	1,623	3,381
2015	1,844	1,537	3,381
2016	1,932	1,449	3,381
2017–2021	11,161	5,743	16,904
2022–2026	14,210	2,694	16,904
2027–2028	2,029	144	2,173
	$ 36,221	$ 16,664	$ 52,885

The State Constitution limits the amount of general obligation bonds, which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit on the aforementioned issues. The legal debt margin at June 30, 2011, was $304,984,000.

At June 30, 2011, general obligation bonds authorized but unissued were approximately $1,442,761,000.

5. REVENUE BONDS PAYABLE

Governmental Activities — On April 2, 2009, the State of Hawaii Department of Hawaiian Homelands (DHHL) issued $42,500,000 in Revenue Bonds, Series 2009, with interest rates ranging from 3% to 6% to finance the construction of certain DHHL capital improvements projects. The bonds are payable semiannually on April and October 1 through 2039.

The bonds are payable from and collateralized by the Department's revenues generated from certain capital improvement projects.

On December 17, 2008, the Highways issued $125,175,000 in State of Hawaii Highway Revenue Bonds, Series 2008, with interest rates ranging from 4% to 6% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and July 1 through 2029.

On March 15, 2005, the Highways issued $60,000,000 in State of Hawaii Highway Revenue Bonds of 2005, Series A, with interest rates ranging from 3% to 5% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and July 1 through 2025.

On March 15, 2005, Highways issued $123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates ranging from 3% to 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable semiannually on January and July 1 through 2021.

On April 15, 2003, Highways issued $44,940,000 in State of Hawaii Highway Revenue Bonds, Series of 2003, with interest rates ranging from 3.5% to 5.25% to advance refund $45,350,000 of outstanding State of Hawaii Highway Revenue Bonds, Series of 1993, with an average interest rate of 4.42%. The bonds are payable semiannually on January and July 1 through 2013.

On October 25, 2001, Highways issued $70,000,000 of State of Hawaii Highway Revenue Bonds, Series of 2001. The bonds bear interest at rates ranging from 4% to 5% and are payable semiannually on January and July 1 through July 2022.

On July 1, 1998, Highways issued State of Hawaii Highway Revenue Bonds, Series of 1998, in the principal amount of $94,920,000. Bond proceeds related to this issue amounted to $97,542,000, of which $71,921,000 was used to finance certain highway improvements and other related projects for the state highways system, and $25,621,000 was used to refund certain outstanding highway revenue bonds. The difference in the principal amount and proceeds relates to bond premium and accrued interest. The bonds bear interest at rates of 5.5% and mature in annual installments through July 2018.

The bonds are payable solely from and collateralized by the revenues, consisting primarily of highway fuel taxes, vehicle registration fees, vehicle weight taxes, and rental motor vehicle and tour vehicle surcharge taxes.

In addition to the proceeds from the State of Hawaii Highway Revenue Bonds of 2005, Series B; the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 2003; and a portion of the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 1998 (see above); were placed in irrevocable trusts and used to purchase securities of the U.S. government to meet the debt service requirements of the refunded bonds.

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as DHHL and Highways defeased their obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2011, bonds outstanding considered defeased, amounted to $40,955,000.

The following is a summary of Highways' and DHHL revenue bonds issued and outstanding at June 30, 2011 (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount of Issue	Outstanding Amount
Highways:					
1998	July 1, 1998	5.500%	July 1, 2017–July 1, 2018	$ 94,920	$ 27,580
2001	October 25, 2001	4.00%–5.00%	July 1, 2011–2022	70,000	8,485
2003	April 15, 2003	3.50%–5.25%	July 1, 2011–2013	44,940	15,365
2005 A	March 15, 2005	3.00%–5.00%	July 1, 2011–2025	60,000	49,065
2005 B	March 15, 2005	3.00%–5.25%	July 1, 2011–2021	123,915	119,350
2008	December 17, 2008	4.00%–6.00%	January 1, 2012–2029	125,175	117,575
DHHL:					
2009	April 2, 2009	3.00%–6.00%	April 1, 2012–2039	42,500	41,205
					$ 378,625

A summary of the revenue bond premium activities for fiscal year 2011 is as follows (amounts expressed in thousands):

	Revenue Bonds
Balance — July 1, 2010	$ 11,744
Current-year amortization	(2,403)
Balance — June 30, 2011	$ 9,341

Debt service requirements to maturity on revenue bonds are aggregated below (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2012	$ 22,410	$ 19,072	$ 41,482
2013	23,340	18,080	41,420
2014	24,440	16,957	41,397
2015	25,840	15,757	41,597
2016	27,100	14,477	41,577
2017–2021	126,955	51,358	178,313
2022–2026	73,800	26,755	100,555
2027–2031	36,030	10,395	46,425
2032–2036	10,660	4,392	15,052
2037–2039	8,050	985	9,035
	$ 378,625	$ 178,228	$ 556,853

Business-Type Activities — Revenue bonds are backed by a pledge of resources derived from users of the related facilities and are not supported by the full faith and credit of the State.

Airports System Revenue Bonds — The Airports system revenue bonds are payable solely from and collateralized by airport revenues, which include all aviation fuel taxes levied. The Airports system revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from 102% to 100% of principal.

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2011 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2000B, refunding	5.00%–6.00%	2020	$ 261,465	$ 13,550
2001, refunding	4.00%–5.75%	2021	423,255	334,250
2010A, refunding	2.00%–5.25%	2039	478,980	478,980
2010B, refunding	3.00%–5.00%	2020	166,000	166,000
			$ 1,329,700	992,780
Add unamortized premium				15,922
Less:				
Deferred loss on refunding				(10,021)
Current portion				(25,370)
				$ 973,311

The liabilities for refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as Airports defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2011, bonds outstanding considered defeased amounted to $16,845,000.

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provides reserves for maturing debt principal, interest, sinking fund, and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverage for fire, workers' compensation, and public liability. At June 30, 2011, $223,602,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

On April 7, 2010, the Airports Division issued $478,980,000 and $166,000,000 of airports system revenue bonds (Refunding Series 2010A and Refunding Series 2010B, respectively) at interest rates ranging from 2.00% to 5.25% and 3.00% to 5.00%, respectively, to refund $196,015,000 of its outstanding Refunding Series of 2000A and 2000B bonds. Of the net proceeds of $656,137,000 (after the payment of $3,573,000 in underwriting fees, insurance and other costs), along with an additional $3,069,000 from the debt service reserve account, $204,061,000 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of the Refunding Series of 2000A and 2000B bonds on July 1, 2010. As a result, the refunded portion of the Refunding Series 2000A and 2000B bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $7,942,000. This difference is being charged to operations over the next 10 years.

Airports Special Facility Revenue Bonds — Airports entered into four special facility lease agreements with: Delta Airlines, Inc. in 1987, two with Continental Airlines, Inc. ("Continental") in November 1997 and

July 2000, and one with Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. ("Sky Chefs") effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $25,255,000, $16,600,000, and $6,600,000, respectively. Those bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to $31,840,000 at June 30, 2011.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2011.

$25,255,000 Issue

The bonds bear interest at 5.625% and are subject to redemption at the option of Airports, upon the request of Continental, at prices ranging from 101% to 100%, depending on the dates of redemption, or at 100%, plus interest if the facilities are destroyed or damaged extensively.

Interest-only payments are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due.

$16,600,000 Issue

On July 15, 2000, Airports issued $16,600,000 of term special facility bonds (Continental), Refunding Series of 2000, with an interest rate of 7.00%, due June 1, 2020, to, in part; refund $18,225,000 of its outstanding Series of 1990 bonds (Continental). The bonds are subject to redemption on or after June 1, 2010, at the option of Airports, upon the request of Continental or, if the facilities are destroyed or damaged extensively, at 100% of principal, plus interest.

$6,600,000 Issue

During the year ended June 30, 2011, the bonds with a stated maturity date of December 1, 2010 were paid off. The bonds bore interest at 10.125% and were subject to redemption on or after December 1, 2003, at the option of the Airports Division, upon the request of Sky Chefs, Inc. or, if the facilities are destroyed or damaged extensively, at 100% plus interest.

Special facility revenue bonds payable at June 30, 2011, consisted of the following (amounts expressed in thousands):

	Continental		Total
Current portion	$ 835	$ -	$ 835
Noncurrent portion	9,280	21,725	31,005
	$ 10,115	$ 21,725	$ 31,840

The special facility leases are accounted for and recorded as direct financing leases. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as a restricted asset, and the special facility revenue bonds outstanding are recorded as a liability in the accompanying basic financial statements.

Harbors Revenue Bonds — The Harbors revenue bonds are collateralized by a charge and lien on the gross revenues of the commercial harbors system and upon all improvements and betterments thereto, and all funds and securities created in whole or in part from revenues or from the proceeds of any bonds issued. The Harbors revenue bonds are subject to redemption at the option of the DOT and the State during specific years at prices ranging from 101% to 100% of principal.

In November 2010, the Harbors Division issued $201,390,000 of Revenue Bonds, consisting of $164,275,000 of Series A of 2010 Revenue Bonds and $37,115,000 of Series B of 2010 Revenue Bonds. The Harbors Division's net proceeds of $199,749,000 (including net premiums of $256,000 and after payment of $1,897,000 in underwriting fees), were used to advance refund certain outstanding Revenue Bonds, as well as to fund future harbor capital improvement projects. The Series A of 2010 Revenue Bonds are secured by a cash deposit of $11,455,000.

The net proceeds from the Series B of 2010 Revenue Bonds, along with $2,180,000 from the Harbors Division's cash accounts, were used to advance refund a portion ($38,930,000) of the Series A of 2000 revenue Bonds previously issued and for a redemption premium of $389,000. The advance refunding resulted in a difference between the acquisition price and the net carrying amount of the refunded debt of $1,599,000. This difference is being charged to operations over the next 11 years. However, due to the advance refunding, the Harbors Division decreased its total debt service payments over the next 11 years by $2,554,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,916,000.

The following is a summary of the Harbors' revenue bonds as of June 30, 2011 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current Principal Due July 1, 2011	Current Principal Due January 1, 2012	Current Total	Noncurrent
2000	July 1, 2029	4.50%–6.00%	$ 79,405	$ -	$ -	$ -	$ 14,670
2002	July 1, 2019	3.00%–5.50%	24,420	575	-	575	10,010
2004	January 1, 2024	2.50%–6.00%	52,030	-	1,290	1,290	22,075
2006	January 1, 2031	4.00%–5.25%	96,570	-	2,525	2,525	83,065
2007	July 1, 2027	4.25%–5.50%	51,645	1,540	-	1,540	46,610
2010	July 1, 2040	3.00%–5.75%	201,390	1,885	-	1,885	199,505
			$ 505,460	4,000	3,815	7,815	375,935
Add unamortized premium				-	-	347	1,749
Less:							
Unamortized discount				-	-	(2)	(17)
Unamortized deferred loss on refunding				-	-	(489)	(5,234)
				$ 4,000	$ 3,815	$ 7,671	$ 372,433

Debt service requirements to maturity on the business-type activities' revenue bonds for fiscal years ending June 30 are aggregated below (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2012	$ 33,876	$ 73,159	$ 107,035
2013	40,625	71,078	111,703
2014	59,770	68,420	128,190
2015	61,045	65,163	126,208
2016	68,030	61,709	129,739
2017–2021	397,025	248,392	645,417
2022–2026	183,150	169,136	352,286
2027–2031	201,300	119,836	321,136
2032–2036	175,890	72,006	247,896
2037–2041	189,913	21,562	211,475
	$ 1,410,624	$ 970,461	$ 2,381,085

The above debt service requirements are set forth based upon funding requirements and are presented before unamortized premiums, discounts, and deferred loss on refunding, aggregating $2,254,000.

Revenue Bonds Authorized, but Unissued — At June 30, 2011, revenue bonds authorized, but unissued were approximately $4,811,933,000.

Special Purpose Revenue Bonds — HRS Chapter 39A authorizes the State (with legislative approval) to issue special purpose revenue bonds. Proceeds from those bonds are loaned to certain enterprises for projects deemed to be in the public interest. The bonds are not general obligations of the State and are payable solely from monies received by the State under project agreements with the recipients of the bond proceeds. Accordingly, the State has not included those bonds in its basic financial statements. Bonds outstanding at June 30, 2011, amounted to $1,771,388,000. At June 30, 2011, special purpose revenue bonds of $1,567,640,000 were authorized, but unissued.

Improvement District Bonds — The HCDA is authorized to issue improvement district bonds under HRS Chapter 206E. Proceeds from the bond issues are utilized to finance the redevelopment of districts designated by the State Legislature. The bonds are not general obligations of the State and are payable solely by assessment liens on the real property of the designated district. Accordingly, the State has not included those bonds in its basic financial statements. There were no bonds outstanding as of June 30, 2011.

6. CHANGES IN LONG-TERM LIABILITIES

Changes in the long-term liabilities for the Primary Government (governmental activities and business-type activities) were as follows (amounts expressed in thousands):

	Governmental Activities				
	Balance — July 1, 2010	Additions	Deductions	Balance — June 30, 2011	Due Within One Year
General obligation bonds payable — net	$ 5,157,198	$ -	$ (169,654)	$ 4,987,544	$ 286,331
Accrued vacation payable	212,103	84,968	(81,472)	215,599	62,619
Revenue bonds payable	400,215	-	(21,590)	378,625	22,410
Reserve for losses and loss adjustment costs	151,712	30,134	(28,326)	153,520	26,361
Other postemployment benefits liability	1,345,675	838,127	(208,393)	1,975,409	-
Capital lease obligations	64,385	37,889	(1,754)	100,520	5,180
Total	$ 7,331,288	$ 991,118	$ (511,189)	$ 7,811,217	$ 402,901

	Business-Type Activities				
	Balance — July 1, 2010	Additions	Deductions	Balance — June 30, 2011	Due Within One Year
General obligation bonds payable — net	$ 37,362	$ -	$ (1,141)	$ 36,221	$ 1,609
Accrued vacation and retirement benefits payable	11,215	6,481	(5,416)	12,280	3,584
Revenue bonds payable	1,285,792	202,598	(77,766)	1,410,624	33,876
Reserve for losses and loss adjustment costs	4,671	1,338	(1,138)	4,871	1,201
Other postemployment benefits liability	28,496	13,935	(7,623)	34,808	-
Other	11,309	5,048	(4,055)	12,302	2,500
	$ 1,378,845	$ 229,400	$ (97,139)	$ 1,511,106	$ 42,770

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's Governmental Funds. Approximately 83%, 16%, and 1% of the accrued vacation liability has been paid by the General Fund, Special Revenue Funds, and Capital Projects Fund, respectively, during the fiscal year ended June 30, 2011.

7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2011 (amounts expressed in thousands):

	Due From	Due To
Governmental Funds:		
General Fund:		
Special Revenue Funds	$ 12,848	$ -
Capital Projects Fund	89,900	-
Med-Quest Special Revenue Fund	35,604	-
Debt Service Fund	-	109
	138,352	109
Capital Projects Fund:		
General Fund	-	89,900
Special Revenue Funds	-	8,300
Proprietary Fund	1,597	186,193
	1,597	284,393
Med-Quest Special Revenue Fund:		
General Fund	-	35,604
Nonmajor Governmental Funds:		
General Fund	109	12,848
Capital Projects Fund	8,300	-
	8,409	12,848
Proprietary Fund:		
Harbors	186,193	1,597
	$ 334,551	$ 334,551

The due from Capital Projects Fund in the General Fund consists primarily of funds transferred prior to the issuance of bonds. Remaining interfund balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.

The State Director of Finance is permitted under Section 34-24, Hawaii Revised Statutes, to make temporary non-interest bearing loans when there are monies in the general, special, or revolving funds of the State which in the Director of Finance's judgment are in excess of immediate state requirements. During the year ended June 30, 2011, the State Director of Finance informed the Department of Accounting and General Services that unspent Harbor Revenue Bond proceeds included in the State of Hawaii's Bond Fund in the amount of $186,193,000 were used as a temporary non-interest bearing loan to cover the State's general obligation bond project expenditures in fiscal year 2011. As of December 7, 2011, the State of Hawaii completed a sale of $800,000,000 in general obligation bonds and used a portion of the bond proceeds to repay the entire temporary loan from the Harbors Division. Accordingly, this temporary loan from Harbors to the State is presented as a current restricted asset in the Harbors Division financial statements and a current liability in the Capital Projects Fund of the State of Hawaii.

8. TRANSFERS

Transfers between funds occur when a fund receiving revenues transfers resources to a fund where the resources are to be expended, or when nonrecurring or nonroutine transfers of equity between funds occur. For the fiscal year ended June 30, 2011, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Governmental Funds:		
General Fund — Nonmajor Governmental Funds	$ 126,695	$ 413,652
Capital Projects Fund — Nonmajor Governmental Funds	115,230	30,865
Med-Quest Special Revenue Fund — Nonmajor Governmental Funds	12,761	2,610
Nonmajor Governmental Funds:		
General Fund	407,095	126,695
Capital Projects Fund	30,865	115,230
Other Nonmajor Governmental Funds	228,787	232,381
	666,747	474,306
	$ 921,433	$ 921,433

The General Fund transferred approximately $404,831,000 to the Nonmajor Governmental Funds for debt service payments and approximately $2,249,000 to subsidize various Special Revenue Funds programs. Approximately, $115,232,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.

9. LEASES

Lease Commitments

Governmental Activities — The State leases office facilities and equipment under various operating leases expiring through fiscal 2023. Future minimum lease commitments for noncancelable operating leases as of June 30, 2011, were as follows (amounts expressed in thousands):

Fiscal Year	
2012	$ 14,371
2013	10,482
2014	8,000
2015	5,889
2016	3,615
2017-2021	6,818
2022-2024	1,016
Total future minimum lease payments	$ 50,191

Rent expenditures for operating leases for the fiscal year ended June 30, 2011, amounted to approximately $38,727,000.

On April 14, 2011, an equipment lease purchase agreement between the Department of Public Safety of the State of Hawaii and Capital One Public Funding, LLC was entered into, to fund the acquisition and installation of energy conservation equipment at the Halawa Correctional Facility (HCF) and Oahu Community Correctional Center. An escrow agent to provide for future vendor payments as requested by the State deposited the proceeds of $25,512,000 in an escrow fund. Payments commence on May 1, 2012 and continue through November 1, 2030 at an interest rate of 5.021%.

An equipment lease purchase agreement between the Department of Accounting and General Services of the State of Hawaii and Capital One Public Funding, LLC was entered into on September 3, 2009, to fund the acquisition and installation of energy conservation equipment at various State buildings in the downtown Honolulu district. The proceeds of $12,377,000 were deposited in an escrow fund by an escrow agent to provide for future vendor payments as requested by the State. Payments commenced on June 1, 2010 and continue through June 1, 2026 at an interest rate of 5.389%.

The State issued $41,120,000 in Certificates of Participation (COPS) 2009 Series A, on November 5, 2009, to fully refund $47,185,000 of the 1998 Series A Certificates and the 2000 Series A Certificates which proceeds were used to purchase the Kapolei State Office Building and the Capital District Building. The net proceeds of $43,490,000 (including a premium of $2,876,000 and after payment of $503,000 in underwriting fees) were deposited to the Depository Trust Company in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding certificates of participation. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. Due to the advance refunding, the State reduced its total debt service payments over the next 10 years by $7,487,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $7,061,000. Payments commence on May 1, 2010, and continue through May 1, 2020 with interest rates ranging from 2% - 5%. The 2009 Series A Certificates are subject to prepayment prior to their maturity dates in the event of a casualty loss or governmental taking of all or a portion of the premises subject to the Leases, but are not otherwise subject to prepayment prior to maturity.

In November 2006, the State issued $24,500,000 in COPS to finance the construction of the Kapolei Office and Conference Facility. The proceeds of the COPS were remitted to a trustee, who will then remit the amounts to the developer as construction progresses. The holders of the COPS are the current owners of the Kapolei Office and Conference Facility. Accordingly, the State's rental payments for the use of the Kapolei Office and Conference Facility are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2007, and continue through November 1, 2031, with interest rates ranging from 3.63% to 5.00%. Title to the Kapolei Office and Conference Facility will transfer to the State upon the payment of all required rents.

Future minimum lease payments for these capital leases are as follows (amounts expressed in thousands):

Fiscal Year	
2012	$ 9,076
2013	10,308
2014	10,271
2015	10,563
2016	10,901
2017–2021	43,020
2022–2026	29,504
2027–2031	21,750
2032	1,712
Total future minimum lease payments	147,105
Less amount representing interest	(46,585)
Present value of net minimum lease payments	100,520
Less current portion	(5,180)
Noncurrent portion	$ 95,340

Lease Rentals

Airports — Airport-Airline Lease Agreement

Airports and the airline companies serving the Airports system ("signatory airlines") operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992. Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the Airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the "lease extension agreement"). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement effective January 1, 2008.

Under the first amended lease extension agreement, the Airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airport system facilities from the signatory airlines that directly use them. The Airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an Airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

Airports — Prepaid Airport Use Charge Fund

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). Net excess payments for fiscal 1996 through 2010 have been transferred to the PAUCF.

Airports — Aviation Fuel Tax

In May 1996, the Department of Taxation issued a tax information release, which stated that effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The aviation fuel tax amounted to $4,141,000 for fiscal 2011.

Airports — System Rates and Charges

Signatory and nonsignatory airlines were assessed the following rates and charges:

- Landing fees amounted to $63,829,502 for fiscal 2011. Airport landing fees are shown net of aviation fuel tax credits of $3,732,573 for fiscal year 2011, on the statement of revenues, expenses, and changes in net assets, which resulted in net airport landing fees of $60,096,929 for fiscal year 2011. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports interisland landing fees for signatory airlines are set at 39% of the Airports landing fees for overseas flights for 2011 and are scheduled to increase 1% annually until it reaches 100%.

- Nonexclusive joint-use premise charges for terminal rentals amounted to $49,935,000 for fiscal 2011. Overseas and interisland joint-use premise charges were established to recover Airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates, and are recovered based on a computed rate per revenue passenger landing.

- Exclusive use premise charges amounted to $42,529,000 for fiscal 2011, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to $25,795,000 for fiscal 2011.

- Airports system support charges amounted to $711,000 for fiscal 2011. The charges were established to recover residual costs of the Airports system and are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports system interisland support charges for nonsignatory airlines are set at 32% of the Airports system support charges for overseas flights.

Airports — Other Operating Leases

Airports leases building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a basic minimum rent. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2011, was approximately $32,448,000.

In fiscal year 2006, Airports converted certain past-due amounts from two lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from zero to nine years. The balance of $224,000 at June 30, 2011, is due as follows: $137,000 in 2012, $12,000 in 2013, $12,000 in 2014, and $63,000 thereafter.

Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 28% of total concession fees revenues for the fiscal year ended June 30, 2011.

On January 3, 2007, DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007, and terminating on May 31, 2017. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended lease contract provides for a minimum annual guarantee rent, as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2011, the minimum annual guarantee rent is $38 million and the percentage rent is as follows: (1) for total concession receipts greater than $122 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million, 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2011 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period is calculated the same as during the first four years of the lease term.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on April 1, 2009, and terminating on March 14, 2014. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent ($9,950,000 during the last year of the five-year term).

Harbors — Aloha Tower Complex Development

The Aloha Tower Development Corporation (ATDC) is a state agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex. The complex encompasses Piers 5 to 23 of Honolulu Harbor. In September 1993, Harbors entered into a lease with the ATDC transferring to the ATDC portions of the Aloha Tower complex. The ATDC is required annually to reimburse Harbors for any losses in revenues during the term of the lease caused by any action of the ATDC or the developer, and to provide replacement facilities for maritime activities at no cost to Harbors.

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer, and the developer and Harbors entered into a capital improvements, maintenance, operations, and securities agreement ("Operations Agreement"). The Operations Agreement allows Harbors to operate the harbor facilities at Piers 8, 9, and 10. The lease between the ATDC and the developer requires the developer to construct, at the developer's cost, various facilities, including a marketplace.

The developer later went into bankruptcy. The subsequent operator of the marketplace assumed the obligations of the sublease and the Operations Agreement in March of 1998. This replacement operator has also gone through a bankruptcy proceeding and there is a new operator who has assumed the same obligations. Although the marketplace construction was substantially completed, several items on Harbors' construction punch list have yet to be completed and are being pursued with the new operator. A settlement has been reached with the new operator to satisfy the punchlist obligations which have a total value of $3.5 million, depending upon when actual payments are made by the operator within a six-year timeframe.

An amendment of the lease executed in fiscal 2006 altered the obligations of the ATDC to reimburse Harbors on an annual basis. For the fiscal year commencing July 1, 2004, the amendment provides that the ATDC shall pay $225,000 as a minimum annual base payment. The amendment further provides that for the fiscal year commencing July 1, 2005, onward, for any year in which the ATDC shall pay for all or any portion of the cost of personnel and other expenses relating to the Hawaii Harbors Project, the parties agree that the minimum annual base payment shall be commensurately reduced by such payments.

In addition to the minimum annual base payment, the ATDC shall also pay an amount equal to 50% of the difference between the total revenues received by the ATDC for such fiscal year and the operating expenses of the ATDC for such fiscal year (equity participation payment) to reduce the amount owed to Harbors for losses in revenues by the ATDC prior to July 1, 2004. The amendment provides for an increase in the equity participation payment as the ATDC's revenues increase. The balance owed to the Harbors Division by ATDC as of June 30, 2011 was approximately $7,771,000.

At its meeting on July 13, 2011, the ATDC Board approved the transfer of the leasehold interest for the Aloha Tower Marketplace to Hawaii Lifestyle Retail Properties.

Harbors — Leasing Operations

Harbors leases land, wharf, and building spaces under month-to-month revocable permits and long-term leases. The long-term leases expire during various years through September 2058. Those leases generally call for rental increases every 5 to 10 years based on a step-up or independent appraisals of the fair rental value of the leased property.

Revenues for the fiscal year ended June 30, 2011, amounted to $25,358,000 and have been included in rental revenues.

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2011 (amounts expressed in thousands):

	Proprietary Funds		
Fiscal Year	**Airports**	**Harbors**	**Total**
2012	$ 104,900	$ 8,937	$ 113,837
2013	100,489	8,766	109,255
2014	93,987	8,613	102,600
2015	54,484	7,271	61,755
2016	45,312	6,935	52,247
2017–2021	73,617	26,082	99,699
2022–2026	10,668	25,869	36,537
2027–2031	4,866	22,137	27,003
2032–2036	2,065	16,763	18,828
2037–2041	1,499	10,557	12,056
2042–2046	-	7,564	7,564
2047–2051	-	2,702	2,702
2052–2056	-	2,657	2,657
2057–2060	-	947	947
	$ 491,887	$ 155,800	$ 647,687

Net Investment in Direct Financing Leases

Certain leases of state-owned special facilities to parties engaged in airline operations are accounted for as direct financing leases. At June 30, 2011, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	$ 52,448
Less amount representing interest	(23,811)
	28,637
Cash with trustee and other	3,415
	$ 32,052

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2011, consisted of the following (amounts expressed in thousands):

Fiscal Year	
2012	$ 2,765
2013	2,777
2014	2,778
2015	2,770
2016	2,778
2017–2021	12,326
2022–2026	6,110
2027–2029	23,556
	$ 55,860

10. SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS

Hawaii Housing Finance and Development Corporation

Amounts payable from the State to the HHFDC include approximately $505,000 of miscellaneous advances previously made to other departments and approximately $15,494,000 of amounts due from the department of Hawaiian Homelands (DHHL) related to a previous agreement to transfer certain land and development rights to the State. Pursuant to this agreement, the State was required to commence 15 annual $2.2 million payments to the HHFDC in December 2004. Effective at that time, the HHFDC recorded the sale of the land and development rights and the net present value of the estimated future cash flows from the State using an imputed interest rate.

Hawaii Health Systems Corporation

In fiscal year 2003, HHSC received a $14,000,000 advance from the State to relieve its cash flow shortfall. At June 30, 2011, the full amount was not yet repaid to the State. The total amount due to the State includes $20,123,000 of cash advances to the Department of Health - Division of Community Hospitals, which was assumed by HHSC at the date of its formation. HHSC also received $10,000,000 in advances from the State. On March 30, 2010, the State agreed to defer payment of the $10,000,000 advance over four years beginning in fiscal 2012.

Hawaii Tourism Authority

During the period from October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State’s full faith and credit. The debt service for the general obligation bonds is to be primarily funded by an allocated portion of the State’s transient accommodations tax revenue and revenue generated from the operation of the Center. Through June 30, 2000 and from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by the CCA and Budget and Finance, respectively.

Effective July 1, 2002, the Convention Center Fund was established by Act 253. In accordance with Act 253, the Convention Center Fund was placed within HTA and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's TAT. Act 253 further states that all funds collected by the Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.

The creation of the Convention Center Fund provided HTA the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to HTA by the CCA. The terms of the payment plan require HTA to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6% through January 1, 2027. HTA's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund. At June 30, 2011, the outstanding principal and aggregate interest amounts required to be reimbursed by HTA were $258,340,000 and $164,522,000, respectively. The scheduled payments to maturity for each of the next five years and thereafter in five-year increments are as follows:

Fiscal Year	Principal	Interest	Total
2012	$ 11,690	$ 14,739	$ 26,429
2013	12,390	14,038	26,428
2014	13,135	13,294	26,429
2015	13,920	12,506	26,426
2016	14,755	11,671	26,426
2017-2021	88,180	43,962	132,142
2022-2026	97,740	34,409	132,149
2027	6,530	19,904	26,434
	$ 258,340	$ 164,523	$ 422,863

Hawaii Hurricane Relief Fund

On June 25, 2002, Act 179 was signed into law by the Governor of the State of Hawaii. The law provides that all interest earned from the principal in the Hurricane Relief Fund be transferred and deposited into the State General Fund each year that the Hurricane Relief Fund remains in existence, beginning with fiscal year 2003. For the year ended June 30, 2011, interest earned and transferred into the State General Fund amounted to $4,004,000.

On May 26, 2011, Act 62 was signed into law by the Governor. This law appropriated $42 million from the HHRF into the General Fund to help balance the State's fiscal year 2011 budget. The law authorizes the Governor to appropriate additional monies from the Fund, as necessary, to balance the fiscal year 2011 State Budget. In that regard, the Fund pledged to transfer an additional $69 million to the General Fund as of June 30, 2011 and made the transfer in July 2011.

11. RETIREMENT BENEFITS

Employee Retirement System

Plan Description

All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the ERS, a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

Funding Policy

Most covered employees of the contributory plan are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirements as of June 30, 2011, 2010, and 2009, were approximately $388,242,000, $398,724,000, and $387,748,000, respectively. The State contributed 105.3%, 99.6%, and 109.8% of its required contribution for those years, respectively. Covered payroll for the fiscal year ended June 30, 2011, was approximately $2,581,687,000.

Post-Retirement Health Care and Life Insurance Benefits

Plan Descriptions

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The State also contributed to the Hawaii State Teachers Association (HSTA) Voluntary Employees Beneficiary Association (VEBA) Trust that was established effective March 1, 2006 and repealed on December 31, 2010. HSTA VEBA provided health benefits only to HSTA members, retirees and their dependents. Effective January 1, 2011 all members covered by the HSTA VEBA plans including retirees and their dependents were transitioned to the EUTF. Specific plans were created for HSTA VEBA members and retirees such that the EUTF currently provides the retirees who transitioned from the HSTA VEBA to the EUTF with the same standard of coverage benefits that they had in their HSTA VEBA trust health benefit plans. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813. The HSTA VEBA also issues an annual financial report that is available to the public. That report may be obtained by writing to the HSTA VEBA at 1350 South King Street, Suite 230, Honolulu, Hawaii 96814.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with at less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with at less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Funding Policy and Annual OPEB Cost

Effective July 1, 2006, the State implemented GASB Statement No. 43 ("GASB 43"), *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. GASB 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions.

GASB 43 requires defined benefit OPEB plans that are administered as trust or equivalent arrangements to prepare a statement of plan assets and a statement of changes in plan assets.

The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retire healthcare benefits. Accordingly, the State reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* as amended.

Effective July 1, 2007, the State implemented GASB Statement No. 45 ("GASB 45"), *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, which requires reporting the OPEB liability on an accrual basis. Because the Statement was implemented on a prospective basis, the OPEB liability at transition was zero.

The State is required by GASB 45 to obtain an actuarial valuation every other year. Therefore, an actuarial valuation was performed for July 1, 2009.

The State's base contribution levels to EUTF are established by statutes while the contribution levels to the HSTA VEBA are determined under collective bargaining agreements. In both plans, the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The State's base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The State's annual OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters in GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the annual OPEB cost, contributions made, the net OPEB liability, and the funding status for the EUTF and UH for each of the plans for the fiscal year ended June 30, 2011 (amounts in thousands):

	EUTF	UH
Annual required contribution	$ 904,235	$ 149,887
Interest on net OPEB obligation	60,606	8,251
Adjustment to annual required contribution	(58,724)	(7,501)
Annual OPEB cost	906,117	150,637
Contributions made	(229,935)	(38,765)
Increase in net OPEB obligation	676,182	111,872
Net OPEB obligation — beginning of year	1,487,716	206,271
Net OPEB obligation — end of year	$ 2,163,898	$ 318,143
Actuarial accrued liability (AAL) July 1, 2009	$ 14,007,480	$ 1,849,949
Funded OPEB plan assets	-	-
Unfunded actuarial accrued liability (UAAL) July 1, 2009	$ 14,007,480	$ 1,849,949
Funded ratio	- %	- %
Covered payroll	2,062,335	495,498
UAAL as percentage of covered payroll	679%	373%

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 and the preceding years were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	NET OPEB Obligation
EUTF	June 30, 2011	$ 906,117	25.3%	$ 2,155,055
	June 30, 2010	687,847	27.8%	1,046,690
	June 30, 2009	439,567	36.1%	549,774
HSTA VEBA (*)	June 30, 2010	$ 202,179	8.7%	$ 441,026
	June 30, 2009	145,282	10.6%	256,449
UH	June 30, 2011	$ 150,637	25.7%	$ 318,143
	June 30, 2010	101,521	22.8%	206,271
	June 30, 2009	94,770	31.3%	127,911

(*) Effective January 1, 2011, HSTA VEBA became part of the EUTF.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

	EUTF and UH
Actuarial valuation date	July 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	30 years (Open)
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	4%
Projected salary increases	3.5%
Healthcare inflation rates:	
Medical & Rx Pre-65	10.5% initial 5% ultimate
Medical & Rx Post-65	10.25% initial 5% ultimate
Dental	6% initial 4 % ultimate
Vision	4% initial 3% ultimate
Medicare Part B	5% ultimate

12. COMMITMENTS AND CONTINGENCIES

Commitments

General Obligation Bonds — The State has issued general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Special Revenue Funds with terms corresponding to that of the related general obligation bonds (see Note 4). At June 30, 2011, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:	
Highways	$ 24,524
Agriculture	7,073
Natural Resources	3,804
All Other	374
	$ 35,775

Accumulated Sick Leave — Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2011, accumulated sick leave was approximately $1,099,218,000.

Intergovernmental Expenditures — In accordance with Act 250, SLH of 2002, 45% of revenues generated by the transient accommodations tax are to be distributed to the counties.

Guarantees of Indebtedness — The State is authorized to guarantee indebtedness of others at a maximum amount of approximately $233,500,000 for aquaculture/agriculture loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects, and rental assistance obligations of Component Units — HHFDC and HPHA. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2011.

Proprietary Fund Type — Enterprise Funds

Construction and Service Contracts

At June 30, 2011, the Enterprise Funds had commitments of approximately $384,151,000 for construction and service contracts.

Contingencies

The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the fiscal years ended June 30, 2011, 2010, and 2009, approximated $4,130,000, $11,171,000, and $1,171,000, respectively.

Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as Part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately $1.3 billion over a 25-year period. The State is to receive proceeds from this settlement in January and April of the subsequent year through 2004 and thereafter on April 15 of each subsequent year. The State has received approximately $47,665,000 during the fiscal year ended June 30, 2011. As of June 30, 2011, the State expects to receive $28,300,000 for the first six months of fiscal 2012.

Office of Hawaiian Affairs

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States re-conveyed title to those lands (collectively, the "Ceded Lands") to the State, and the Ceded Lands are to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish the OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands to better the conditions of native Hawaiians.

In 1979, the Legislature adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the Ceded Lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("*Yamasaki"*), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of moneys OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the Legislature adopted Act 304, SLH 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies, paid 20% of "revenues" to OHA on a quarterly basis.

In 1993, the Legislature enacted Act 35, SLH 1993, appropriating $136.5 million to pay the amount determined to be OHA's claims, with interest, for the period June 16, 1980 through June 30, 1991.

On January 14, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii*, *et al.*, Civil No. 94-0205-01 (1st Cir.) ("*OHA I"*)), claiming that the amount paid to OHA was inadequate and that the State had failed to account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution for damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of moneys it receives from (i) the Department of Transportation Airports Division's in-bound duty free airport concession (including receipts from the concessionaire's off-airport sales operations), (ii) the State-owned and operated Hilo Hospital, (iii) the State's public rental housing projects and affordable housing developments, and (iv) interest income, including investment earnings (collectively , the "Sources"). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the circuit court filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the circuit court filed an order granting Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the moneys it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting Plaintiffs' four partial summary judgments was granted and all proceedings in the suit were stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw. 388 (2001) that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard, i.e., a legal standard, by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the Ceded Lands. The Supreme Court dismissed *OHA I* for lack of justifiability, that is, that the case was not appropriate for review by the Court, noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. Immediately thereafter, agencies ceased paying OHA any receipts from the Ceded Lands.

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses, and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. In Act 34, SLH 2003, the legislature appropriated moneys from the various funds into which the Ceded Lands receipts had been deposited after the decision in OHA I was issued and agencies ceased making payments to OHA, and directed the agencies to pay them to OHA.

OHA continues to pursue claims for a portion of the revenues from the Sources and other Ceded Lands that were made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii*, et al., Civil No. 03-1-1505-07 ("*OHA II"*). In September 1996, the Office of the Inspector General of the U.S. Department of Transportation (DOT) issued a report ("IG Report") concluding that payments to OHA between 1992 and 1995 of $28.2 million by the Hawaii Department of Transportation was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the Airports and not a diversion of airport revenues. In May 1997, the Acting Administrator of the FAA concurred in writing ("FAA Memorandum") with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the circuit court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position set forth in the IG Report changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply brief, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In November 1997, the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169 ("DOT Appropriation Act") was enacted into federal law. Section 340 of the DOT Appropriation Act (Section 340) essentially provides that in exchange for there being no further payments of airport revenues for claims related to Ceded Lands, any such payments received prior to May 1, 1996 need not be repaid. The Hawaii Attorney General submitted enactment of Section 340 to the Hawaii Supreme Court in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties to submit supplemental briefs to address whether Section 340 affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* sued the State for alleged breaches of fiduciary duties as purported trustee of the Ceded Lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5, and 6 of the Hawaii Constitution, violations of the Contract Clause of the U.S. Constitution, and misrepresentation and nondisclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose the positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior $28.2 million payment in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use them as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors, and omissions" were substantial factors that resulted in the passing of Section 340 and the issuance of the Hawaii Supreme Court's opinion in *OHA I*. Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I*, and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also sought declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and sought appointment of an independent trustee to replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from sources other than airport revenues. On December 26, 2003, the court granted the State's motion to dismiss OHA's complaint in *OHA II*. The court entered a final judgment on May 19, 2004, encompassing the order dismissing the complaint and several procedural orders. On June 8, 2004, OHA filed a notice of appeal from the portions of the May 19, 2004 judgment dismissing its complaint in *OHA II*, denying leave to amend the complaint and denying a request for bifurcation of OHA's claims for liability and damages. The Hawaii Supreme Court affirmed the circuit court's order dismissing OHA's complaint in a decision issued September 9, 2005; granted OHA's motion for reconsideration in an order filed on December 23, 2005; and affirmed the circuit court's final judgment again in an opinion entered on April 28, 2006.

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under article XII, sections 4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix prospectively, the minimum amount of income and proceeds from the lands of the Ceded Lands public trust, OHA is to receive per fiscal year, under those same provisions of the Hawaii Constitution, at $15.1 million. The settlement was contingent on passage of a bill prepared jointly by OHA and the Attorney General without material changes, or, if the bill was changed, with the written approval of OHA and the Governor. The Legislature did not pass any bills for such purpose during its 2008 regular session, and directed instead that OHA and the Attorney General resume negotiations on the payment to be made by the State to resolve the dispute with OHA concerning the sum OHA should have received from November 7, 1978 to June 30, 2008, pursuant to article XII, sections 4 and 6 of the Hawaii Constitution.

On June 2, 2010, OHA filed a petition for writ of mandamus in the Hawaii Supreme Court which asked the court to compel the members of the Twenty-Sixth Legislature (which convened in January 2011) to enact legislation to pay OHA what OHA believes represents unpaid portions of the income and proceeds derived from the ceded lands between 1978 or 1980 through 2008, i.e., approximated at $200,000,000. The court entered an order denying the petition on August 18, 2010. It was reported on November 17, 2011, that the State has reached an agreement in principle, subject to approval of the Legislature, to resolve the amount the State owes OHA through 2012 by providing OHA approximately 25 acres of land worth an estimated $200,000,000. No prediction can be made as to whether an agreement will be finalized and, if so, what form it may take.

In November 1994, OHA and four individuals also filed complaints for declaratory and injunctive relief on November 4, 1994, and November 9, 1994 (*OHA v. Housing Finance and Development Corporation et al.*, Civil No. 94-4207-11 (1st Cir.)) to enjoin the State from alienating any Ceded Lands and extinguishing any rights Hawaiians may have in Ceded Lands that may be alienated. Alternatively, OHA sought a declaration that the amounts paid to OHA by the Housing Finance and Development Corporation (the "HFDC", since succeeded by the HHFDC, as described below) and the State for Ceded Lands that the HFDC planned to use to develop and sell housing units pursuant to Act 318, SLH 1992, were insufficient. Act 318 established a separate process for valuing the Ceded Lands the HFDC used for its two housing developments at Kealakehe and Lahaina, and quantifying the amounts of income and proceeds from the Ceded Lands that the HFDC and State were required to pay to OHA for conveying and using the parcels for the Corporation's two projects.

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell Ceded Lands, denied the declaratory ruling that the sale of Ceded Lands did not directly or indirectly release or limit Hawaiians' claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and the HFDC's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court.

On January 31, 2008, the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remand[ed] the case to the circuit court with instructions to issue an order granting the plaintiffs' request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands has [sic] been resolved." In accordance with the instructions of the Hawaii Supreme Court, the circuit court issued its order on June 4, 2008 granting plaintiffs' request for such injunction. Seeking a reversal of the January 31, 2008, decision of the Hawaii Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008, with the United States Supreme Court. The United States Supreme Court granted the petition for certiorari, and on March 31, 2009, unanimously reversed the Hawaii Supreme Court's decision, and remanded the case to the Hawaii Supreme Court for further proceedings not inconsistent with its opinion. The United States Supreme Court concluded that the State holds "absolute fee" title to the lands conveyed to it by the United States at statehood; that federal law did not prevent the Legislature from deciding, as it had, to sell a portion of the Ceded Lands for the HFDC's two housing developments; and that the Supreme Court of Hawaii erred in reading the federal Apology Resolution "as recognizing claims inconsistent with the title held in 'absolute fee' by the United States and conveyed to the State of Hawaii at statehood." By orders filed on May 15, 2009, the Hawaii Supreme Court re-opened the appeal in that court "for further consideration in light of the United States Supreme Court's mandate."

On July 15, 2009 all but one of the plaintiffs filed a motion to dismiss their appeal, and all of their claims without prejudice, and the Attorney General a motion to dismiss all remaining claims, namely the claims of the plaintiff who did not join the rest of the plaintiffs' motion to dismiss.

By a judgment on appeal filed on December 14, 2009 that referred to an opinion filed on October 27, 2009, the Hawaii Supreme Court vacated the January 31, 2003 judgment, and remanded the case to the circuit court for entry of a judgment dismissing plaintiff Osorio's claims against the State without prejudice. In the Circuit Court, the Attorney General filed a motion to dismiss plaintiff Osorio's claims without prejudice, and a motion to dissolve the injunction entered on June 4, 2008. Two orders were filled in the circuit court on March 9, 2010, one dismissing plaintiff Osorio's claims without prejudice, and the other dissolving the June 4, 2008 injunction.

OHA also filed suit against the Hawaii Housing Authority (the "HHA", since succeeded by the HPHA, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA I*. OHA disagrees that the repeal and revival of the pre-*Yamasaki* law by the Hawaii Supreme Court's September 12, 2001, decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

The HFDC and the HHA were merged into the HCDCH after the suits against them described above were filed. HCDCH subsequently was bifurcated into the HHFDC and the HPHA.

The State intends to defend vigorously against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

Department of Hawaiian Home Lands

Individual Claims

In 1991, the State Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 (the "HHCA") to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three-step process which (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the Panel) to provide the Legislature with nonbinding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate by November 1, 1999; and (3) allowed claimants to bring de novo civil actions by December 31, 1999, if they were not satisfied with the Panel's findings and advisory opinions, or the State Legislature's response to the Panel's recommendations.

In 1997, the Legislature declared its intent to postpone acting upon the panel's recommendations until all claims had been reviewed and forwarded to it. Legislation to allow the Panel and the Legislature until September 30, 2000, to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunsetted on December 31, 1999. As of September 30, 1999, the Panel had not reviewed claims from 1,376 claimants, and all but the claims of two claimants had not been acted upon by the Legislature.

On September 30, 1999, three claimants filed a suit for declaratory and injunctive relief in the U.S. District Court for the District of Hawaii to secure an injunction prohibiting the enforcement of the notice and suit filing deadlines specified in HRS Chapter 674. *Kalima, et al. v. Cayetano,* Civil No. 99-00671HG/LEK. A motion for preliminary injunction was heard on November 15, 1999, and denied as moot on September 28, 2000. By stipulation filed on November 13, 2000, the action was dismissed without prejudice.

On December 29, 1999, the same three claimants filed a class action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special, and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661. *Kalima, et al. v. State of Hawaii, et al.,* Civil No. 99-4771-12VSM (1st Cir.) *("Kalima I").* Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. *Aguiar v. State of Hawaii, et al.,* Civil No. 99-612 (3rd Cir.); *Silva v. State of Hawaii, et al.,* Civil No. 99-4775-12 (1st Cir.); *Wilhelm v. State of Hawaii, et al.,* Civil No. 99-4774-12 (First Circuit Court); *Williamson v. State of Hawaii, et al.,* Civil No. 99-4773-12 (First Circuit Court); *Hanohano v. State of Hawaii, et al.,* Civil No. 99-4775-12 (First Circuit Court). The Plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Plaintiff Hanohano, Silva, Wilhelm, and Williamson have since stipulated to the dismissal of their actions without prejudice.

On March 30, 2000, the three named-plaintiffs in *Kalima I* filed a second class action lawsuit in the State circuit court for declaratory and injunctive relief, and for damages under HRS Chapter 673, for the Panel's and the State Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674. *Kalima, et al. v. State of Hawaii, et al.,* Civil No. 00-1-1041-03 (1st Cir.) *("Kalima II").* All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II.*

On August 30, 2000, the circuit court entered an order in *Kalima I* granting Plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denying Defendants' motion for judgment on the pleadings. Essentially, the circuit court rejected Defendants' sovereign immunity, lack of subject matter jurisdiction, and no cause of action defenses the State asserted, and ruled that the Plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for purposes of Count I) could pursue their claims for damages and other relief under HRS Chapters 674 and 661.

The circuit court allowed the State to take an interlocutory appeal from the August 30, 2000, order to the Hawaii Supreme Court, and entered an order staying all proceedings in *Kalima I* pending the Hawaii Supreme Court's disposition of the appeal. By an order entered on September 20, 2001, the Supreme Court dismissed that appeal for lack of appellate jurisdiction. The State thereafter secured a certification of finality for the August 30, 2000 order from the circuit court, and filed another notice of appeal of the order so that the questions of law the circuit court decided could be reviewed by the Supreme Court prior to trail. By an opinion issued on June 30, 2006, the Supreme Court affirmed the plaintiffs were entitled to pursue their claims for damages under HRS Chapter 674, reversed the circuit court's determination that the plaintiffs had a right to sue under HRS Chapter 661, and remanded the case to the back to trial court for further proceedings.

The plaintiffs have since filed a first and second amended complaint to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) allegedly waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly *ultra vires* rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) allegedly defectively constructed homes or infrastructure, (6) allegedly being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered, and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting subclass' claims separately and first.

By orders entered on August 6, and August 25, 2009, respectively, two new waiting list subclass representative plaintiffs were added, and the claims of one of the two previously named waiting list subclass representatives were dismissed. Trial on the liability portion of the waiting list subclass' claims began on August 4, 2009 and on November 3, 2009 the circuit judge for the case ruled that the State committed various breaches of trust between 1959 and 1988, and further proceedings were necessary to determine the amount of out-of-pocket damages the waiting list subclass members sustained, if any, as a result of those breaches. The State's motion for permission to take an immediate appeal from the circuit court's rulings before a trial on the damages portion of the waiting list subclass' claim began was denied. Trial to determine whether, and to what extent, if any, subclass members sustained out-of-pocket damages is yet to be scheduled.

Nelson et al., v. Hawaiian Homes Commission

Nelson et al., v. Hawaiian Homes Commission, et al., Civil No. 07-1-1663-08 BIA (1st Cir.) ("*Nelson*"), was filed on September 6, 2007, but not served. Instead, plaintiffs filed a First Amended Complaint on October 19, 2007, to which, with the plaintiffs' permission, the defendants State of Hawaii and Georgina Kawamura in her official capacity as the State's Director of Budget and Finance filed an answer on December 31, 2007, and the remaining defendants, the DHHL and the Hawaiian Homes Commission and its members, filed an answer on February 29, 2008.

The *Nelson* plaintiffs allege all defendants breached their duties under article XII, sections 1 and 2 of the Hawaii Constitution by not providing sufficient funds to DHHL to place as many beneficiaries on residential, agricultural, and pastoral homesteads within a reasonable period of time, and provide a fully functioning farm, ranch, and aquaculture support program to maximize utilization of the homestead lands. They also allege that the Hawaiian Homes Commission and its members are in breach of the Hawaiian Home Lands trust for failing to obtain sufficient funds from the Legislature, and otherwise enforcing the provisions of article XII, sections 1 and 2 of the Hawaii Constitution, including filing suit against the State. Further, they allege that DHHL and the Hawaiian Homes Commission and its members have violated the Hawaiian Homes Commission Act (the "HHC Act") by leasing Hawaiian homelands solely to generate revenue and for commercial developments that are unrelated to actual homesteading programs, and without adhering to the requirements of section 207(a) of the HHC Act.

As beneficiaries of the Hawaiian Home Lands trust and the HHC Act, the *Nelson* plaintiffs ask the court to issue a mandatory injunction requiring DHHL and the Hawaiian Homes Commission and its members to seek, and the State to provide, sufficient funds for DHHL to place as many beneficiaries on the land within a reasonable period of time. On January 21, 2009, the court granted the defendants' motion for entry of summary judgment rejecting all claims that are based on the theory that the Legislature, the State, or any State agency or employee, is required to appropriate, request, or otherwise provide or secure particular amounts of money for the DHHL and its programs now and in the future. The court concluded that the political question doctrine barred it from deciding those claims because initial policy determinations that the court lacked authority to make, were needed to resolve the parties' dispute over the definition and determination of "sufficient sums" as that term is used in article XII, section 1 of the Hawaii Constitution.

The plaintiffs also asked the court to declare that DHHL may not lease Hawaiian Home Lands trust property solely to generate revenue, and that DHHL's lease of the Honokohau Makai property is invalid, and to enjoin any further leases of trust lands for commercial developments unrelated to homesteading programs. By a stipulation filed on August 24, 2009, the claim for declaratory and injunctive relief against the DHHL's leasing of trust property solely to generate revenue was dismissed without prejudice, and the claim to invalidate the Honokohau Makai property lease was dismissed with prejudice.

On September 23, 2009, a final judgment was filed in the circuit court. Plaintiffs filed their notice of appeal from (1) the January 21, 2009 order granting the State's motion for summary judgment rejecting plaintiffs' claims that the Legislature, State or any State agency or employee is required to provide or secure particular amounts of money for DHHL and its programs, (2) the January 22, 2009 order granting the DHHL's and Commission's joinder in the State's motion, and (3) the March 17, 2009 order denying the plaintiffs' motion for reconsideration. On January 12, 2011, the Intermediate Court of Appeals, by an opinion by J. Foley with J. Nakamura concurring separately, concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, vacated the circuit court judgment and remanded the case to the circuit court for further proceedings. The State and Director of Finance filed an application for writ of certiorari in the Hawaii Supreme Court to reverse Intermediate Court of Appeals' judgment on appeal, and affirm the circuit court's final judgment, on May 4, 2011. In the Hawaii Supreme Court, the DHHL, and the Hawaiian Homes Commission and its members changed their position, and no longer support the political question doctrine defense. The application was accepted and oral argument was heard by the Supreme Court on October 6, 2011. At the close of the argument, the case was taken under advisement by the court.

The State intends to defend vigorously against the claims against the State *Nelson.* The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of the plaintiffs' claims in *Nelson*, in the respective plaintiffs' favor, could have a material adverse effect on the State's and DHHL's financial condition.

Employees' Retirement System

In *Kaho'ohanohano, et al. v. State of Hawaii*, Civil No. 02-1-1001-04 (GWBC) (1st Cir.), the plaintiffs challenged certain legislation enacted by the State Legislature in 1999 ("Act 100"). Act 100 authorized the State to apply the Employees' Retirement System's ("ERS" or the "System") actuarial investment earnings in excess of 10% for fiscal years 1997 and 1998 toward the State and county employees' annual contributions to the pension accumulation of the ERS fund. The plaintiffs asked the court to declare Act 100 unconstitutional, to enjoin the State from taking future actions inconsistent with Article XVI, Section 2 of the Hawaii Constitution, and to require the State to pay damages to the ERS in the amount of $346,900,000 plus lost earnings and pre- and post-judgment interest, costs, and attorneys' fees.

The plaintiffs were allowed to amend their complaint to add two state civil service employees as plaintiffs, and their motion to certify a class, consisting of all current and former public employees other than members of the legislature, judges and attorneys in the Department of the Attorney General, was granted. Motions made by the trustees of the ERS to intervene as plaintiffs and by the City and County of Honolulu to intervene as a defendant were granted. The Court made the counties of Hawaii, Maui, and Kauai intervener defendants.

The plaintiffs filed two motions for partial summary judgment (as to liability only), and the State filed a motion to dismiss and a motion for summary judgment against the claims of the plaintiffs as well as the ERS' trustees. The State's motion to dismiss was denied in an order filed on May 16, 2003. An order granting summary judgment in favor of the State and against all of the claims of the plaintiffs and ERS trustees, and denying the plaintiffs' two motions, and a final judgment were entered on June 24, 2003. The county intervener defendants filed a motion to alter or amend the order and judgment on June 27, 2003. By court rule, the motion was deemed denied on September 25, 2003, and notices of appeal from the June 24, 2003 order and judgment were filed by plaintiffs and the ERS trustees on October 27, 2003. The State cross-appealed the order denying its motion to dismiss on November 7, 2003. On December 10, 2003, the circuit court entered an order granting the county intervener defendants motion to alter or amend the June 24, 2003 order and judgment, and filed an amended summary judgment order and an amended final judgment. The plaintiffs and the ERS trustees filed notices of appeal from the amended order and amended judgment on December 23, 2003. The appeals from the amended order and amended judgment were dismissed on April 30, 2004.

In a 3-2 decision filed on July 23, 2007, the Hawaii Supreme Court vacated the June 24, 2003 order and judgment, and remanded the case to the circuit court with instructions to (1) enter an order dismissing the plaintiffs' claims for lack of jurisdiction, (2) enter summary judgment against the State and in favor of the ERS' trustees on the trustees' declaratory judgment claim that Act 100 violated article XVI, section 2 of the Hawaii Constitution, and (3) dispose of the ERS' trustees' other claims for declaratory relief appropriately. In concluding that Act 100 was unconstitutional, the majority held that "necessarily implied in article XVI, section 2 [of the Hawaii Constitution] prohibiting impairment of accrued benefits is the protection of the sources of those benefits;…Act 100 retroactively divested the ERS of $346,900,000 of employer contributions for 1997, 1998, and 1999, thereby eliminating the sources used to fund constitutionally protected 'accrued benefits'; and…Act 100 undermined the retirement systems' continuing security and integrity." "[U]nder the circumstances of th[e] case," the court declined to issue the prospective injunction the ERS' trustees sought. (In their prayer for relief, the ERS' trustees asked that "the State and its officers and agents [be enjoined] from any further skimming the ERS' investment earnings and from taking any other or further action that (a) will diminish, impair or otherwise obligate the ERS' actuarial investment earnings; or (b) will reduce the Employers' periodic contributions as determined by the Board's actuary in accordance with the Chapter 88 and sound actuarial practice; or (c) otherwise will impair the contractual rights of the members.") The case is again before the circuit court to fashion the order the Supreme Court directed the circuit court to enter, and, if necessary, to address the ERS' trustees' remaining declaratory judgment claims. The State is unable to determine the outcome at this time.

Hawaii Employer-Union Health Benefits Trust Fund

In June 2006, certain retired public employees ("Plaintiffs") filed a purported class action in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the Hawaii Employer-Union Health Benefits Trust Fund (the "EUTF"), and the EUTF Board of Trustees (the "EUTF Board") (collectively, the "Defendants"). In relevant part, Plaintiffs' claimed that Defendants have violated their constitutional, contractual and statutory rights of Plaintiffs under article XVI, section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents. Under the doctrine of primary jurisdiction, Plaintiffs' action was held in abeyance so that the EUTF Board could decide certain issues raised by Plaintiffs' claims.

In May 2007, Plaintiffs filed a petition with the EUTF Board seeking a declaratory ruling as to whether, among other things, the Hawaii Constitution and HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are inferior (not equivalent) to those provided to active employees and their dependents. In September 2007, the EUTF Board held that (a) it did not have jurisdiction to decide the constitutional issues raised by Plaintiffs; (b) HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are different from and/or inferior to those provided to active employees and their dependents; and (c) the EUTF health benefit plans from July 1, 2003, to present complied with the requirements of HRS Chapter 87A. Under HRS Section 91-14, Plaintiffs appealed the EUTF's Board's decision to the First Circuit Court. By order dated July 23, 2008, the circuit court reversed the decision of the EUTF Board. The circuit court's order held that (a) "accrued benefits" under article XVI, section 2 of the Hawaii Constitution, that may not be diminished or impaired, include retiree health benefits; (b) retiree health benefits established by the enactment of HRS Chapters 87 and 87A are protected and vested once accrued; (c) HRS Section 87A-23 requires retirees and their dependents to be provided with health benefits plans that provide benefits reasonably approximate to those provided to active employees and their dependents; and (d) certain of the health benefits provided to retirees and their dependents by the EUTF were not reasonably approximate to those provided to active employees and their dependents. The State and EUTF Board appealed the First Circuit Court's decision to the Hawaii Supreme Court. In a decision dated March 25, 2010, the Hawaii Supreme Court affirmed in part and reversed in part the First Circuit Court's decision. The Hawaii Supreme Court affirmed the First Circuit Court's holding that health benefits for retired state and county employee constitute "accrued benefits" pursuant to Article XVI, Section 2 of the Hawaii Constitution, but reversed the First Circuit Court's holding that HRS Chapter 87A (particularly HRS Section 87A-23) required that retiree health benefits reasonably approximate those provided to active employees. The Hawaii Supreme Court did not decide when retiree health benefits "accrued" so as to be protected under Article XVI, Section 2 of the Hawaii Constitution nor did it decide whether the enactment of any part of HRS Chapter 87A violated Article XVI, Section 2 of the Hawaii Constitution.

In December 2010, Plaintiffs filed a Second Amended Complaint again claiming that Defendents have violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapter 87 by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents. Plaintiffs added a new claim that retirees hired prior to July 1, 2001, are contractually entitled to participate in EUTF health plans without any premium contribution regardless of the contribution caps in HRS Section 87A-33 through 87A-36. Plaintiffs also claim that the EUTF was negligent in failing to provide retirees and their dependents with health benefits that were equivalent to those provided to active employees and their dependents and/or in failing to recognize or inform retirees that they could not be required to contribute money towards the premiums of their health care coverage despite the contribution caps in HRS Sections 87A-33 through 87A-36. Plaintiffs seek declaratory and injunctive relief and damages. The damages sought are the amounts that Plaintiffs and their class have personally paid for health care that should have been covered by their EUTF health plans, caused by their forgoing or delaying health care due to insufficient coverage that should have been covered by their EUTF health plans. In March 2011, the First Circuit Court orally granted Plaintiffs' motion to certify a class consisting of all individuals who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, prior to July 1, 2003, and who qualify as a retired employee-beneficiary and/or whose dependent qualifies as a dependent-beneficiary as those terms are defined in HRS Sections 87A-1 and 87A-21. The parties are currently engaged in discovery. No trial date has yet been set. The State is vigorously contesting liability in this lawsuit.

Department of Education

Consolidated class action cases have been brought against the State Department of Education (DOE) on behalf of substitute teachers alleging that the DOE has failed to pay substitute teachers in accordance with the rate provided in the Hawaii Revised Statutes from July 1, 1996 – June 30, 2005.

An adverse ruling against the State was made by the First Circuit Court on a motion for summary judgment regarding liability issues. The adverse ruling was the subject of an interlocutory appeal to the Intermediate Court of Appeals, which issued its ruling on October 30, 2009, affirming the adverse ruling. The Supreme Court denied certiorari on August 16, 2010 and the case was remanded to the Circuit Court for a determination of damages.

Because an adverse determination was made by the Circuit Court and upheld on appeal, liability against the State is probable. However, no determination has been made as to the amount of damages. The Plaintiff's estimate of damages in this case is approximately $30,000,000. However, this amount is disputed by the State and there has been no determination by the trial judge as to the amount of damages. Any determination by the trial judge is subject to appeal and would not be finalized unless and until the appeal process is completed.

13. RISK MANAGEMENT

The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is $225,000,000, except for flood and earthquake, which individually is a $225,000,000 aggregate loss and terrorism, which is $50,000,000 per occurrence and a $50,000 deductible.

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage, which has a $100,000 limit per occurrence and a $1,000 deductible. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

General Liability (Including Torts)

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 Department of the Attorney General. 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 self-insured retention 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 appropriations of the State's General Fund.

Medical Insurance

The State's community hospitals included in the HHSC are insured by a comprehensive hospital professional liability policy. The policy covers losses from personal injury, professional liability, patient property damage, and employee benefits. This policy covers losses up to a limit of $25,000,000 per occurrence and $29,000,000 in aggregate.

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.

Reserve for Losses and Loss Adjustment Costs

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2011, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net assets, as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs at June 30, 2011 (amounts expressed in thousands):

	2011	2010
Unpaid losses and loss adjustment costs — beginning of the fiscal year	$ 151,712	$ 150,761
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	32,110	34,332
Decrease in provision for insured events of prior fiscal years	(1,976)	(1,562)
Total incurred losses and loss adjustment costs	30,134	32,770
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(5,856)	(15,190)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(22,470)	(16,629)
Total payments	(28,326)	(31,819)
Unpaid losses and loss adjustment costs — end of the fiscal year	$ 153,520	$ 151,712

14. SUBSEQUENT EVENTS

State of Hawaii General Obligation Bonds

On December 7, 2011, the State issued $800,000,000 of general obligation bonds of 2011 series DZ, and $403,455,000, $2,800,000, $56,225,000, and $23,750,000 of general obligation refunding bonds of 2011, Series EA, EB, EC and ED, respectively.

Department of Transportation – Highways Division

On December 15, 2011, Highways issued $112,270,000 of Series 2011 A, and $5,095,000 of Series 2011 Highways Revenue Bonds. The Series 2011 Bonds were issued to finance certain highway capital improvement projects and to advance refund outstanding Highways Revenue bonds previously issued.

Department of Transportation — Airports Division

On October 4, 2011, the State issued $300,885,000 of Airports System Revenue Bonds Refunding Series 2011. The Refunding Bond proceeds were used to advance refund outstanding Airport System Revenue Bonds previously issued.

Employer Union Trust Fund

The healthcare carrier contracts for the active employees and retiree plans for the Trust Fund, including contracts for HSTA participants were extended from July 1, 2011 through December 27, 2011, and again from December 28, 2011, through December 31, 2011. Approvals were received from the State Procurement Office to extend these contracts. In addition, contracts for prescription drug plans were extended for six months from January 1, 2012.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

STATE OF HAWAII

GENERAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
General excise tax	$ 2,535,286	$ 2,424,512	$ 2,495,807	$ 71,295
Net income tax:				
Corporations	36,724	50,948	50,078	(870)
Individuals	1,374,051	1,224,381	1,231,167	6,786
Inheritance and estate tax	-	8,200	6,899	(1,301)
Liquor permits and tax	51,953	42,662	48,054	5,392
Public service companies tax	124,868	184,395	117,940	(66,455)
Tobacco tax	93,736	103,694	106,137	2,443
Tax on premiums of insurance companies	91,000	120,000	139,090	19,090
Franchise tax (banks and other financial institutions)	26,734	19,172	31,682	12,510
Transient accommodations tax	64,683	70,421	59,757	(10,664)
Other taxes, primarily conveyances tax	12,457	18,457	36,700	18,243
Total taxes	4,411,492	4,266,842	4,323,311	56,469
Non-taxes:				
Interest and investment income	24,167	6,379	3,559	(2,820)
Charges for current services	223,052	243,268	232,336	(10,932)
Intergovernmental	4,218	4,562	13,096	8,534
Rentals	497	633	462	(171)
Fines, forfeitures, and penalties	24,594	23,752	23,944	192
Licenses and fees	1,044	1,020	7,179	6,159
Revenues from private sources	1,610	14,576	14,172	(404)
Accrued interest on general obligation bonds sold	-	-	-	-
Debt service requirements	42,053	42,053	42,986	933
Other	176,905	179,899	365,863	185,964
Total non-taxes	498,140	516,142	703,597	187,455
Total revenues	4,909,632	4,782,984	5,026,908	243,924
EXPENDITURES:				
General government	1,841,534	1,892,466	1,722,003	170,463
Public safety	235,296	236,295	228,741	7,554
Conservation of natural resources	23,737	23,732	18,942	4,790
Health	383,202	383,202	368,227	14,975
Hospitals	82,140	82,140	80,497	1,643
Welfare	756,550	831,479	817,543	13,936
Lower education	1,311,313	1,311,313	1,270,185	41,128
Higher education	360,687	360,757	354,730	6,027
Other education	5,274	5,274	4,606	668
Culture and recreation	37,591	37,591	36,883	708
Urban redevelopment and housing	-	-	-	-
Economic development and assistance	22,765	22,765	21,491	1,274
Housing	13,989	13,989	13,768	221
Other	-	2,470	2,312	158
Total expenditures	5,074,078	5,203,473	4,939,928	263,545
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(164,446)	(420,489)	86,980	507,469
OTHER FINANCING SOURCES — Transfers in	34,706	49,498	125,781	76,283
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	$ (129,740)	$ (370,991)	$ 212,761	$ 583,752

STATE OF HAWAII

MED-QUEST SPECIAL REVENUE FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
Liquid fuel tax:				
Highways	$ -	$ -	$ -	$ -
Boating	-	-	-	-
Airports	-	-	-	-
Vehicle registration fee tax	-	-	-	-
State vehicle weight tax	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-
Employment and training fund assessment	-	-	-	-
General excise tax	-	-	-	-
Tobacco tax	-	-	-	-
Conveyances tax	-	-	-	-
Environmental response tax	-	-	-	-
Hospital and nursing facility tax	-	-	-	-
Transient accommodations tax	-	-	-	-
Franchise tax	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-
Total taxes	-	-	-	-
Non-taxes:				
Interest and investment income	-	-	-	-
Charges for current services	-	-	-	-
Intergovernmental	800,527	1,197,026	1,136,837	(60,189)
Rentals	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-
Licenses and fees	-	-	-	-
Revenues from private sources	-	-	-	-
Other	32,000	32,000	21,776	(10,224)
Total non-taxes	832,527	1,229,026	1,158,613	(70,413)
Total revenues	832,527	1,229,026	1,158,613	(70,413)
EXPENDITURES:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways	-	-	-	-
Conservation of natural resources	-	-	-	-
Health	-	-	-	-
Hospitals	-	-	-	-
Welfare	1,123,051	1,123,051	1,077,704	45,347
Lower education	-	-	-	-
Higher education	-	-	-	-
Other education	-	-	-	-
Culture and recreation	-	-	-	-
Urban redevelopment and housing	-	-	-	-
Economic development and assistance	-	-	-	-
Airports	-	-	-	-
Water transportation and terminals	-	-	-	-
Housing	-	-	-	-
Other	-	-	-	-
Total expenditures	1,123,051	1,123,051	1,077,704	45,347
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (290,524)	$ 105,975	$ 80,909	$ (25,066)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION — BUDGETARY CONTROL FOR THE YEAR ENDED JUNE 30, 2011

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the General Fund Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2007 (Act 213, SLH of 2007) and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2007 — 2009 biennial budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund's appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying General Fund Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2011, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, the General Fund's appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund are presented in the General Fund statement of revenues and expenditures — budget and actual (budgetary basis). The State's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase order and contract obligations (basis difference), which is a departure from GAAP.

STATE OF HAWAII

GENERAL FUND AND MED-QUEST SPECIAL REVENUE FUND
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2011
(Amounts in thousands)

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2011, follows (amounts expressed in thousands):

	General Fund	Med-Quest Special Revenue Fund
Excess of revenues and other sources over expenditures — actual (budgetary basis)	$ 212,761	$ 80,909
Transfers	-	(4,256)
Excess of revenues and over expenditures — actual (budgetary basis)	212,761	76,653
Reserve for encumbrances at fiscal year end *	216,427	11,220
Expenditures for liquidation of prior fiscal year encumbrances	(267,375)	(99,570)
Revenues and expenditures for unbudgeted programs and capital projects accounts — net	(3,514)	-
Tax refunds payable	179,251	-
Accrued liabilities	167,666	(106,508)
Accrued revenues	18,896	85,776
Net change in fund balance — GAAP basis	$ 524,112	$ (32,429)

* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

SCHEDULES OF FUNDING PROGRESS

(Amounts in millions)

Primary Government:

EUTF

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$7,192	$7,192	- %	$1,782	403.6%
July 1, 2009	-	11,523	11,523	-	1,432	804.8

HSTA-VEBA

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$1,579	$1,579	- %	$680	234.8%
July 1, 2009	-	2,484	2,484	-	683	363.7

UH

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$1,136	$1,136	- %	$477	238.0%
July 1, 2009	-	1,850	1,850	-	495	373.4

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. Certain Special Revenue Funds are presented separately in the accompanying combining financial statements, with the remainder grouped as a single entity. The Special Revenue Funds are as follows:

Highways — Accounts for programs related to maintaining and operating land transportation facilities.

Natural Resources — Accounts for programs related to the conservation, development, and utilization of agriculture, aquaculture, water, land, and other natural resources of the State.

Health — Accounts for programs related to mental health, nutrition services, communicable disease, and for other public health services.

Human Services — Accounts for social service programs, which include public welfare, eligibility and disability determination, and housing assistance.

Education — Accounts for programs related to instructional education, school food services, and student driver education.

Economic Development — Accounts for programs related to the development and promotion of industry and international commerce, energy development and management, economic research and analysis, and the utilization of resources.

Employment — Accounts for programs related to employment and training, disability compensation, placement services, and occupational safety and health.

Regulatory — Accounts for programs related to consumer protection, business registration, and cable television regulation.

Hawaiian Programs — Accounts for programs related to the betterment of the conditions of native Hawaiians.

Administrative Support — Accounts for programs of certain administrative agencies.

All Other — Accounts for programs related to water recreation, inmate stores, and driver training and education.

DEBT SERVICE FUND

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation bonds serviced by the General Fund and general obligation bonds and revenue bonds serviced by the Special Revenue Funds.

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
ASSETS							
CASH AND CASH EQUIVALENTS	$ 65,649	$ 38,660	$ 57,063	$ 28,245	$ 49,912	$ 10,754	$ 10,805
RECEIVABLES:							
Notes and loans — net	-	17,348	-	-	-	1,976	-
Other - Net	31,953	-	-	-	-	-	-
DUE FROM OTHER FUNDS	8,300	-	-	-	-	-	-
INVESTMENTS	105,908	62,680	92,516	46,080	81,316	17,426	17,519
TOTAL	$ 211,810	$ 118,688	$ 149,579	$ 74,325	$ 131,228	$ 30,156	$ 28,324
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Vouchers and contracts payable	$ 27,615	$ 5,973	$ 28,578	$ 10,449	$ 19,697	$ 6,522	$ 3,516
Other accrued liabilities	3,354	2,610	25,911	380	13,066	1,042	2,306
Due to federal government	-	-	-	22,800	-	-	-
Due to other funds	-	648	-	12,200	-	-	-
Payable from restricted assets — matured bonds and interest payable	-	-	-	-	-	-	-
Total Liabilities	30,969	9,231	54,489	45,829	32,763	7,564	5,822
FUND BALANCES:							
Restricted	-	-	-	21,473	-	-	-
Committed	27,014	101,791	119,782	2,013	-	21,352	19,503
Assigned	153,827	7,666	(24,692)	5,010	98,465	1,240	2,999
Total fund balances	180,841	109,457	95,090	28,496	98,465	22,592	22,502
TOTAL	$ 211,810	$ 118,688	$ 149,579	$ 74,325	$ 131,228	$ 30,156	$ 28,324

Special Revenue Funds					Debt Service Fund	Total Nonmajor Governmental Funds
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total		
$ 15,004	$ 78,224	$ 48,480	$ 15,825	$ 418,621	$ 326	$ 418,947
-	63,031	-	-	82,355	-	82,355
-	-	-	-	31,953	-	31,953
-	-	-	-	8,300	109	8,409
24,299	121,531	57,563	25,752	652,590	-	652,590
$ 39,303	$ 262,786	$ 106,043	$ 41,577	$ 1,193,819	$ 435	$ 1,194,254
$ 615	$ 10,866	$ 3,696	$ 15,036	$ 132,563	$ -	$ 132,563
2,344	1,154	1,341	1,752	55,260	-	55,260
-	-	-	-	22,800	-	22,800
-	-	-	-	12,848	-	12,848
-	-	-	-	-	326	326
2,959	12,020	5,037	16,788	223,471	326	223,797
-	-	-	-	21,473	109	21,582
33,821	190,942	83,907	-	600,125	-	600,125
2,523	59,824	17,099	24,789	348,750	-	348,750
36,344	250,766	101,006	24,789	970,348	109	970,457
$ 39,303	$ 262,786	$ 106,043	$ 41,577	$ 1,193,819	$ 435	$ 1,194,254

(concluded)

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
REVENUES:							
Taxes:							
Franchise tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other tax revenue	-	17,887	1,403	-	-	3,499	1,409
Transient accommodations tax	-	1,000	-	-	-	-	-
Tobacco and liquor taxes	-	-	17,430	-	-	-	-
Liquid fuel tax	89,349	250	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-	-
Vehicle weight and registration tax	54,264	-	5,212	-	-	-	-
Rental motor/tour vehicle surcharge tax	43,892	-	-	-	-	-	-
Total taxes	187,505	19,137	24,045	-	-	3,499	1,409
Interest and investment income	8,306	3,338	3,646	28	871	1,008	712
Charges for current services	1,935	23,499	42,855	337	40,063	4,387	15,323
Intergovernmental	163,623	32,762	128,723	663,884	204,507	36,248	51,675
Rentals	-	5,563	-	-	291	2,627	-
Fines, forfeitures, and penalties	1,726	109	2,525	-	-	-	1,012
Licenses and fees	1,896	486	834	108	1,716	-	-
Revenues from private sources	-	1,002	35,279	29	102	-	-
Other	20,889	3,557	2,796	1,013	57,420	132	3,319
Total revenues	385,880	89,453	240,703	665,399	304,970	47,901	73,450
EXPENDITURES —							
Current:							
General government	-	4,272	180	-	-	-	-
Public safety	-	2,785	-	-	-	-	708
Conservation of natural resources	-	57,349	-	-	-	-	-
Health	-	-	257,208	-	-	-	-
Welfare	-	-	-	649,400	-	-	-
Lower education	-	-	-	-	362,575	-	-
Other education	-	-	-	8,719	-	-	-
Culture and recreation	-	9,603	-	-	3,170	-	-
Urban redevelopment and housing	-	-	-	1,292	-	-	-
Economic development and assistance	-	7,516	-	543	-	43,353	74,821
Other	-	1	-	-	-	-	-
Highways	188,815	92	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Total expenditures	188,815	81,618	257,388	659,954	365,745	43,353	75,529
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	197,065	7,835	(16,685)	5,445	(60,775)	4,548	(2,079)
OTHER FINANCING SOURCES (USES):							
Transfers in	55	771	10,304	48,569	98,065	101	488
Transfers out	(165,477)	(5,430)	(27,155)	(52,553)	(2,500)	(1,584)	(7,668)
Total other financing (uses) sources	(165,422)	(4,659)	(16,851)	(3,984)	95,565	(1,483)	(7,180)
NET CHANGE IN FUND BALANCES	31,643	3,176	(33,536)	1,461	34,790	3,065	(9,259)
FUND BALANCES — Beginning of year	149,198	106,281	128,626	27,035	63,675	19,527	31,761
FUND BALANCES — End of year	$ 180,841	$ 109,457	$ 95,090	$ 28,496	$ 98,465	$ 22,592	$ 22,502

Special Revenue Funds						
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Total Nonmajor Governmental Funds
$ 2,000	$ -	$ -	$ -	$ 2,000	$ -	$ 2,000
-	-	-	-	24,198	-	24,198
-	-	-	-	1,000	-	1,000
-	-	2,231	-	19,661	-	19,661
-	-	-	1,666	91,265	-	91,265
1,496	-	-	-	1,496	-	1,496
-	-	-	-	59,476	-	59,476
-	-	-	-	43,892	-	43,892
3,496	-	2,231	1,666	242,988	-	242,988
1,347	9,593	1,928	592	31,369	-	31,369
15,828	4,784	69,462	20,587	239,060	-	239,060
-	12,178	148,586	54,187	1,496,373	-	1,496,373
-	11,287	931	2,158	22,857	-	22,857
2,646	-	226	2,524	10,768	-	10,768
12,959	-	15,938	441	34,378	-	34,378
-	3,000	1,244	29	40,685	-	40,685
-	20,231	5,059	18,777	133,193	-	133,193
36,276	61,073	245,605	100,961	2,251,671	-	2,251,671
-	-	58,550	14,985	77,987	-	77,987
34,060	-	34,248	83,512	155,313	-	155,313
-	-	9	-	57,358	-	57,358
-	-	-	-	257,208	-	257,208
-	-	12,904	463	662,767	-	662,767
-	-	4,283	-	366,858	-	366,858
-	-	-	-	8,719	-	8,719
-	-	12,251	10,999	36,023	-	36,023
-	66,322	166	-	67,780	-	67,780
-	2,328	78	-	128,639	-	128,639
-	-	5,409	91	5,501	-	5,501
-	7,116	-	-	196,023	-	196,023
-	-	-	-	-	457,981	457,981
34,060	75,766	127,898	110,050	2,020,176	457,981	2,478,157
2,216	(14,693)	117,707	(9,089)	231,495	(457,981)	(226,486)
2,642	30,000	10,112	7,668	208,775	457,972	666,747
(15,360)	(3,008)	(187,724)	(5,847)	(474,306)	-	(474,306)
(12,718)	26,992	(177,612)	1,821	(265,531)	457,972	192,441
(10,502)	12,299	(59,905)	(7,268)	(34,036)	(9)	(34,045)
46,846	238,467	160,911	32,057	1,004,384	118	1,004,502
$ 36,344	$ 250,766	$ 101,006	$ 24,789	$ 970,348	$ 109	$ 970,457

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Highways			Natural Resources		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	89,349	89,349	-	250	250	-
Boating	-	-	-	-	-	-
Vehicle registration fee tax	20,841	20,841	-	-	-	-
State vehicle weight tax	33,423	33,423	-	-	-	-
Rental/tour vehicle surcharge tax	43,892	43,892	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	14,388	14,388	-
Environmental response tax	-	-	-	3,499	3,499	-
Transient accommodations tax	-	-	-	1,000	1,000	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	187,505	187,505	-	19,137	19,137	-
Non-taxes:						
Interest and investment income	4,197	4,210	13	1,281	1,295	14
Charges for current services	1,935	1,935	-	23,425	23,437	12
Intergovernmental	27,730	30,798	3,068	29,132	32,762	3,630
Rentals	-	-	-	5,563	5,563	-
Fines, forfeitures, and penalties	1,726	1,726	-	107	107	-
Licenses and fees	1,896	1,896	-	486	486	-
Revenues from private sources	-	-	-	2	1,002	1,000
Other	5,716	49,904	44,188	4,158	4,263	105
Total non-taxes	43,200	90,469	47,269	64,154	68,915	4,761
Total revenues	230,705	277,974	47,269	83,291	88,052	4,761
EXPENDITURES:						
General government	-	-	-	3,852	3,265	587
Public safety	-	-	-	5,930	2,602	3,328
Highways	282,011	226,830	55,181	-	-	-
Conservation of natural resources	-	-	-	87,002	54,986	32,016
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	12,388	10,225	2,163
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	9,345	6,863	2,482
Housing	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total expenditures	282,011	226,830	55,181	118,517	77,941	40,576
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ (51,306)	$ 51,144	$ 102,450	$ (35,226)	$ 10,111	$ 45,337

Health			Education		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
5,245	5,145	(100)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
12,189	18,032	5,843	-	-	-
-	-	-	-	-	-
1,800	1,570	(230)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
19,234	24,747	5,513	-	-	-
2,515	1,435	(1,080)	476	476	-
90,284	89,892	(392)	40,030	40,063	33
101,123	136,672	35,549	202,239	204,507	2,268
-	-	-	291	291	-
1,097	2,385	1,288	-	-	-
828	917	89	1,716	1,716	-
57,015	38,105	(18,910)	102	102	-
4	5,669	5,665	58,981	58,981	-
252,866	275,075	22,209	303,835	306,136	2,301
272,100	299,822	27,722	303,835	306,136	2,301
192	188	4	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
394,692	274,779	119,913	-	-	-
50,000	-	50,000	-	-	-
-	-	-	-	-	-
-	-	-	595,370	354,599	240,771
-	-	-	-	-	-
-	-	-	5,090	3,267	1,823
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
444,884	274,967	169,913	600,460	357,866	242,594
$(172,784)	$ 24,855	$ 197,635	$(296,625)	$ (51,730)	$ 244,895

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Human Services			Economic Development		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	-	-	-	-	-	-
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	3,499	3,499	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	3,499	3,499	-
Non-taxes:						
Interest and investment income	14	16	2	591	591	-
Charges for current services	337	337	-	4,382	4,387	5
Intergovernmental	349,144	350,505	1,361	20,314	36,248	15,934
Rentals	-	-	-	2,627	2,627	-
Fines, forfeitures, and penalties	-	-	-	-	-	-
Licenses and fees	108	108	-	-	-	-
Revenues from private sources	29	29	-	-	-	-
Other	1,473	1,473	-	1,649	1,649	-
Total non-taxes	351,105	352,468	1,363	29,563	45,502	15,939
Total revenues	351,105	352,468	1,363	33,062	49,001	15,939
EXPENDITURES:						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	428,188	343,499	84,689	-	-	-
Lower education			-	-	-	-
Other education	19,897	7,999	11,898	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	1,769	544	1,225	123,201	40,933	82,268
Housing	2,501	1,501	1,000	-	-	-
Other	-	-	-	-	-	-
Total expenditures	452,355	353,543	98,812	124,301	40,933	83,368
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (101,250)	$ (1,075)	$ 100,175	$ (91,239)	$ 8,068	$ 99,307

Employment			Regulatory		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ 1,520	$ 1,520	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,409	1,409	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-		-
-	-	-	-	-	-
-	-	-	2,000	2,000	-
-	-	-	1,496	1,496	-
1,409	2,929	1,520	3,496	3,496	-
343	343	-	780	780	-
6,906	15,323	8,417	15,828	15,828	-
51,211	51,675	464	1,459	1,459	-
-	-	-	-	-	-
1,012	1,012	-	2,646	2,646	-
-	-	-	11,500	11,500	-
-	-	-	-	-	-
2,917	2,917	-	2,676	2,676	-
62,389	71,270	8,881	34,889	34,889	-
63,798	74,199	10,401	38,385	38,385	-
-	-	-	-	-	-
1,694	708	986	55,905	36,787	19,118
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
149,055	74,745	74,310	1,000	176	824
-	-	-	-	-	-
-	-	-	-	-	-
150,749	75,453	75,296	56,905	36,963	19,942
$ (86,951)	$ (1,254)	$ 85,697	$ (18,520)	$ 1,422	$ 19,942

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Hawaiian Programs			Administrative Support		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	-	-	-	-	-	-
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	2,231	2,231	-
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	2,231	2,231	-
Non-taxes:						
Interest and investment income	597	597	-	1,036	1,036	-
Charges for current services	4	4	-	52,554	71,765	19,211
Intergovernmental	1,970	12,178	10,208	147,314	148,586	1,272
Rentals	10,976	10,976	-	4,344	4,344	-
Fines, forfeitures, and penalties	-	-	-	226	226	-
Licenses and fees	-	-	-	15,938	15,938	-
Revenues from private sources	3,000	3,000	-	1,244	1,244	-
Other	5,440	5,441	1	11,921	12,119	198
Total non-taxes	21,987	32,196	10,209	234,577	255,258	20,681
Total revenues	21,987	32,196	10,209	236,808	257,489	20,681
EXPENDITURES:						
General government	-	-	-	77,619	45,045	32,574
Public safety	-	-	-	32,353	19,647	12,706
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	336	9	327
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	-	-	-	16,764	12,327	4,437
Lower education	-	-	-	7,000	4,283	2,717
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	14,624	11,544	3,080
Urban redevelopment and housing	35,904	28,284	7,620	-	-	-
Economic development and assistance	-	-	-	476	71	405
Housing	-	-	-	-	574	(574)
Other	-	-	-	16,369	5,759	10,610
Total expenditures	35,904	28,284	7,620	165,541	99,259	66,282
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (13,917)	$ 3,912	$ 17,829	$ 71,267	$ 158,230	$ 86,963

All Other			Total Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ 1,520	$ 1,520
-	-	-	89,599	89,599	-
1,666	1,666	-	1,666	1,666	-
-	-	-	26,086	25,986	(100)
-	-	-	33,423	33,423	-
-	-	-	43,892	43,892	-
-	-	-	1,409	1,409	-
-	-	-	14,420	20,263	5,843
-	-	-	14,388	14,388	-
-	-	-	8,797	8,567	(230)
-	-	-	1,000	1,000	-
-	-	-	2,000	2,000	-
-	-	-	1,496	1,496	-
1,666	1,666	-	238,176	245,209	7,033
406	406	-	12,235	11,185	(1,050)
20,587	20,587	-	256,274	283,558	27,284
46,902	54,187	7,285	978,539	1,059,576	81,037
2,158	2,158	-	25,959	25,959	-
2,524	2,524	-	9,337	10,626	1,289
441	441	-	32,912	33,001	89
29	29	-	61,421	43,511	(17,910)
23,431	24,020	589	118,365	169,112	50,747
96,478	104,352	7,874	1,495,042	1,636,528	141,486
98,144	106,018	7,874	1,733,218	1,881,737	148,519
21,760	18,119	3,641	103,423	66,617	36,806
134,324	78,645	55,679	231,306	138,390	92,916
-	-	-	282,011	226,830	55,181
-	-	-	87,337	54,995	32,342
-	-	-	394,692	274,779	119,913
-	-	-	50,000	-	50,000
550	366	184	445,503	356,192	89,311
-	-	-	602,370	358,883	243,487
-	-	-	19,897	7,999	11,898
17,233	10,948	6,285	49,335	35,983	13,352
-	-	-	35,904	28,284	7,620
-	-	-	284,845	123,332	161,513
-	-	-	2,501	2,075	426
-	-	-	16,369	5,759	10,610
173,867	108,078	65,789	2,605,493	1,680,118	925,375
$ (75,723)	$ (2,060)	$ 73,663	$ (872,275)	$ 201,619	$ 1,073,894

(Concluded)

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2011
(Amounts in thousands)

EXCESS OF REVENUES OVER EXPENDITURES — Actual (budgetary basis)	$ 201,619
RESERVE FOR ENCUMBRANCES AT YEAR-END*	339,573
EXPENDITURES FOR LIQUIDATION OF PRIOR FISCAL YEAR ENCUMBRANCES	(492,565)
EXPENDITURES FOR UNBUDGETED PROGRAMS, PRINCIPALLY EXPENDITURES FOR CAPITAL PROJECTS ACCOUNTS AND REVOLVING FUNDS	30,773
TRANSFERS	262,314
ACCRUED LIABILITIES	(991,394)
ACCRUED REVENUES	423,194
DEFICIENCY OF REVENUES OVER EXPENDITURES — GAAP basis	$ (226,486)

* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 10,205	$ 103,939	$ 36,462	$ 150,606
Receivables:				
Accounts and accrued interest (net of allowance for doubtful accounts of $403)	97	806	114	1,017
Promissory note receivable (net of allowance for doubtful accounts of $0)	-	27,058	4,957	32,015
Other	909	385	898	2,192
Premiums	31,332	-	-	31,332
Prepaid expenses and other assets	11,752	-	-	11,752
Total current assets	54,295	132,188	42,431	228,914
CAPITAL ASSETS				
Equipment	13,639	-	1,208	14,847
	13,639	-	1,208	14,847
Less accumulated depreciation	(6,527)	-	(875)	(7,402)
Net capital assets	7,112	-	333	7,445
Promissory note receivable	-	278,529	70,922	349,451
Other	-	19,641	18,343	37,984
Total noncurrent assets	7,112	298,170	89,598	394,880
TOTAL	$ 61,407	$ 430,358	$ 132,029	$ 623,794

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
LIABILITIES				
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 320	$ 159	$ 406	$ 885
Other accrued liabilities	1,423	-	-	1,423
Accrued vacation, current portion	68	-	-	68
Benefits claims payable	41,393	-	-	41,393
Premiums payable	19,484	-	-	19,484
Total current liabilities	62,688	159	406	63,253
NONCURRENT LIABILITIES:				
Accrued vacation	167	240	108	515
Other postemployment benefit liability	735	620	201	1,556
TOTAL	63,590	1,019	715	65,324
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	7,111	-	333	7,444
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	-	429,339	130,981	560,320
UNRESTRICTED	(9,294)	-	-	(9,294)
TOTAL NET ASSETS	$ (2,183)	$ 429,339	$ 131,314	$ 558,470

(Concluded)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
OPERATING REVENUES:				
Administrative fees	$ 5,432	$ 1,774	$ 2,360	$ 9,566
Premium revenue - self insurance	243,324	-	-	243,324
Other	(458)	3,074	281	2,897
Total operating revenues	248,298	4,848	2,641	255,787
OPERATING EXPENSES:				
Personnel services	2,034	-	-	2,034
Depreciation	1,547	-	72	1,619
Repairs and maintenance	24	-	-	24
General administration	2,674	1,721	1,851	6,246
Claims	240,392	-	-	240,392
Other	31	-	-	31
Total operating expenses	246,702	1,721	1,923	250,346
Operating income	1,596	3,127	718	5,441
NONOPERATING REVENUES:				
Interest and investment income	1,147	4,337	747	6,231
Total nonoperating revenues	1,147	4,337	747	6,231
INCOME BEFORE CAPITAL CONTRIBUTIONS	2,743	7,464	1,465	11,672
CAPITAL CONTRIBUTIONS:				
Federal	-	12,115	14,216	26,331
State	-	3,157	2,715	5,872
Total Contributions	-	15,272	16,931	32,203
CHANGE IN NET ASSETS	2,743	22,736	18,396	43,875
NET ASSETS — Beginning of year	(4,926)	406,603	112,918	514,595
NET ASSETS — End of year	$ (2,183)	$ 429,339	$ 131,314	$ 558,470

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from employer and employee for premium and benefit payments	$ 241,282	$ -	$ -	$ 241,282
Cash paid to suppliers	(2,549)	(102)	(937)	(3,588)
Cash paid to employees	(1,709)	(1,329)	(694)	(3,732)
Cash paid for premiums and benefit payments	(228,816)	-	-	(228,816)
Reserves returned by insurance carriers	618	-	-	618
Interest income from notes receivable	-	3,133	276	3,409
Administrative loan fees	-	1,809	2,266	4,075
Principal repayments on notes receivable	-	25,580	4,451	30,031
Disbursement of notes receivable proceeds	-	(33,639)	(9,218)	(42,857)
Net cash provided by (used in) operating activities	8,826	(4,548)	(3,856)	422
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State capital contributions	-	3,157	2,715	5,872
Proceeds from federal operating grants	-	12,116	14,154	26,270
Disbursement of federal operating grant	-	(6,865)	(7,427)	(14,292)
Net cash provided by noncapital financing activities	-	8,408	9,442	17,850
CASH FLOWS FROM INVESTING ACTIVITIES — Interest from investments	1,379	5,437	985	7,801
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,205	9,297	6,571	26,073
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year	-	94,642	29,891	124,533
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	$ 10,205	$ 103,939	$ 36,462	$ 150,606

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:				
Operating income	$ 1,596	$ 3,127	$ 718	$ 5,441
Adjustments to reconcile operating income to net cash used in operating activities:				
Depreciation	1,547	-	72	1,619
Premium reserves held by insurance companies	(229)	-	-	(229)
Increase in assets:				
Receivables	(7,200)	(7,964)	(4,867)	(20,031)
Prepaid expenses	(61)	-	-	(61)
Increase in liabilities:				
Vouchers and contracts payable	212	61	133	406
Other accrued liabilities	9,902	228	88	10,218
Accrued interest on loans receivable	3,059	-	-	3,059
Net cash used in operating activities	$ 8,826	$ (4,548)	$ (3,856)	$ 422

(Concluded)

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS — AGENCY FUNDS
JUNE 30, 2011
(Amounts in thousands)

	Agency Funds			Total
	Tax Collections	Custodial	Other	Agency Funds
ASSETS				
CASH AND CASH EQUIVALENTS	$ 11,983	$ 350,959	$ 28,724	$ 391,666
RECEIVABLES — Taxes	-	-	8,584	8,584
DUE FROM INDIVIDUALS, BUSINESSES, AND COUNTIES	35,006	48,055	-	83,061
INVESTMENTS	19,551	33,852	56,858	110,261
TOTAL ASSETS	$ 66,540	$ 432,866	$ 94,166	$ 593,572
LIABILITIES				
VOUCHERS PAYABLE	$ 66,540	$ 437	$ 4,380	$ 71,357
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	-	432,429	89,786	522,215
TOTAL LIABILITIES	$ 66,540	$ 432,866	$ 94,166	$ 593,572

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Balance — July 1, 2010	Additions	Deductions	Balance — June 30, 2011
TAX COLLECTIONS:				
Assets:				
Cash and cash equivalents	$ 13,304	$ 6,824,580	$ (6,825,901)	$ 11,983
Investments	10,884	19,551	(10,884)	19,551
Due from individuals, businesses, and counties	26,336	6,833,249	(6,824,579)	35,006
Total assets	$ 50,524	$ 13,677,380	$ (13,661,364)	$ 66,540
Liabilities:				
Vouchers payable	$ 50,524	$ 66,540	$ (50,524)	$ 66,540
Due to individuals, businesses, and counties	-	-	-	-
Total liabilities	$ 50,524	$ 66,540	$ (50,524)	$ 66,540
CUSTODIAL:				
Assets:				
Cash and cash equivalents	$ 292,694	$ 4,179,659	$ (4,121,394)	$ 350,959
Due from individuals, businesses, and counties	41,347	416,622	(409,914)	48,055
Investments	33,762	33,852	(33,762)	33,852
Total assets	$ 367,803	$ 4,630,133	$ (4,565,070)	$ 432,866
Liabilities:				
Vouchers payable	$ 98	$ 437	$ (98)	$ 437
Due to individuals, businesses, and counties	367,705	4,137,359	(4,072,635)	432,429
Total liabilities	$ 367,803	$ 4,137,796	$ (4,072,733)	$ 432,866
OTHER:				
Assets:				
Cash and cash equivalents	$ 25,107	$ 108,146	$ (104,529)	$ 28,724
Receivables	7,587	8,584	(7,587)	8,584
Investments	28,484	56,860	(28,486)	56,858
Total assets	$ 61,178	$ 173,590	$ (140,602)	$ 94,166
Liabilities:				
Vouchers payable	$ 241	$ 4,380	$ (241)	$ 4,380
Due to individuals, businesses, and counties	60,937	109,143	(80,294)	89,786
Total liabilities	$ 61,178	$ 113,523	$ (80,535)	$ 94,166
TOTAL — All agency funds:				
Assets:				
Cash and cash equivalents	$ 331,105	$ 11,112,385	$ (11,051,824)	$ 391,666
Receivables	7,587	8,584	(7,587)	8,584
Due from individuals, businesses, and counties	67,683	7,249,871	(7,234,493)	83,061
Investments	73,130	110,263	(73,132)	110,261
Total assets	$ 479,505	$ 18,481,103	$ (18,367,036)	$ 593,572
Liabilities:				
Vouchers payable	$ 50,863	$ 71,357	$ (50,863)	$ 71,357
Due to individuals, businesses, and counties	428,642	4,246,502	(4,152,929)	522,215
Total liabilities	$ 479,505	$ 4,317,859	$ (4,203,792)	$ 593,572

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
OMB CIRCULAR A-133 COMPLIANCE REPORTS

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

To the Auditor of
State of Hawaii:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2011, which collectively comprise the State of Hawaii's basic financial statements, and have issued our report thereon dated February 16, 2012. Our report includes a reference to other auditors. 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.

Other auditors audited the financial statements of the Department of Transportation — Airports and Harbors Divisions, which are major enterprise funds, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, which are nonmajor enterprise funds; and the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, which are discretely presented component units, as described in our report on the State of Hawaii's financial statements. This report does not include the results of the other auditors' testing of internal controls over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control over Financial Reporting

Management of the State of Hawaii is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Hawaii's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of State of Hawaii's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of State of Hawaii's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (2011-01 and 2011-02).

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (2011-03 through 2011-09).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Hawaii's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State of Hawaii's responses to the findings identified in our audit are attached to the accompanying schedule of findings and questioned costs. We did not audit the State of Hawaii's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor of the State of Hawaii, management of the State of Hawaii, 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.

Deloitte + Touche LLP

February 16, 2012

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Auditor of
State of Hawaii:

Compliance

We have audited the State of Hawaii's Departments of Accounting and General Services, Agriculture, Budget and Finance, Business, Economic Development and Tourism, Commerce and Consumer Affairs, Defense, Human Resources Development, Labor and Industrial Relations, Land and Natural Resources, Public Safety, and Taxation, and the Governor's Office (collectively, the "Departments"), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of these Departments' major federal programs for the year ended June 30, 2011. These Departments' 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 State of Hawaii's management. Our responsibility is to express an opinion on the Departments' compliance based on our audit.

The State of Hawaii's basic financial statements include, among other departments and agencies, the operations of: Department of Attorney General, Department of Education, Department of Hawaiian Home Lands, Department of Health, Department of Human Services, Department of Transportation, Drinking Water Treatment Revolving Loan Fund, Hawaii Community Development Authority, Hawaii Employer-Union Health Benefits Trust Fund, Hawaii Health Systems Corporation, Hawaii Housing Finance and Development Corporation, Hawaii Hurricane Relief Fund, Hawaii Public Housing Authority, Hawaii Tourism Authority, University of Hawaii, and the Water Pollution Control Revolving Fund. These entities expended $3,283,267,403 in federal awards, which is not included in the schedule during the year ended June 30, 2011. Our audit, described below, did not include the operations of the Department of Attorney General, Department of Education, Department of Hawaiian Home Lands, Department of Health, Department of Human Services, Department of Transportation, Drinking Water Treatment Revolving Loan Fund, Hawaii Community Development Authority, Hawaii Employer-Union Health Benefits Trust Fund, Hawaii Health Systems Corporation, Hawaii Housing Finance and Development Corporation, Hawaii Hurricane Relief Fund, Hawaii Public Housing Authority, Hawaii Tourism Authority, University of Hawaii, and the Water Pollution Control Revolving Fund, because these units engaged other auditors to perform audits in accordance with OMB Circular A-133 or did not require an audit in accordance with OMB Circular A-133.

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 Departments' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Departments' compliance with those requirements.

As described in items 2011-64 through 2011-69, 2011-78, and 2011-79 in the accompanying schedule of findings and questioned costs, the Departments did not comply with the procurement, allowable costs and cost principles, segregation of duties, and cash management requirements that are applicable to Catalog of Federal Domestic Assistance (CFDA) No. 93.558, *Temporary Assistance for Needy Families,* and CFDA No. ARRA 93.714, *Emergency Contingency Fund for Temporary Assistance for Needy Families State Program* (collectively, the "*Temporary Assistance for Needy Families Cluster")*. Compliance with such requirements is necessary, in our opinion, for the Departments to comply with requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the Departments did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on the *Temporary Assistance for Needy Families Cluster*.

As described in items 2011-10, 2011-15, 2011-21, 2011-28 , 2011-54, 2011-58, 2011-89, and 2011-93 in the accompanying schedule of findings and questioned costs, the State of Hawaii did not comply with the special tests and provisions — accountability for commodities requirement that is applicable to CFDA No. 10.568, *Emergency Food Assistance Program*; the reporting requirement that is applicable to CFDA No. ARRA 10.568, *Emergency Food Assistance Program (Administrative Costs)*; the subrecipient monitoring requirement that is applicable to CFDA No. 11.555, *Public Safety Interoperable Communications Grant Program*; the cash management requirement that is applicable to CFDA No. 12.404, *National Guard Challenge Program*; the allowable costs and cost principles requirements that are applicable to CFDA No. ARRA 81.122, *Electricity Delivery and Energy Reliability, Research and Development;* the reporting requirement that is applicable to CFDA No. ARRA 81.128, *State Energy Program;* the reporting requirement that is applicable to CFDA No. 97.036, *Federal Emergency Management Agency*; and the subrecipient monitoring requirement that is applicable to CFDA No. 97.067, *Homeland Security Grant Program*. Compliance with such requirements is necessary, in our opinion, for the Departments to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Departments complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-11 through 2011-14, 2011-16 through 2011-20, 2011-22 through 2011-27, 2011-29 through 2011-53, 2011-55 through 2011-57, 2011-59 through 2011-63, 2011-70 through 2011-77, 2011-80 through 2011-88, 2011-90 through 2011-92, 2011-94, and 2011-95.

Internal Control over Compliance

Management of the Departments is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Departments' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Departments' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-10, 2011-15, 2011-21, 2011-28 , 2011-54, 2011-58, 2011-64 through 2011-69, 2011-78, 2011-79, 2011-89, and 2011-93 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-11 through 2011-14, 2011-16, 2011-17, 2011-20, 2011-22, 2011-24 through 2011-27, 2011-29 through 2011-31, 2011-34, 2011-37 through 2011-43, 2011-45, 2011-48 through 2011-53, 2011-55 through 2011-57, 2011-60 through 2011-63, 2011-70 through 2011-77, 2011-80 through 2011-82, 2011-84 through 2011-86, 2011-90 through 2011-92, and 2011-94 to be significant deficiencies.

The Departments' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Departments' responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Auditor of the State of Hawaii, management of the State of Hawaii and the Departments, 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.

Deloitte + Touche LLP

March 30, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor and Program Title	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Agriculture:			
U.S. Department of Agriculture Direct Programs:			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	$ 519,745	$ -
2009 Aquaculture Grant Program	10.103	87,028	-
Federal-State Marketing Improvement Program	10.156	37,313	-
Inspection Grading and Standardization	10.162	11,117	-
Market Protection and Promotion	10.163	73,172	-
Hawaii Specialty Crop	10.169	124,813	-
Specialty Crop Block Grant Program — Farm Bill	10.170	256,048	-
Senior Farmers Market Nutrition Program	10.576	438,110	-
Cooperative Forestry Assistance	10.664	1,035,286	703,430
Urban and Community Forestry Program	10.675	360,877	80,987
Forest Legacy Program	10.676	4,015,220	-
Forest Stewardship Program	10.678	186,572	77,883
Forest Health Protection	10.680	500,029	-
ARRA — Wildland Fire Management	ARRA 10.688	1,821,328	-
Watershed Protection and Flood Prevention	10.904	1,451,430	-
Wildlife Habitat Incentive Program	10.914	67,361	-
CCC — Emerging Market Program — China	10. UNKNOWN	38,298	-
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568	233,763	-
ARRA — Emergency Food Assistance Program (Administrative Costs)	ARRA 10.568	66,567	-
Total Emergency Food Assistance Cluster		300,330	-
U.S. Department of Agriculture Pass-Through Program from —			
State Department of Human Serivces — SNAP Cluster — State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	3,605	-
Total U.S. Department of Agriculture		11,327,682	862,300
U.S. Department of Commerce:			
U.S. Department of Commerce Direct Programs:			
Market Development Cooperator Program	11.112	1,518	-
Economic Development Cluster — Economic Adjustment Assistance	11.307	131,097	45,000
Interjurisdictional Fisheries Act of 1986	11.407	72,318	-
Coastal Zone Management Administration Awards	11.419	3,634,336	766,219
Financial Assistance for National Centers for Coastal Ocean Science	11.426	82,793	-
Marine Sanctuary Program	11.429	202,108	-
Pacific Fisheries Data Program	11.437	377,247	-
Unallied Management Projects	11.454	41,200	-
Habitat Conservation	11.463	37,461	-
Meteorologic and Hydrologic Modernization Development	11.467	165,967	40,231
Unallied Science Program	11.472	217,960	-
Center for Sponsored Coastal Ocean Research — Coastal Ocean Program	11.478	64,108	-
Public Safety Interoperable Communications Grant Program	11.555	4,705,548	2,154,574
ARRA — State Broadband Data and Development Grant Program	ARRA 11.558	1,440,314	1,440,314
Manufacturing Extension Partnership	11.611	256,532	-
National Oceanic and Atmospheric Administration — Management Support for Hawaiian Islands Humpback Whale, Joint Enforcement Agreement	11. UNKNOWN	603,638	-
		12,034,145	4,446,338
Pass-Through Program from the Research Corporation of the University of Hawaii:			
Undersea Research	11.430	9,270	-
Pass-Through National Fish & Wildlife Foundation:			
Habitat Conservation	11.463	10,000	-
Total Department of Commerce		12,053,415	4,446,338

See accompanying notes to schedule of expenditures of federal awards. (Continued)

STATE OF HAWAII

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor and Program Title	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Defense:			
U.S. Department of Defense Direct Programs:			
Military Construction, National Guard	12.400	$ 21,040,815	$ -
National Guard Military Operations and Maintenance Projects	12.401	15,942,917	-
ARRA — National Guard Military Operations and Maintenance Projects	ARRA 12.401	255,252	-
National Guard Challenge Program	12.404	4,003,463	-
Research & Technology Development	12.910	9,008,347	-
Letter of Agreement with Starbase Hawaii (Hickam AFB)	12.UNKNOWN	217,391	-
United States Navy — Kaho'olawe Rehabilitation Trust	12.UNKNOWN	2,130,958	-
Total U.S. Department of Defense		52,599,143	-
U.S. Department of Housing and Urban Development:			
U.S. Department of Housing and Urban Development Direct Program:			
Fair Housing Assistance Program — State and Local	14.401	120,655	-
Total U.S. Department of Housing and Urban Development		120,655	-
U.S. Department of Interior:			
U.S. Department of Interior Direct Programs:			
Providing Water to At-Risk Natural Desert Terminal Lakes	15.508	18,010	-
Fish and Wildlife Management Assistance	15.608	834,504	-
Coastal Wetlands Planning, Protection and Restoration Act	15.614	1,283,904	-
Cooperative Endangered Species Conservation Fund	15.615	3,691,464	317,741
Sportfishing and Boating Safety Act	15.622	217,999	-
North American Wetlands Conservation Fund	15.623	31	-
Coastal Program	15.630	45,784	-
Partners for Fish and Wildlife	15.631	2,374	-
Landowner Incentive Program	15.633	308,872	-
State Wildlife Grants	15.634	952,214	-
Service Training and Technical Assistance (Generic Training)	15.649	9,330	-
Endangered Species Conservation — Recovery Implementation Funds	15.657	25,380	-
Economic, Social, and Political Development of the Territories	15.875	145,172	-
Historic Preservation Fund Grants-In-Aid	15.904	561,438	1,320
Outdoor Recreation — Acquisition, Development, and Planning	15.916	43,890	-
Fish and Wildlife Service — Mauna Kea Forest Reserve Fence Repair: Northwest Section	15.FFB	1,368	-
Papahanaumokuakea Marine National Monument	15.FFB	20,000	-
Kauai Bog Endangered Species Management	15.FFB	4,912	-
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	15.605	2,392,786	-
Wildlife Restoration and Basic Hunter Education	15.611	1,457,820	-
Total Fish and Wildlife Cluster		3,850,606	-
Total Department of Interior		12,017,252	319,061

See accompanying notes to schedule of expenditures of federal awards. (Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor and Program Title	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Justice:			
U.S. Department of Justice Direct Programs:			
Prison Re-entry Initiative	16.202	$ 16,087	$ -
Comprehensive Approaches to Sex Offender Management Discretionary Grant	16.203	115,921	-
Crime Victim Compensation	16.576	213,660	-
Edward Byrne Memorial Formula Grant Program	16.579	216,564	-
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	20,902	-
Residential Substance Abuse Treatment for State Prisoners	16.593	46,802	-
Public Safety Partnership and Community Policing Grants	16.710	94,449	-
Statewide Automated Victim Information Notification Program	16.740	250,982	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	39,789	-
DEA — DEC/SP	16.UNKNOWN	75,136	-
Pass-Through Program from the State Department of Human Services:			
Juvenile Justice and Delinquency Prevention — Allocation to States	16.540	74,292	-
Pass-Through Program from the State Department of Health:			
Enforcing Underage Drinking Laws Program	16.727	141,960	-
JAG Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	96,193	-
Eward Byrne Memorial Justice Assistance Grant Program/Grants to States and Territories	16.803	367,776	-
Total JAG Program Cluster		463,969	-
Total Department of Justice		1,770,513	-
U.S. Department of Labor:			
U.S. Department of Labor Direct Programs:			
Labor Force Statistics	17.002	586,523	-
Compensation and Working Conditions	17.005	85,736	-
Unemployment Insurance	17.225	552,327,177	-
Unemployment Insurance — Reed Act	17.225	1,474,129	1,474,129
ARRA — Unemployment Insurance	ARRA 17.225	29,277,919	-
Senior Community Service Employment Program	17.235	3,380,679	3,081,713
Trade Adjustment Assistance	17.245	103,495	-
Workforce Investment Act — Pilots, Demonstrations, and Research Projects	17.261	361,533	322,065
Workforce Investment Grant PY09	17.266	72,140	45,252
Reintegration of Ex-Offenders	17.270	45,002	45,002
Work Opportunity Tax Credit Program	17.271	41,054	-
Temporary Labor Certification for Foreign Workers	17.273	59,318	-
ARRA — Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	ARRA 17.275	1,527,443	419,465
Occupational Safety and Health — State Program	17.503	897,889	-
Consultation Agreements	17.504	193,200	-
WIA Dislocated Workers National Reserve Demonstration	17.999	236,127	229,725
Employment Services Cluster:			
Employment Service/Wagner-Peyser Funded Activities	17.207	2,410,796	-
ARRA — Employment Service/Wagner-Peyser Funded Activities	ARRA 17.207	516,498	-
Disabled Veterans' Outreach Program (DVOP)	17.801	367,112	-
Local Veterans' Employment Representative Program	17.804	227,004	-
Total Employment Services Cluster		3,521,410	-

See accompanying notes to schedule of expenditures of federal awards.

(Continued)

STATE OF HAWAII

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor and Program Title	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Labor:			
U.S. Department of Labor Direct Programs:			
Workforce Investment Act (WIA) Cluster:			
WIA Adult Program	17.258	$ 2,163,726	$ 1,914,951
ARRA — WIA Adult Program	ARRA 17.258	244,185	209,197
WIA Youth Activities	17.259	2,095,085	1,852,444
ARRA — WIA Youth Activities	ARRA 17.259	1,110,209	951,159
WIA Dislocated Workers	17.278	2,681,800	2,309,080
ARRA — WIA Dislocated Workers	ARRA 17.260	763,897	630,099
Total Workforce Investment Act Cluster		9,058,902	7,866,930
Total U.S. Department of Labor		603,249,676	13,484,281
U.S. Department of Transportation:			
U.S. Department of Transportation Direct Programs:			
Highway Planning and Construction Cluster — Recreational Trails Program	20.219	453,028	-
Federal Transit Cluster — Federal Transit — Capital Investment Grants	20.500	1,613,907	-
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	119,852	45,352
Total U.S. Department of Transportation		2,186,787	45,352
U.S. Equal Employment Opportunity Commission:			
Equal Employment Opportunity Commission	30.002	317,576	-
Total U.S. Equal Employment Opportunity Commission		317,576	-
U.S. General Services Administration:			
Donation of Federal Surplus Personal Property	39.003	5,120,550	-
Help America Vote Act of 2002, Title I Section 101	39.011	1,554,906	-
Total U.S. General Services Administration		6,675,456	-
U.S. National Aeronautics and Space Administration:			
Basic Research	43.AAA	50,000	-
Total U.S. National Aeronautics and Space Administration		50,000	-
U.S. National Endowment for the Arts:			
ARRA — Promotion of the Arts — Grants to Organizations and Individuals	ARRA 45.024	128,382	-
Promotion of the Arts — Partnership Agreements	45.025	1,158,181	-
Total U.S. National Endowment for the Arts		1,286,563	-
U.S. Department of Veterans Affairs:			
State Cemetery Grants	64.203	210,334	97,089
Total Department of Veterans Affairs		210,334	97,089

See accompanying notes to schedule of expenditures of federal awards.

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor and Program Title	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Environmental Protection Agency:			
U.S. Environmental Protection Agency Direct Programs:			
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	$ 283,016	$ -
Pollution Prevention Grants Program	66.708	5,371	-
Solid Waste Management Assistance Grants	66.808	1,318	-
Brownfield Pilots Cooperative Agreements	66.811	1,526,114	-
Total U.S. Environmental Protection Agency		1,815,819	-
U.S. Department of Energy:			
U.S. Department of Energy Direct Programs:			
State Energy Program	81.041	173,268	-
ARRA — State Energy Program	ARRA 81.041	9,391,898	776,974
Weatherization Assistance for Low-Income Persons	81.042	173,132	-
ARRA — Weatherization Assistance for Low-Income Persons	ARRA 81.042	1,793,231	-
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, and Technical Analysis/Assistance	81.117	28,567	-
State Energy Program Special Projects	81.119	44,581	16,030
ARRA — Electricity Delivery and Energy Reliability, Research, Development and Analysis	ARRA 81.122	410,097	-
ARRA — Energy Efficient Appliance Rebate Program (EEARP)	AARA 81.127	1,235,807	99,945
ARRA — Energy Efficiency and Conservation Block Grant Program (EECBG)	AARA 81.128	4,813,381	1,616,778
Total U.S. Department of Energy		18,063,962	2,509,727
U.S. Department of Education:			
U.S. Department of Education Direct Programs:			
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013A	227,602	-
Career and Technical Education — Basic Grants to States	84.048A	77,177	-
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331A	73,138	-
College Access Challenge Grant Program	84.378A	262,680	259,695
ARRA — Education Jobs Fund	ARRA 84.410A	8,813,063	8,813,063
State Fiscal Stabilization Fund Cluster:			
ARRA — State Fiscal Stabilization Fund — Education State Grants	ARRA 84.394A	87,233,140	87,233,140
ARRA — State Fiscal Stabilization Fund — Government Services	ARRA 84.397A	30,362,701	27,614,721
Total State Fiscal Stabilization Fund Cluster		117,595,841	114,847,861
Total Department of Education		127,049,501	123,920,619
National Archives and Records Administration			
National Historical Publications and Records Grants	89.003	36,200	-
Total National Archieves and Records Administration		36,200	-

See accompanying notes to schedule of expenditures of federal awards. (Continued)

STATE OF HAWAII

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor and Program Title	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services:			
U.S. Department of Health and Human Services Direct Programs:			
Affordable Care Act — State Health Care Workforce Development Grants	93.509	$ 58,550	$ -
Affordable Care Act — Grants to States for Health Insurance Premium Review	93.511	18,808	-
Refugee and Entrant Assistance — State Administered Programs	93.566	81,012	-
ARRA — Strengthening Communities Fund	ARRA 93.711	106,123	-
State DHS Legal Aid Society of Hawaii	93.UNKNOWN	21,575	-
Community Services Block Grant Cluster:			
Community Services Block Grant	93.569	3,749,467	-
ARRA — Community Services Block Grant	ARRA 93.710	3,017,988	-
Total Community Services Block Grant Cluster		6,767,455	-
Passed through Program from the State Department of Human Services:			
Temporary Assistance for Needy Families Cluster:			
Temporary Assistance for Needy Families	93.558	5,103,635	-
ARRA — Emergency Contingency Fund for Temporary Assistance for Needy Families State Program	ARRA 93.714	6,542,148	-
Total Temporary Assistance for Needy Families Cluster		11,645,783	-
Total Department of Health and Human Services		18,699,306	-
Corporation for National and Community Service:			
Pass-Through Program from the Research Corporation of the University of Hawaii:			
AmeriCorps	94.006	352,107	-
ARRA — AmeriCorps	ARRA 94.006	130,111	-
Total Corporation for National and Community Service		482,218	-
U.S. Department of Homeland Security:			
U.S. Department of Homeland Security Direct Programs:			
Homeland Security Preparedness Technical Assistance Program	97.007	154,304	-
Non-Profit Security Program	97.008	179,884	179,884
Boating Safety Financial Assistance	97.012	652,612	-
Community Assistance Program State Support Services Element	97.023	84,887	-
Disaster Grants — Public Assistance (Presidentially Declared Disasters)	97.036	9,236,325	2,653,466
Hazard Mitigation Grant	97.039	234,285	-
National Dam Safety Program	97.041	8,695	-
Emergency Management Performance Grants	97.042	2,231,865	-
Cooperating Technical Partners	97.045	66,872	-
Pre-Disaster Mitigation	97.047	256,400	210,526
Interoperable Emergency Communications	97.055	234,083	218,791
Port Security Grant Program	97.056	4,431	-
Intercity Bus Security Grants	97.057	258,013	258,013
Homeland Security Cluster — Homeland Security Grant Program	97.067	10,365,170	9,125,589
Buffer Zone Protection Program	97.078	456,659	-
Earthquake Consortium	97.082	56,840	511
Regional Catastrophic Preparedness Grant Program	97.111	589,308	588,683
Total Department of Homeland Security		25,070,633	13,235,463
Total Expenditures of Federal Awards		$ 895,082,691	$ 158,920,230

See accompanying notes to schedule of expenditures of federal awards. (Concluded)

1. REPORTING ENTITY

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the following State of Hawaii departments and agencies:

- Department of Accounting and General Services ("State DAGS")
- Department of Agriculture ("State DOA")
- Department of Budget and Finance ("State B&F")
- Department of Business, Economic Development, and Tourism ("State DBEDT")
- Department of Commerce and Consumer Affairs
- Department of Defense ("State DOD")
- Department of Human Resources Development
- Department of Labor and Industrial Relations ("State DLIR")
- Department of Land and Natural Resources ("State DLNR")
- Department of Public Safety ("State DPS")
- Department of Taxation
- Governor's Office

Certain other departments and agencies within the State of Hawaii obtained separate audits performed in accordance with OMB Circular A-133, and accordingly, separate A-133 submissions have been made (see Note 2).

2. OTHER STATE OF HAWAII DEPARTMENTS AND AGENCIES NOT INCLUDED IN THE ACCOMPANYING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following is a summary of State of Hawaii departments and agencies that obtain separate OMB Circular A-133 audits or do not receive federal grants and, therefore, do not obtain an OMB Circular A-133 audit. Awards listed in these audit reports are not included in the accompanying SEFA.

- Department of the Attorney General
- Department of Education
- Department of Hawaiian Home Lands
- Department of Health
- Department of Human Services
- Department of Transportation
- Drinking Water Treatment Revolving Loan Fund
- Hawaii Community Development Authority
- Hawaii Employer-Union Health Benefits Trust Fund
- Hawaii Health Systems Corporation
- Hawaii Housing Finance Development Corporation
- Hawaii Hurricane Relief Fund
- Hawaii Public Housing Authority
- Hawaii Tourism Authority

- University of Hawaii
- Water Pollution Control Revolving Fund

3. BASIS OF PRESENTATION

The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Expenditures reported on the schedule are reported on the cash basis of accounting.

4. NONMONETARY ASSISTANCE

The SEFA contains values for a nonmonetary assistance program. As provided by program regulations, property received under the Donation of Federal Surplus Property program (CFDA No. 39.003) is presented at the federal government's historical cost.

5. UNEMPLOYMENT INSURANCE

State unemployment tax revenues and government contributions are used to pay benefits under federally approved State unemployment law. Of the $583,079,225 reported as expenditures for the unemployment insurance program (CFDA No. 17.225), $289,213,782 represented expenditures of State of Hawaii funds.

6. RESEARCH AND DEVELOPMENT EXPENDITURES

The SEFA includes the following research and development amounts:

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
Research and Development Cluster:		
U.S. Department of Agriculture Direct Programs:		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	$ 519,745
Forest Stewardship Program	10.678	186,572
Forest Health Protection	10.680	500,029
Total U.S. Department of Agriculture		1,206,346
U.S. Department of Commerce Direct Programs:		
Coastal Zone Management Administration Awards	11.419	3,634,336
Financial Assistance for National Centers for Coastal Ocean Science	11.426	82,793
Center for Sponsored Coastal Ocean Research — Coastal Ocean Program	11.478	64,108
Subtotal U.S. Department of Commerce Direct Programs		3,781,237
U.S. Department of Commerce Pass-Through Program from		
The Research Corporation of the University of Hawaii Undersea Research	11.430	9,270
Total U.S. Department of Commerce		3,790,507
U.S. Department of Defense Direct Program:		
Research and Technology Development	12.910	9,008,347
U.S. Department of the Interior Direct Programs:		
Providing Water to At-Risk Natural Desert Terminal Lakes	15.508	18,010
Sport Fish Restoration Program	15.605	2,392,786
Fish and Wildlife Management Assistance	15.608	834,504
Wildlife Restoration and Basic Hunter Education	15.611	1,457,820
Cooperative Endangered Species Conservation Fund	15.615	3,691,464
State Wildlife Grants	15.634	952,214
Service Training and Technical Assistance (Generic Training)	15.649	9,330
Endangered Species Conservation — Recovery Implementation Funds	15.657	25,380
Economic, Social, and Political Development of the Territories	15.875	145,172
Fish and Wildlife Service — Mauna Kea Forest Reserve Fence Repair Northwest Section	15.FFB	1,368
Papahanaumokuakea Marine National Monument	15.FFB	20,000
Kauai Bog Endangered Species Management	15.FFB	4,912
Total U.S. Department of the Interior		9,552,960
U.S. National Aeronautics and Space Administration:		
Research and Technology Development	43.AAA	50,000
Total U.S. National Aeronautics and Space Administration		50,000
Total Research and Development Cluster		$ 23,608,160

* * * * * *

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I — SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditors' report issued: **Unqualified**

Internal control over financial reporting:

- Material weakness(es) identified? ___X___ yes _________ no
- Significant deficiency(ies) identified that is/are not considered to be material weakness(es)? ___X___ yes _________ none reported

Noncompliance material to consolidated financial statements noted? _________ yes ___X___ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ___X___ yes _________ no

Significant deficiency(ies) identified that is/are not considered to be material weakness(es)? ___X___ yes _________ none reported

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

An unqualified opinion was issued on the State of Hawaii's ("State") compliance with its major federal programs for the year ended June 30, 2011, except for procurement, allowable costs and cost principles, segregation of duties, and cash management requirements that are applicable to CFDA No. 93.558, *Temporary Assistance for Needy Families*, and CFDA No. ARRA 93.714, *Emergency Contingency Fund for Temporary Assistance for Needy Families State Program* (collectively, the "*Temporary Assistance for Needy Families Cluster")* for which the opinion on compliance was adverse; and special tests and provisions — accountability for commodities requirement that is applicable to CFDA No. 10.568, *Emergency Food Assistance Program*; the reporting requirement that is applicable to CFDA No. ARRA 10.568, *Emergency Food Assistance Program (Administrative Costs)*; the subrecipient monitoring requirement that is applicable to CFDA No. 11.555, *Public Safety Interoperable Communications Grant Program*; the cash management requirement that is applicable to CFDA No. 12.404, *National Guard Challenge Program*; the allowable costs and cost principles requirements that are applicable to CFDA No. ARRA 81.122, *Electricity Delivery and Energy Reliability, Research and Development*; the reporting requirement that is applicable to CFDA No. ARRA 81.128, *State Energy Program*; the reporting requirement that is applicable to CFDA No. 97.036, *Federal Emergency Management Agency*; and the subrecipient monitoring requirement that is applicable to CFDA No. 97.067, *Homeland Security Grant Program*, for which the opinion on compliance was qualified.

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

Identification of Major Programs:

CFDA Number	**Name of Federal Program**
Emergency Food Assistance Cluster:	
10.568	Emergency Food Assistance Program (Administrative Costs)
ARRA-10.568	ARRA — Emergency Food Assistance Program (Administrative Costs)
10.676	Forest Legacy Program
ARRA-10.688	ARRA — Wildland Fire Management
11.555	Public Safety Interoperable Communications Grant Program
ARRA-11.558	ARRA — State Broadband Data and Development Grant Program
12.401	National Guard Military Operations and Maintenance Projects
ARRA-12.401	ARRA — National Guard Military Operations and Maintenance Projects
12.404	National Guard Challenge Program
Employment Service Cluster:	
17.207	Employment Service/Wagner-Peyser Funded Activities
ARRA-17.207	ARRA — Employment Service/Wagner-Peyser Funded Activities
17.801	Disabled Veterans' Outreach Program
17.804	Local Veterans' Employment Representative Program
17.225	Unemployment Insurance
ARRA-17.225	ARRA — Unemployment Insurance
Workforce Investment Act (WIA) Cluster:	
17.258	WIA Adult Program
ARRA-17.258	ARRA — WIA Adult Program
17.259	WIA Youth Activities
ARRA-17.259	ARRA — WIA Youth Activities
17.278	WIA Dislocated Workers
ARRA-17.260	ARRA — WIA Dislocated Workers
ARRA-17.275	ARRA — Program for Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors
81.041	State Energy Program
ARRA-81.041	ARRA — State Energy Program
81.042	Weatherization Assistance for Low-Income Persons
ARRA-81.042	ARRA — Weatherization Assistance for Low-Income Persons

CFDA Number	Name of Federal Program
ARRA-81.122	ARRA — Electricity Delivery and Energy Reliability, Research, Development and Analysis
ARRA-81.127	ARRA — Energy Efficient Appliance Rebate Program
ARRA-81.128	ARRA — Energy Efficiency and Conservation Block Grant Program
State Fiscal Stabilization Fund Cluster:	
ARRA-84.394A	ARRA — State Fiscal Stabilization Fund — Education State Grants
ARRA-84.397A	ARRA — State Fiscal Stabilization Fund — Government Services
ARRA-84.410A	ARRA — Educations Jobs Fund
TANF Cluster:	
93.558	Temporary Assistance for Needy Families
ARRA-93.714	ARRA — Emergency Contingency Fund for Temporary Assistance for Needy Families
CSBG Cluster:	
93.569	Community Services Block Grant
ARRA-93.710	ARRA — Community Services Block Grant
94.006	AmeriCorps
ARRA-94.006	ARRA — AmeriCorps
97.036	Disaster Grants — Public Assistance (Presidentially Declared Disasters)
Homeland Security Cluster:	
97.067	Homeland Security Grant Program
Research and Development Cluster:	
10.025	Plant and Animal Disease, Pest Control, and Animal Care
10.678	Forest Stewardship Program
10.680	Forest Health Protection
11.419	Coastal Zone Management Administration Awards
11.426	Financial Assistance for National Centers for Coastal Ocean Science
11.478	Center for Sponsored Coastal Ocean Research — Coastal Ocean Program
11.430	Undersea Research
12.910	Research & Technology Development
15.508	Providing Water to At-Risk Natural Desert Terminal Lakes
15.605	Sport Fish Restoration Program
15.608	Fish and Wildlife Management Assistance
15.611	Wildlife Restoration and Basic Hunter Education
15.615	Cooperative Endangered Species Conservation Fund
15.634	State Wildlife Grants
15.649	Service Training and Technical Assistance (Generic Training)
15.657	Endangered Species Conservation — Recovery Implementation Funds
15.875	Economic, Social, and Political Development of the Territories
15.FFB	Mauna Kea Forest Reserve Fence Repair: Northwest Section
15.FFB	Papahanaumokuakea Marine National Monument
15.FFB	Kauai Bog Endangered Species Management
43.AAA	National Aeronautics and Space Administration — Basic Research

U.S. dollar threshold used to distinguish between type A and type B programs: $3,000,000

Auditee qualified as low-risk auditee? _________ yes ___X___ no

SECTION II — FINANCIAL STATEMENT FINDINGS

Material Weaknesses

We consider the following deficiencies in the State's internal control over financial reporting to be a material weakness as of June 30, 2011.

2011-01 — Schedule of Expenditures and Federal Awards (SEFA)

Criteria

The Federal Office of Management and Budget (OMB) issued OMB Circular A-133 pursuant to the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. OMB Circular A-133 requires nonfederal entities that expend $500,000 or more in a year in federal awards to have a single audit conducted on its financial statements and SEFA.

OMB Circular A-133 established the following responsibilities for the State's management:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

- Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

- Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

- Prepare appropriate financial statements, including the SEFA.

- Ensure that the audits required by this circular are properly performed and submitted within nine months after the end of the audit period.

Condition

The Federal OMB issued OMB Circular A-133 pursuant to the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. OMB Circular A-133 requires nonfederal entities that expend $500,000 or more in a year in federal awards to have a single audit conducted on its financial statements and SEFA.

OMB Circular A-133 established the following responsibilities for the State's management:

- Identify, in its accounts, all federal awards received and expended and the federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the federal agency, and name of the pass-through entity.

- Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

- Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its federal programs.

- Prepare appropriate financial statements, including the SEFA.

- Ensure that the audits required by this circular are properly performed and submitted within nine months after the end of the audit period.

Cause

The State's current accounting process does not track federal funds individually within the general ledger system. Instead, one appropriation account is often created and assigned to the respective department and many federal grants expended by the department are grouped within the one appropriation account. For a department that receives and expends multiple federal funds, it must prepare and maintain separate accounting records outside of the Financial Accounting and Management Information Systems (FAMIS), the State's general ledger system, to be able to segregate the cash balances, receipts, and expenditures by each grant that it receives. These separate accounting records are maintained by multiple accountants in the larger departments and are not combined and reconciled to FAMIS periodically.

DAGS required that each department prepares its own departmental SEFA. Each department attempted to prepare its SEFA using a different basis of accounting. Certain departments prepared the SEFA on a cash basis, while other departments prepared the SEFA on the accrual basis and some departments used a mix of both cash basis and accrual basis. The difference in basis resulted in federal expenditures being omitted for some grants and federal expenditures being included that pertained to the subsequent year.

Effect

Due to the deficiencies in internal control over the SEFA preparation noted above, material misstatements occurred in the SEFA that were not detected by management's internal controls and were subsequently corrected through audit adjustments. Accordingly, we believe the above collectively represent a material weakness in internal control over financial reporting. The effects of the errors are:

- Combining program expenditures for two different programs under one CFDA number:

  - CFDA No. 11.555, Public Safety Interoperable Communications Grant Program, for $4,939,631 was erroneously coded to CFDA No. 97.055, Interoperable Emergency Communications.

  - CFDA No. ARRA — 93.710, ARRA — Community Services Block Grant, for $3,283,357, was erroneously coded to CFDA 93.569, Community Services Block Grant.

- Double counting of specific program expenditures within the combined SEFA:

  - Certain grants were prepared using the accrual basis as opposed to the cash basis of accounting, resulting in a change in total federal expenditures of $8,663,431.

- Certain CFDAs in the SEFA included both Federal and State expenditures. State expenditures should not be included in the SEFA.

- Delinquent submission of the combined June 30, 2010, SEFA which was due by March 31, 2011.

Recommendation

DAGS should develop a well-defined process for federal financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control over preparing the SEFA.

Training and instructions should be communicated to affected State departmental personnel to aid in fiscal management's preparation of the SEFA.

Additionally, an independent review of departmental SEFA should be performed by appropriately trained personnel to ensure completeness, consistency, and compliance with reporting requirements, and State accounting and disclosure policies.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-02 — Accounting and Reporting of Cash and Cash Equivalents

Criteria

Management is responsible for maintaining and enforcing internal controls over the cash reconciliation process to ensure that cash balances reported in the CAFR are accurately stated.

Condition

The cash reconciliation process requires the Department of Budget and Finance (B&F) personnel to reconcile bank statements to the B&F cash subledger. This cash subledger, in turn, is reconciled with the State's general ledger, FAMIS, which is maintained by DAGS. The B&F cash subledger also includes certain investments which are identified during the reconciliation process and are recorded on a separate line item by DAGS when preparing the financial statements.

During the audit, it was determined that the Capital Projects Fund did not have enough cash during the year to fund all of its projects resulting in a cash deficit balance. This occurred because all of the State's cash and investments from all departments are pooled together by B&F and the cash balance for each fund and department is not determined until the B&F cash balances are reconciled with DAGs accounting records. The June 30, 2011, bank reconciliations for certain major accounts were not completed until December 2011. As a result, the Director of State B&F needed to declare a temporary loan in the amount of $186,193,000 from the Department of Transportation — Harbors, a proprietary fund, to the Capital Projects Fund.

Cause

B&F is responsible for maintaining and reporting the cash balances of the State's bank accounts to DAGS for reconciliation with FAMIS. B&F maintains a stand-alone cash subledger in order to track the cash activity. These cash subledgers are manually reconciled to the bank statements by B&F personnel which is a time consuming process. Although B&F is required to submit to DAGS the reconciled cash subledger on a monthly basis, B&F was late in the submission of the monthly bank statement reconciliations throughout the year and did not submit its June 30, 2011, bank statement to cash subledger reconciliation to DAGS until December 2011 for certain major bank accounts.

Effect

The untimely reconciliations caused the Capital Projects Fund cash balance to be in a deficit position. As a result, the Department of Transportation — Harbors needed to loan the Capital Projects Fund approximately $186,193,000 to cover the cash shortfall.

Recommendation

Differences between the bank statements and the cash subledger and between the cash subledger and FAMIS should be identified timely, reviewed, and recorded in FAMIS. Without this process the State's funds and agencies will not know what their cash balance is, and will not have complete financial records.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

Significant Deficiencies

We consider the following deficiencies in the State's internal control over financial reporting to be significant deficiencies as of June 30, 2011.

2011-03 — Internal Control over Financial Reporting

Criteria

Management is responsible for establishing and maintaining internal control over financial reporting, the objectives of which are to provide management with reasonable, but not absolute, assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP).

Condition

The State's internal control over financial reporting could be improved. During the June 30, 2011 audit, we identified multiple deficiencies that, when considered in the aggregate, indicated a significant deficiency in the internal control over financial reporting.

The process used by the DAGS Accounting Division to obtain the required information from the State departments and agencies to prepare the Comprehensive Annual Financial Report (CAFR) (e.g., preparing governmental fund financial statements on a modified accrual basis and the government-wide financial statements on an accrual basis) is inefficient, very time consuming, and causes delays in statewide financial reporting. In addition, there is no enforcement of the timetable that is established to ensure that all of the departments and agencies submit accurate information on a timely basis.

Numerous post-closing adjustments were required to correct accounting and reporting errors made in the current year.

Cause

DAGS is responsible for preparing the CAFR for the State. The CAFR includes governmental fund financial statements prepared on a modified accrual basis of accounting and government-wide financial statements prepared on a full accrual basis. Since FAMIS is maintained using the cash basis of accounting, DAGS is required to prepare accounting entries to convert the cash basis of accounting to the modified accrual basis of accounting to prepare governmental fund financial statements, and then prepare another set of entries to convert to the accrual basis of accounting to prepare government-wide financial statements. As part of the closing process in fiscal year 2011, 289 accounting entries were posted, which were characterized as follows:

- 77 top-sided government-wide entries. These entries were prepared without a trial balance or a fund-to-government-wide financial statement conversion worksheet.

- 212 Fund Financial statement entries, one of which was an audit adjustment entry.

Information necessary to prepare such accounting entries must be obtained from the State departments and agencies. In fiscal year 2011, DAGS requested formal reporting information packages to obtain the financial information from State departments, but did not receive adequate responses from the departments, and thus had to revert to the use of informal emails, telephone calls, and spreadsheets. As a result, the information received often was neither uniform, nor in a format that could easily be used. The departments and agencies were often late in submitting the required information, which caused DAGS to estimate the amounts to be used in the accruals when preparing the financial statements.

Additionally, DAGS consolidates the CAFR using audited financial statements from other State agencies. DAGS was unable to receive final financial statements from other State agencies timely.

Effect

Because of the inadequate internal control over financial reporting discussed above, material misstatements in the financial presentation due to error or fraud could occur and not be detected on a timely basis; accordingly, we believe the above collectively represent a significant deficiency in internal control over financial reporting.

Recommendation

DAGS should continue to develop well-defined, systematic, efficient, and orderly processes for financial reporting that include a comprehensive set of policies and procedures necessary to establish internal control over financial reporting. The process and its key attributes (e.g., overall timing, methodology, format, and frequency of analyses) should be formally documented, approved, communicated to other departments and agencies, and monitored on a regular basis.

Required analyses (including the format, timeline, preparers, and reviewers) should be prepared, updated, and distributed on a regular basis. DAGS should have processes in place at the end of each accounting period to ensure that all reconciliations are appropriately performed and independently reviewed. Subsidiary records should be reconciled to the general ledger on a regular basis, and all reconciling items should be identified, investigated, and resolved on a timely basis.

DAGS should have a process in place to ensure that the trial balances used to prepare the financial statements are final, contain all valid journal entries, and include the results of all departments and agencies for which consolidation is appropriate, and that accounting periods in the accounting system are closed to prevent subsequent posting of transactions.

An independent review of the financial statements and all related disclosures using a GAAP financial statement presentation checklist should be performed by DAGS personnel to ensure completeness, consistency across accounting periods, and compliance with GAAP and the State's accounting and disclosure policies.

Adherence to these policies and procedures will facilitate the processing of complete, accurate, and timely financial information.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-04 — Accounting for Component Units and Proprietary Funds

Criteria

Component Units (CU) are legally separate organizations that the State must include as part of its financial reporting entity for fair presentation in conformity with GAAP. CUs have unique accounting and reporting requirements as established by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units — an amendment of GASB Statement No. 14*. The GASB accounting standards provide defined criteria for determining whether a particular legally separate entity is a Component Unit of the State.

Similarly, Enterprise Funds that meet the definition of major funds established by GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, should be reported separately within the Proprietary Fund (PF) financial statements.

Condition

During fiscal year 2008, DAGS implemented a policy on reporting "material" CUs and PFs, which stated that only material CUs and PFs would be disclosed as discretely presented CUs and major PFs in the CAFR. Materiality was determined based on certain quantitative criteria determined by DAGS considering the requirements in GASB Statement Nos. 14 and 39 for CUs and GASB Statement No. 34 for PFs.

As a result of implementing the policy, DAGS noted that the Stadium Authority, Hawaii Strategic Development Corp, High Technology Development Corporation, and the Natural Energy Laboratory of Hawaii Authority met the definition of discretely presented CUs as defined in GASB Statement Nos. 14 and 39, but did not meet the materiality thresholds under the State's policy, and thus were not disclosed as discretely presented CUs in the June 30, 2011, CAFR. Instead, they were reported as part of the governmental funds to which these entities were administratively attached.

DAGS also noted that the State DLIR — Disability Compensation Fund, the Public Safety Department — Correctional Industries Fund, the Accounting and General Services — State Parking Revolving Fund, and the Accounting and General Services — Motor Pool Fund met the definition of PFs as defined in GASB Statement No. 34, but did not meet the materiality threshold under the State's policy, and thus were not disclosed as PFs in the June 30, 2011, CAFR. Instead, they were reported as part of the governmental funds to which these entities were administratively attached.

Cause

In determining which CUs should be presented as discretely presented CUs and which PFs should be presented as major PFs in the CAFR, management did not follow the guidelines included in GASB Statements Nos. 14, 34, and 39, but instead used its own definition of materiality. DAGS also noted that some of the CUs and PFs mentioned above have historically not been able to close their books and to complete their audits in a timely manner, such that the audited financial statements would not be available for the preparation of the CAFR. In addition to management's policy that the CUs and PFs under this policy are immaterial to the financial statement taken as a whole, DAGS also determined that auditing the State agencies, which are not disclosed as discretely presented CUs and major PFs in the CAFR, would require time and resources to complete and would likely further delay the completion of the CAFR.

Effect

In accordance with the State's policy, these entities and funds were incorrectly included in the governmental funds activities of the CAFR and were not reported as discretely presented CUs or major PFs, despite meeting the CU and PF criteria under GAAP. See below for summary of balances of entities and funds that were incorrectly classified by State's management (in millions):

	Approximate Revenues	Approximate Expenditures	Approximate Assets
Discretely presented Component Units:			
Stadium Authority	$ 7.0	$ 9.2	$ 90.2
Hawaii Strategic Development Corporation	4.7	2.4	7.1
High Technology Development Corporation	1.0	3.9	14.9
Natural Energy Laboratory of Hawaii Authority	13.4	13.5	25.6
Non-major Proprietary Funds:			
Department of Labor and Industrial Relations — Disability Compensation Fund	15.8	16.4	12.5
Public Safety Department — Correctional Industries Fund	5.4	6.1	4.4
Accounting and General Services — State Parking Revolving Fund	3.8	3.9	26.0
Accounting and General Services — Motor Pool Fund	2.5	3.8	4.7

We believe that this situation results in a significant deficiency in internal control over financial reporting.

Recommendation

DAGS should consider changing the accounting policy to conform to the provisions of GASB Statement Nos. 14, 34, and 39 when preparing the CAFR.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-05 — Accounting for Capital Assets

Criteria

The State CAFR is prepared using GAAP which requires the State to report capital asset balances (i.e., infrastructure, land, land improvements, buildings, construction in progress, and accumulated depreciation) in the government-wide financial statements of the State CAFR.

Condition

As noted in prior audits, the State does not have a single comprehensive capital assets system to identify and monitor all capital assets used in governmental activities. Instead DAGS utilizes various sources of capital asset financial information in preparing the CAFR.

Land, land improvements, buildings, building improvements, equipment, and accumulated depreciation for all governmental activity departments, except for the Department of Education (DOE) are accounted for by utilizing the Fixed Asset Inventory System (FAIS), which is maintained by the Inventory Management Branch ("Inventory Management") of the State Procurement Office within DAGS. According to the FAIS user manual, each State department is responsible for ensuring that newly acquired property is recorded in FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility to maintain the property.

Infrastructure and related accumulated depreciation are maintained on electronic spreadsheets by the Department of Hawaiian Homelands (DHHL) and the Department of Transportation — Highways Division ("Highways") and are provided to DAGS annually for inclusion in the CAFR. Capital asset information for the DOE is maintained by the DOE and is provided to DAGS annually for inclusion in the CAFR.

The State's construction in progress, except for the DOE, is maintained by DAGS — Public Works (the "Public Works Division"). Financial information from the Public Works Division is provided to DAGS annually for inclusion in the CAFR.

Cause

DAGS lacks a formal, organized process to consolidate and maintain capital asset financial information. Additionally, DAGS lacks a process to ensure that any material omissions from FAIS are detected in a timely manner.

Effect

As a result of the various control weaknesses, DAGS encounters significant delays in the preparation of capital asset information, which results in significant delays in the preparation and issuance of the CAFR. Further, fixed assets that were acquired in the prior years were not accounted for in the prior years, or are misclassified on the financial statements. During our testing, we noted that capital asset additions included $2.4 million of assets that should have been recorded in prior years but were recorded in the current year. Some of these asset additions in the current year were 18 years old. We further noted that in the prior year, $28 million of fixed assets were misclassified as "infrastructure," when they should have been classified as "land and land improvements."

Recommendation

DAGS should establish formal, methodical, and systematic policies and business processes to ensure that information is processed by the State's various capital asset ledgers and systems in an accurate and timely manner. DAGS should also implement periodic consolidation and review procedures, which require capital asset information to be provided, consolidated, and reviewed for errors by qualified employees on a periodic basis. The consolidation process and review of information should be communicated to all users of the various capital asset information systems and enforced.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-06 — Mainframe Access Security Controls

Criteria

The State has a process in place whereby the request to provide access to new users or to modify user access and to terminate users who are no longer employed, must be performed online by completing a user access form. Segregation of duties should also exist between the ability to authorize access and the ability to create or modify a user account on the mainframe application. Additionally, there should be an annual review of the information system to confirm that the application is free of terminated users and user permissions are provided to only those who need the required access based on their job responsibility. Password setting should follow strong password configuration rules, including alphanumeric, uppercase, lowercase, or special characters. When shared accounts are required, their use should be logged and monitored to establish accountability. Logging and monitoring procedures should be implemented to log the mainframe applications and supporting infrastructure.

Condition

During the course of our audit, we noted the following exceptions related to information security at the — Information and Communication Services Division (ICSD):

- Passwords for the mainframe and network were not configured to require password complexity (such as alphanumeric, uppercase, lowercase, or special characters).
- Minimum passwords' lengths were not in compliance with policy for the mainframe and the network.
- The Resource Access Control Facility (RACF) user access review did not include a revalidation to confirm that access was required based on job description and that access was free of terminated users.
- Shared administrative accounts used by operations were not identified by the RACF user access review.
- Although logging was enabled, there was no formal process to monitor local area network (LAN) or natural security logs.
- There was not a segregation of duties between the ability to authorize access and the ability to create or modify a user account on the mainframe (RACF) or the LAN.
- Evidence was not available to demonstrate that a review of network access was performed.

Cause

ICSD has not communicated to all users that the online user access request system must be used to request new access, modify access, and to document terminated user access within five business days of termination. The user access reviews do not include a review and sign off from business managers and supervisors, indicating that they authorize access and that the system is free of terminated users. Logging and monitoring procedures appear to be informal or lack documentation required to evidence the operating effectiveness of the control. Generic administrative accounts were once assigned to individuals are now shared among multiple users. System limitations may prevent DAGS management from implementing the strong password settings as described above.

Effect

If information security is not administered appropriately, significant information resources may be modified inappropriately, disclosed without authorization, and/or unavailable when needed. Furthermore, such security breaches may go undetected. This deficiency in the design of internal controls may not be able to ensure that information system user access to the State's information system is appropriately managed to minimize the likelihood of disruption, unauthorized alterations, and errors which impact the accurate, complete, and valid processing and recording of financial information.

Recommendation

ICSD should communicate to departments requiring access to ICSD systems that they are required to complete the standard user access request form to request user access or modify access to the system. In addition, a process should be created to facilitate timely (within five days) notification of terminated users to ICSD and documentation of the notification should be retained. ICSD should implement a process to document the monitoring procedures performed around network security logs. ICSD should assign all generic accounts to individual users to establish accountability. ICSD should implement strong password settings and consider upgrading software to allow for strong password settings to be enforced.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-07 — Great Plains Access Security Controls

Criteria

Good internal controls require that password parameters include uppercase, lowercase, numeric, special characters, periodic password expiration, password history, minimum password length, and password lockout for failed login attempts. A process should be put into place, in which user access permissions are reviewed on a regular basis for access based on job functionality and terminated users. Further, user application account creations and modifications should require a completed Access Request Form with a direct supervisor's approval. Physical and logical access for terminated employees should be removed within five business days with a documented termination notification. Logging and monitoring procedures should be put in place to identify security events for the Great Plains application.

Condition

Through our testing procedures, we noted that password complexity (uppercase, lowercase, alphanumeric, special character) was not required for the Great Plains application, database, or supporting active directory. Through our testing procedures, there were instances of a lack of documented approval for new hires prior to being added to the system. Further, we determined that the process to notify, confirm, or provide evidence of Great Plains access removal when a user is terminated may not always be associated with formal documentation. In addition, user access reviews for the Great Plains application was not documented. Finally, logging and monitoring procedures were not documented for the Great Plains application or supporting infrastructure.

Cause

Management did not configure the Great Plains application, database, and active directory password settings to enforce complexity during the 2011 fiscal year. Although a process exists for the communication of new and terminated employees, the Great Plains user access permissions may not have been consistently documented along with these new hire and termination requests. The user access review for Great Plains was not documented during fiscal year 2011. Regular monitoring procedures around existing logs were not performed.

Effect

Users can inappropriately create, delete, or modify financial transactions or data resulting in invalid, incomplete, or incorrect computer-generated information. They can also make inappropriate modifications to system configurations, algorithms, and programs, affecting the reliability of computer-generated information and/or automated controls. Further, users can gain unauthorized access directly to data through the database or operating system to intentionally or unintentionally change data or reports that underlie computer-generated information and/or automated controls.

Unauthorized changes to production environments can result in changes that do not align with management's intentions and can ultimately result in systems which process data inaccurately or incompletely.

Recommendation

Management should:

- Implement a process for the formal documentation of authorization of Great Plains user access permissions.

- Implement a process for the formal documentation of removal of Great Plains user access permissions.

- Implement a formal user access review process, including a review for terminated users and user access permissions based on job functionality.

- Implement a process for formal logging and monitoring of Great Plains systems (application, database, operating system, and network)

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-08 — Accounting for Accrued Receivables and Liabilities

Criteria

The State's CAFR is prepared on the modified accrual basis of accounting, which requires that revenues and expenditures are generally recorded when a receivable or liability is incurred, as under accrual accounting. Each State department is responsible for preparing an accrued liability schedule, and submitting it to the DAGS Accounting Division for use in preparing the State's CAFR.

Condition

Accrued receivables and liabilities for some of the departments were not submitted to DAGS in a timely manner. To prevent further delay in the preparation of their financial statements, DAGS prepared the CAFR by using estimates of the accruals from the missing departments.

Cause

Due to lack of communication between DAGS Accounting Division and various State agencies, DAGS Accounting Division was not aware of all accrued receivables and liabilities at June 30, 2011. Further, because certain State agencies were not timely in submitting their accruals for consolidation into the CAFR, DAGS was forced to estimate certain accruals in the CAFR, which resulted in significant differences between the estimates and the actual accruals.

Effect

The untimely submission of accruals to DAGS and miscommunication resulted in the following material corrected misstatements:

- $11.7 million overaccrual of revenue and receivables in the Med-Quest Special Revenue Fund
- $44.6 million overaccrual of revenues, $21.8 overaccrual of receivables, and $22.8 million underaccrual of liabilities in the Human Services Special Revenue Fund
- $8.2 million underaccrual of expenditures and liabilities in the Highways Special Revenue Fund
- $18.8 million underaccrual of expenditures and liabilities in the Health Special Revenue Fund
- $22.7 million overaccrual of revenue and underaccrual of liabilities in the Health Special Revenue Fund
- $13.3 million underaccrual of revenue and expenditures in the Health Special Revenue Fund
- $11.7 million underaccrual of expenditures and liabilities in the Capital Projects Fund.

The control deficiency also resulted in the following uncorrected misstatements in the June 30, 2011, CAFR:

- $15.8 million overaccrual of expenditures and liabilities in the General Fund
- $3.1 million overaccrual of expenditures and liabilities in the Med-Quest Special Revenue Fund
- $4.5 million overaccrual of expenditures and liabilities in the Capital Projects Fund
- $7.5 million underaccrual of expenditures and liabilities in the Highways Special Revenue Fund

Recommendation

The State should revise internal controls over financial reporting of accrued revenues and expenditures to ensure that the DAGS Accounting Division receives accurate financial information for use in preparing the State CAFR.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-09 — Processing of Treasury Deposit Receipts

Criteria

Properly designed controls should provide reasonable assurance that financial data entered into FAMIS is authorized and processed in a complete, accurate, and timely manner. The State has a process in place such that when funds are received by each department, a deposit slip and treasury deposit receipt (TDR) is created. The TDR is reviewed and authorized by the originating department and sent to (B&F, who matches the TDR to the bank authorized deposit slip. Once the TDR is authorized by B&F, it is sent to the DAGS Uniform Accounting and Reporting Branch (UARB) for review and recording within FAMIS. DAGS UARB receives the TDR from the B&F Division and reviews and approves the TDR. The batches are then sent to the ICSD division, where personnel will enter the information into FAMIS.

Condition

In a sample size of 25 TDRs, we noted 3 instances where there was insufficient evidence to demonstrate that the batch submissions from user departments were properly reviewed and authorized.

Cause

There was no documented evidence of proper review and approval of TDRs at the department level.

Effect

TDRs that are not properly reviewed and approved may contain inaccurate information or errors that would not be detected as the department accounting personnel are most familiar with the transaction and would be able to determine if the transaction is proper.

Recommendation

Management should emphasize the importance of the review and approval of TDRs, and should also stress the importance of ensuring documented evidence of such review at the department level, B&F, and DAGS.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2011-10 Special Tests — Accountability for Commodities (Material Weakness)
State Department Labor and Industrial Relations

CFDA 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Award from the U.S. Department of Agriculture (Award 2010IY810547, 2011IY810547, and 2010CC200347)

Criteria

OMB Circular A-133 Compliance Supplement Part 4 for the Emergency Food Assistance Program (TEFAP) Section N, requires distributing and recipient agencies to take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency which contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR Section 250.14(e)).

Condition

The State DLIR contracts with a warehouse storage facility to store the food inventory donated by the U.S. Department of Agriculture. This food inventory is being stored temporarily until it is distributed to eligible recipient agencies.

We obtained the monthly physical inventory counts performed by the warehouse storage facility. We noted that the physical inventory counts were not reconciled with the Department's records. For the month ended June 30, 2011, the physical inventory counted by the warehouse storage facility was 11,276 cases of food, whereas the Department's records indicated that 5,369 cases of food should have been at the warehouse.

Questioned Costs

Cannot be determined.

Cause

Due to the lack of resources and oversight over the inventory recordkeeping and reconciliation process, the physical inventory count was not reconciled to the Department's records.

Effect

By not reconciling the warehouse physical inventory to the Department's records, inventory discrepancies may be undetected increasing the risk of misappropriation.

Recommendation

Although the Department discontinued using the warehouse storage facility since February 2012, the Department should establish and implement controls to reconcile the food inventory records at the eligible recipient agencies.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-11 Subrecipient Monitoring – Single Audit Report Requirement (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 10.568 and ARRA 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Program from the U.S. Department of Agriculture (Award 2011IY810547, 2010IY810547, and 2010CC200347)

Criteria

OMB Circular A-133 requires a pass-through entity to be responsible for the following:

- Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements and that the required audits are completed within nine months of the end of the subrecipient's audit period;

- Issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and

- Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

The pass-through entity is also required to monitor the subrecipient's use of Federal awards through reporting, perform site visits, keep in regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition

The Department received funds relating to TEFAP, and passed through the funds to four subrecipients. Each of the subrecipients expended more than $500,000 in Federal funds and thus was required to undergo Single Audits. During fiscal year 2011, two of the subrecipients did not have a Single Audit performed.

Questioned Costs

Cannot be determined.

Cause

Department personnel did not aggressively follow up on the failure of two of the subrecipients to have a Single Audit conducted.

Effect

Without obtaining the Single Audit reports and the resultant corrective action plans, the Department would not be able to ascertain whether the subrecipients are complying with the TEFAP provisions and regulations, and whether the subrecipients' internal controls over compliance include any significant deficiencies or material weaknesses.

Recommendation

Department personnel should monitor their subrecipients' compliance with the provisions of OMB Circular A-133 and require proper resolution of any instance of noncompliance. Additional training should be provided to Department personnel, as deemed necessary.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-12 Subrecipient Monitoring — Corrective Action Plan Timeline (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA Nos. 10.568 and ARRA 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Program from the U.S. Department of Agriculture (Award 2010IY810547, 2011IY810547, and 2010CC200347)

Criteria

The Department received funds relating to the TEFAP, and passed through the funds to four subrecipients, which are referred to as Eligible Recipient Agencies (ERAs). OMB Circular A-133 requires State agencies to perform on-site reviews of ERAs and distribution sites operated by such ERAs, in accordance with the State's distribution plan. If deficiencies are identified through the review of an ERA, the State must submit a report of the review findings to the ERA, and ensure that a corrective action plan is developed to eliminate the deficiencies noted. The report submitted by the State must also provide a timeline for taking corrective action.

Condition

During the course of our audit, we examined the reports issued by the State to the four ERAs during fiscal year 2011. These reports noted deficiencies in the ERAs' compliance with TEFAP requirements and required corrective action to be taken. However, the reports did not include any timelines for when such corrective action needed to be undertaken by, even though such timelines are required by the State TEFAP Plan.

Questioned Costs

Cannot be determined.

Cause

When the State examiners wrote the reports detailing their reviews of the ERAs' compliance with TEFAP requirements, they concentrated mainly on the Federal TEFAP requirements (which do not include timeline requirements), as opposed to the requirements included in the State TEFAP Plan (which includes timeline requirements).

Effect

Without specifying a timeline for the ERAs to complete their corrective action plans, the ERAs may not correct all of the deficiencies noted on a timely basis. This may result in a continued violation of TEFAP requirements by the ERAs.

Recommendation

The State examiners should be instructed to include timelines for taking corrective action in their reports to the ERAs, as required by the State TEFAP Plan.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-13 Subrecipient Monitoring — Central Contractor Registration (Significant Deficiency) State Department of Labor and Industrial Relations

CFDA Nos. 10.568 and ARRA 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Program from the U.S. Department of Agriculture (Award 2010IY810547, 2011IY810547, and 2010CC200347)

Criteria

According to OMB Circular A-133, for ARRA subawards, a pass-through entity must inform subrecipients of their need to register in the Central Contractor Registration (CCR), to obtain a DUNS number, and to keep that information current. Such information is necessary for the subrecipients to prepare the ARRA Section 1512 report. Further, the pass-through entity must identify to the subrecipient the Federal award information (i.e., the CFDA title and number, award name and number, if the award is research and development, and name of federal awarding agency).

Condition

During the course of our audit, we examined the Memorandum of Understanding (MOU) between the State and the four subrecipients receiving Federal awards under the TEFAP. The purpose of the MOU is to identify the requirements of, and cooperative clauses in, the TEFAP. The MOU did not include the Federal award information noted above, or the subrecipients' need to register in the CCR.

Questioned Costs

None.

Cause

The State's program specialist does not believe that it is necessary to include the Federal award information in the MOU, as such information can be obtained elsewhere by the subrecipients. For example, such information is included in a grant document that is available online.

Effect

Without adequate Federal award information, subrecipients may have difficulty in researching required information about the grants.

Recommendation

The State should ensure that subrecipients are initially provided with Federal award information in order to ensure that these subrecipients can properly research any requirements relating to their Federal awards. No corrective action is needed for the CCR requirement, as the TEFAP ARRA award was not renewed for the program year 2011 (October 1, 2010 to September 30, 2011).

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-14 Preparation of the Schedule of Expenditures of Federal Awards (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA Nos. 10.568 and ARRA 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Program from the U.S. Department of Agriculture (Award 2010IY810547, 2011IY810547, and 2010CC200347)

Criteria

OMB Circular A-133 requires entities receiving Federal funding to prepare a Schedule of Expenditures of Federal Awards (SEFA). The SEFA must list individual Federal programs by Federal agency and provide the total Federal awards expended for each individual Federal program. In addition, the entity must prepare the appropriate financial statements, including the SEFA.

Condition

During the course of our audit, we tested the preparation of the SEFA by comparing amounts included therein with the amounts included in the Department's accounting records (and as reported on the *FNS-667* form.) We noted differences in amounts for both ARRA awards and non-ARRA awards. For the ARRA awards, the amounts included on the SEFA was understated by $41,405. For the non-ARRA awards, the amounts included on the SEFA was overstated by $56,075. The combining of the two errors results in a net overstatement of the SEFA by $14,670. The error in reporting does not result in a questioned cost.

Questioned Costs

None.

Cause

Due to turnover in the Department, there were several employees who had responsibility in preparing the initial drafts of the SEFA, so errors were probably made during subsequent revisions of the SEFA.

Effect

The SEFA did not properly reflect the Federal expenditures relating to the State TEFAP Plan.

Recommendation

The Department should improve the design and implementation of internal controls relating to the preparation of the SEFA. For example, reconciliation between the accounting records, the *FNS-667* form, and the SEFA should be performed before the SEFA is finalized.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-15 ARRA Reported Information (Material Weakness)
State Department of Labor and Industrial Relations

CFDA No. ARRA 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Program from the U.S. Department of Agriculture (Award 2010CC200347)

Criteria

According to the American Reinvestment and Recovery Act ("Recovery Act" or ARRA), recipients are required to submit periodic reports (on a quarterly basis) to the Federal agency under ARRA Section 1512. Recipients are required to report the cumulative total for the total Federal amount of ARRA expenditures, including the amounts for services performed by subawardees.

Condition

We tested the ARRA 1512 report filed for the quarter ended September 30, 2010, and were not able to find any support for any of the financial information included in the report.

Questioned Costs

Cannot be determined.

Cause

Turnover in the Department resulted in existing personnel being unable to locate the documents and schedules supporting the report in question.

Effect

Without an examination of the documents and schedules supporting the information included on the ARRA 1512 report for the quarter ended September 30, 2010, it is not possible to determine the accuracy of the information included therein.

Recommendation

Controls relating to the preparation and filing of the ARRA 1512 reports should be improved, in order to ensure that the reporting guidelines are adhered to.

Views of Responsible Officials and Planned Corrective Action.

Refer to the attached response.

2011-16 Untimely Submission of Reports (Significant Deficiency)
State Department Labor and Industrial Relations

CFDA No. 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Program from the U.S. Department of Agriculture (Award 2011IY810547 and 2010IY810547)

Criteria

The Department receives funds from the U.S. Department of Agriculture for the administration of TEFAP. Financial information about the State's program is to be reported on the *FNS-667* form on a quarterly and final basis. The *FNS-667* form identifies the amount of funds expended for state-level costs, state-paid emergency food operation costs, local agency paid emergency food operation costs, as well as the State's share of outlays. The *FNS-667* form must be submitted on a quarterly basis no later than 30 days after the end of each quarter. The final report must be submitted no later than 90 days after the end of the fiscal year to which it pertains.

Condition

During the course of our audit, we examined the *FNS-667* forms for each of the quarters in fiscal year 2011, and noted that the forms were not filed before the deadline for two of the quarters. The form for the quarter ended September 30, 2010, was filed 34 days past the deadline and the form for the quarter ended March 31, 2011, was filed 20 days past the deadline.

Questioned Costs

None.

Cause

The lack of proper training of the report preparers and adequate supervisory review over the preparation of the *FNS-667* forms resulted in the untimely submission of the forms.

Effect

The late filing of reports results in a noncompliance with grant requirements.

Recommendation

Controls related to the preparation and the supervisory review of the forms should be improved. A tracking system of the reporting requirements should be developed to remind the preparers of the due dates, and the reviewers of the forms should monitor the timeliness of their preparation and submission.

Views of Responsible Officials and Planned Corrective Action.

Refer to the attached response.

2011-17 Procurement — Tax Clearance Form (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA Nos. 10.568 and ARRA 10.568, Emergency Food Assistance Program (Administrative Costs)
Direct Program from the U.S. Department of Agriculture (Award 2010IY810547, 2011IY810547, and 2010CC200347)

Criteria

In carrying out its program activities, the Department often has to procure goods and services. Hawaii Revised Statutes Chapter 103D pertains to the procurement of goods, services, and construction. HRS 103D-328 requires a contractor to submit a Tax Clearance Form obtained from the State Director of Taxation and the Internal Revenue Service, which certifies that all tax returns have been filed and that all taxes have been paid. The form must be submitted to the State before any procurement contract can be binding.

Condition

During the course of our audit, we examined expenditures made by the Department in connection with the TEFAP. We selected a contract for $100,000, and could not locate the Tax Clearance Form. Accordingly, we were unable to ascertain whether the form had been submitted prior to the awarding of the contract, as required by HRS 103D-328.

Questioned Cost

Cannot be determined.

Cause

The program specialist was not able to explain the inability to locate the form, and suggested that there is a possibility that it had been misfiled. In addition, because of turnover in the Department, it is not possible to ask the person who was originally responsible for the procurement.

Effect

Without the Tax Clearance Form, it is not possible to determine if all of the requirements of HRS 103D-328 were met when the contract was awarded to the vendor.

Recommendation

The internal controls over the maintenance of vendor files and documents should be reviewed to ascertain whether improvements are necessary to strengthen such controls.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-18 Property Records (Deficiency)
State Department of Land and Natural Resources

CFDA 10.676, Forestry Legacy Program
Direct Program from the U.S. Department of Agriculture (Award 07-CA-11052021-178, 08-CA-11052021-127, 08-DG-11052021-128, and 09-DG-11052021-181)

CFDA 11.419, Coastal Zone Management Administration Award
Direct Program from U.S. Department of Commerce (Award NA10NOS4190135)

Criteria

According to OMB Circular A-133, Section F, *Equipment and Real Property Management,* title to real property acquired by non-Federal entities with Federal awards vests with the non-Federal entity. Real property is to be used for the originally authorized purpose as long as needed for that purpose.

In addition, the State's Inventory System User Manual requires property additions to be recorded in the Fixed Asset Inventory System (FAIS) in the quarter of the fiscal year that the property was received.

Condition

During the course of our audit, we tested the timing of the recording of real property acquisitions in the FAIS and noted two instances where the property was not recorded in the quarter that the property was received. For CFDA 10.676, real property acquired in June 2011 was not recorded until the quarter ended December 31, 2011; and for CFDA 11.419, real property acquired in February 2011 was not recorded until the quarter ended December 31, 2011.

Questioned Costs

None.

Cause

The Department did not make a concerted effort to ensure that all real property additions are recorded in the FAIS on a timely basis.

Effect

Without adding real property purchases to the FAIS in the calendar quarter that the real estate is received, the Fixed Asset Inventory Listing would not accurately reflect all of the property that is owned.

Recommendation

Personnel who are responsible for the property records should make a greater effort in ensuring that the records are adequately maintained and updated on a timely basis.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-19 Preparation of the Schedule of Expenditures of Federal Awards (Deficiency)
State Department of Land and Natural Resources

CFDA No. ARRA 10.688, Wildland Fire Management
Direct Program from the U.S. Department of Agriculture (Award 09-DG-11059702-022)

Criteria

OMB Circular A-133 defines a subrecipient as an entity that expends Federal awards that are received from a pass-through entity to carry out a Federal program. The SEFA should include the name of the pass-through entity and the identifying number assigned by the pass-through entity for Federal awards received as a subrecipient.

Condition

During the course of our audit, we tested the SEFA to ascertain that entities identified as subrecipients met the definition included in OMB Circular A-133. We identified an entity that was designated as a subrecipient but which did not meet the definition, and thus should have been designated as a vendor. The payment to that entity totaled $32,659.

Questioned Costs

None.

Cause

The incorrect designation of the entity as a subrecipient was the result of an incorrect coding in the accounting records. When the payment was entered into the accounting system, the subrecipient field was erroneously checked off, instead of being left blank.

Effect

The SEFA improperly designated certain Federal expenditures as being pass-through awards when they were not.

Recommendation

Procedures should be established to require program administrators to review the preparation of their portions of the SEFA to ensure that the amounts are correctly reported.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-20 Davis-Bacon Act (Significant Deficiency)
State Department of Land and Natural Resources

CFDA No. ARRA — 10.688, ARRA — Wildland Fire Management
Direct Program from the U.S. Department of Agriculture (Award 09-DG-11059702-022)

Criteria

The Davis-Bacon Act of 1931 requires that Federally-funded construction projects above $2,000 pay prevailing market wage rates to laborers. Grant recipients are required to monitor construction contractors by identifying how compliance will be monitored and the related risks of failure to monitor compliance with the Davis-Bacon Act. Grant recipients are also required to ensure that prevailing wage rate requirements are appropriately communicated to appropriate personnel. Additionally, compliance with the Davis-Bacon Act is to be monitored by appropriate grant-recipient management who understand the Davis-Bacon Act requirement.

Further, the HRS Section 103D-303.5(a) also requires that at least 15 days prior to submission of proposals pursuant to HRS Section 103D-303 for a construction or design-build project with a total estimated contract value of $100,000 or more, the head of the purchasing agency shall hold a prebid conference and shall invite all potential interested bidders, offerors, subcontractors, and union representatives to attend; and (b) the procurement policy board adopt rules under Chapter 91 to effectuate this section.

Condition

The grant included two projects in which remote wilderness fences were to be erected at two separate locations. The cost of both fences was $182,000 and $175,000, respectively.

The projects began in January 2010. At that time, the State DLNR inquired of the Federal Agency whether the Davis-Bacon Act applied to the “remote wilderness fences.” After a series of correspondence and research, in April 2010 the Federal Agency communicated to the State DLNR that the Davis-Bacon Act in fact was applicable to the fencing. However, since the project was already completed by the time the Federal Agency confirmed that the Davis-Bacon Act applied, it was too late to comply with the applicable requirements.

Questioned Costs

Cannot be determined.

Cause

Due to the lack of training, it was unclear to State DLNR personnel whether the provisions of the Davis-Bacon Act and the related HRS requirements were applicable.

Effect

Potential noncompliance with the Davis-Bacon Act.

Recommendation

Conduct procurement training for the various State DLNR personnel who perform procurement functions. In addition, expedite the hiring of the procurement position within the Division, which has been vacant for the past few years.

Views of Responsible Officials and Planned Corrective Action.

Refer to the attached response.

2011-21 Subrecipient Monitoring (Material Weakness)
State Department of Defense

CFDA No. 11.555, Public Safety Interoperable Communications Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2007-GS-H7-0005)

Criteria

The Department passes through Federal funds to the four counties in Hawaii: City and County of Honolulu, Hawaii County, Kauai County, and Maui County.

OMB Circular A-133 requires a pass-through entity to be responsible for the following:

- Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements and that the required audits are completed within nine months of the end of the subrecipient’s audit period;

- Issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit report; and

- Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

The pass-through entity is also required to monitor the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administered federal awards are in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition

During the course of our audit, we requested from the Department personnel evidence that would demonstrate the Department's monitoring of all four of the subrecipients. The Department personnel indicated that they had not monitored the subrecipients' activities during the fiscal year.

Questioned Costs

Cannot be determined.

Cause

The Department personnel were not familiar with the provisions of OMB Circular A-133 that addressed the monitoring of subrecipients.

Effect

Without the monitoring of subrecipient activities, there would be no assurance that the subrecipients undertook corrective action plans that addressed any deficiencies affecting the Department's pass-through funds.

Recommendation

Procedures should be established that address the monitoring of all subrecipient activities to ensure that such subrecipients take appropriate corrective action on all audit findings.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-22 Personnel Activity Reports (Significant Deficiency)
State Department of Defense

CFDA No. 11.555, Public Safety Interoperable Communications Grant Program
CFDA No. 97.067, Homeland Security Grant Program
Direct Programs from the U.S. Department of Homeland Security (Awards 2007-GS-H7-0005, 2007-GE-T7-0013, 2008-GE-T8-0022, and 2009-SS-T9-00060)

Criteria

According to OMB Circular A-87 Attachment B Item 8(h), "(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation."

Condition

Certain of the Department's personnel work on certain activities that fall under the provisions of the Public Safety Interoperable Communications Grant (CFDA No. 11.555). The Department received approval from its cognizant agency to use funds from the Homeland Security Grant Program (CFDA No. 97.067) to pay for such services. Because these workers provide services to more than one activity, personnel activity reports or their equivalent should have been prepared to support the required allocation of time.

During the course of our audit, we attempted to examine personnel activity reports for the affected grants, but were informed that such activity reports were not prepared.

Questioned Costs

Cannot be determined.

Cause

Supervisory personnel were not aware of the requirement to prepare personnel activity reports for employees working on multiple activities.

Effect

Without the preparation of personnel activity reports, it would be difficult to ascertain the reasonableness of the allocation of payroll among multiple activities.

Recommendation

Personnel working on multiple activities should be required to prepare payroll activity reports, as required by OMB Circular A-87.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-23 Inability to Verify Timely Submittal of Report (Deficiency)
State Department of Defense

CFDA No. 11.555, Public Safety Interoperable Communications Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2007-GS-H7-0005)

Criteria

The grant provides that ". . . the Categorical Assistance Progress Report (CAPR) is due within 30 days after the end of the reporting period. . . .Future awards and fund drawdowns may be withheld if these reports are delinquent."

Condition

We observed documentation showing the CAPR for the six-month period ended December 31, 2010, was submitted, but no supporting documentation was retained to indicate whether the report was filed timely.

Questioned Costs

None.

Cause

The CAPR is submitted electronically on the grantor's website and supervisors did not advise the employee submitting the report to retain evidence of timely filing.

Effect

We cannot be certain that the CAPR was submitted within the 30-day deadline.

Recommendation

Controls relating to retaining proof of timely submission should be improved, to ensure that the reporting guidelines are met.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-24 Property Records (Significant Deficiency)
State Department of Defense

CFDA No. 12.401, National Guard Military Operations and Maintenance Projects
Direct Program from the U.S. Department of Defense (Award W912J6)

Criteria

According to the National Guard Regulation 5-1 — National Guard Grants and Cooperative Agreements, Section 7-2, "(5) State Military Department purchased equipment, unless prohibited by State law, will be accounted for as follows: (a) Equipment property records will be maintained, and reported to the United States Property Fiscal Office (USPFO). Reports will include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property; percentage of federal participation in the cost of the property; the location, use, and condition of the property; and any ultimate disposition data, including the date of disposal and sale price for the property, (b) a physical inventory of the property will be taken and the results reconciled with the USPFO property records at least once every two years.

Condition

The listing of equipment that was reported to the USFPO in fiscal year 2011 was not updated on a regular basis, and thus did not include all of the equipment that should have been reported.

A similar finding was included in the prior year's single audit report. Refer to page 259 (Reference: 2010-17).

Questioned Costs

Cannot be determined.

Cause

The Department did not set a priority of updating its records of equipment purchased with Federal funds. As a result, the listing of the inventory of equipment was inaccurate.

Effect

Without an accurate listing of equipment, the Federal government will not be able to determine that the Department is properly accounting for, and utilizing, the equipment purchased with Federal funds.

Recommendation

The Department should take a physical inventory of the equipment purchased with Federal funds and update its listing of such equipment.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-25 — Davis-Bacon Act (Significant Deficiency)
State Department of Defense

CFDA No. 12.401, National Guard Military Operations and Maintenance Projects
Direct Program from the U.S. Department of Defense (Award W912J6)

Criteria

The Davis-Bacon Act of 1931 requires that Federally-funded construction projects above $2,000 pay prevailing market wage rates to laborers. Grant recipients are required to monitor construction contractors by identifying how compliance will be monitored and the related risks of failure to monitor compliance with the Davis-Bacon Act. Grant recipients are also required to ensure that prevailing wage rate requirements are appropriately communicated to appropriate personnel. Additionally, compliance with the Davis-Bacon Act is to be monitored by appropriate grant-recipient management who understand the Davis-Bacon Act requirement.

Condition

The Department engages numerous contractors for various construction projects. However, through our testing of internal controls, we noted that the Department's project managers do not consistently review the contractors' submitted certified payroll reports for compliance with the Act.

A similar finding was included in the prior year's single audit report. Refer to page 261 (Reference: 2010-21).

Questioned Costs

Cannot be determined.

Cause

The Department has not established adequate internal control procedures to monitor the contractors' compliance with the Davis-Bacon Act. In addition, the Department claims that it does not have sufficient resources to adequately monitor the contractors.

Effect

Because the contractors are not adequately monitored for compliance with the Davis-Bacon Act, there is a possibility that laborers are not being paid the prevailing market wage rates.

Recommendation

Internal controls should be established to ensure that the Department's personnel are adequately monitoring the contractors' compliance with the Davis-Bacon Act.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-26 ARRA Reporting Requirements (Significant Deficiency)
State Department of Defense

CFDA No. ARRA 12.401, National Guard Military Operations and Maintenance Projects
Direct Program from the U.S. Department of Defense (Award 912J6)

Criteria

The Recovery Act includes certain requirements and restrictions relating to the use of its funds. Accordingly, it is the responsibility of the Department to communicate these requirements and restrictions to the contractors receiving such funds.

Condition

The State DOD does not normally communicate the ARRA requirements to its contractors, and does not usually check the contractors for compliance with such requirements.

A similar finding was included in the prior year's single audit report. Refer to page 260 (Reference: 2010-20).

Questioned Costs

Cannot be determined.

Cause

The Department believes that it is the responsibility of the vendors to become familiar with the ARRA regulations. It also believes that the disbursement of ARRA funds to the local construction industry is sufficiently widespread, such that the vendors are knowledgeable of the requirements.

Effect

There is a possibility that certain vendors are not sufficiently knowledgeable of ARRA's regulations, such that improper expenditures are made.

Recommendation

Internal controls should be established to monitor the vendors for compliance with the ARRA regulations.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-27 Payroll Certifications (Significant Deficiency)
State Department of Defense

CFDA No. 11.555, Public Safety Interoperable Communications Grant
Direct Program from the U.S. Department of Homeland Security (Award 2007-GS-H7-0005)

CFDA No. 93.558, Temporary Assistance for Needy Families (TANF) Cluster
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013, 2008GET80022, 2009SST90006, and 2010SST00006)

Criteria

According to OMB Circular A-87 Attachment B Item 8(h), "(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee."

Condition

We noted that payroll certifications were not completed for employees who solely worked on a single Federal award. From our testing procedures, we selected eight employees who were required to complete a payroll certification. Of the employees that were required to submit a certified payroll, we noted that the required certification was not completed for seven out of the eight employees tested.

A similar finding was included in the prior year's single audit report. Refer to page 260 (Reference: 2010-19).

Questioned Costs

Cannot be determined.

Cause

The nonpreparation of the payroll certification is due to a lack of monitoring by program administrators and supervisory officials to ensure that payroll certifications are completed.

Effect

Incorrect payroll expenditures could potentially be allocated to the Federally-funded programs.

Recommendation

Enforce the requirement that all employees who worked on a specific grant program to complete a payroll certification on a semiannual basis at a minimum.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-28 Cash Management (Material Weakness)
State Department of Defense

CFDA No. 12.404, National Guard Challenge Program
Direct Program from the U.S. Department of Defense (Award W912J6)

Criteria

Under the Master Youth Programs Cooperative Agreement (MYPCA), the Department is required to minimize the time elapsing between the transfer of funds from the U.S. Treasury and their disbursement by the Department. Under the provisions of the MYPCA, "The State shall determine the estimated amount of funds necessary to cover each month's operation under this advance payment financing arrangement. The State shall submit its request for advance payment to the USPFO approximately 30 days prior to the beginning of the period for which any advance payment of cash requirement exists."

Condition

The Department received an advance funding of $184,460 on December 22, 2010. A portion of the funds were used within the appropriate timeframe and two of the selections were outside of the appropriate timeframe. We tested two disbursements from this amount to determine if the funds were disbursed within 30 days from the date of their receipt. We noted that both disbursements were made in excess of the 30-day requirement: the elapsed time for one being 63 days and the other being 138 days.

Questioned Costs

Cannot be determined.

Cause

The Department's program budget technician who was responsible for the drawdown and disbursement of the program funds was erroneously under the impression that the fiscal year 2010 award funding was going to close and that the Department would not be able to request an extension of the program funding. Thus, he drew down a larger amount than was necessary for the January 2011 time period in order to have sufficient funds to cover the remainder of the program period.

Effect

The drawing down of funds in excess of the 30-day requirement violated the provisions of the MYPCA and allowed the Department to have Federal funds in excess of its immediate needs.

Recommendation

Supervisory oversight of the drawdown and disbursement of Federal funds should be strengthened in order to avoid similar instances in the future.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-29 Close Out Reporting (Significant Deficiency)
State Department of Defense

CFDA No. 12.404, National Guard Challenge Program
Direct Program from the U.S. Department of Defense (Award W912J6)

Criteria

According to the grant agreement, Article III — Costs, Section 305 Fiscal Year Closeout and Settlement,

a. "Within 90 days after the end of the fiscal year or upon termination of the Master Youth Programs Cooperative Agreement (MYPCA), whichever is earlier, the State shall promptly deliver to the United States Property and Fiscal Office (USPFO), as a representative of National Guard Bureau (NGB), a final accounting of all funding and disbursements under the agreement for the fiscal year. After completion of the State's final accounting, USPFO shall make a final settlement of the total NGB contribution for that fiscal year."

Condition

The State DOD did not complete the required closeout and settlement reporting for the Kalaeloa and Kulani program sites.

Questioned Costs

None

Cause

There was a lack of monitoring to ensure this requirement was met.

Effect

The final accounting of all funding and disbursements were not submitted to USPFO in a timely manner, in violation of the agreement.

Recommendation

The State should improve the controls over monitoring grant reporting requirements to ensure all required reports are timely filed.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-30 Close Out Reporting, Kulani Program Site (Significant Deficiency)
State Department of Defense

CFDA No. 12.404, National Guard Challenge Program
Direct Program from the U.S. Department of Defense (Award W912J6)

Criteria

According to the grant agreement, Article III — Costs, Section 305 Fiscal Year Closeout and Settlement,

> "If unliquidated claims and undisbursed obligations arising from the State's performance of the agreement will remain 90 days after the close of the fiscal/budget year, the State shall provide a detailed listing of uncleared obligations and a projected timetable for their liquidation and disbursement no later than 90 days after the close of the fiscal/budget year. The USPFO shall then set an appropriate new timetable for the State to submit their final accounting and these items shall be eligible for reimbursement. The USPFO may extend the 90-day limit for good cause."

Condition

During our cash management testing, we noted that funds were spent after the close of the 2010 award for the Kulani program site, but there was no approval letter from the United States Property and Fiscal Office (USPFO) to disburse unliquidated claims and undisbursed obligations, as required by the grant agreement.

Questioned Costs

Cannot be determined.

Cause

The National Guard Bureau abruptly closed the 2010 Kulani award and did not give the State DOD prior notice.

Effect

Funds are being disbursed after the close of the award without the proper approval from USPFO, in violation of the agreement.

Recommendation

The State should improve the controls over monitoring grant reporting requirements to ensure approval letters are obtained prior to disbursing any remaining funds after grant close out.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-31 Payroll Certifications (Significant Deficiency)
State Department of Defense

CFDA No. 12.404, National Guard Challenge Program
Direct Program from the U.S. Department of Defense (Award W912J6)

Criteria

According to OMB Circular A-87 Attachment B Item 8(h), "(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee."

Condition

During the course of our audit, we selected two employees who worked solely on a single Federal award to determine if the proper payroll certifications were filed on a timely basis. We noted that the required certifications (in which the employees certify that they worked solely on the program for the period covered) were not prepared by these employees or their supervisors.

Questioned Costs

Cannot be determined.

Cause

The employees did not place a priority on preparing the required certifications and their supervisors did not adequately monitor their compliance with this requirement.

Effect

Without the completion of the required payroll certifications, there exists a possibility that employees may be working on unauthorized or unallowable activities while being paid from a specific grant program funding.

Recommendation

Enforce the requirement that all employees or their supervisors complete payroll certifications while working on a single Federal award program.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-32 Payroll Allowable Costs (Deficiency)
State Department of Land and Natural Resources

CFDA No. 15.605, Coordination of Statewide Sport Fish Restoration
Direct Program from the U.S. Department of the Interior (Award F-13-C-35)

Criteria

OMB Circular A-87 indicates that compensation for personnel services includes all remuneration paid or accrued for services rendered during the period of performance under Federal awards, including wages, salaries, and fringe benefits. The costs of such compensation is allowable if the total compensation is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and State activities.

Condition

During the course of our audit, we tested the compensation paid to eight employees to determine if they met the provisions of OMB Circular A-87. We noted that for the program under CFDA No. 15.605, manual worksheets are used as a basis for allocating payroll expenses to the grant. We found exceptions for two out of the eight employees.

In the first instance, the employee's pay rate was increased by $0.75 per hour in May 2009. However, the manual worksheets used to allocate payroll expenses to the grant were not updated to reflect the increase until February 2011. Therefore, for the period from May 2009 to February 2011, the grant was undercharged by $0.75 for each hour the employee worked on the grant.

In the second instance, the employee received a monthly pay differential of $153, beginning some time in 1996. However, the manual worksheets used to allocate payroll expenses to the grant were never updated to reflect the increase. Therefore the grant was undercharged by $153 per month or $1,620 for fiscal year 2011.

Questioned Costs

Cannot be determined.

Cause

The program accountant indicated that it was an oversight that the manual worksheets were not updated to reflect the payroll increases.

Effect

The grant in question was not allocated the total allowable compensation expense for the employees who performed services under the grant.

Recommendation

Internal controls over the allocating of payroll costs to the grants should be reviewed and strengthened in order to prevent future occurrences of misstatements.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-33 Allowable Costs — Allocation of R&D Expenses (Deficiency)
State Department of Land and Natural Resources

CFDA 15.611, Wildlife Restoration, 15.615, Cooperative Endangered Species, 15.634, State Wildlife Grant Direct Awards from the U.S. Department of Interior (Awards W-22-G-16, E-2-11, T-2-8)

Criteria

OMB Circular A-87 establishes principles and standards for determining allowable direct and indirect costs for Federal awards.

Condition

Certain State DLNR grants consist of projects with multiple activities (in which research and development may be one of the multiple activities for the project). We noted that for invoices received, research and development costs are estimated and allocated within the grants using a percentage of 50% research and development and 50% for non-research and development. The allocation method supporting the 50% estimate could not be provided.

Questioned Costs

Cannot be determined.

Cause

The program manager was not aware that research and development costs needed to be specifically tracked and therefore estimated a percentage.

Effect

The amount of research and development costs could potentially be incorrect.

Recommendation

Establish and implement controls to ensure that costs relating to research and development are separately tracked and accounted for accurately. Alternatively, a basis supporting the allocation estimate should be prepared.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-34 Untimely Submission of Reports (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA 17.207, 17.801, 17.804, Employment Services Cluster
Direct Program from the U.S. Department of Labor (Award DV-19669-10-55-5-15)

Criteria

According to OMB Control No. 1293-0009 and Veterans' Program Letter No. 01-10, program awardees are required to submit an Expenditure Register Report within 30 days after the end of the reporting period.

Condition

During the course of our audit, we examined two Expenditure Register Reports that were submitted at the end of the December 31, 2010, reporting period. We noted that one of the reports was submitted 115 days after December 31, 2010, in excess of the 30-day requirement.

A similar finding was included in the prior year's single audit report. Refer to page 263 (Reference: 2010-26).

Questioned Costs

None

Cause

The lack of adequate supervisory review over the preparation of the required reports allowed the report to be filed late.

Effect

The late filing of reports may cause a delay in the review of the Department's performance and adherence to grant requirements by the awarding agency.

Recommendation

Internal controls over financial reporting should be improved to ensure that all required financial reports are prepared, reviewed, and submitted prior to reporting deadlines.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-35 Physical Inventory of Equipment (Deficiency)
State Department of Labor and Industrial Relations

CFDA 17.207, 17.801, 17.804, Employment Services Cluster
Direct Program from the U.S. Department of Labor (Award DV-19669-10-55-5-15)

Criteria

According to OMB Circular A-133, Section F, *Equipment and Real Property Management,* equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Condition

During the course of our audit, we selected one program branch location to test whether a physical inventory of equipment was taken within two years from the last physical inventory of May 11, 2009. We did ascertain that a subsequent physical inventory was taken; however, such inventory was taken on September 27, 2011, which is a date past the two-year cut-off.

Questioned Costs

None.

Cause

The Branch did not set a timetable of when a physical inventory of equipment needed to be taken, and thus failed to realize that the two-year date had passed.

Effect

Without a physical inventory of equipment being taken every two years, there is an increased risk of misappropriation of assets and the untimely identification of missing equipment.

Recommendation

A timetable should be established in order to ensure that a physical inventory of equipment is taken at least once every two years.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-36 Property Records (Deficiency)
State Department of Labor and Industrial Relations

CFDA 17.207, 17.801, 17.804, Employment Services Cluster
Direct Program from the U.S. Department of Labor (Award DV-19669-10-55-5-15)

Criteria

According to OMB Circular A-133, Section F, *Equipment and Real Property Management,* equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

In addition, the State's Inventory System User Manual requires equipment additions to be recorded in the equipment listing in the quarter of the fiscal year that the equipment was received.

Condition

We tested one of two equipment purchases made by the grant during the year and noted that the addition was not recorded in the calendar quarter that the equipment was received, but it was recorded in the subsequent quarter.

Questioned Costs

None.

Cause

The Department did not make a concerted effort to ensure that all equipment additions are recorded in the equipment listing on a timely basis.

Effect

Without adding equipment purchases to the equipment listing in the calendar quarter that the equipment is received, the equipment listing would not accurately reflect all of the equipment is on hand.

Recommendation

Personnel who are responsible for the equipment records should make a greater effort in ensuring that the records are adequately maintained and updated on a timely basis.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-37 Travel Policy (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 17.225, Unemployment Insurance
Direct Program from the U.S. Department of Labor (Award UI-19578-10-55-A-15)

Criteria

The State's procurement process includes many steps to ensure the integrity of the awarding of state contracts, including travel procedures, which states that "*applicable forms and worksheets shall be used for the purposes of Intra-State and Out-of-State travel.*" Applicable forms consist of the Travel Approval Form and the Statement of Completed Travel. In addition, applicable worksheets consist of, Airfare: worksheet A, Per Diem: worksheet B, Hotel Lodging: worksheet C, Transportation: worksheet D, Ferry Service: worksheet E, and Other miscellaneous fees. Further, per examination of State Procurement Office (SPO) travel procedures, noted that "a Statement of Completed Travel is required, along with all applicable worksheets and supporting documents/receipts within 10 days upon return to duty for reimbursement of traveler's expenses."

Condition

We tested 25 selections in which two selections were travel reimbursements. Of these, we noted one instance in which the *Statement of Completed Travel* and supporting documents/receipts were not submitted within the 10-day deadline.

A similar finding was included in the prior year's single audit report. Refer to page 262 (Reference: 2010-24).

Questioned Costs

None.

Cause

The lack of adequate monitoring of travel reports and follow-up on delinquent/missing reports.

Effect

The failure to file travel reports within the 10-day deadline would possibly result in expenditures being reported in the wrong accounting period. This may have a negative impact on the comparison of actual expenditures to the amounts budgeted by period.

Recommendation

Employees should be reminded of the SPO's Travel Policy at the time an employee's request for travel is approved, and the traveler's supervisor should follow up on all delinquent reports.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-38 Property Records (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 17.225, Unemployment Insurance
Direct Program from the U.S. Department of Labor (Award UI-19578-10-55-A-15)

Criteria

According to OMB Circular A-133, Section F, *Equipment and Real Property Management,* equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Condition

During our testing of equipment additions and disposals for compliance, we noted that the equipment listing was not accurate or complete. The equipment listing was not updated for all purchases and disposals of equipment made during fiscal year 2011. As a result, the equipment records were not adequately maintained, as required by OMB Circular A-133.

Questioned Costs

Cannot be determined.

Cause

The Department did not set a priority of updating its records of equipment purchased with Federal funds. As a result, the listing of the inventory of equipment was inaccurate.

Effect

Without an accurate listing of equipment, the Federal government will not be able to determine that the Department is properly accounting for, and utilizing, the equipment purchased with Federal funds.

Recommendation

The Department should take a physical inventory of the equipment purchased with Federal funds and update its listing of such equipment.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-39 Federal Withholding Taxes (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 17.225, Unemployment Insurance
Direct Program from the U.S. Department of Labor (Award UI-19578-10-55-A-15, UI-21095-11-A-15)

Criteria

Unemployment Insurance Program Letter No. 11-09 provides guidance for implementing and operating the Federal Additional Compensation (FAC) program. The Letter indicates that the $25 FAC is taxable, and Federal income taxes should be withheld from the weekly benefit payment when an individual so elects to have such taxes withheld.

Condition

During the course of our audit, we examined 60 selections of which 15 claimants were paid FAC. Out of the 15 payments to claimants, three had elected to have Federal income taxes withheld. However, no income tax withholdings were made.

A similar finding was included in the prior year's single audit report. Refer to page 262 (Reference: 2010-25).

Questionable Costs

Cannot be determined.

Cause

The Department's Benefit Payment system, which handles the FAC program, does not have the capability to withhold Federal income taxes from the FAC payments.

Effect

Due to system limitations, the Department is not able to comply with the provisions of the FAC program. This may cause undue hardship to the claimants when they file their income tax returns.

Recommendation

The feasibility of making revisions to the Benefit Payment system in order to fully comply with the FAC program regulations should be investigated, along with an analysis of the resulting cost-benefit relationship.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-40 Timeliness of Unemployment Insurance Claim Processing (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 17.225, Unemployment Insurance
Direct Program from the U.S. Department of Labor (Award UI-18016-09-55-A-15, UI-19578-10-55-A-15)

Criteria

The U.S. Department of Labor has instituted an Unemployment Insurance (UI) Benefit Accuracy Measurement (BAM) System that provides the basis for assessing the accuracy of UI payments. Under the System, representative samples of UI payments and disqualifying ineligibility determinations are drawn and examined to determine whether they were properly administered to claimants and whether these payments were paid the proper amounts, or appropriately denied. Based on the errors identified and information gathered, each State must develop plans and implement corrective actions to ensure accurate administration of State law, rules, and procedures.

The System requires each State to complete a minimum number of UI cases timely in order to maintain a current database. The required number of cases and the timeliness percentages for completing paid and denied claims are as follows:

Paid Claims:

1. Minimum Cases: 360 paid cases

2. Timeliness Percentages: Complete 70% within 60 days; 95% within 90 days; and 98% within 120 days

Denied Claims:

1. Minimum Cases: 450 denied cases (150 cases for each category: monetary, separations, and non-separations)

2. Timeliness Percentages: Complete 60% within 60 days; 85% within 90 days; and 98% within 120 days

Condition

During the course of our audit, we obtained and examined the State BAM unit's *Time Lapse Report* for the period between January 2010 to December 2010 and the Hawaii Regional Review Memo, which details a summary of the BAM unit review by the Unemployment Insurance of the Regional Office, to determine whether the State achieved the completion of the minimum required cases in accordance with the stipulated percentages for the following categories: (1) paid claims, (2a) denied claims-monetary based, (2b) denied claims — separation based, and (2c) denied claims — non-separation based. We noted that the State BAM unit failed to meet the required completion percentages for all of the categories listed above, except for the requirement to complete 70% of paid claims within 60 days. Per the Hawaii Regional Review Memo, we noted of the 361 paid cases selected; only 359 cases are completed timely. For denied cases, we noted at least 150 cases were selected, but only 111 cases were completed timely for monetary and non-separation types; and 107 cases were completed timely for separation types.

Questioned Costs

Cannot be determined.

Cause

According to information provided by the State BAM unit, due to retirements and turnover of staff personnel, there is a shortage of employees, such that the all of the UI claims paid or denied cannot be processed within the time frame required by the Federal government.

Effect

A continued failure to meet the percentage completion requirements for paid or denied claims may cause the State BAM unit's database to contain outdated data, such that erroneous conclusions may be drawn about the effectiveness of the State's UI system.

Recommendation

An analysis should be undertaken to determine the cost-benefit relationship of changing personnel's duties to put more emphasis on processing UI claims in accordance with the BAM requirements.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-41 Property Records (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA ARRA 17.275, Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors
Direct Program from the U.S. Department of Labor (Award GJ-19811-10-60-A15)

Criteria

According to OMB Circular A-133, Section F, *Equipment and Real Property Management,* equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

In addition, according to the State's Inventory System User Manual, "page 34 under Timing of Recordation," newly acquired property shall be recorded in the FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility for maintaining the property. This applies to new purchases, capital lease, donated or transferred property."

Condition

During our testing of equipment additions and disposals for compliance, we noted that the equipment listing was not accurate or complete. The equipment listing was not updated for the equipment purchased or disposed during fiscal year 2011. As a result, the equipment records were misstated by $34,126.

Questioned Costs

Cannot be determined.

Cause

The Department did not set a priority of updating its records of equipment purchased with Federal funds. As a result, the listing of the inventory of equipment was inaccurate.

Effect

Without an accurate listing of equipment, the Federal government will not be able to determine that the Department is properly accounting for, and utilizing, the equipment purchased with Federal funds.

Recommendation

The Department should take a physical inventory of the equipment purchased with Federal funds and update its listing of such equipment.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-42 Subrecipient Monitoring: No On-Site Review Performed (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. ARRA — 17.275, Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors
Direct Program from U.S. Department of Labor (Award GJ-19909-10-60-A-15)

Criteria

The State DLIR's Program of Competitive Grants for Worker Training agreements require that full on-site reviews of subrecipients be performed each year of the award period. Such reviews should include administrative, fiscal, personnel and program components.

Condition

During the course of our audit, we noted that physical on-site reviews were not performed within one year of the subrecipient agreement's effective date for all four of the subrecipients selected for testing.

Questioned Costs

None.

Cause

The on-site reviews were mainly due to the lack of resources and controls to ensure that the on-site monitoring takes place in accordance with subrecipient agreements.

Effect

Without proper on-site/fiscal monitoring, the State DLIR cannot ensure the existence of accountability for program resources and for providing subrecipients with information useful to the improvement of the program's operations and services.

Recommendation

Personnel who are responsible for the on-site monitoring should make a greater effort in ensuring that the on-site reviews of all subrecipients are performed at least once a year in accordance with the subrecipient agreements.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-43 Travel Policy (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. ARRA 17.275, Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors

Direct Program from the U.S. Department of Labor (Award GJ-19811-10-60-A15)

Criteria

The State Procurement Office Travel Policy requires a *Statement of Completed Travel,* along with all applicable worksheets and supporting documents/receipts, to be submitted within 10 days upon return to duty for reimbursement of the traveler's expenses.

Condition

We tested 40 selections in which 15 selections were travel reimbursement. Of these, we noted two instances in which the *Statement of Completed Travel* and supporting documents/receipts were not submitted within the 10-day deadline. For one instance, the form was due on May 20, 2011; however, the form was not submitted until June 29, 2011. For the other instance, the form appeared to never have been submitted.

Questioned Costs

$1,242.

Cause

The lack of adequate monitoring of travel reports and follow up on delinquent reports allowed the submission of such reports to be late.

Effect

The failure to file travel reports within the 10-day deadline would possibly result in expenditures being reported in the wrong accounting period. This may have a negative impact on the comparison of actual expenditures to the amounts budgeted by period.

Recommendation

Employees should be reminded of the SPO's Travel Policy at the time an employee's request for travel is approved, and the traveler's supervisor should follow up on all delinquent reports.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-44 Federal Reporting Accuracy (Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. 81.041, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

Criteria

The State DBEDT is required to periodically file Federal Form SF-425, *Federal Financial Report,* with the Federal government in accordance with the report instructions.

Condition

During our testing, we noted that the Federal Form SF-425 for the quarters ended March 31, 2011, and June 30, 2011, contained inaccurate amounts. For the quarter ended March 31, 2011, the Department's accounting records reflected cash receipts of $1,843,627, but $1,904,607 was reported on the Federal Financial Report, resulting in an overstatement of $60,980. In addition, for that same quarter, the Department's accounting records reported cash disbursements of $2,087,722, but $2,089,363 was reported on the Federal Financial Report, resulting in an overstatement of $1,641. Also, for the quarter ended June 30, 2011, the Department's accounting records reflected cash receipts of $3,370,631, but $3,304,108 was reported on the Federal Financial Report, resulting in an understatement of $66,523. The differences were due to timing and therefore were corrected in the subsequent reporting.

Questioned Costs

None.

Cause

The lack of adequate supervisory review over the preparation of Federal Form SF-425 allowed errors to be made in the preparation of the reports.

Effect

The financial information relating to cash receipts and disbursements for the program was inaccurately reported to the Federal Government.

Recommendation

Controls related to the supervisory review of reports should be improved. The Department should consider improving the design and implementation of reporting internal controls to ensure accuracy and completeness of data and information included in reports submitted to the Federal awarding agency.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-45 ARRA Reported Information (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.041, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

Criteria

According to the Recovery Act, recipients are required to submit periodic reports (on a quarterly basis) to the Federal agency under ARRA Section 1512. Recipients are required to report the cumulative total for the total Federal amount of ARRA expenditures, including the amounts for services performed by subawardees.

Condition

We tested the ARRA Section 1512 reports filed for the quarters ended December 31, 2010, and June 30, 2011, and noted errors on both of the reports. On the December 31, 2010, report, the State Public Utilities

Commission and the State DAGS were identified as subawardees, however, the Department's subaward agreements included the State Public Utilities Commission and Kauai Island Utility Cooperative as the subawardees. And, on the June 30, 2011, report, the State Public Utilities Commission and the State DAGS were identified as subawardees on the Section 1512 reports; however, the Department's subaward agreements included the State Public Utilities Commission, Kauai Island Utilities Cooperative, City and County of Honolulu, County of Kauai, GreenCar Hawaii, Plug in America, Better Place, and AeroVironment as subawardees.

As a result of the erroneous identification of subawardees, the expenditures made by the subawardees were incorrectly stated on the ARRA Section 1512 reports as follows:

	Per ARRA 1512 Report	**Per Department Accounting Records**	**Difference**
Subawardee Expenditures:			
Quarter Ended 12/31/10	$ 2,818	$ 1,333,581	$ (1,330,700)
Quarter Ended 6/30/11	2,818	2,941,230	(2,938,412)
Subawardee Awards:			
Quarter Ended 12/31/10	6,200,000	6,400,000	(200,000)
Quarter Ended 6/30/11	6,200,000	9,000,000	(2,800,000)

Questioned Costs

Cannot be determined. The underreporting of expenditures does not necessarily indicate that the expenditures per the Department's accounting records should be disallowed.

Cause

The person preparing the ARRA Section 1512 report was not completely aware of the reporting requirements, and the person supervising its preparation did not review the report in sufficient detail.

Effect

Incorrect amounts were communicated to the Federal agency and the general public.

Recommendation

Controls relating to the preparation and review of the ARRA Section 1512 reports should be improved, in order to ensure that the reporting guidelines are adhered to.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-46 Communicating CFDA Numbers to Subrecipients (Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. 81.041, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

Criteria

According to OMB Circular A-133, at the time of a subaward, the pass-through entity must identify to the subrecipient the Federal award information (i.e., the CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements. For ARRA subawards, the amount of ARRA funds provided by the subaward must be identified, and the subrecipient must be advised of the requirement to identify the ARRA funds in the SEFA.

Condition

During fiscal year 2011, the State Energy Program entered into subaward agreements with Kauai Island Utility Cooperative, City and County of Honolulu, County of Kauai, GreenCar Hawaii, Plug in America, Better Place, and AeroVironment. The agreements for each of these entities did not include all of the required Federal award information, in that the CFDA title and number were not included. However, other information such as the award name and number, if the award is for research and development, name of Federal awarding agency and certain other applicable requirements were included.

Questioned Costs

None

Cause

The personnel responsible for preparing the subaward agreements were not aware of the all of the required information that needed to be communicated to the subrecipients.

Effect

The potential for the subrecipients to make errors in their reports to the pass-through entity and the Federal government would be increased, due to their lack of knowledge of the applicable CFDA information.

Recommendation

The existing subaward agreements should be reviewed and amended to include all required Federal award information. In addition, the personnel preparing the subaward agreements should be properly trained as to the required information that should be included in these agreements.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-47 Travel Policy (Deficiency)
State Department of Business, Economic Development and Tourism

CFDA 81.041, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

Criteria

The SPO Travel Policy requires a *Statement of Completed Travel,* along with all applicable worksheets and supporting documents/receipts, to be submitted within 10 days upon return to duty for reimbursement of the traveler's expenses.

Condition

In our sample of 40 transactions, we noted two instances (out of the 11 travel transactions tested) in which the *Statement of Completed Travel* and supporting documents/receipts were not submitted within the 10-day deadline.

Questioned Costs

None.

Cause

The lack of adequate monitoring of travel reports and follow-up on delinquent reports allowed the submission of such reports to be late.

Effect

The failure to file travel reports within the 10-day deadline would possibly result in expenditures being reported in the wrong accounting period. This may have a negative impact on the comparison of actual expenditures to the amounts budgeted by period.

Recommendation

Employees should be reminded of the SPO's Travel Policy at the time an employee's request for travel is approved, and the traveler's supervisor should follow up on all delinquent reports.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-48 Untimely Submission of Reports (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA 81.041, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

Criteria

The State Energy Program Grant Agreements require the submission of various reports by specified deadlines. For example, awardees are required to submit performance reports within 30 days after the end of each quarterly period. These performance reports should include information such as a comparison of actual accomplishment with the goals and objectives established for each period; reasons why established goals were not met; and other pertinent information.

Condition

During the course of our audit, we examined two performance reports for the quarters ended March 31, 2011 and June 30, 2011. We noted that the performance report for the quarter ended March 31, 2011, was submitted four days after the deadline.

A similar finding was included in the prior year's single audit report. Refer to page 264 (Reference: 2010-28).

Questioned Costs

None.

Cause

The lack of adequate supervisory review over the preparation of the required reports allowed these reports to be filed late.

Effect

The late filing of the required reports may cause a delay in the review of the Department's performance and adherence to grant requirements by the awarding agency.

Recommendation

Internal controls over financial reporting should be improved to ensure that all required financial reports are prepared, reviewed, and submitted prior to reporting deadlines.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-49 Preparation of the Schedule of Expenditures of Federal Awards (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 81.042 and ARRA — 81.042, Weatherization Assistance for Low-Income Persons
Direct Program from the U.S. Department of Energy (Award EE0000176, EE0000183)

Criteria

OMB Circular A-133 requires affected entities to prepare a SEFA. The SEFA must list individual Federal programs by Federal agency and provide the total Federal awards expended for each individual Federal program. In addition, the entity must prepare the appropriate financial statements, including the SEFA.

Condition

During the course of our audit, we tested the preparation of the SEFA by comparing amounts included therein with the amounts included in the Department's accounting records (and as reported on the Federal Financial Report SF-425.) We noted differences in amounts reported for the non-ARRA and ARRA grants.

Non-ARRA grant — The adjusted accounting records and the Financial Status Report (determined on a program-year basis) reflected actual expenditures of $118,932, while the adjusted SEFA included an amount of $110,496 relating to the program year. Thus, there is a difference of $8,436.

ARRA grant — Similar to the above, the adjusted accounting records and the Financial Status Report (determined on a program-year basis) reflected actual expenditures of $1,837,826, while the adjusted SEFA included an amount of $1,793,231 relating to the program year. Thus, there is a difference of $44,595.

Questioned Costs

The SEFA is understated by $8,436 for the non-ARRA grant and $44,595 for the ARRA grant.

Cause

The individuals responsible for preparing the SEFA indicated that expenditures that were not paid by Federal funds were inadvertently included in the SEFA.

Effect

Errors in the SEFA may cause awarding agencies to reach erroneous conclusions about the status of their awards.

Recommendation

Procedures should be established to require program administrators to review the preparation of their portions of the SEFA to ensure that the amounts are correctly reported.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-50 Federal Reporting Accuracy (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 81.042 and ARRA — 81.042, Weatherization Assistance for Low-Income Persons
Direct Program from the U.S. Department of Energy (Award EE0000176, EE0000183)

Criteria

The State DLIR is required to quarterly file the Federal Form SF-425, *Federal Financial Report,* with the Federal government in accordance with the report instructions. In addition, the ARRA Section 1512 reporting is required on a quarterly basis.

Condition

During the course of our audit, we tested the Federal Form SF-425 for the quarter ended March 31, 2011 and June 30, 2011, for both ARRA and non-ARRA. We noted the reports for the quarter ended March 31, 2011, contained errors relating to the reporting of cash receipts. The Department's accounting records and the Federal Ledger Sheets indicated cash receipts of $365,438 (non-ARRA) and $2,911,288 (ARRA). However, $540,438 and $2,961,171 were reported on the form SF-425, resulting in an understatement of $175,000 and overstatement of $49,883 for non-ARRA and ARRA, respectively. We also tested the ARRA Section 1512 reports for the quarter ended September 30, 2010 and March 31, 2011. We noted the both reports contained errors relating to the reporting of total federal amount received/invoiced. The Department's accounting records, the Federal Ledger Sheets, indicated total federal amount of ARRA funds received of $2,134,886 (September 30, 2010) and $2,911,288 (March 31, 2011), but $2,534,305 and $2,832,241 were reported on the 1512 reports, resulting in an overstatement of $399,419 for the quarter ended September 30, 2010, and understatement of $79,047 for the quarter ended March 31, 2011. For the quarter ended March 31, 2011, total federal amount of ARRA expenditure was understated by $128,930 on the 1512 report.

A similar finding was included in the prior year's single audit report. Refer to page 264 (Reference: 2010-29).

Questioned Costs

Cannot be determined.

Cause

The lack of adequate supervisory review over the preparation of Federal Form SF-425 and ARRA Section 1512 reports resulted in errors being made in the preparation of reports and in the untimely submission of such reports.

Effect

The financial information relating to cash receipts for the program was inaccurately reported to the Federal government.

Recommendation

Controls related to the supervisory review of reports should be improved. The Department should consider improving the design and implementation of reporting internal controls to ensure accuracy and completeness of data and information included in reports submitted to the Federal awarding agency.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-51 Subrecipient Monitoring — No On-Site Review Performed (Significant Deficiency) State Department of Labor and Industrial Relations

CFDA No. 81.042, Weatherization Assistance for Low-Income Persons
Direct Program from the U.S. Department of Energy (Award EE0000176)

Criteria

The State DLIR's Weatherization Assistance for Low-Income Persons agreements require that full on-site reviews of subrecipients be performed at least once every three years. Such reviews should include administrative, fiscal, personnel, and program components.

A similar finding was included in the prior year's single audit report. Refer to page 268-269 (Reference: 2010-38).

Condition

We noted that while the State DLIR monitored the subrecipients by communicating via telephone and e-mail frequently, physical on-site reviews were not performed during the program years 2010 and 2011 for all four of the program's subrecipients.

Questioned Costs

None.

Cause

The on-site reviews were mainly due to the lack of personnel and resources to perform the on-site/fiscal monitoring process.

Effect

The State DLIR is not compliant with its own program proposal, which specified the on-site reviews. Without proper on-site/fiscal monitoring, DLIR-OCS division cannot ensure the existence of accountability for program resources and for providing subrecipients with information useful to the improvement of the program's operations and services.

Recommendation

Personnel who are responsible for the on-site monitoring should make a greater effort in ensuring that the on-site reviews of all subrecipients are performed at least once every three years in accordance with the program proposal.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-52 Procurement — Competitive Purchases of Services (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 81.042, Weatherization Assistance for Low-Income Persons
Direct Program from U.S. Department of Energy (Award EE0000176, EE0000183)

Criteria

In carrying out its program activities, the State DLIR often has to procure goods and services. HRS Chapter 103F pertains to the procurement of goods, services, and construction. HRS 103F-402 specifically addresses the procurement requirements that pertain to competitive purchases of services.

Condition

During the course of our audit, we were unable to obtain supporting documents from the State DLIR to test whether a selection relating to the installation of weatherization equipment in the amount of $45,000 was procured in accordance with Chapter 103F-402. We further noted that the awarding of this particular contract (#OCS-POS-10-52) was not posted on the State Procurement website within the required seven days after the notice of award.

Questioned Cost

Cannot be determined. The procurement violation does not necessarily indicate that the expenditures should be disallowed.

Cause

Due to staff turnover in the Department, the program specialist was not able to explain the inability to locate the procurement documents, and suggested that there is a possibility that they had been misfiled.

Effect

Without the procurement documents, it is not possible to determine if all of the requirements of HRS 103F were met when the contract was awarded to the vendor.

Recommendation

The internal controls over the maintenance of vendor files and documents should be reviewed to ascertain whether improvements are necessary to strengthen such controls.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-53 Untimely Submission of Reports (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 81.042 and ARRA — 81.042, Weatherization Assistance for Low-Income Persons
Direct Program from U.S. Department of Energy (Award EE0000176)

Criteria

The State DLIR receives funds from the U.S. Department of Energy for carrying out the Weatherization Assistance for Low-Income Persons Program (WAP). Financial information on the State's program is to be reported on the Federal Form SF-425, *Federal Financial Report* (ARRA and non-ARRA), and the ARRA Section 1512 report. Also, the Department is required to submit the Quarterly Program Report on their performance of the program. The Federal Form SF-425 and the Quarterly Program Report are to be submitted within 30 days after the end of the reporting period.

Condition

During the course of our audit, we examined the Federal Form SF-425 and the Quarterly Program Reports for each of the quarters in fiscal year 2011, and noted that the forms were not filed before the deadline for seven reports. The Federal Form SF-425 (ARRA) for the quarter ended March 31, 2011, was filed 13 days past the deadline; Federal Form SF-425 (ARRA) for the quarter ended June 31, 2010, was filed 16 days past the deadline; Federal Form SF-425 (non-ARRA) for the quarter ended March 31, 2011, was filed 153 days past the deadline; Federal Form SF-425 (non-ARRA) for the quarter ended June 31, 2011, was filed 80 days past the deadline; non-ARRA Quarterly Program Report for the quarter ended September 31, 2010, was filed 52 days past the deadline; non-ARRA Quarterly Program Report for the quarter ended March 31, 2011, was filed 181 days past the deadline; and ARRA Quarterly Program Report for the quarter ended March 31, 2011, was filed five days past the deadline.

Questioned Costs

None.

Cause

The lack of proper training of the report preparers and the lack of adequate supervisory review over the preparation of the financial and performance forms resulted in the untimely submission of the forms.

Effect

The delay in the filing of the forms would result in the reviewers of the form to not be able to assess the State's compliance with the program requirements on a timely basis.

Recommendation

Controls related to the preparation of the forms and the supervisory review of the forms could be improved. For example, a tracking system of the reporting requirements could be developed to remind the preparers of the due dates, and the reviewers of the forms should monitor the timeliness of their preparation and submission.

Views of Responsible Officials and Planned Corrective Action.

Refer to the attached response.

2011-54 Recording of Expenditures in Proper Period (Material Weakness)
State Department of Business, Economic Development, and Tourism

CFDA No. ARRA 81.122, Electricity Delivery and Energy Reliability, Research and Development Direct Program from the U.S. Department of Energy (Award DE-OE0000110)

Criteria

OMB Circular A-133 requires an auditee to identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received.

Condition

During the course of our audit, of the three total transactions for the year, we made two expenditure selections to test whether the Department complied with the regulations relating to activities that are allowed or unallowed. For one of the selections, the Department drew down $57,712 and expended that amount, however recorded an expenditure of only $53,542 during fiscal year 2011. The difference of $4,170 was recorded as a fiscal year 2012 expenditure.

Questioned Cost

An understatement of cost of $4,170.

Cause

Because the allotment threshold was reached for fiscal year 2011, the Program Manager charged the amount of the expenditure in excess of the allotted amount to fiscal year 2012.

Effect

The expenditures of Federal funds reported on the SEFA for fiscal year 2011 was understated by $4,170, and the expenditures for fiscal year 2012 will be overstated by a like amount.

Recommendation

Program Managers should be instructed to report all expenditures in the year that they are incurred.

View of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-55 Reporting — Untimely Submission of Reports (Significant Deficiency)
State Department of Budget and Finance

CFDA No. ARRA 81.122, ARRA — Electricity Delivery and Energy Reliability, Research, Development and Analysis
Direct Program from the U.S. Department of Energy (Award DE-OE0000172)

Criteria

The grant agreement includes a "Statement of Project Objectives" which requires the State B&F Public Utilities Commission ("PUC") to prepare a Project Management Plan that details the work elements required to manage and report on activities, as well as a Workforce Development Plan, which results in the development of in-house expertise within the PUC. The Project Management Plan was required to be submitted 60 days after the award and the Workforce Development Plan was required to be submitted 90 days after the award.

Condition

During the course of our audit, we noted that two reports were not submitted before the deadline. The Project Management Plan was submitted 14 days past the deadline, and the Workforce Development Plan was submitted 14 days past the deadline.

Questioned Costs

None.

Cause

The lack of proper training of the report preparers and the lack of adequate supervisory review over the preparation of the financial and performance forms resulted in the untimely submission of the forms.

Effect

The delay in the filing of the forms would result in the reviewers of the form to not be able to assess the State's compliance with the program requirements on a timely basis.

Recommendation

Controls related to the preparation of the forms and the supervisory review of the forms could be improved. For example, a tracking system of the reporting requirements could be developed to remind the preparers of the due dates, and the reviewers of the forms should monitor the timeliness of their preparation and submission.

Views of Responsible Officials and Planned Corrective Action.

Refer to the attached response.

2011-56 ARRA Reported Information (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA ARRA 81.127, Energy Efficient Appliance Rebate Program
Direct Program from the U.S. Department of Energy (Award DE-EE0001587)

Criteria

According to the Recovery Act, recipients are required to submit periodic reports (on a quarterly basis) to the federal agency under ARRA Section 1512. Recipients are required to report the cumulative total for the total federal amount of ARRA expenditures, including the amounts for services performed by subawardees.

Condition

During the course of our audit, we tested two ARRA reports for the quarters ended December 31, 2010 and June 30, 2011. Both reports indicated expenditures related to the same entity as both a "subrecipient" and "vendor", totaling $1,096,421. In addition, for the quarter ended June 30, 2011, the State DBEDT reported no subrecipient expenditures in the ARRA-1512 report while the general ledger reported $1,124,609 of subrecipient expenditures.

Questioned Costs

Cannot be determined. The underreporting of expenditures does not necessarily indicate that the expenditures per the Department's accounting records should be disallowed.

Cause

The person preparing the ARRA Section 1512 report was not completely aware of the reporting requirements, and the person supervising its preparation did not review the report in sufficient detail.

Effect

Incorrect amounts were communicated to the federal agency and the general public.

Recommendation

Controls relating to the preparation and review of the ARRA Section 1512 reports should be improved in order to ensure that the reporting guidelines are adhered to.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-57 ARRA Reported Information (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.128, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000811)

Criteria

According to the Recovery Act, recipients are required to submit periodic reports (on a quarterly basis) to the Federal agency under ARRA Section 1512. Recipients are required to report the cumulative total for the total Federal amount of ARRA expenditures, including the amounts for services performed by subawardees.

Condition

We tested the ARRA Section 1512 reports filed for the quarters ended December 31, 2010 and June 30, 2011, and noted error on the December 31, 2010 report. That report failed to include Kauai Island Utility Cooperative as a subawardee, even though the Department had a subaward agreement with such entity. As a result of this omission, the ARRA Section 1512 report for that quarter did not include a subrecipient award amount of $200,000 and did not include subrecipient expenditures of $18,085.

Questioned Costs

Cannot be determined. The underreporting of expenditures does not necessarily indicate that the expenditures per the Department's accounting records should be disallowed.

Cause

The person preparing the ARRA Section 1512 report was not completely aware of the reporting requirements, and the person supervising its preparation did not review the report in sufficient detail.

Effect

Incorrect amounts were communicated to the Federal agency and the general public.

Recommendation

Controls relating to the preparation and review of the ARRA Section 1512 reports should be improved in order to ensure that the reporting guidelines are adhered to.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-58 Federal Reporting Accuracy (Material Weakness)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.128, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000811)

Criteria

The State DBEDT is required to periodically file Federal Form SF-425, Federal Financial Report, with the Federal government in according with the report instructions.

Condition

During the course of our audit, we tested Federal Form SF-425 for the quarters ended September 30, 2010 and June 30, 2011. We noted that the report for the quarter ended June 30, 2011, contained an error relating to the reporting of cash receipts. The Department's accounting records reflected cash receipts of $4,655,275, but $4,716,255 was reported on the Federal Financial Report, resulting in an overstatement of $60,980.

In addition, the report for the quarter ended September 30, 2010, was filed 53 days after the end of the quarter, as compared with the 30-day filing deadline after quarter end.

Questioned Costs

Cannot be determined.

Cause

The lack of adequate supervisory review over the preparation of Federal Form SF-425 resulted in errors being made in the preparation of reports and in the untimely submission of such reports. .

Effect

The financial information relating to cash receipts for the program was inaccurately reported to the Federal Government, and such data was filed late.

Recommendation

Controls related to the supervisory review of reports should be improved. The Department should consider improving the design and implementation of reporting internal controls to ensure accuracy and completeness of data and information included in reports submitted to the Federal awarding agency.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-59 Communicating CFDA Numbers to Subrecipients (Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.128, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000811)

Criteria

According to OMB Circular A-133, at the time of a subaward, the pass-through entity must identify to the subrecipient the Federal award information (i.e., the CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.

Condition

During fiscal year 2011, the State Energy Program entered into subaward agreements with Kauai Island Utility Cooperative and Honolulu Community Reinvestment Corporation. The agreements for each of these entities did not include all of the required Federal award information, in that the CFDA title and number were not included. However, other information such as the award name and number, if the award is for research and development, name of Federal awarding agency and certain other applicable requirements were included.

Questioned Costs

None.

Cause

The personnel responsible for preparing the subaward agreements were not aware of all of the required information that needed to be communicated to the subrecipients.

Effect

The potential for the subrecipients to make errors in their reports to the pass-through entity and the Federal government would be increased, due to their lack of knowledge of the applicable CFDA information.

Recommendation

The existing subaward agreements should be reviewed and amended to include all required Federal award information. In addition, the personnel preparing the subaward agreements should be properly trained as to the required information that should be included in these agreements.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-60 Untimely Submission of Reports (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.128, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000811)

Criteria

According OMB Circular A-133 section L, and the signed Block Grant Assistance Agreement, the program is required to submit Federal Form SF-425, *Federal Financial Report* and ARRA 1512 reports.

Per Block Grant Assistance Agreement, Federal Form SF-425 reports on activities are due no later than 30 days after period-end on a quarterly basis and a final report due no later than 90 days after the agreement expires or terminates.

Condition

We examined two quarterly Federal Form SF-425 for the quarters ended September 30, 2010 and June 30, 2011, submitted by the program to the reporting agency and noted the September 30, 2010, financial report was submitted 23 days after the deadline for the reported quarter.

Questioned Costs

None.

Cause

The lack of adequate supervisory review and oversight over the timely submittal of financial reports resulted in the finding.

Effect

Untimely submittal of financial reports may result in untimely communication of financial progress to the Federal agencies. In addition, as the program is not in compliance with the federal agency and award requirements, the costs may be questioned by the award agency and future funding of awards may be restricted.

Recommendation

The Department should consider improving the design and implementation of reporting internal controls. The program should incorporate periodic training related to Federal reporting requirements. These trainings should include recent updates and required procedures related to the most recent updates. The trainings should be held periodically (at least annually) or more often as needed (e.g., when new updates to Federal reporting requirements are incorporated).

The Department should also implement a tracking system which reminds staff when program reports are due. In addition, supervisory reviews should be conducted timely to ensure timely submittal of reports.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-61 Procurement (Significant Deficiency)
Office of the Governor

CFDA No. ARRA 84.397A, State Fiscal Stabilization Fund Cluster
Direct Program from the U.S. Department of Education (Award S397A090012)

Criteria

Recipients of Federal awards passed through the Office of the Governor are required to sign the State of Hawaii's *Contractor's Standards of Conduct Declaration*, which includes, in part, Section 84-15(b), "Contractor has not been represented or assisted personally in the matter by an individual who has been an employee of the agency awarding this Contract within the preceding two years and who participated while so employed in the matter with which the Contract is directly concerned."

The form also states that the "Contractor understands that the Contract to which this document is attached is voidable on behalf of the State if this Contract was entered into in violation of any provision of chapter 84, Hawaii Revised Statutes, commonly referred to as the Code of Ethics, including the provisions which are the source of the declarations above."

Condition

During the course of our audit, we noted that a subrecipient reimbursement request included an invoice addressed to an employee of the Office of the Governor.

Questioned Costs

Cannot be determined. The procurement violation does not necessarily indicate that expenditures should be disallowed.

Cause

The Office of the Governor was not aware that an employee was involved with an organization that was receiving Federal funds awarded by it.

Effect

The organization receiving Federal funds from the Office of the Governor may be in violation of Section 84-15(b), HRS.

Recommendation

Discussions should be held with the subrecipient to address the procurement violation and to determine how the situation should be resolved.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-62 Subrecipient Monitoring (Significant Deficiency)
Office of the Governor

CFDA No. ARRA 84.394A and ARRA 84.397A, State Fiscal Stabilization Fund Cluster
Direct Program from the U.S. Department of Education (Award S394A090012 and S397A090012)

Criteria

OMB Circular A-133 requires a pass-through entity to be responsible for the following:

- Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements and that the required audits are completed within nine months of the end of the subrecipient's audit period;

- Issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and

- Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition

The Office of the Governor received ARRA grants and passed the amounts through subrecipients, one of which is the Charter Schools Administration (CSA). During fiscal year 2011, CSA expended more than $500,000 of Federal funds, and was thus required to undergo a Single Audit. However, to date, CSA has not had the required audit performed. The same situation is applicable to the 2010 fiscal year.

A similar finding was included in the prior year's single audit report. Refer to page 265 (Reference: 2010-31).

Questioned Costs

Cannot be determined.

Cause

The Office of the Governor is unsure as to why CSA has not had the required Single Audit performed. Its repeated requests have failed to get an appropriate response from CSA.

Effect

Without obtaining CSA's Single Audit Report, along with any resulting Corrective Action Plan, the Office of the Governor would not be able to determine if CSA is complying with the provisions of the ARRA funding documents and related OMB Circular A-133 requirements.

Recommendation

The Office of the Governor should consider setting a deadline for CSA to submit its Single Audit Report, and if the deadline is not met, the Office of the Governor should consider applying sanctions to CSA.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-63 Subrecipient Classified as Vendor (Significant Deficiency)
Office of the Governor

CFDA No. ARRA 84.397A, State Fiscal Stabilization Fund – Government Services
Direct Program from the U.S. Department of Education (Award S397A090012)

Criteria

AICPA Audit Guide: Government Auditing Standards and Circular A-133 Audits, Chapter 12 — Audit Considerations of Federal Pass-Through Awards states the following:

"Characteristics Indicative of a Federal Award Received by a Subrecipient:

- Determines who is eligible to receive what federal financial assistance;
- Has its performance measured against whether the objectives of the federal program are met;
- Has responsibility for programmatic decision making;
- Has responsibility for adherence to compliance requirements applicable to the federal program; and
- Uses the federal funds to carry out a program of the entity as compared to providing goods or services for a program of the pass-through entity."

"Characteristics Indicative of a Payment for Goods or Services Received by a Vendor:

- Provides the goods and services within normal business operations;
- Provides similar goods or services to many different purchases;
- Operates in a competitive environment;
- Provides goods or services that are ancillary to the operation of the federal program; and
- Is not subject to the compliance requirements of the federal program"

Example relationships for "Pass-Through Entity and Subrecipient:

- A state department of education (pass-through entity) receives a federal award and is responsible for administering and disbursion the federal award to local school districts (subrecipients) according to a formula or on some other basis.

- A regional planning commission (pass-through entity) receives a federal award for the feeding of elderly and low-income individuals, and the award is disbursed to not-for profits (subrecipients) to support their feeding programs.

- A university (pass-through entity) receives a federal award, and the award is disbursed to a governmental hospital (subrecipient) to conduct research.

- A state arts commission (pass-through entity) receives a federal award, and the award is disbursed to an NFP theater group (subrecipient to support a summer arts series."

Example relationships for "Recipient and Vendor

- A local government (recipient) receives a federal award to provide mental health services in a designated area. Some of the funds are paid to a contractor (vender) to repair a leading roof.

- A county (recipient) receives a federal award to operate a Head Start program and pays an NFP (vendor) to provide temporary clerical services.

- An NFP (recipient) receives a federal award to run a preschool and pays a medical doctor (vendor) to perform health screening on a per-student basis.

An NFP (recipient) receives a federal award to operate a child care center and pays a not-for-profit clinic (vendor) to perform physical exams.

Condition

The Governor's Office treated a particular entity as a vendor. However, the arrangement between the entity and the Governor's office exhibits characteristics of a subrecipient. As a result, the OMB Circular A-133 requirements relating to subrecipient monitoring were not followed, as this arrangement was not previously determined.

Questioned Costs

Cannot be determined.

Cause

The substance of the arrangement between the Governor's Office and the entity was perceived to be a "vendor" as opposed to a "subrecipient" relationship.

Effect

The Governor's Office did not perform all applicable subrecipient monitoring requirements under OMB Circular A-133 in relation to the entity. Additionally, amounts expended by the entity were reported to the Federal government as direct expenditures of the Department rather than subrecipient expenditures. Further the amount of expenditures disbursed to this entity was not presented as an amount provided to subrecipients within the SEFA.

Recommendation

The Governor's Office should review the classification of entities receiving funds under the grants at the inception of the relationship in accordance with the definition of a "vendor" versus "subrecipient" and adhere with the applicable compliance requirements.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-64 Procurement — Required Approval of Governor (Material Weakness)
State Department of Defense

CFDA No. 93.558, Temporary Assistance for Needy Families
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125 SA 1)

Criteria

The Department procures a significant amount of services from The Research Corporation of the University of Hawaii (RCUH). Specific procurement procedures are included in the *Master Agreement Between the State of Hawaii and The Research Corporation of the University of Hawaii* dated April 17, 1995, and the *First Amendment to the Master Agreement Between the State of Hawaii and The Research Corporation of the University of Hawaii* effective June 30, 1999. One of the responsibilities of the State that is listed in the aforementioned documents is to "obtain the Governor's prior written approval on all requests for RCUH's services for a project, including amendments and supplements to such requests."

Condition

During the course of our audit, we tested the Department's compliance with the Master Agreement for procurement of services from RCUH. We tested one contract and noted a discrepancy in a contract dated June 16, 2010, for $618,000. For that contract, the Governor's prior approval was received, and the funding source approved was for 100% use of Federal funds. However, when the Memorandum of Understanding (MOU) was entered into between the State and RCUH, the source of funding was broadened to include Federal funds, transferred Federal funds, and State funds.

Questioned Costs

Cannot be determined.

Cause

According to an explanation by Department personnel, even though the request to the Office of the Governor specifically identified Federal funding for the project, the Department wanted more flexibility, and thus broadened the types of funding allowable when it entered into the MOU with RCUH.

Effect

If State funds were used to pay for project expenses, the MOU would not have met the requirements requiring 100% Federal funding that was approved by the Governor.

Recommendation

If State funds were used to pay for project expenses, the Department should seek advice from the State Department of Attorney General for guidance as to the resolution of this matter.

As to future requests for services from RCUH, the Department should strictly adhere to the requirements that are approved by the Office of the Governor.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-65 Procurement — Contract Execution Date (Material Weakness)
State Department of Defense

CFDA No. ARRA 93.714, Emergency Contingency Fund for Temporary Assistance for Needy Families State Program, Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-200)

Criteria

The State DAGS is responsible for the payment of vendor's invoices and as part of its preaudit process, reviews certain supporting documents, such as signed contracts. In prior years, it noted instances where contracts were executed (signed and dated) subsequent to the effective date of the agreement. Because the effective date is the date that the parties agree to start the contract work, this would create a situation where work would be performed without a signed contract.

Because of this situation, on June 24 2009, the State Comptroller issued Comptroller's Memorandum No. 2009-14, which stated, "Effective July 1, 2009, DAGS will return all contracts with an effective date prior to the contract execution date to the originating department. Because the State's Attorney General has sole responsibility to determine whether any agreement is a valid agreement, the department must obtain approval of the returned contract as a retroactive contract by the Deputy Attorney General assigned to the department. Upon receipt of this approval, DAGS will process the contract documents and payments."

Condition

During the course of our audit, we tested contracts with vendors for compliance with the State Procurement Code. We noted two instances wherein the contract between the State and the vendors had an effective date which was prior to the date the parties executed the contract. In one instance, the effective date was August 1, 2010; however the contract was not executed until February 2011. For the second instance, we noted that the services were performed on July 1, 2010; however the effective date of the contract was August 1, 2010. Accordingly, the Department did not follow the requirements of Comptroller's Memorandum No. 2009-14.

Questioned Costs

Cannot be determined.

Cause

According to Department personnel, because of upcoming deadlines, the Department did not have adequate time to execute the contract prior to the program performance period.

Effect

By allowing a contractor to perform services before a contract is executed, the Department would be exposing the State to unnecessary risk of harm and litigation, should disagreements arise between the parties.

Recommendation

Internal controls over contract negotiations should be strengthened to ensure that all procurement provisions are met. And, if circumstances make it impossible for a contract to be signed before the effective date of the agreement, then the Department should adhere to the requirements of Comptroller's Memorandum No. 2009-14.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-66 Procurement Exemption (Material Weakness)
State Department of Defense

CFDA No. ARRA 93.714, Emergency Contingency Fund for Temporary Assistance for Needy Families State Program, Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-200)

Criteria

Hawaii Administrative Rules 3-141 cover the provisions relating to procurement of goods and services by government agencies. In particular, Subchapter 5 covers waivers and exemption from the procurement code. All government agencies must follow the procedures described in the Rule.

Condition

During fiscal year 2011, the Department negotiated a contract with a not-for-profit organization under circumstances that the Department believed qualified for exemption from the procurement process, and accordingly, applied for an exemption. The SPO approved the exemption on August 11, 2010, however, the services under the contract began on July 1, 2010. The amount of the contract totaled $742,718.

Questioned Costs

Cannot be determined.

Cause

According to the program specialist, the Department did not have adequate time prior to the program performance period to properly obtain the procurement exemption approval.

Effect

Had the SPO denied the procurement exemption request, the Department would have violated the procurement code by allowing a contractor to begin the performance of services without obtaining a valid contract.

Recommendation

Internal controls over the procurement process should be strengthened to ensure that all of the procurement provisions are met before a contractor is allowed to start services.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-67 Expenditure of State Funds on Federal Programs (Material Weakness)
State Department of Defense

CFDA No. ARRA 93.714, Emergency Contingency Fund for Temporary Assistance for Needy Families State Program, Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-200)

Criteria

The Department is allowed to make expenditures up to the amount of its allotment. According to Hawaii Revised Statutes 37-42, "No department or establishment shall expend or be allowed to expend any sum, or incur or be allowed to incur any obligation in excess of an allotment."

HRS 37-42 further goes on to state that, "Any officer, employee, or member of any department or establishment, who makes or causes to be made any excessive expenditure or incurs or causes to be incurred any excessive obligation shall be deemed guilty of neglect of official duty and shall be subject to removal from office and shall be liable to the State for such sum as may have been expended or paid, and such sum together with interest and costs, shall be recoverable in an action instituted by the Attorney General."

Condition

During the course of our audit, we tested the Department's compliance with the State procurement procedures. The State DOD's accounting records reflect a total expenditure of Federal funds for the Temporary Assistance for Needy Families (TANF) program of $6,497,860, which is below the $6,500,000 allotment. However, we noted that a TANF contract with a not-for-profit organization for $268,296 (Finding 2011-69) was paid for with State funds, and $66,750 of expenditures for the Summer Youth Employment Program (Finding 2011-72) was also paid for with State funds. Based on the above, expenditures for the TANF program totaled $6,832,906, which exceeded the allotment of $6,500,000 of Federal funds by $332,906.

Questioned Costs

Cannot be determined.

Cause

There was a lack of proper monitoring of expenditures of funds against the amount allotted.

Effect

A continued failure to properly monitor the expenditure of Federal funds may cause the State to have to use unallotted State funds to cover the excess expenditures for the TANF program. In addition, the individuals responsible for the excess expenditures may be subject to severe consequences, as specified in HRS 37-42.

Recommendation

Internal controls over the monitoring of expenditures on the TANF program should be improved to ensure that the expenditures do not exceed the allotment.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-68 Reimbursement Requests (Material Weakness)
State Department of Defense

CFDA No. 93.558, Temporary Assistance for Needy Families
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

Criteria

According to OMB Circular A-133 cash management requirements, an appropriate level of supervisory review of cash management activities should occur periodically. The review should include ensuring that a request for reimbursement from the State Department of Human Services ("State DHS") on program costs initially paid by State DOD is sent to the State DHS.

Condition

During our audit of cash management compliance testing, we examined 40 selections and identified three instances in which there was no transfer of funds from the State DHS. Per further inquiry and review, we noted that the State failed to submit a request for reimbursement from the State DHS. After further investigation, a total of $737,480 was not submitted to the State DHS for reimbursement.

A similar finding was included in the prior year's single audit report. Refer to page 268 (Reference: 2010-37).

Questioned Costs

None.

Cause

The cause is due to the lack of supervisory review to ensure that all allowable expenditures were properly submitted for reimbursement.

Effect

If expenditures are not properly tracked and requested for reimbursement from the State DHS, the State DOD could possibly be using funds set aside for other programs or purposes of the State DOD.

Recommendation

Improve record keeping over expenditures of the program such that DOD would be reimbursed for all expenditures spent on the program.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-69 Segregation of Duties (Material Weakness)
State Department of Defense

CFDA No. ARRA 93.714, Emergency Contingency Fund for Temporary Assistance for Needy Families State Program, Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125 SA 1, DHS-10-ETPO-124 SA 1, DHS-05-BESSD-2203 SA6)

Criteria

For internal control purposes, segregation of duties means assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. Segregation of duties is intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of the person's duties.

Condition

We noted that for invoices related to the Summer Youth Employment Program under the Temporary Assistance for Needy Families (TANF) cluster, goods and services were reviewed and approved by the Business Management Officer, who also reviewed and signed off on the requisition to encumber funds. Further, he was also the individual who reviewed and authorized payments to the vendors. As such, we noted there is a lack of segregation of duties as the same person was responsible for authorizing and recording transactions.

Questioned Costs

Cannot be determined.

Cause

There was a lack of personnel resources to separate the responsibilities to different individuals within the program.

Effect

Lack of segregation of duties may potentially increase the opportunity for the individual to both perpetrate and conceal errors or fraud in the normal course of the person's duties.

Recommendation

The Department should evaluate the program requirements and capacity in which they are able to take on additional federal programs before accepting the projects.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-70 Unauthorized Use of Purchasing Card (Significant Deficiency)
State Department of Defense

CFDA No. 93.558, Temporary Assistance for Needy Families
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125 SA 1)

Criteria

The State of Hawaii has instituted a purchasing card program that is managed by the SPO. The purchasing card (pCard) is similar to a credit card and is designed to streamline the State and county governments' small purchase and payment process. The cards are the property of the government and are issued to responsible employees to make official purchases. Responsibilities over the use of the pCards are well defined, and violations of the responsibilities may subject the cardholder to disciplinary action. For example, one of the violations subject to disciplinary action is if the pCard is used for personal or unauthorized purposes.

Condition

During the course of our audit, we tested purchases made by using the pCard, and noted an instance of a violation of the use of the card. During the month of July 2010, a pCard holder went on a trip for five days, of which two days were for official business and three days were for personal reasons. The pCard holder rented a car for the entire five days of the trip and paid for all five days' rental by using the pCard. The pCard is to be used for only official business reasons. Of the total charge of $200, only $80 should have been paid by using the PCard. It should be noted that, subsequent to the filing of the travel report, the pCard holder reimbursed the State for the personal portion of the charge.

Questioned Cost

None.

Cause

The pCard holder acknowledged that he made a mistake and that he should have used his personal credit card for the portion of the trip that he was on vacation.

Effect

The pCard was designed to be used only for official government purchases, and use of the card for personal purposes would result in the government paying for an employee's personal purchases. According to the State of Hawaii's Purchasing Card Program and Procedures Manual, "Failure to comply with the program and agency's policy and procedures may result in the revocation of PCard privileges and further disciplinary measures in accordance with the Purchasing Card Program and Procedures, Cardholder Agreement, and the applicable collective bargaining agreements."

Recommendation

The Department should stress to its pCard holders that use of the card is strictly for official government business only, and continued violation of any Purchasing Card Program procedures would result in disciplinary action.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-71 Procurement — Travel Documentation (Significant Deficiency)
State Department of Defense

CFDA No. 93.558, Temporary Assistance for Needy Families
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125 SA 1)

Criteria

State employees must often travel intra- and inter-state for official business. Because of the wide variety of travel accommodations available, the SPO has established policies and procedures relating to travel on government business. One of the requirements of government travelers is that they must complete a Statement of Completed Travel and submit it along with required documentation within 10 working days after completion of the trip. One of the key documents required is the airline boarding pass, which serves as the proof of travel.

Condition

During the course of our audit, we tested disbursements throughout fiscal year 2011, including travel reimbursements. We noted an instance of a violation for a trip taken on August 26, 2010. The traveler did submit a Statement of Completed Travel within the 10-day requirement, but did not include the boarding pass with the submitted documentation. Without a boarding pass, there is no proof that the traveler actually traveled on the airline and flight number indicated on the itinerary.

Questioned Cost

Cannot be determined.

Cause

There was a lack of adequate supervisory review of the required documentation accompanying travel reimbursement requests.

Effect

Without adequate review of travel documents, unauthorized travel expenditures may be reimbursed by the State.

Recommendation

Internal controls over the review of travel reimbursements should be improved to ensure that only authorized travel expenditures are approved.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-72 Reporting (Significant Deficiency)
State Department of Defense

CFDA No. 93.558, Temporary Assistance for Needy Families
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125 SA 1, DHS-10-ETPO-124 SA 1, DHS-05-BESSD-2203 SA 6)

Criteria

According to the Memorandum of Agreement (MOA) for the TANF program between the State DHS and the State DOD, the State DOD must submit quarterly narrative reports that describe program performance in each of the program areas and sites covered under a MOA. These reports are to include a brief description of activities undertaken and provide the number of participants served to date. Progress reports should be submitted to the State DHS no later than the 15th day of the month following each calendar quarter.

Condition

During the course of our audit, we attempted to test the quarterly reports being submitted by the State DOD to the State DHS for selected MOA for the TANF program. However, we noted that no reports were submitted for the quarters ended September 30, 2010, December 31, 2010, March 31, 2011, and June 30, 2011.

Questioned Costs

Cannot be determined.

Cause

Based on discussions with the TANF program specialist, he indicated that he thought that it would be more efficient to submit an annual report instead of quarterly reports.

Effect

Without the receipt of quarterly progress reports, the State DHS would have no indication of the status of each TANF program, such as what activities were being undertaken and how many participants were being served. This information is necessary for the State DHS to verify that Federal funds were being spent on allowable activities and on eligible participants, or whether there are questioned costs. Delays in the assessment of program activities by the State DHS could have an impact on the timing and amount of future funding of the program.

Recommendation

The Department should adhere to the requirement that quarterly progress reports should be submitted by the 15th day of the month following each calendar quarter.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-73 Reporting — Summer Youth Employment Program (Significant Deficiency) State Department of Defense

CFDA No. ARRA 93.714, Emergency Contingency Fund for Temporary Assistance for Needy Families State Program, Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-200)

Criteria

The State DOD participated in the State DHS Summer Youth Employment Program (SYEP) during fiscal year 2011. SYEP was designed to provide low-income youth between the ages of 14 to 23 with summer jobs in Federal, State and County governments, as well as in participating not-for-profit organizations. The MOA between the State DHS and the State DOD covering SYEP provided for the State DOD to submit periodic program reports covering the number of youth applicants and the number found eligible and placed in worksites, by island and by county. The period covered was from June 15, 2010 to September 30, 2010.

Condition

During the course of our audit, we tested the DOD's compliance with the MOA. We noted that the DOD did not prepare the required program reports.

Questioned Costs

Cannot be determined.

Cause

According to the program specialist, the failure to prepare the required SYEP reports was an oversight.

Effect

Without the receipt of the required reports, the State DHS would have no indication of the status of the SYEP throughout the program period. This information is necessary for the State DHS to verify that Federal funds were being spent on allowable activities and on eligible participants, or whether there are questioned costs.

Delays in the assessment of program activities by the State DHS could have an impact on the timing and amount of future funding of the program.

Recommendation

The Department should adhere to the requirement of submitting progress reports on the SYEP.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-74 Eligibility Testing — Summer Youth Employment Program (Significant Deficiency) State Department of Defense

CFDA No. ARRA 93.714, Emergency Contingency Fund for Temporary Assistance for Needy Families State Program, Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-200)

Criteria

The State DOD participated in the State DHS SYEP during fiscal year 2011. SYEP was designed to provide low-income youth between the ages of 14 to 23 with summer jobs in Federal, State, and County governments, as well as in participating not-for-profit organizations. The MOA between the State DHS and the State DOD covering SYEP described the eligibility requirements as follows: (a) youth must be between the ages of 14 to 23 at the time of application and (b) indicate that they: (1) receive free- or reduced-price lunches, and/or (2) live in a household receiving public cash assistance, and/or (3) live in a household that receives Supplemental Nutrition Assistance Program benefits (SNAP food stamps). Applicants that do qualify under these requirements must belong to a household whose current gross annual income is at or below 600% of Federal Poverty Level.

Applicants to the program must complete an application and certify that the answers given are accurate and true.

Condition

During the course of our audit, we tested the expenditures made for SYEP, and selected 40 applications completed by the participants for testing. Of this number, we could not locate three applications. For the rest of our selections, we noted that although the participants signed the application forms, no documentation or evidence was provided to prove their eligibility related to income or assistance programs. In addition, there was no indication that authorized program personnel examined any documentation or evidence supporting eligibility.

Questioned Costs

Cannot be determined.

Cause

According to program specialists, they did not believe that obtaining evidence supporting eligibility requirements was necessary. The signed certification regarding eligibility on the application form was considered to be sufficient.

In addition, there was a lack of proper internal controls over the storage and maintenance of the applicants' files such that not all of the applications could be located.

Effect

Without obtaining proof of eligibility from the participants, the Department would not be able to determine if Federal funds were expended on only those individuals who met the eligibility criteria for such funds.

Recommendation

The State should consider revising its policy of not requiring documentation from the applicants verifying the eligibility information included on the application.

In addition, internal controls over the filing and maintenance of all applications should be strengthened in order to ensure that applications are not lost or misfiled.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-75 Reporting — Subrecipient (Significant Deficiency)
State Department of Accounting and General Services

CFDA No. 93.558, Temporary Assistance for Needy Families
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-11-ETPO-272)

Criteria

The State DAGS receives pass-through funds from the State DHS for the TANF program. The Hawaii State Foundation on Culture and the Arts (HSFCA), which is a branch of State DAGS uses TANF funds for cultural programs for at-risk youth.

According to the MOA for TANF between the State DHS and HSFCA, the HSFCA must submit semiannual narrative reports that describe program performance in each of the program areas and sites covered under a MOA. These reports are to include a brief description of activities undertaken and provide the number of participants served to date. No specific deadline is mentioned for the submission of the semiannual reports.

Condition

No reports were submitted by the HSFCA for the semiannual periods ended December 31, 2010 and June 30, 2011.

Questioned Costs

Cannot be determined.

Cause

There was a lack of appropriate supervisory review over the monitoring of HSFCA's compliance with the MOA.

Effect

Without the receipt of semiannual progress reports, the State DHS would have no indication of the status of HSFCA's TANF program, such as what activities were being undertaken and how many participants were being served. This information is necessary for the State DHS to verify that Federal funds were being spent on allowable activities and on eligible participants, or whether there are questioned costs. Delays in the assessment of program activities by the State DHS could have an impact on the timing and amount of future funding of the program.

Recommendation

Internal controls over the monitoring of HSFCA's activities, including reporting requirements should be improved.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-76 Inaccurate Payroll Allocation (Significant Deficiency) State Department of Defense

CFDA No. 93.558, Temporary Assistance for Needy Families
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125 SA 1, DHS-10-ETPO-124 SA 1, DHS-05-BESSD-2203 SA6)

Criteria

According to the OMB Circular A-87, Attachment A, paragraph C (Basic Guidelines), "To be allowable under federal awards, costs must meet the following general criteria: a) be necessary and reasonable for proper and efficient performance and administration of federal awards."

According to the OMB A-87 Attachment B Item 8(h), "(3) where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification."

Condition

During fiscal year 2011, three employees were 100% funded by the TANF grant program. We noted that these employees worked a portion of their time on another grant program that was not affiliated with the TANF grant program. The total salary charged to the TANF program which should have been charged to the other program was $26,440 for 1,032 hours for the three employees.

Further, payroll certifications were not completed for employees who solely worked on a single Federal award. For the two employees selected for testing, no required certification had been completed.

A similar finding was included in the prior year's single audit report. Refer to page 266 (Reference: 2010-34).

Questioned Costs

$26,440

Cause

The State lacks the personnel resources to assign employees to each program. Therefore, employees funded through the TANF program worked on other grant programs and supervisory review did not identify the inappropriate allocation of payroll costs amongst programs. Program administrators and supervisory officials did not monitor that payroll certification were completed as required.

Effect

This resulted in $26,440 being charged to the TANF grant for work that was unrelated to the TANF program and, therefore, considered unallowable under OMB Circular A-87.

If employees do not complete a payroll certification that states he/she worked solely on that program for the covered period, then employees may work on services that are considered unauthorized or unallowable activities while being paid from a specific grant program funding.

Recommendations

The State DOD should ensure that accurate payroll records are maintained for purposes of properly allocating personnel costs to the respective programs and grants and implement a policy that requires all employees who worked on a specific grant program to complete a payroll certification by either the employee or the supervisory official on a semiannual basis.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-77 Untimely Submission of Reports (Significant Deficiency)
State Department of Defense

CFDA No. 93.558, Temporary Assistance for Needy Families
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125 SA 1, DHS-10-ETPO-124 SA 1, DHS-05-BESSD-2203 SA6)

Criteria

According to the MOA between State DHS and State DOD, we noted that the State DOD is required to submit to the State DHS the 'Monthly Subgrantees Invoice and Expenditure Report' no later than the 15th day of the month that immediately follows each calendar month. If the reports are not received by the prescribed time period, cash transfers will cease until the report is received.

Condition

During the course of the audit, we noted that the following reports were not submitted timely:

CFDA No.	Report No.	Description	Reporting Period	Days Overdue
93.558	n/a	Monthly Financial Report	January 31, 2011	23
93.558	n/a	Monthly Financial Report	July 31, 2010	83

93.558	n/a	Monthly Financial Report	June 30, 2010	91
93.558	n/a	Monthly Financial Report	March 31, 2011	19

A similar finding was included in the prior year's single audit report. Refer to page 267 (Reference: 2010-36).

Questioned Costs

None.

Cause

The finding is primarily as a result of the lack of resources and oversight over the timely submittal of financial reports. In addition, there is no penalty of submitting requests late except that the requested funds would be received later.

Effect

The State DOD is not compliant with its Federal reporting requirements. Untimely submittal of financial and performance/progress reports may result in untimely communication of financial information for federally funded programs.

Recommendation

The Department should consider improving the design and implementation of reporting internal controls. The program should incorporate periodic training related to requirements within the MOA. These trainings should include recent updates and required procedures related to the most recent updates.

Program should also implement a tracking system which reminds staff when reports are due. In addition, supervisory review should be conducted timely to ensure timely submittal of reports.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-78 — Cash Management (Material Weakness)
State Department of Defense

CFDA No. ARRA 93.714, Emergency Contingency Fund for Temporary Assistance for Needy Families State Program, Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-200)

Criteria

The U.S. Department of the Treasury regulations at 31 CFR Sections 205.33, for cash management compliance, requires State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds and requires a State to minimize the time between the drawdown of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition

During our audit, we examined 40 selections of cash advances and identified three instances where the number of days elapsed between the Federal cash advances and Federal fund expenditures date exceeded 90 days. It is administratively feasible for the State to make expenditures in less than 90 days. Therefore, any interest income earned on the deposits of the Federal funds should be submitted to the Federal Government.

Questioned Costs

Cannot be determined.

Cause

State DOD program personnel were not aware of the cash management requirements and were also not aware that they are able to draw Federal funds more frequently than on a quarterly basis.

Effect

As a result of the deficiency on internal controls over compliance with grant requirements, we identified three instances of noncompliance. These three instances resulted in $415,687 of Federal funds that were advanced to the State, but not disbursed within the administratively feasible time period.

Recommendation

The communications process over Federal grant compliance should be improved. The Department should consider improving the design and implementation of cash management internal controls, to minimize the time lag between Federal fund drawdown and disbursement in accordance with 31 CFR Sections 205.33.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-79 Lack of Supporting Records (Material Weakness)
State Department of Defense

CFDA No. 93.558, Temporary Assistance for Needy Families
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

Criteria

An appropriate level of supervisory review of cash management activities should occur periodically. The review should include ensuring that a request for reimbursement from the State DHS on program costs initially paid by the State DOD is sent to the State DHS.

The required internal controls criteria above were obtained from the March 2011 OMB Circular A-133 Compliance Supplement Part 6 Internal Control, Section C. Cash Management.

Condition

During our audit of the cash management compliance section, we examined 40 selections of funds requested and identified two instances in which there was a lack of support for the requested amount. Per further inquiry and review, we noted that a proper reconciliation between the journal voucher and the supporting documents were not possible. One instance was related to a journal voucher transfer dated April 15, 2011, for the total amount of $522,747.98 for program costs related to period ended December 2010 and January 2011. The second instance was related to a journal voucher transfer dated February 22, 2011, for the total amount of $616,352.61 for program costs related to the period ended November 30, 2010.

Questioned Costs

Cannot be determined.

Cause

The cause includes the lack of supervisory review to ensure that expenditures are reconciled to supporting accounting records.

Effect

The lack of an audit trail from the journal voucher amount to supporting documents results in concluding there was a lack of cash management monitoring as expenditures were not appropriately tracked.

Recommendation

Improve record keeping over expenditures such that expenditures can be reconciled for request for reimbursement from the program.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-80 Reporting — Lack of Support (Significant Deficiency)
State Department of Defense

CFDA No. 93.558, Temporary Assistance for Needy Families
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

Criteria

According to the OMB Circular A-133 for Reporting, procedure (3)(a)(1) states that we should "Ascertain if the financial reports are complete and accurate, were prepared in accordance with the required accounting basis, and were submitted timely to the pass-through entity or the Federal agency, as applicable."

Condition

During the course of our audit, we noted that one of our selections did not agree to supporting documentation. For the report relating to the period ended June 30, 2011, the total amount requested was $172,971, but the supporting records indicated $103,797, resulting in an excess of $69,174 requested for reimbursement.

Questioned Costs

$69,174

Cause

The cause includes the lack of supervisory review to ensure that reported expenditure requests are reconciled to supporting accounting records.

Effect

The cause includes the lack of supervisory review to ensure that reported expenditure requests are reconciled to supporting accounting records.

Recommendation

Improve record keeping over expenditures such that expenditures can be reconciled for request for reimbursement from the program.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-81 Earmarking — Excess Administrative Expenses (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 93.569, Community Services Block Grant Program
Direct Program from the U.S. Department of Health and Human Services/State Department of Human Services(Award G11B1HICOSR)

Criteria

According to OMB Circular A-133, for the Community Services Block Grant Program (CSBG) and ARRA CSBG, for earmarking purposes, "State administrative expenses, including monitoring activities, may not exceed the greater of $55,000 or 5% of CSBG funds. Such expenditures must be made from the portion of funds remaining to a State after subgranting at least 90% of funds to eligible entities."

Condition

During the course of our audit, we tested the amount of CSBG administrative expenses that were included in the SEFA. Such amount totaled $408,622. In order to determine if that amount was in excess of 5 percent of CSBG funds, we noted that the CSBG expenditures under CFDA 93.569 for the Federal fiscal year ended September 30, 2011 was $3,507,970. Five percent of this amount would total $175,399. The reported amount of $408,622 exceeds this threshold. However, the exact excess is not easily determinable, as the SEFA is prepared on the basis of the State's fiscal year ended June 30, 2011, while the CSBG information reported to the Federal government was on the basis of its fiscal year ended September 30, 2010.

Once the Department realized that it probably exceeded the 5% threshold, it discontinued requesting reimbursement of administrative expenses from the Federal government. However, it did not exclude from the SEFA the amount of the unreimbursed administrative expenses.

A similar finding was included in the prior year's single audit report. Refer to page 269 (Reference: 2010-39).

Questioned Costs

Cannot be determined.

Cause

The presumable overcharging of State administrative expenses against the CSBG grant is due to the failure of the Department to set up the proper controls to track and monitor the administrative amounts being charged to the grant.

Effect

There is a possibility that the Federal government has reimbursed the State for administrative expenses that are in excess of the allowable amount. In addition, the SEFA includes administrative expenses that the State will not seek reimbursement from the Federal government.

Recommendation

The Department should establish controls to monitor the amount of administrative expenses that are being charged to the CSBG grant in order to ensure that the maximum threshold is not exceeded. In addition, once the amounts are reconciled, any excess reimbursements for State administrative expenses should be returned to the Federal government.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-82 Preparation of the Schedule of Expenditures of Federal Awards (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. ARRA 93.710, ARRA Community Services Block Grant Program
Direct Program from the U.S. Department of Health and Human Services (Award G0901HICOS2)

Criteria

OMB Circular A-133 requires affected entities to prepare a SEFA. The SEFA must list individual Federal programs by Federal agency and provide the total Federal awards expended for each individual Federal program. In addition, the entity must prepare the appropriate financial statements, including the SEFA.

Condition

During the course of our audit, we tested the preparation of the SEFA by comparing amounts included therein with the amounts included in the Department's accounting records (and as reported on the Financial Status Report SF-269A Final Report.) We noted differences in amounts for the ARRA award. The accounting records and the Financial Status Report reflected actual cumulative expenditures of $4,027,217, while the fiscal year 2010 and 2011 SEFAs include a cumulative amount of $4,161,068. Thus, there is a difference of $133,851.

Questioned Costs

The SEFA is overstated by $133,851.

Cause

The individuals responsible for preparing the SEFA indicated that expenditures that were not paid by Federal funds were inadvertently included in the SEFA.

Effect

Errors in the SEFA may cause awarding agencies to reach erroneous conclusions about the status of their awards.

Recommendation

Procedures should be established to require program administrators to review the preparation of their portions of the SEFA to ensure that the amounts are correctly reported.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-83 Subrecipient Monitoring – Follow Up on Subrecipient (Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 93.569, Community Services Block Grant Program
Direct Program from the U.S. Department of Health and Human Services (Award G11B1HICOSR)

Criteria

OMB Circular A-133 indicates that, "States must conduct full on-site reviews of each eligible subgrantee once every three years to check conformity with performance goals, administrative standards, financial management rules, and other requirements. States must conduct an on-site review of each newly designated entity immediately after the completion of the first year in which such entity receives CSBG funding. Follow-up reviews, including prompt return visits to eligible entities and their programs, are required for entities that fail to meet the goals, standards and requirements established by the State."

If a State finds a need for corrective action, the State must (1) inform the subgrantee of the deficiency and require correction, (2) offer training and technical assistance and report to the OCS (Office of Community Service) on that assistance, or explain why providing such assistance was not appropriate; (3) and receive an improvement plan from the subgrantee within 60 days, and approve. If the subgrantee fails to remedy the deficiency, the State may initiate proceedings to terminate the subgrantee's eligibility or reduce its funding.

Condition

The Department acts as a pass-through entity to four subrecipients: Honolulu Community Action Plan, Inc. (HCAP), Hawaii County Economic Opportunity Council (HCEOC), Maui Economic Opportunity, Inc. (MEO), and Kauai Economic Opportunity, Inc. (KEO).

During the course of our audit, we examined the monitoring reports submitted by the Department to KEO during fiscal year 2011. We noted that the monitoring took place on April 28, 2011 and 29, 2011, and a report was sent on May 11, 2011. A corrective action plan was required to be submitted within 60 days of the May 11, 2011 report date, or by July 10, 2011. Because no response was received by that date, a follow up letter was sent on September 9, 2011. KEO submitted a corrective action plan on October 5, 2011, which exceeds the required timeframe of 60 days (July 10, 2011).

Thus, although the monitoring and preparation of the monitoring report were performed on a timely basis, the follow up on the delinquent corrective action plan was not timely.

Questioned Costs

None.

Cause

There are no procedures in place to ensure that all phases of the monitoring of subrecipients are done on a timely basis.

Effect

If a subrecipient's corrective action plan is not received when it is due, the Department would not be able to ensure that the subrecipient has properly addressed any weaknesses or deficiencies noted in the monitoring report on a timely basis.

Recommendation

The Department should institute controls to ensure that the activities and reporting of subrecipients are monitored on a timely basis.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-84 Subrecipient Monitoring — Management Decision (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 93.569, Community Services Block Grant Program and 93.710 ARRA Community Services Block Grant Program
Direct Program from the U.S. Department of Health and Human Services (Award G10B1HICOSR, G11B1HICOSR, and G0901HICOS2)

Criteria

OMB Circular A-133 requires a pass-through entity to be responsible for the following:

- Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements and that the required audits are completed within nine months of the end of the subrecipient's audit period;

- Issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and

- Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

The pass-through entity is also required to monitor the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition

During the course of our audit, we examined the single audit report for one of the Department's subrecipients, HCEOC, for the year ended September 30, 2010. That single audit report included the following findings: (1) There were material weaknesses in the internal control system over grant accounting, and (2) there existed noncompliance with Federal grant reporting requirements. The single audit report was received by the Department during the last week of June 2011.

As mentioned above, the Department is required to issue a management decision on the subrecipient's audit findings within six months after the receipt of the audit report. However, the Department has not issued any management decision on the two findings.

Questioned Costs

None.

Cause

The program specialist indicated that no management decision was issued on the fiscal year 2010 single audit report findings because the subrecipient is still working on its corrective action plan pertaining to the 2009 single audit findings. Because some of the 2009 findings carried over to 2010, management did not believe that it was necessary to issue another decision.

Effect

Unless management issues its decision on the 2010 single audit findings, the subrecipient would not be aware of whether its corrective action plan relating to the findings would be acceptable to the pass-through entity.

Recommendation

The Department should comply with the requirements of OMB Circular A-133 and issue its decision on the HCEOC 2010 single audit report findings.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-85 Untimely Submission of Reports (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. ARRA 93.710, ARRA — Community Services Block Grant Program
Direct Program from the U.S. Department of Health and Human Services (Award G0901HICOS2)

Criteria

According to the terms of the grant agreement for the ARRA CSBG award, services under the grant must be provided on or before September 30, 2010, liquidated on or before December 29, 2010, and the final report must be filed on or before December 29, 2010.

Condition

The Department filed the Federal Form SF-269, *Financial Status Report* for CFDA #93.710 on February 24, 2011, 57 days after it was due.

Questioned Costs

None.

Cause

The delay was caused by a lack of resources to prepare all of the information required for the final report and by a lack of supervisory oversight on the report preparation process.

Effect

The untimely submission of the required information to the Federal awarding agency could delay its process of analyzing the results of the program activities.

Recommendation

Internal controls over financial reporting should be improved to ensure that all required financial reports are prepared, reviewed, and submitted prior to reporting deadlines.

Views of Responsible Officials and Planned Corrective Action.

Refer to the attached response.

2011-86 ARRA Reported Information (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. ARRA 93.710, ARRA — Community Services Block Grant Program
Direct Program from the U.S. Department of Health and Human Services (Award G0901HICOS2)

Criteria

According to the Recovery Act, recipients are required to submit periodic reports no later than the 10th day after the end of each calendar quarter to the Federal agency under ARRA Section 1512. Recipients are required to report the cumulative total of the amount of funds received and the total of amounts spent on projects and activities.

Condition

During the course of our audit, we tested the ARRA 1512 report filed for the quarter ended December 31, 2010. The report represented the final report for the CFDA No. 93.710 CSBG ARRA program. The amount reported in the accounting records (and on Federal Form SF-269A, *Financial Status Report*) totaled

$4,027,217, while the amount on the ARRA 1512 report totaled $3,992,356, representing a difference of $34,861. The difference was caused by erroneously including only subrecipient expenditures on the ARRA 1512 report, but excluding allowable administration expenses. Thus, the ARRA 1512 report was understated by $34,861.

Questioned Costs

None.

Cause

The person preparing the ARRA 1512 report was not completely aware of the reporting requirements, and the person supervising its preparation did not review the report in sufficient detail.

Effect

Incorrect amounts were communicated to the Federal agency and the general public.

Recommendation

Controls relating to the preparation and review of the ARRA 1512 reports should be improved, in order to ensure that the reporting guidelines are adhered to.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-87 Procurement — Small Purchase Bids (Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 93.569, Community Services Block Grant
Direct Program from the U.S. Department of Health and Human Services (Award G10B1HICOSR and G11B1HICOSR)

Criteria

In carrying out its program activities, the Department often has to procure goods and services. Hawaii Revised Statutes Chapter 103D-305 pertains to small purchases. HRS 103D-305, HAR Section 3-122-75 provides the following guidance for purchases of amounts between $5,000 and $15,000: "No less than three quotes shall be solicited for expenditures of $5,000 to less than $15,000 (SPO-10 – Record of Procurement form is required for all purchases between $5,000 to $15,000)."

Condition

During the course of our audit, we made one selection of expenditures between $5,000 and $15,000, and noted that the disbursement did not have a SPO-10 – Record of Procurement form included with the supporting documents.

Questioned Costs

None.

Cause

The program specialist was not able to explain the inability to locate the form, and suggested that there is a possibility that it had been misfiled.

Effect

Without the SPO 10 — Record of Procurement form, it is not possible to determine if all of the requirements of HRS 103D, HAR Section 3-122-75 were met when the item was procured from the vendor.

Recommendation

The internal controls over the maintenance of vendor files and documents should be reviewed to ascertain whether improvements are necessary to strengthen such controls.

Views of Responsible Officials and Planned Corrective Action.

Refer to the attached response.

2011-88 Untimely Awarding of Subgrant (Deficiency)
State Department of Labor and Industrial Relations

CFDA No. ARRA 93.710, ARRA — Community Services Block Grant Program
Direct Program from the U.S. Department of Health and Human Services (Award G0901HICOS2)

Criteria

OMB Circular A-133 indicates that pass-through entities must award subgrants in a timely manner to allow subgrantees a sufficient opportunity to obligate the funds to accomplish program purposes.

Condition

The Department received the CFDA No. 93.710 CSBG ARRA grant of $5,000,000 in the middle of April 2009, which was significantly after the start of the period of availability from October 1, 2008 to September 30, 2010. In addition, after the Department received the grant, there were delays in awarding the subgrants, such that the awards took place between October 2009 and April 2010. Because of this delay in the awarding of subgrants, the subgrantees were not able to expend all of their allotted funds prior to the grant expiration date of September 30, 2010. As a result, upon the expiration of the grant, the Federal awarding agency reduced the original $5,000,000 grant by $972,782, representing the unexpended funds. Based on these circumstances, it would appear that the Department did not meet the requirement to award subgrants in a timely manner.

Questioned Costs

Cannot be determined.

Cause

According to the program specialist, delays were encountered in awarding subgrants because the subgrantees requested funds for unallowable expenditures, such as construction contracts. Because the grant requests were rejected and had to be resubmitted, delays were encountered in the awarding of the subgrants.

Effect

Because a significant portion of the subgrants were awarded well within the two-year grant period, many of the subgrantees were not able to expend all of their allotted funds. As a result the amount of the total grant awarded by the Federal awarding agency was reduced by almost 20%. This might have an effect on the amount of grants awarded to the Department in the future.

Recommendation

The Department should improve its communication with the subgrantees to ensure that they are aware of the grant requirements and allowable costs, such that they do not request amounts for noncompliant purposes. This should reduce the amount of delays encountered in the grant awarding process.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-89 Federal Transparency Act Reporting (Material Weakness)
State Department of Defense

CFDA No. 97.036, Disaster Grants — Public Assistance (Presidentially Declared Disasters)
Direct Program from the U.S. Department of Homeland Security (Award FEMA-1967-DR-HI)

Criteria

"The respective coverage in 2 CFR part 170 or the FAR specifies the effective date of Transparency Act subaward reporting . . .is October 1, 2010, for all discretionary and mandatory awards equal to or exceeding $25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date. . . .The recipient must report, for any subaward under that award with a value of $25,000 or more, each obligating action of $25,000 or more in Federal funds. … Grant and cooperative agreement recipients and contractors must report information related to a subaward by the end of the month following the month in which the subaward or obligation of $25,000 or greater was made . . . Transparency Act reporting requirements shall include the following key data elements about the first-tier subrecipient or subcontractor (subawardee) and subawards: Subaward date, Subawardee DUNS #, Amount of Subaward, Subaward Obligation/Action Date, Date of Report Submission, and Subaward Number." (OMB A-133 Compliance Supplement)

Condition

Subawards made under FEMA-1967-DR-HI are subject to the compliance reporting requirements of the Federal Funding and Accountability Transparency Act. For Fiscal Year 2011, there were two subawards greater than $25,000 required to be reported under the Transparency Act, one for $29,550 to the Department of Environmental Management and the other for $138,938 to the Hawaii County Police Department, which were not reported as required.

Questioned Costs

Cannot be determined.

Cause

Due to a lack of training and/or understanding of the OMB A-133 requirements, personnel did not design procedures to comply with this reporting requirement.

Effect

The State is not complying with Federal laws and regulations for reporting subawards.

Recommendations

The State Civil Defense office must provide training on reporting requirements under the Federal Transparency Act for subawards in excess of $25,000 and implement procedures to ensure compliance with reporting requirements.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-90 Subrecipient Monitoring (Significant Deficiency)
State Department of Defense

CFDA No. 97.036, Disaster Grants — Public Assistance (Presidentially Declared Disasters)
Direct Program from the U.S. Department of Homeland Security (Award FEMA-1743-DR-HI, FEMA-1664-DR-HI, FEMA-1640-DR-HI, FEMA-1814-DR-HI, FEMA-1575-DR-HI)

Criteria

OMB Circular A-133 requires a pass-through entity to be responsible for the following:

- Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements and that the required audits are completed within nine months of the end of the subrecipient's audit period;

- Issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and

- Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

The pass-through entity is also required to monitor the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition

We noted that the public assistance disaster grant program administration does not maintain cumulative details of funding that goes to each applicant for all disaster grants. Further, we noted no one monitors and reviews the subrecipient compliance reports. As such, no one ensures the compliance requirements in relation to subrecipient compliance reports are followed.

A similar finding was included in the prior year's single audit report. Refer to page 271 (Reference: 2010-45).

Questioned Costs

Cannot be determined.

Cause

Department personnel were not familiar with the provisions of OMB Circular A-133 that addressed the monitoring of subrecipients and lack personnel to monitor compliance with this requirement. The State Civil Defense office and individuals within the State DOD fiscal office do not monitor the amount of funding given to each subrecipient. The State Civil Defense office assumed reports were reviewed by the State DOD fiscal office, which does not have the personnel resources to monitor this compliance requirement.

Effect

Without the monitoring of subrecipient activities, there would be no assurance that the subrecipients undertook corrective action plans that addressed any deficiencies affecting the Department's pass-through funds.

Recommendation

The State Civil Defense office should maintain a cumulative detail listing for each applicant to identify which subrecipients received in excess of $500,000 in federal funding to appropriately monitor subrecipients' compliance audit requirements.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-91 Communicating CFDA Numbers to Subrecipients (Significant Deficiency)
State Department of Defense

CFDA No. 97.036, Disaster Grants — Public Assistance (Presidentially Declared Disasters)
Direct Program from the U.S. Department of Homeland Security (Award FEMA-1743-DR-HI, FEMA-1664-DR-HI, FEMA-1640-DR-HI, FEMA-1814-DR-HI, FEMA-1575-DR-HI)

Criteria

According to OMB Circular A-133, at the time of a subaward, the pass-through entity must identify to the subrecipient the Federal award information (i.e., the CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.

Condition

During the fiscal year, the State DOD entered into subaward agreements with the City and County of Honolulu and the County of Kauai. The agreements for each of these entities did not include all of the required CFDA title and number.

A similar finding was included in the prior year's single audit report. Refer to page 271 (Reference: 2010-44).

Questioned Costs

None.

Cause

The personnel responsible for preparing the subaward agreements were not aware of the all of the required information that needed to be communicated to the subrecipients.

Effect

The potential for the subrecipients to make errors in their reports to the pass-through entity and the Federal government would be increased, due to their lack of knowledge of the applicable CFDA information.

Recommendation

The existing subaward agreements should be reviewed and amended to include all required Federal award information. In addition, the personnel preparing the subaward agreements should be properly trained as to the required information that should be included in these agreements.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-92 Payroll Certifications (Significant Deficiency)
State Department of Defense

CFDA No. 97.036, Disaster Grants — Public Assistance (Presidentially Declared Disasters)
Direct Program from the U.S. Department of Homeland Security (Award FEMA-1743-DR-HI, FEMA-1664-DR-HI, FEMA-1640-DR-HI, FEMA-1814-DR-HI, FEMA-1575-DR-HI)

Criteria

According to OMB Circular A-87 Attachment B Item 8(h), "(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee."

Condition

Certain employees selected for testing worked on a single Federal disaster grant award during the pay period; however, we noted there were no payroll certifications completed on a semiannual basis for these employees.

Questioned Costs

Cannot be determined.

Cause

Supervisory personnel were not aware of the requirement to prepare personnel activity reports for employees working on multiple activities. The State Civil Defense office submits an application to the Federal Emergency Management Administration for reimbursement of projects related to disaster grants, which details days and hours worked, salary paid and fringe benefit rates of employees whose labor contributed to the projects. However, there is no semiannual certified statement by a supervisory employee to assert that the employee's time was spent solely on one award.

Effect

Without the completion of a payroll certification stating that the employees' time were spent solely on one award, it would be difficult to ascertain whether some employees are contributing to projects in other awards.

Recommendation

The State DOD should create semiannual payroll certifications for employees who work solely on one award, as required by OMB Circular A-87.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-93 Monitoring of Subrecipient Audit Findings (Material Weakness)
State Department of Defense

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013, 2008GET80022, 2009SST90006, 2010SST00006)

Criteria

OMB Circular A-133 requires a pass-through entity to be responsible for the following:

- Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements and that the required audits are completed within nine months of the end of the subrecipient's audit period;

- Issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and

- Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

The pass-through entity is also required to monitor the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition

The State DOD Homeland Security Division personnel did not understand that they were responsible to follow up on findings in the subrecipients' single audit reports. All of the Division's four subrecipients' audit findings were not monitored: 1) City & County of Honolulu, 2) Hawaii County, 3) Maui County, and 4) Kauai County.

Questioned Costs

None.

Cause

Due to DOD Homeland Security Division personnel's lack of training and/or understanding of the OMB Circular A-133 requirements, subrecipient single audit report findings were not monitored.

Effect

Failure to monitor subrecipient audit findings is not in compliance with grant requirements to monitor the single audit reports and ensure that findings are resolved. Failure to comply with grant requirements could impact continued funding by federal agencies.

Recommendations

Enforce the requirement to monitor subrecipient single audit findings.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-94 Lack of Evidence of Timely Filing of Reports (Significant Deficiency)
State Department of Defense

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013, 2008GET80022, 2009SST90006, 2010SST00006)

Criteria

Award Year 2007 Grant Guidance provides: "Grant recipients must report on scheduled exercises and ensure that an After Action Report (AAR) and Improvement Plan (IP) are prepared for each exercise conducted with Federal Emergency Management Agency (FEMA) support (grant funds or direct support) and submitted to FEMA within 60 days following completion of the exercise."

Condition

We obtained a copy of the AAR pertaining to an exercise related to the 93rd Weapons of Mass Destruction - Civil Support Team for Kauai, but no supporting documentation was available to verify if and when this report was submitted.

Questioned Costs

None.

Cause

There was a lack of monitoring to verify this report was submitted, and submitted timely.

Effect

By not submitting the AAR and IPs, the State of Hawaii is not properly disclosing how federal funds were utilized to perform various exercises during the period. In addition, the State of Hawaii program office is not complying with grant guidance to ensure that all reporting requirements were met.

Recommendations

Internal controls over financial reporting should be implemented to provide training on all grant requirements and grant administrators should review the AARs and IPs and ensure that they are submitted to the appropriate personnel on a timely basis.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2011-95 Untimely Submission of Reports (Deficiency)
State Department of Defense

CFDA No. 97.067, Homeland Security Grant Program
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013, 2008GET80022, 2009SST90006, 2010SST00006)

Criteria

According to the Award Year 2010 Grant Guidance, "The Semi-Annual Progress Report is due within 30 days after the end of the reporting period (July 30 for the reporting period of January 1 through June 30; and January 30 for the reporting period of July 1 through December 31)."

"Following an award, the awardees will be responsible for providing updated obligation and expenditure information to meet the pass-through requirement. The applicable awardees are responsible for completing and submitting the Initial Strategy Implementation Plan online within 45 days of award date."

"The Biannual Strategy Implementation Report (BSIR) is due within 30 days after the end of the reporting period (July 30 for the reporting period of January 1 through June 30; and January 30 for the reporting period of July 1 through December 31). Updated obligations and expenditure information must be provided with the BSIR to show progress made toward meeting strategic goals and objectives."

Condition

We received support that showed the reports for the periods we selected were submitted, but we were unable to determine whether the reports were submitted on a timely basis.

Questioned Costs

None.

Cause

When the reports are submitted online, an automatic email verifying the date of submittal is typically sent to the personnel who submitted the report. Due to staff turnover, program personnel were unable to provide documentation as to the date of report submission.

Effect

We cannot be certain that the reports were submitted within required deadlines. Future awards and fund drawdowns may be withheld if reports are delinquent.

Recommendations

Establish a better stream of communication between the federal agency and the State Civil Defense to ensure that when reports are submitted, all supervisory personnel, not just the individual submitting the report, receive documentation that the report was submitted.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINANCIAL STATEMENT FINDINGS

2010-01 — Schedule of Expenditures of Federal Awards (SEFA) (Material Weakness)

Condition

The State DAGS performs the accounting function for the State, including preparing the State's Comprehensive Annual Financial Statements (CAFR) and the combined departments' SEFA.

While attempting to prepare the departmental SEFA, DAGS determined that certain State departments did not possess the ability to prepare complete and accurate schedules of Federal awards due to the following:

- Inability to separately identify expenditures of Federal awards for specific Federal grants within the State's accounting records.
- The omission or overstatement of Federal expenditures being included in the SEFA.
- Miscommunication among State departments pertaining to Federal monies passed between the State departments.

Status

Not accomplished. Corrective action and monitoring is in process. Please refer to the current-year response in Finding No. 2011-01.

2010-02 — Accounting and Reporting of Cash and Cash Equivalents (Significant Deficiency)

Condition

The cash reconciliation process requires the State B&F personnel to reconcile bank statements to the B&F cash subledger. This cash subledger, in turn, is reconciled with the State's general ledger, FAMIS, which is maintained by State DAGS. The B&F cash subledger also includes certain investments, which are identified during the reconciliation process and are recorded on a separate line item by State DAGS when preparing the financial statements.

During the audit, it was determined that investment disposals were incorrectly coded by State DAGS as investment additions. This was a coding and data entry error on the part of State DAGS. In addition, State B&F did not submit timely investment reconciliations throughout the year; as such the coding errors affecting both cash and investments were not discovered until after fiscal year end. There were a total of 144 top-sided reconciling items. Of the 144 reconciling items, $825 million were additive items and $638 million were subtractive items to the cash balance reported in FAMIS.

Status

Not accomplished. A similar finding was noted in the prior year's 2009-06 finding. Corrective action and monitoring is in process. Please refer to the current-year response in Finding No. 2011-02.

2010-03 — Internal Control over Financial Reporting (Significant Deficiency)

Condition

The State's internal control over financial reporting could be improved. During the June 30, 2010 audit, we identified multiple deficiencies that, when considered in the aggregate, indicated a significant deficiency in the internal control over financial reporting.

The process used by the State DAGS Accounting Division to obtain the required information from the State departments and agencies to prepare the CAFR (e.g., preparing governmental fund financial statements on a modified accrual basis and the government-wide financial statements on an accrual basis) is inefficient, very time consuming, and causes delays in statewide financial reporting. In addition, there is no enforcement of the timetable that is established to ensure that all of the departments and agencies submit accurate information on a timely basis.

Numerous postclosing adjustments were required to correct accounting and reporting errors made in the current year, as well as in the prior year.

Status

Not accomplished. A similar finding was noted in the prior year's 2009-04 finding. Corrective action and monitoring is in process. Please refer to the current-year response in Finding No. 2011-03.

2010-04 — Accounting for Postemployment Benefits (Significant Deficiency)

Condition

State B&F is responsible for procuring the outside actuary, which was hired to perform the actuarial valuation for the State. Certain significant assumptions needed to be determined by the State and provided to the third-party actuary in order for the actuary to complete the valuation. These assumptions were not provided to the third-party actuary until February 2011, which resulted in the State receiving the actuary report in March 2011.

Status

Partially accomplished. Corrective action and monitoring is in process. State DAGS and State B&F have started working on its biennium valuation which is as of July 1, 2011 (applicable for fiscal year ended June 30, 2012). State DAGS and State B&F plan to have the 2011 actuarial report issued by summer 2012, in time for the June 30, 2012 audit. The last valuation was done as of July 1, 2009.

2010-05 — Accounting for Component Units and Proprietary Funds (Significant Deficiency)

Condition

During fiscal year 2008, State DAGS implemented a policy on reporting "material" CUs and PFs, which stated that only material CUs and PFs would be disclosed as discretely presented CUs and major PFs in the CAFR. Materiality was determined based on certain quantitative criteria determined by State DAGS considering the requirements in GASB Statement Nos. 14 and 39 for CUs and GASB Statement No. 34 for PFs.

As a result of implementing the policy, State DAGS noted that the Stadium Authority, High Technology Development Corporation, and the Natural Energy Laboratory of Hawaii Authority met the definition of discretely presented CUs as defined in GASB Statement Nos. 14 and 39, but did not meet the materiality thresholds under the State's policy, and thus were not disclosed as discretely presented CUs in the June 30, 2010 CAFR. Instead, they were reported as part of the governmental funds to which these entities were administratively attached.

State DAGS also noted that the State DLIR — Disability Compensation Fund, the State DPS — Correctional Industries Fund, the Accounting and General Services — State Parking Revolving Fund, and the Accounting and General Services — Motor Pool Fund met the definition of PFs as defined in GASB Statement No. 34, but did not meet the materiality threshold under the State's policy, and thus were not disclosed as PFs in the June 30, 2010 CAFR. Instead, they were reported as part of the governmental funds to which these entities were administratively attached.

Status

Not accomplished. A similar finding was noted in the prior year's 2009-07 finding. Corrective action and monitoring is in process. Please refer to the current-year response in Finding No. 2011-04.

2010-06 — Accounting for Capital Assets (Significant Deficiency)

Condition

As noted in prior audits, the State does not have a single comprehensive capital assets system to identify and monitor all capital assets used in governmental activities. Instead, DAGS utilizes various sources of capital asset financial information in preparing the CAFR.

Land, land improvements, buildings building improvements, equipment, and accumulated depreciation for all governmental activity departments, except for the State Department of Education ("State DOE") are accounted for by utilizing the Fixed Asset Inventory Management System (FAIS), which is maintained by the Inventory Management Branch ("Inventory Management") of the State Procurement Office within DAGS. According to the FAIS user manual, each State department is responsible for ensuring that newly acquired property is recorded in FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility to maintain the property.

Infrastructure and related accumulated depreciation are maintained on electronic spreadsheets by the Department of Hawaiian Homelands (DHHL) and the Department of Transportation — Highways Division ("Highways") and are provided to State DAGS annually for inclusion in the CAFR. Capital asset information for the DOE is maintained by that department and is provided to State DAGS annually for inclusion in the CAFR.

The State's construction in progress, except for the State DOE, is maintained by the State DAGS — Public Works (the "Public Works Division"). Financial information from the Public Works Division is provided to the State DAGS annually for inclusion in the CAFR.

During our testing, we noted that capital asset additions included $8.2 million of assets that should have been recorded in the prior year but were recorded in the current year. Depreciation expense related to these assets that should have been recorded in prior year amounted to approximately $1.2 million. We also noted that some of these asset additions in the current year were over 20 years old.

Status

Not accomplished. A similar finding was noted in the prior year's 2009-05 finding. Corrective action and monitoring is in process. Please refer to the current-year response Finding No. 2011-05.

2010-07 — User Access Monitoring and Review (Significant Deficiency)

Condition

During the course of our audit, we noted that the DAGS - ICSD did not consistently follow the processes in place to document authorizations of new and modified user access, nor did it consistently remove terminated access from systems within five days of termination. Additionally, any of the system administrators can make and approve a user access request. Those requesting access, should not be the same as those who are assigning access.

Status

Not accomplished. Corrective action and monitoring is in process. Please refer to the current-year response in the Finding No. 2011-06.

2010-08 — Great Plains Change Control (Significant Deficiency)

Condition

There is currently no documentation of changes to the Great Plains application.

Status

Not accomplished. Corrective action and monitoring is in process. Please refer to the current-year response in Finding No. 2011-07.

2010-09 — SEFA (Material Weakness)
State Department of Accounting and General Services

Condition

The preliminary draft of the State's SEFA contained the following material misstatements, which were corrected by audit adjustments:

- Federal expenditure omission — CFDA No. 17.225, *Unemployment Insurance* (provided by the U.S. Department of Labor and Industrial Relations to the State DLIR for unemployment compensation benefits). Approximately $688,000,000 was not included in the preliminary SEFA. An audit adjustment was recorded to correct this error.

- Federal grant expenditure omission — CFDA No. 12.400, *Military Construction, National Guard,* provided by the U.S. Department of Defense to the State DOD for a construction project and was subsequently transferred to the States DAGS Public Works Division to administer the grant. Neither the State DOD nor State DAGS reported the $24,951,856 expenditure in its departmental SEFA. An audit adjustment was recorded to correct this error.

- Federal expenditures for CFDA No. 39.011, *Help America Vote Act of 2002, Title I, Section 101*, was overstated by approximately $1,200,000 due to State DAGS including encumbered amounts as part of the amounts reported in the department SEFA. An audit adjustment was recorded to correct the reported amount.

Status

Not accomplished. Corrective action and monitoring is in process. A similar finding was noted in the previous years as well. Please refer to the current-year response in Finding 2011-01.

2010-10 — Untimely submission of June 30, 2008 and 2009 SEFAs (Material Weakness)
State Department of Defense

Condition

The State DOD's SEFA and data collection forms for the fiscal years ended June 30, 2008 and 2009, were required to be submitted by March 31, 2009 and 2010, respectively. However, these reports have not yet been submitted as of the date of this report.

Status

Not accomplished. Please refer to the current-year response in Finding No. 2011-01.

2010-11 — Untimely Submission of June 30, 2009 SEFA (Material Weakness)
State Department of Labor and Industrial Relations

Condition

The State DLIR's SEFA and data collection forms for the year ended June 30, 2009, were required to be submitted by March 31, 2010. However, these reports have not been submitted as of the date of this report.

Status

Not accomplished. Please refer to the current-year response in Finding No. 2011-01.

2009-2 Accounting for Accrued Liabilities (Significant Deficiency)

Condition

During the audit, it was determined that the June 30, 2009 accrued liability schedules submitted to the State DAGS Accounting Division from the State DHS, State DAGS (another division other than DAGS accounting), and the State DOE, were not complete and accurate. We noted that the following fiscal year 2009 liabilities were initially omitted from the accrued liability schedules submitted to the State DAGS Accounting Division.

- Approximately $2 million from State DAGS fiscal office for construction invoices
- Approximately $702,000 from DHS MedQuest Division
- Approximately $69 million from DOE for accrued teacher salaries
- Approximately $22 million from DHS for liabilities to the Federal government

Status

Not accomplished. Please refer to the current-year response in Finding No. 2011-08.

2009-3 Accounting for Revenue Bonds (Significant Deficiency)

Condition

During the fiscal year ended June 30, 2009, the State DHHL issued approximately $42 million in revenue bonds. Bond proceeds were recorded into a FAMIS trust fund, rather than the FAMIS bond fund.

Status

Accomplished. The State DAGS has established and implemented policies and procedures to facilitate communications between the State DAGS and various State departments to ensure the proper recording of transactions.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2010-12 — Procurement Parceling (Material Weakness)
State Department of Defense

CFDA No. 12.401, National Guard Military Operations and Maintenance Projects
(Direct Program from the U.S. Department of Defense, Award W912J6)
CFDA No. 93.558, Temporary Assistance for Needy Families Program (Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services, Award DHS-10-ETPO-125)

Condition

During the audit, we noted instances of parceling from the following federal grants:

- National Guard Military Operations and Maintenance Projects Program (CFDA No. 12.401)
- TANF Program (CFDA No. 93.558)

We noted that 16 different individuals were hired through 52 separate contracts totaling $465,902. In each of the 16 cases, it appeared that contracts exceeding $10,000 were split into amounts under $10,000 and renewed over the course of months for amounts under $10,000. By splitting contracts into smaller amounts below $10,000, services were procured without the required approvals pursuant to Executive Memorandum 08-05.

In 2010, State DAGS Audit Division performed an audit on certain State DOD programs and noted that parceling of services had also occurred during the fiscal year ended June 30, 2009. State DAGS Audit Division informed State DOD to cease its parceling of personal service contracts, however, the parceling continued for contracts during 2010.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-13 — Cash Management (Significant Deficiency)
State Department of Agriculture

CFDA No. 10.025, *Plant and Animal Disease, Pest Control, and Animal Care*
Direct Program from the U.S. Department of Agriculture (Award 08-8510-0586-CA)

Condition

During our audit, we examined 40 selections of cash advances and identified 13 instances where the number of days elapsed between the federal cash advances and federal fund expenditures date exceeded 90 days. It is administratively feasible for the State to make expenditures in less than 90 days. Therefore, any interest income earned on the deposits of the federal funds should be submitted to the federal government.

Status

Not accomplished. Corrective action and monitoring is in process, with anticipated completion date of December 31, 2012.

2010-14 — Federal Reporting Accuracy (Significant Deficiency)
State Department of Agriculture

CFDA No. 10.025, *Plant and Animal Disease, Pest Control, and Animal Care*
Direct Program from the U.S. Department of Agriculture (Award 08-8510-0586-CA)

Condition

During the course of our audit, we examined nine federal financial reports, of which eight reports did not reconcile to the supporting accounting records. These eight instances resulted in differences of $37,983 between federal funds that were in the report and the accounting records reported in FAMIS. However, since the reports are not used to request reimbursement, there are no questioned costs.

Status

Not accomplished. Corrective action and monitoring is in process, with anticipated completion date of December 31, 2012.

2010-15 — Matching (Material Weakness)
State Department of Agriculture

CFDA No. 10.025, *Plant and Animal Disease, Pest Control, and Animal Care*
Direct Program from the U.S. Department of Agriculture (Award 08-8510-0586-CA)

Condition

During the course of our audit, we examined seven cases of awards with matching requirements to be contributed by the State DOA. We noted two instances in which the State's matching requirement was not fulfilled.

- *Cooperative Agreement — Noxious Weed*: $2,311 of State DOA's $20,500 required matching contribution was not made.

- *Cooperative Agreement — Citrus Health*: $15,896 of State DOA's $18,032 required matching contribution was not made.

The total value of the required funds that were not contributed by the State DOA was $18,207. In applying the matching contribution percentage to the contributions not made, the total questioned costs is $51,155 ($2,311 x 60/40 and $15,896 x 75/25)

Status

Not accomplished. Corrective action and monitoring is in process, with anticipated completion date of December 31, 2012.

2010-16 — Transfer of Equipment (Significant Deficiency)
State Department of Defense

CFDA No. 12.401, *National Guard Military Operations and Maintenance Projects*
Direct Program from the U.S. Department of Defense (Award W912J6)

Condition

During fiscal year 2010, a motor vehicle was purchased with Army National Guard grant funds and was transferred from the State Army National Guard division to the State Civil Defense division. The State Army National Guard and State Civil Defense are separate operating divisions and the State Civil Defense is not considered to be another federally supported Army National Guard Cooperative Agreement in accordance with NGR 5-1, section 7-2.

In addition, the transfer represents an asset disposition for the Army National Guard. The State DOD did not obtain the required review and approval of the disposal in accordance with NGR 5-1, section 7-2. The carrying value of the motor vehicle approximated $4,900 at the date of transfer.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-17 — Property Records (Significant Deficiency)
State Department of Defense

CFDA No. 12.401, *National Guard Military Operations and Maintenance Projects*
Direct Program from the U.S. Department of Defense (Award W912J6)

Condition

We noted that State DOD property records were not reported to the USPFO during fiscal year ended June 30, 2010.

Status

Partially accomplished. During fiscal year 2011, the records were submitted but not updated. Please refer to the current-year response to Finding 2011-24.

2010-18 — ARRA Reported Information (Significant Deficiency)
State Department of Defense

CFDA No. ARRA 12.401, *National Guard Military Operations and Maintenance Projects*
Direct Program from the U.S. Department of Defense (Award W912J6)

Condition

ARRA funds were issued by the NGB to the State DOD for CFDA 12.401, *National Guard Military Operations and Maintenance Projects*.

The State DOD incorrectly prepared and submitted ARRA Section 1512 reports.

In one instance (for the quarter ended December 31, 2009), the State DOD reported both the "*Total Federal Amount ARRA Funds Invoiced/Received*" amount and the "*Total Federal Amount of ARRA Expenditure*" amount at $1,750,000. The correct amount for *"Total Federal Amount ARRA Funds Invoiced/Received"* was $1,500,000 and the correct amount for *"Total Federal Amount of ARRA Expenditure"* was $0.

In another instance (for the quarter ended June 30, 2010), the State DOD reported the "*Total Federal Amount of ARRA Expenditure*" amount at $1,750,000. The correct amount was $730,015.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-19 — Payroll Certifications (Significant Deficiency)
State Department of Defense

CFDA No. ARRA-12.401, *National Guard Military Operations and Maintenance Projects*
Direct Program from the U.S. Department of Defense (Award W912J6)
CFDA No. 93.558, *Temporary Assistance for Needy Families (TANF) Cluster*
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)
CFDA No. 97.036, *Disaster Grants — Public Assistance (Presidentially Declared Disasters)*
Direct Program from the U.S. Department of Homeland Security (Award FEMA-1664-DR-HI)
CFDA No. 97.067, *Homeland Security Grant Program*
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013)

Condition

We noted that payroll certifications were not completed for employees who solely worked on a single federal award. From our testing procedures, we selected eight employees who were required to complete a payroll certification. Of the employees that were required to submit a certified payroll, we noted that the required certification was not completed for seven out of the eight employees tested.

Status

Not accomplished. Please refer to the current-year response to finding 2011-27.

2010-20 — Reporting (Significant Deficiency)
State Department of Defense

CFDA No. ARRA-12.401, *National Guard Military Operations and Maintenance Projects*
Direct Program from the U.S. Department of Defense (Award W912J6)

Condition

We noted that the State DOD Contracting Division did not formally communicate the ARRA requirements to the contractors hired for the project.

Status

Not accomplished. Please refer to the current-year response to finding 2011-26.

2010-21 — Davis-Bacon Act (Significant Deficiency)
State Department of Defense

CFDA No. 12.401, *National Guard Military Operations and Maintenance Projects*
Direct Program from the U.S. Department of Defense (Award W912J6)

Condition

The State DOD engages numerous contractors for various construction projects. State DOD project managers periodically receive certified payroll reports from the contractors. However, State DOD project managers are not consistently reviewing the contractors' submitted certified payroll reports for compliance.

Status

Not accomplished. Please refer to the current-year response to finding 2011-25.

2010-22 — Reporting — Financial Reporting Accuracy (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 17.207, 17.801, 17.804 — *Employment Service Cluster*
Direct Program from the U.S. Department of Labor (Award ES191980955A15)

Condition

During the audit, we examined a total of four ETA 2112 financial reports. We identified one report that inaccurately combined administrative expenses and unemployment benefit payments as one line item under "administrative expenses," as opposed to reporting $389,878 as "administrative expenses" and $2,832,229 as "unemployment benefit payments."

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-23 —Eligibility for Emergency Unemployment Compensation (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 17.225 — *Unemployment Insurance*
Direct Program from the U.S. Department of Labor (Award UI-18016-09-55-A-15)

Condition

We noted two claimants who were paid Emergency Unemployment Claims (EUC) benefits of approximately $33,000 based on questionable eligibility criteria. One claimant was determined eligible based on the 20 weeks of full-time employment (criteria number (1) above); however, sufficient supporting documentation to determine that respective eligibility criteria were met could not be provided. The second claimant was determined eligible based on one and one-half times the highest quarter wages in their base period (criteria number (2) above); however, based on our recalculation, we noticed that the claimant did not qualify under the criteria number (2) or (3) above. Further, sufficient supporting documentation to determine that the claimant might instead qualify under the 20 full-time employment criteria (criteria number (1) above) could not be provided.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-24 — Travel Policy (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 17.225 — *Unemployment Insurance*
Direct Program from the U.S. Department of Labor (Award UI-19578-10-55-A-15)

Condition

During the course of our audit, we noted two instances (out of two travel transactions tested) in which the "Statement of Completed Travel" and supporting documents/receipts were not submitted within the 10-day deadline.

Status

Not accomplished. Please refer to the current-year response to finding 2011-37.

2010-25 — Unwithheld Taxes on Federal Additional Compensation (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA 17.225 — *Unemployment Insurance*
Direct Program from the U.S. Department of Labor (Award UI-18016-09-55-A-15)

Condition

During the course of the audit, we noted that the State DLIR's benefit payment system did not have the ability to withhold federal income tax from the $25 FAC payment when elected by an individual. We examined 60 cases in which FAC was paid. Of the 60 cases, 21 claimants elected to have federal tax withheld from their benefit payments. For these 21 claimants, we noted that federal income tax was withheld for their regular unemployment insurance or emergency unemployment compensation payments. However, federal income tax was not withheld from the FAC payments.

Status

Not accomplished. Please refer to the current-year response to finding 2011-39.

2010-26 — Untimely Submission of Reports (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA 17.225 — *Unemployment Insurance* (Award UI-18016-0955-A15)
CFDA 17.258, 17.259 and 17.260 — *Workforce Investment Act Cluster* (Award 18635-09-55)
CFDA 17.207, 17.801, and 17.804 — *Employment Services Cluster*
Direct Programs from the U.S. Department of Labor and the U.S. Department of Health and Human Services

Condition

During the course of the audit, we noted that the following reports were not submitted timely:

CFDA No.	Report No.	Description	Reporting Period	Days Overdue
17.225	ETA 902	DUA activities under the Stafford Act	Month ended July 31, 2009	Four
17.258, 17.259 and 17.260	ETA 9090	Quarterly summary report	Quarter ended June 30, 2010	Four
17.207, 17.801, 17.804	VETS 402	Expenditure register report	Quarter ended March 31, 2009	31
17.207, 17.801, 17.804	VETS 402	Expenditure register report	Quarter ended June 30, 2010	20

Status

Not accomplished. Please refer to the current-year response to findings 2011-34 for CFDA Nos. 17.207, 17.801, and 17.804. There were no similar findings noted for CFDA No. 17.225 or CFDA Nos. 17.258, 17.259 and 17.260 for the year ended June 30, 2011.

2010-27 — Equipment Management: Lack of Physical Inventory (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA 17.258, 17.259 and 17.260 — *Workforce Investment Act (WIA) Cluster*
Direct Program from the U.S. Department of Labor (Award 18635-09-55)

Condition

The majority of the WIA program's equipment resides in the main fiscal office. We noted that a physical inventory was taken for this main fiscal office. However, no physical inventory was taken at the different WIA program branches within the last two years. According to the annual physical inventory certification sheet, the last physical inventory at the different branches was completed and certified on April 28, 2008, for inventory balances as of December 31, 2007.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-28 — Untimely Submission of Reports (Significant Deficiency)
State Department of Business, Economic Development and Tourism

CFDA 81.041, *State Energy Program*
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

Condition

During the course of the audit, we examined 12 reports submitted. Four were submitted for financial reporting, four for ARRA reporting, and four for performance reporting compliance . We noted that the following reports were not submitted timely:

CFDA No.	Report No.	Description	Reporting Period	Days Overdue
81.041	SF-425	Federal financial report	Quarter ended 3/31/2010	61
81.041	SF-425	Federal financial report	Quarter ended 6/30/2010	75
81.041	n/a	Performance progress report	Quarter ended 9/30/2009	92
81.041	n/a	Performance progress report	Quarter ended 3/31/2010	76
81.041	n/a	Performance progress report	Quarter ended 6/30/2010	199

Status

Not accomplished. Please refer to the current-year response to finding 2011-48.

2010-29 — Federal Reporting Inaccuracy (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 81.042 — *Weatherization Assistance for Low-Income Persons*
Direct Program from the U.S. Department of Energy (Award DE-EE0000183)

Condition

We examined two federal financial reports (Form SF-425), non-ARRA, which did not reconcile with the federal ledger sheet and were submitted inaccurately. In one instance, for quarter ended March 31, 2010, the

State DLIR reported $328,792 for the "Federal share of expenditures." The correct amount per the federal ledger sheet was $341,287, a difference of $12,495. In another instance, for quarter ended June 30, 2010, State DLIR reported $0 "Federal share of expenditures." The correct amount was $361,611.

Status

Not accomplished. Please refer to the current-year response to finding 2011-50.

2010-30 — Communicating CFDA Numbers to Subrecipients (Significant Deficiency)
Office of the Governor

CFDA No. ARRA 84.394 and ARRA 84.397 — State Fiscal Stabilization Fund Cluster
Direct Program from the U.S. Department of Education (Awards S394A090012 and S397A090012)

Condition

For certain grants, the Governor's Office primarily acts as a pass-through entity: receiving monies from the federal government and passing funds to other State departments to administer the grants (such as the Department of Education, University of Hawaii, and other nongovernmental agencies, such as Charter School Administrative Office (CSAO)). The pass-through transactions were documented in MOAs between the Governor's Office, State Department of Education, University of Hawaii, and CSAO.

Upon examination of the MOAs, we noted that the Governor's Office did not formally communicate the following to the State Department of Education, University of Hawaii, and CSAO:

- CFDA number
- Requirements for subrecipients to include on their SEFA information to specifically identify ARRA funding

Status

Accomplished. We noted that MOAs executed beginning March 2011 contained the above required information.

2010-31 — Subrecipient Monitoring (Significant Deficiency)
Office of the Governor

CFDA No. ARRA 84.394 and ARRA 84.397 — *State Fiscal Stabilization Fund Cluster*
Direct Program from the U.S. Department of Education (Award S394A090012)

Condition

The Governor's Office did not identify all subrecipients requiring an OMB Circular A-133 audit. Further, the Governor's Office had not performed follow-up procedures to ensure that its subrecipients had obtained an audit under OMB Circular A-133 or reviewed subrecipient corrective action plans.

Status

Not accomplished. Please refer to the current-year response to finding 2011-62.

2010-32 — Central Contractor Registration (Significant Deficiency)
Office of the Governor

CFDA No. ARRA 84.394 and ARRA 84.397 — *State Fiscal Stabilization Fund Cluster*
Direct Program from the U.S. Department of Education (Award S394A090012)

Condition

The Governor's Office passed through ARRA funds to the subrecipient State agencies, the State Department of Education, University of Hawaii, and CSAO during the year ended June 30, 2010, but did not check if the subrecipients were registered in the CCR. We noted that the CSAO did not maintain current registration at all times during which they had active Federal awards funded with ARRA funds and had a registration that expired on June 10, 2010.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-33 — Equipment Records (Significant Deficiency)
State Department of Defense

CFDA No. 93.558 — *Temporary Assistance for Needy Families (TANF) Cluster*
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

Condition

During fiscal year 2010, the State DOD provided federal funds to two separate vendors who used funds to purchase equipment in connection with the TANF program. However, the DOD did not maintain records to track the equipment that the vendor purchased with DOD's federal funds. Therefore, the DOD is unable to determine the total amount of federal expenditures used to purchase equipment, furniture, and supplies, made by each vendor. Total expenditures made to the vendors were $4,783,273 during fiscal year 2010.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-34 — Unallowable Payroll Costs (Significant Deficiency)
State Department of Defense

CFDA No. 93.558 — *Temporary Assistance for Needy Families (TANF) Cluster*
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

Condition

During fiscal year 2010, two employees were 100% funded by the TANF grant program. We noted that these employees worked a portion of their time on a grant program that was not affiliated with the TANF grant program. The total salary amount related to work performed on other grant programs was $17,134 at 453 hours for the two employees. These payroll costs should have been allocated to the other grant programs as opposed to the TANF grant.

Status

Not accomplished. Please refer to the current-year response to finding 2011-76.

2010-35 — Cash Management (Significant Deficiency)
State Department of Defense

CFDA No. 93.558 — *Temporary Assistance for Needy Families (TANF) Cluster*
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

Condition

During the audit, we identified an instance where the State DOD requested $499,477 in federal funds from the State Department of Human Services in April 2009, but did not expend the requested funds until April 2010. The one-year time span between requesting funds and expending funds appears longer than "administratively feasible." Therefore, any interest income earned on the deposit should be submitted to the federal government.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-36 — Untimely Submission of Reports (Significant Deficiency)
State Department of Defense

CFDA 93.558 — *Temporary Assistance for Needy Families*
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

Condition

During the course of the audit, we noted that the following reports were not submitted timely:

CFDA No.	Report No.	Description	Reporting Period	Days Overdue
93.558	n/a	Monthly Financial Report	7/16/2009	32
93.558	n/a	Monthly Financial Report	8/31/2009	44
93.558	n/a	Monthly Financial Report	1/31/2010	32
93.558	n/a	Monthly Financial Report	6/30/2010	171
93.558	n/a	Performance/Progress Reports	Quarter Ended 9/30/2009	550
93.558	n/a	Performance/Progress Reports	Quarter Ended 3/31/2010	368

Status

Not accomplished. Please refer to the current-year response to finding 2011-77.

2010-37 — Reconciliation of Reimbursements (Significant Deficiency)
State Department of Defense

CFDA 93.558 — *Temporary Assistance for Needy Families*
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

Condition

State DOD submits monthly expenditure reports to the State DHS in order to request federal funds. The State Department of Human Services transfers the funds to the State DOD using the State of Hawaii journal voucher form. We noted two instances (dated March 19, 2010 and January 18, 2011), in which no reimbursement was received (as of the date of testing) from the State DHS after the State DOD sent in the reimbursement requests.

Status

Not accomplished. Please refer to the current-year response to Finding No. 2011-68.

2010-38 — Subrecipient Monitoring: No On-Site Review Performed (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA 93.569 — *Community Services Block Grant (GSBG)*
Direct Program from the U.S. Department of Health and Human Services (Award G10B1HICOSR)
CFDA 81.042 — *Weatherization Assistance for Low-Income Persons*
Direct Program from the U.S. Department of Energy (Awards DE-EE0000176 and DE- EE0000183)

Condition

We noted that while the State DLIR monitored the subrecipients by communicating via telephone and email frequently, physical on-site reviews were not performed within the last three years for the two of the program's four subrecipients. The last on-site reviews for these two subrecipients were in September 2006.

Status

Partially accomplished. Please refer to the current-year response to finding 2011-51 for CFDA No. 81.042.

2010-39 — Earmarking (Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA 93.569 — *Community Services Block Grant* (CSBG)
Direct Program from the U.S. Department of Health and Human Services (Award G10B1HICOSR)

Condition

During our testing, we noted that administrative expenses exceeded the maximum amount. We were informed that total administrative expenses exceeded the maximum requirement because the recorded balance included carry-over amounts that were not utilized in the prior years. We further noted that there were no records to track the carry-over amounts from prior years. Therefore, compliance with this requirement could not be determined.

Status

Not accomplished. Please refer to the current-year response to finding 2011-81.

2010-40 — Cash Management (Significant Deficiency)
State Department of Land and Natural Resources

CFDA No. 94.006 — *AmeriCorps*
Pass-Through Program from the Research Corporation of the University of Hawaii
(Award 07ACHHI0010001)

Condition

During our audit, we examined six selections of cash drawdowns where the State DLNR drew down federal funding to reimburse its subrecipient for their program related spending. We identified one instance where 120 days elapsed between the federal cash draw down and the reimbursement to the subrecipient. Therefore, any interest income earned on the deposit should be submitted to the federal government.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-41 — Subrecipient Monitoring (Significant Deficiency)
State Department of Land and Natural Resources

CFDA No. 94.006 — *AmeriCorps*
Pass-Through Program from the Research Corporation of the University of Hawaii
(Award 07ACHHI0010001)

Condition

The State DLNR acts as a pass-through entity, receiving monies from the federal government and passing funds to a not-for-profit subrecipient. The pass-through transaction was documented in a contractual agreement between the State DLNR and their not-for-profit subrecipient.

Upon examination of the contract, we noted that the State DLNR did not formally communicate the following to the subrecipient:

- CFDA title and number
- Award name and number
- Name of federal awarding agency
- Requirements imposed by laws, regulations
- Provisions of contract or grant requirements
- Allowable activities approved in the federal award documents

Status

Not accomplished. Corrective action and monitoring is in process, with anticipated completion date of December 31, 2012.

2010-42 — Period of Availability (Significant Deficiency)
State Department of Defense

CFDA No. 97.036 — Disaster Grants — *Public Assistance (Presidentially Declared Disasters)*
Direct Program from the U.S. Department of Homeland Security
(Award FEMA-1664-DR- HI)

Condition

We identified one instance for permanent work that had a completion requirement of 18 months. The subrecipient completed the underlying obligations of the contract beyond the 18-month period, however, no time extension request letter was submitted to FEMA. The total amount of the contract that was performed beyond the required 18-month period was $14,505.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-43 — Subrecipient Monitoring of Procurement (Significant Deficiency)
State Department of Defense

CFDA No. 97.036 — Disaster Grants — *Public Assistance (Presidentially Declared Disasters)*
Direct Program from the U.S. Department of Homeland Security
(Award FEMA-1664-DR-HI)

Condition

The SCD is required to monitor the procurement procedures of subrecipients to ensure that the State's procurement regulations were followed. During the fiscal year ended June 30, 2010, the County of Kauai, a subrecipient of SCD, used State pass-through federal funds for a $12,833 emergency procurement purchase.

The SCD did not monitor the County of Kauai to ensure that they prepared a written determination requesting the approval from the chief procurement officer indicating the following: (1) nature of the emergency; (2) name of contractor; (3) amount of expenditure; (4) listing of the good, service, or construction; and (5) reason for selection of the contractor.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-44 — Subrecipient Monitoring (Significant Deficiency)
State Department of Defense

CFDA No. 97.036 — Disaster Grants — *Public Assistance (Presidentially Declared Disasters)*
Direct Program from the U.S. Department of Homeland Security
(Award FEMA-1664-DR-HI)

Condition

For certain grants, the State DOD acts as a pass-through entity, passing federal funds it receives to nongovernment subrecipients. We selected a sample of seven subrecipient transactions to examine for compliance with subrecipient monitoring requirements. We identified seven instances of noncompliance, a 100% deviation rate, where the State DOD did not provide CFDA numbers to its subrecipients.

Status

Not accomplished. Please refer to the current-year response to finding 2011-91.

2010-45 — Subrecipient Monitoring of Audits (Significant Deficiency)
State Department of Defense

CFDA No. 97.036 – Disaster Grants — *Public Assistance (Presidentially Declared Disasters)*
Direct Program from the U.S. Department of Homeland Security (Award FEMA-1664-DR-HI)

Condition

During fiscal year 2010, six individual disasters were funded by SCD under CFDA 97.036. The total amount expended was $2,636,054 in fiscal year 2010 of which $1,346,894 was passed on to subrecipients. SCD maintains records of federal funds passed to subrecipients by the six individual disasters; however, SCD does not maintain cumulative amounts of the total amount of funding passed on to each subrecipients, nor does SCD track how much of the federal funds were expended by each of these recipients for all the disasters. SCD does inform the subrecipients that they must obtain an audit if they expend more than $500,000 in a year, however, the SCD does not monitor to ensure that the subrecipients are complying with the compliance requirements by requesting an audit report or following-up on findings.

Status

Not accomplished. Please refer to the current-year response to finding 2011-90.

2010-46 — Procurement (Significant Deficiency)
State Department of Defense

CFDA No. 97.067 — *Homeland Security Grant Program*
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013)

Condition

During fiscal year 2010, the State DOD Homeland Security Division (DOD HSD) received $12,280,946 in federal funding under CFDA 97.067 of which $10,836,133 was passed through to subrecipients. The DOD HSD communicates that subrecipients are responsible for following the State procurement regulations in accordance with 44 CFR 13.36. The DOD HSD does not obtain, review, or maintain supporting documentation on subrecipient procurement procedures to verify that subrecipients followed the required procurement guidance. During our audit, we selected 40 transactions to review procurement. Of the 40 selections, 28 did not have supporting documentation from the subrecipient indicating that the proper procurement procedures had been followed.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-47 — Earmarking (Material Weakness)
State Department of Defense

CFDA No. 97.067 — *Homeland Security Grant Program*
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013)

Condition

The 2006 Homeland Security Department's Federal award concluded on June 30, 2010. We examined the earmarking requirement, noting that the earmark requirement was not met. When the award's funding ended on June 30, 2010, the total life to date of federal expenditures made to EMS providers was $532,330, which was $761,194 less than the required earmarked amount of $1,293,524.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-48 — Procurement "Piggybacking" (Significant Deficiency)
State Department of Defense

CFDA No. 97.067 — *Homeland Security Grant Program*
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013)

Condition

During the fiscal year ended June 30, 2010, we identified an instance where the DOD HSD "piggybacked" on a State of Arkansas contract to purchase supplies and equipment from a vendor.

The U.S. Office of Domestic Preparedness (ODP) entered into an agreement with the Defense Logistics Agency, Defense Supply Center Philadelphia (DSCP) to allow ODP state and local grant recipients to procure services through DSCP. State and local recipients of ODP equipment grant funding are allowed to use DSCP prime vendors and other logistic support programs to expedite shipment purchases using grant funds. The purpose of this program is to provide ODP grant recipients with cost and timesaving equipment procurement options. The State of Arkansas Procurement Office through DSCP contracted a vendor for the purchase of various brand name laboratory supplies and homeland security equipment. The DOD "piggybacked" off of the existing DSCP arrangement to purchase supplies from the vendor.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-49 — Cash Management (Significant Deficiency)
State Department of Defense

CFDA No. 97.067 — *Homeland Security Grant Program*
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013)

Condition

The DOD HSD grant CFDA No. 97.067 consists of following programs:

1. State Homeland Security Program
2. Law Enforcement Terrorism Protection Program (LETPP)
3. Citizens Corp Program
4. Urban Areas Security Initiative Program (UASI)
5. Metropolitan Medical Response System Program

The State DOD accounts for the separate programs using the same State appropriation code. Federal reimbursements for each program are requested separately by the State. During the audit, we noted two (out of 40 selections) in which the cash balance for two programs were low and therefore invoices paid for these programs were paid out of the combined cash balance from other programs recorded in the particular common State appropriation code. The instances related to the LETPP program ($25,146) and the UASI program ($302,118).

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-50 — Reporting (Significant Deficiency)
State Department of Defense

CFDA No. 97.067 — *Homeland Security Grant Program*
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013)

Condition

The State DOD did not complete the SF-425 report correctly for its December 31, 2009 and March 31, 2010, quarter-end reports. When the forms were completed, the State DOD incorrectly reported “cash receipts” to match the “cash disbursements,” which resulted in a “cash on hand” amount (“cash receipts” subtracted by “cash disbursements”) of $0. However, the correct “cash on hand” amounts were $180,879 and $164,099, respectively.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

2010-51 — Reporting (Significant Deficiency)
State Department of Defense

CFDA No. 97.067 — *Homeland Security Grant Program*
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013)

Condition

We noted that one of the Homeland Security Department’s subrecipients conducted an exercise activity using FEMA support. This activity required the submission of the AAR and IP reports. However, these required reports were not submitted.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2011.

STATE DEPARTMENT OF AGRICULTURE

Financial Statement Findings

09-01 Deficiency in Accounting for Capital Assets (Material Weakness)

Condition

During the prior-year audit, the Department did not properly report capital purchases and construction in progress in accordance with GAAP and the State's policies and procedures which resulted in an audit restatement to the Department's July 1, 2007, net assets balance of approximately $1.3 million.

During the audit, the following audit adjustments were made to the Department's financial statements:

- $2,429,000 adjustment for the transfer of construction in progress to land improvements for a project completed during fiscal year 2009 and related depreciation expense of $81,000.
- $698,000 to record internally developed computer software.
- $1,248,000 adjustment to reverse improper recordation of assets as construction in progress that should have been expensed.

Net capital asset expenditures of $41,985 were not properly reported in the State's FAIS for the current year.

Status

Not accomplished. Corrective action and monitoring is in process. Due to inadequate staffing, implementation of the corrective action has not been possible. An Office Services Supervisor position within ASO has been filled as of October 2011. This position is in the process of training during the six-month probationary period and once trained will be able to implement the corrective action plan.

STATE DEPARTMENT OF DEFENSE

Federal Award Findings and Questioned Costs

07-02 Reporting (Significant Deficiency)

Condition

In the schedule of federal awards submitted by the Department, there were discrepancies between expenditures reported for several federal programs, and the related amounts in the Department's accounting records.

Status

Not accomplished. Refer to finding No. 2011-01.

07-03 Single Audit Reporting (Significant Deficiency)

Condition

The Department's single audit was not completed within nine months of the end of the fiscal year as specified by Office of Management and Budget Circular A-133.

Status

Not accomplished. Refer to finding No. 2010-10.

STATE DEPARTMENT OF LAND AND NATURAL RESOURCES

Financial Statement Findings

09-01 Expenditures Claimed for Reimbursement Were Overstated (Material Weakness)

Condition

Internal controls over financial reporting provided for inaccurate disclosure of financial results of financially assisted activities as it allowed for excess costs to be claimed for reimbursement by DBOR for the period October 2008 through March 2009.

Status

Partially accomplished. Corrective action and monitoring is in progress. EMIS has been implemented in two phases: the first phase went live on August 1, 2010, and the second phase (Enforcement Activities/Reports) is currently being beta tested and is expected to be fully implemented by July 1, 2012.

Federal Award Findings and Questioned Costs

09-02 Expenditures Claimed for Reimbursement Were Overstated (Material Weakness)

Refer to Finding 09-01 above.

STATE DEPARTMENT OF PUBLIC SAFETY

Financial Statement Findings

09-01 Improve Controls over Inmate Agency Accounts (Material Weakness)

Condition

We noted the following conditions regarding the inmate trust accounts for the fiscal year ended June 30, 2009:

- We were unable to reconcile the inmate trust account balance, which provides detail on the balance of each inmate, per the Inmate Trust Accounting system's printed trial balance report to the reconciled cash balance as of June 30, 2009.

- The Women's Community Correctional Center (WCCC) did not prepare bank reconciliations during the current fiscal year. The has not performed monthly bank reconciliations since May 31, 1996.

- Inactive inmate accounts remained on the PSD's financial records.

As noted in prior years, the controls over the inmate agency fund accounts need improvement. We realize that the PSD is aware of the needed improvements and efforts have been made to rectify the problems. The prior-year's corrective action plan by the PSD was to explore the possibility of contracting with a vendor who could assist the facilities with the reconciliation process and complete a review of each inactive inmate account to the point where the PSD could properly escheat these funds to the State. From our discussion with management, management concluded that hiring a consultant is not feasible based on the current situation due to a lack of funding.

This finding has been occurring for many years despite the efforts of the PSD to make certain changes, such as the installation of software to maintain the trust accounts, regular monitoring of the progress of the finding and even the establishment of a working group to address the many problems each facility encounters with reconciling the inmate trust accounts.

Status

Not accomplished. Corrective action and monitoring is in process. The economic condition of the State has not improved. Budget restrictions continue to prevent staff recruitment to address this problem. As a result, PSD has not implemented standardizing the bank reconciliation process. The anticipated date of completion is December 2015.

09-02 Strengthen Controls over Compensated Leaves of Absence (Deficiency)

Condition

The following conditions were noted during our review of leave records for the fiscal year ended June 30, 2009:

- In 10 instances, the Excel spreadsheet which supports the accrued vacation balance on the financial statements did not contain the correct pay rates.

- In eight instances, the Excel spreadsheet which supports the accrued vacation balance of the financial statements and represent data from the DPS-7 reports contained key-punching errors.

- In 11 instances, the DPS-7 report which is used to track an individual employee's accrued vacation, contained mathematical errors.

- The PSD has implemented a control to prevent the overpayment of salaries. The control is that the time and attendance clerk will utilize the sign-in and sign-out sheets as a record of the overtime worked by each employee rather than wait for the employee to turn in their respective timesheets. We noted that during 2009, HCF and WCCC have not implemented this control due to staff shortages.

The PSD acknowledges a need to strengthen the controls over the compensated leave of absence process. The corrective action plan for the prior-year's findings was to conduct periodic audits of leave records maintained by program units in order to promote accurate and timely recordation of leaves and to conduct scheduled training sessions on the leave records maintenance procedures for all programs. As of June 30, 2009, the audit of four programs had been completed. There has been no training provided on the maintenance procedures to properly complete the leave records.

Status

Partially accomplished. Corrective action and monitoring is in process. The personnel office continues to be under staffed, which prevents timely personnel audits from being completed. Efforts at six of seven facilities have kept timesheets current. Only the HCF was unable to implement the time and attendance system due to insufficient timekeeping staff. Training of the time and attendance system continues on an “as needed” basis. The anticipated date of completion is December 2013.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS IN RESPONSE TO AUDIT FINDINGS

SECTION II – FINANCIAL STATEMENT FINDINGS

Material Weaknesses

2011-01 Schedule of Expenditures and Federal Awards (SEFA) (Page 149)

Corrective Action Plan

The audit finding notes material misstatements in the SEFA that were not detected by management's internal controls and were subsequently corrected through audit adjustments.

Management has developed a well-defined process for federal financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control over preparing the SEFA.

Training and instruction materials have been developed to assist department fiscal and grant program staff in the preparation of the departments' SEFA information for inclusion in the State's SEFA. Training has commenced in preparation of the 2012 State single audit.

An independent review of departmental SEFA shall be performed by appropriately trained personnel to ensure completeness, consistency, and compliance with reporting requirements and State accounting and disclosure policies.

Person Responsible	Wayne Horie, Administrator Accounting Division, DAGS
Anticipated Completion Date	August 31, 2012

2011-02 Accounting and Reporting of Cash and Cash Equivalents (Page 151)

Corrective Action Plan

The audit finding notes that the Department of Budget and Finance (B&F) is responsible for maintaining and reporting the cash balances of the State's bank accounts to the Department of Accounting and General Services (DAGS) for reconciliation with the Financial Accounting Management Information System (FAMIS). B&F maintains a stand-alone cash subledger in order to track the cash activity. These cash subledgers are manually reconciled to the bank statements by B&F personnel which is a time consuming process. B&F was late in the submission of the monthly bank statement reconciliations throughout the year and did not submit its June 30, 2011 bank statement to cash subledger reconciliation to DAGS until December 2011 for the major bank accounts.

B&F has set a goal to reconcile the bank accounts timely and provide DAGS with a copy of the monthly bank reconciliations for 2012. Differences between the bank statements and B&F's cash subledgers and between B&F's cash subledgers and FAMIS will be identified by DAGS timely, reviewed, and recorded in FAMIS monthly. DAGS will prepare the reconciliation between B&F's cash subledgers and FAMIS timely. DAGS will review both reconciliations and record adjustments to FAMIS monthly.

The audit finding also noted that because cash balances from different sources and departments are pooled together by B&F, a deficit in general obligation bond cash occurred during the fiscal year. The deficit was known as the State made the decision to delay a bond sale. B&F monitors general obligation bond cash balance on a post occurrence basis, but because of reduced resources, this monitoring has become delayed. The information currently received by B&F needs to be reviewed in order to more accurately and timely monitor available balances in the bond pool. DAGS will meet with B&F to discuss whether alternative monitoring procedures can be implemented.

Person Responsible	Wayne Horie, Administrator, DAGS
Anticipated Completion Date	December 31, 2012

Significant Deficiencies

2011-03 Internal Control over Financial Reporting (Page 152)

Corrective Action Plan

The audit finding notes material misstatements could occur in the financial presentation due to errors in financial information received from departments and audited financial statements from other State agencies not submitted timely. This condition exists because departmental financial information is stored at the departmental level and not centralized. Furthermore, departments do not have financial management systems that support timely information and reporting capabilities.

Additionally, DAGS' financial accounting and management information system has extremely limited reporting capabilities, limited interface capabilities, and no capacity to support a "work-flow" environment. DAGS needs a new financial management and accounting system that supports the preparation of financial statements on a budgetary and cash basis, modified accrual basis, and full accrual basis of accounting to meet the State's needs and GASB standards in preparing the State's CAFR. The 2012 Legislature approved $15 million to fund a planning and requirements gathering effort to support the acquisition of a modern financial management system. DAGS looks forward to the acquisition and implementation of a modern financial system to commence in calendar year 2014.

Until funds become available, DAGS will continue to use its current accounting system (FAMIS) and its manual accrual information gathering process to prepare the State's financial statements. DAGS will continue to modify its process to become well-defined, systematic, efficient, and orderly process for financial reporting that shall include: 1) a comprehensive set of policies and procedures necessary to establish internal control over financial reporting; 2) overall timing; 3) methodology; 4) format; 5) frequency; and 6) analysis. The process will be documented, approved by DAGS Accounting Division, and communicated to other departments and agencies.

Person Responsible	Wayne Horie, Administrator, DAGS
Anticipated Completion Date	August 31, 2012

2011-04 Accounting for Component Units and Proprietary Funds (Page 154)

Corrective Action Plan

The audit finding noted that DAGS' State policy regarding the reporting of material discretely presented component units (CU) and major proprietary funds (PF) are not in accordance with Governmental Accounting Standards Board (GASB) Statement Nos. 14, 34, and 39.

Full compliance requires additional resources. Funds are not available at this time. Currently, eight State agencies meet the GASB requirement for inclusion in the CAFR as CUs and PFs, but do not meet the State's policy. Until funds are made available, DAGS will continue to review the State's policy regarding the reporting of discretely presented component units (CU) and major proprietary funds (PF) as compared with GASB Statement Nos. 14, 34, and 39 when preparing the CAFR. The review will take into consideration the resources needed to comply with GASB Statement Nos. 14, 34, and 39.

Person Responsible	Wayne Horie, Administrator, DAGS
Anticipated Completion Date	December 31, 2012

2011-05 Accounting for Capital Assets (Page 155)

Corrective Action Plan

The audit finding notes that the State does not have a comprehensive capital assets system to identify and monitor all capital assets used in governmental activities. This condition exists because departmental financial information is stored at the departmental level and not centralized. Furthermore, departments do not have financial management systems that support timely information and reporting capabilities.

Additionally, DAGS' financial accounting and management information system has extremely limited reporting capabilities and even more limited interface capabilities. DAGS needs a new financial management and accounting system that supports the timely capture and reporting of capital assets and depreciation expenses. The 2012 Legislature approved $15 million to fund a planning and requirements gathering effort to support the acquisition of a modern financial management system. DAGS looks forward to the acquisition and implementation of a financial management system to commence in calendar year 2014.

Until such funds are available, DAGS will continue to use its current Fixed Asset Inventory System (FAIS) and other departments' capital asset accounting records. DAGS will continue to modify its process into a formal, methodical, and systematic process of policies and business processes to ensure that information is processed by the State's various departments' capital asset ledgers and systems in an accurate and timely manner. The process will include periodic consolidation and review procedures, which will require capital asset information to be provided, consolidated, and reviewed for errors by qualified employees on a periodic basis. The development and implementation of the corrective action plan will depend on available resources.

Person Responsible	Wayne Horie, Administrator
Anticipated Completion Date	December 31, 2012

2011-06 Mainframe Access Security Controls (Page 157)

Corrective Action Plan

The audit finding notes that the Information and Communication Services Division (ICSD) needs to strengthen its State departments' access to ICSD system controls.

As of July 1, 2011, all DP Coordinators are now required to authorize and document those staff that is authorized to submit ICSD requests. Authorized staff will not be allowed to create or modify access to the Mainframe or LAN.

The System Services Branch (SSB) has implemented passwords of maximum complexity available and to the extent possible on the current release of the zOS mainframe operating system. Password complexity on the current zOS is limited. Further research has shown that the planned migration to newer releases of the xOS operating systems will permit "pass phrases" of between 9 and 100 characters in length. Password complexity features with the new operating system release will be investigated and implemented with the upgrade.

Management will implement a procedure to annually review RACF user access permissions to confirm that existing accounts do not belong to terminated employees and user access permissions are based on a business requirement. Management will implement a procedure to annually review LAN user access permissions to confirm that existing accounts do not belong to terminated employees and access to administrative permissions and sensitive network folders are based on a business requirement. Responses from each of the business owners will be documented via email.

The SSB and Production Services Branch (PSB) will change the shared accounts to individual accounts. Users for these individual accounts would have the ability to select the necessary and specific control job functionality that would be assigned appropriate user access rights.

Person Responsible	Wayne Sasaki, System Services Branch Manager
Anticipated Completion Date	December 31, 2012

2011-07 Great Plains Access Security Controls (Page 158)

Corrective Action Plan

The audit finding notes that B&F does not have procedures in place regarding access security controls for its Great Plains software application. B&F is the only State department that uses this software application.

Access to Great Plains system is controlled on a higher level by access to B&F network via Active Directory. B&F implemented Active Directory increased password complexity in January 2012. Financial Administration Division will establish procedures for documenting user access and deletions and review of user access for the Great Plains software application.

Person Responsible	Judy Dang, Funds Custody Manager
Anticipated Completion Date	December 31, 2012

2011-08 Accounting for Accrued Receivables and Liabilities (Page 159)

Corrective Action Plan

The audit finding notes that some State departments did not submit their schedules of accrued receivables and liabilities in a timely manner.

DAGS will strengthen its controls to ensure that departments submit financial statement information for inclusion in the State's CAFR by the required submittal deadline. DAGS plans to conduct training sessions for departments' staff to assist in identifying the financial information required and how best to effectively gather the information.

Person Responsible	Wayne Horie, Administrator
Anticipated Completion Date	December 31, 2012

2011-09 Processing of Treasury Deposit Receipts (Page 161)

Corrective Action Plan

The audit finding notes that some departments did not properly complete or submit timely the Treasury Deposit Receipts' (TDR) form to B&F and DAGS for recording into the B&F cash subledger and FAMIS.

DAGS will remind departments to comply with established procedures regarding reviewing and authorizing TDRs before submitting to B&F and DAGS for recording into FAMIS. DAGS' review controls will be strengthened to ensure that only reviewed and authorized TDRs are submitted to ICSD for recording into FAMIS.

Person Responsible	Wayne Horie, Administrator
Anticipated Completion Date	December 31, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2011-10 Special Tests – Accountability for Commodities (Page 162)
(Material Weakness)
State Department of Labor and Industrial Relations

CFDA No. 10.568

Corrective Action Plan

The audit finding notes that the State Department of Labor and Industrial Relations (DLIR) is not in compliance with Federal compliance regulations, which requires the establishment and implementation of controls to reconcile food inventory records for recipient agencies.

The State DLIR Administrative Services Office (ASO) and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staff is responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program has developed and implemented controls to reconcile the program's food inventory records with the food inventory records of the eligible recipient agencies.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	May 31, 2012

2011-11 Subrecipient Monitoring – Single Audit Report Requirement (Page 163)
(Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA Nos. 10.568 and ARRA 10.568

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require that the State DLIR obtain single audit reports from subrecipients that meet the OMB A-133 audit requirement.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staff is responsible in processing and administering Federal grant expenditures and compliance requirements.

As part of the subrecipient monitoring activity, program staff included on their check list those subrecipients that are required to submit a 2012 single audit report. Communications will be made with the subrecipients during the nine-month period before the report is due to ensure that adequate progress is made towards issuing the report on time.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	May 31, 2012

2011-12 Subrecipient Monitoring – Corrective Action Plan Timeline (Significant Deficiency) (Page 164)
State Department of Labor and Industrial Relations

CFDA Nos. 10.568 and ARRA 10.568

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require that the State DLIR submit a report of the finding to the Eligible Recipient Agencies and ensure that a corrective action plan is developed to eliminate the deficiencies noted. The report submitted by the State DLIR must also provide a timeline for taking corrective action.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staff is responsible in processing and administering Federal grant expenditures and compliance requirements.

As part of the subrecipient monitoring activity, program staff scheduled follow-up meetings with subrecipients to discuss their corrective action plan timelines on deficiencies reported as a result of the program's on-site visits. The corrective action plan and related timelines has been submitted in writing.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	May 31, 2012

2011-13 Subrecipient Monitoring – Central Contractor Registration (Significant Deficiency) (Page 165)

State Department of Labor and Industrial Relations

CFDA Nos. 10.568 and ARRA 10.568

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require pass-through entities to inform subrecipients of specific compliance requirements.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability of staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staff is responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR grant program manager or designated program staff prepared a list of Federal award information that must be communicated and passed through to a subrecipient. During negotiations with potential subrecipients, the program staff will ensure that this Federal award information is included in the MOA. Existing subaward agreements will be reviewed to determine if the above Federal award information was communicated to the subrecipients at the time of the subaward. For agreements reviewed that are deficient, the agreement will be amended to include all required Federal award information. In addition, training will be provided for program employees that prepare subaward agreements to ensure that the Federal award information is included in future agreements.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	December 31, 2012

2011-14 Preparation of the Schedule of Expenditures of Federal Awards (Page 166)
(Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA Nos. 10.568 and ARRA 10.568

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require that all Federal grant awards be reported on the State's SEFA accurately.

DAGS has developed a well-defined process for federal financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control over preparing the SEFA.

DAGS has commenced training with instructions to assist departmental fiscal and grant program staff in preparing their respective SEFA information for inclusion in the State's SEFA.

DAGS will provide an independent review of departmental SEFA performed by appropriately trained personnel to ensure completeness, consistency, and compliance with reporting requirements, and State accounting and disclosure policies.

DLIR participated in the DAGS' training.

Person Responsible Mila Kaahanui, Executive Director

Anticipated Completion Date August 31, 2012

2011-15 ARRA Reported Information (Material Weakness) (Page 167)
State Department of Labor and Industrial Relations

CFDA No. ARRA 10.568

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require that all ARRA reports should be prepared accurately with supporting documentation.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staff is responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR has strengthened its report maintenance process by reminding program staff that prepares ARRA reports to keep the supporting documentation with the ARRA report. The documented supervisory review control has been strengthened to ensure that the supporting documentation agrees with the ARRA report information. Lastly, the supporting documentation has been retained and filed with the ARRA report.

Person Responsible Mila Kaahanui, Executive Director

Anticipated Completion Date May 31, 2012

2011-16 Untimely Submission of Reports (Significant Deficiency) (Page 167)
State Department of Labor and Industrial Relations

CFDA No. 10.568

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require that Federal form FNS-667 be filed no later than 30 days after the end of the quarter.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staff is responsible for processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program established an office calendar listing the program and financial reporting due dates for the fiscal and program staffs to ensure that reports are submitted on a timely basis. A supervisor will review the office calendar at the beginning of each month to remind fiscal and program staffs of upcoming reporting requirements.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	March 31, 2012

2011-17 Procurement – Tax Clearance Form (Significant Deficiency) (Page 168)
State Department of Labor and Industrial Relations

CFDA Nos. 10.568 and ARRA 10.568

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which depend on State procurement laws, policies and procedures. The State procurement procedures require a Tax Clearance Form before any procurement contract can be binding. For a contract selected for testing, no Tax Clearance Form was in the contract procurement files.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staff is responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program has strengthen its controls to maintain its vendor contract files properly, which includes ensuring that all required procurement documentation is updated and maintained. A check list has been developed listing all the supporting documents that should be in a vendor contract file. When in use, active vendor contract files are compared with the check list and missing supporting documents are located and filed in the vendor contract files. New vendor contract files will follow the check list in its vendor contract file maintenance.

Person Responsible	Mila Kaahanui, Executive Director
Anticipated Completion Date	May 31, 2012

2011-18 – Property Records (Deficiency) (Page 169)
State Department of Land and Natural Resources

CFDA Nos. 10.676, 11.419

Corrective Action Plan

The audit finding notes that the State Department of Land and Natural Resources (DLNR) is not in compliance with Federal compliance regulations, which require that the State DLNR record fixed asset acquisitions in a timely manner. The State DLNR did not record real property acquisitions to the State's Fixed Asset Inventory System (FAIS) in a timely manner as required by the FAIS instruction manual.

The State DLNR Financial Management Office (FMO) and grant manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will also be strengthened to ensure that staff is responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLNR has issued a directive to all staff reminding them that effective immediately all land acquisition must be recorded to the Divisions' inventory in a timely manner. The two land acquisitions Lapakahi Marine Conservation Land and the Kealakekua Easement were not recorded timely due to staff turn-over and staff shortages. The State DLNR FMO will continue to distribute the DAGS FAIS quarterly forms and listing to remind program managers to record all capital asset purchases in the correct accounting period.

Person Responsible	Dan S. Quinn, Division of State Parks Paul J. Conry, Division of Forestry and Wildlife

Anticipated Completion Date December 31, 2012

2011-19 Preparation of the Schedule of Expenditures of Federal Awards (Deficiency) (Page 170)
State Department of Land and Natural Resources

CFDA No. ARRA 10.688

Corrective Action Plan

The audit finding notes that the State DLNR is not in compliance with Federal compliance regulations, which require that the State DLNR identify Federal expenditures correctly as paid to a subrecipient or a vendor.

The State DLNR Division acknowledges that a vendor payment was reported as subrecipient expenditure on the department's SEFA submitted to DAGS for inclusion in the State's 2011 SEFA. The error was corrected in a follow-up grant worksheet, where the status was reverted, in the amount of $32,659.16.

In the future, the original encumbrance will be checked to determine subrecipient (object code 6500) or contract vendor (object code 7180) status. Also the DLNR Division will provide training for staff to reinforce the procedures to correctly record coding strings for payments.

Person Responsible Paul J. Conry, Administrator, Division of Forestry and Wildlife

Anticipated Completion Date March 31, 2012

2011-20 Davis-Bacon Act (Significant Deficiency) (Page 171)
State Department of Land and Natural Resources

CFDA No. ARRA 10.688

Corrective Action Plan

The audit finding notes that the State DLNR is not in compliance with Federal compliance regulations, which require that the State DLNR comply with the Davis-Bacon Act.

The State DLNR Division did comply with wage payment provisions of the Davis-Bacon Act requirements, and the contractors did pay Davis-Bacon Act wage rates for the project. However, the Division did not insert specific Davis-Bacon Act contract clauses into the Request for Proposals (RFP) and Contracts as required because a determination that Davis-Bacon Act applied to these projects was not made and communicated until well after these processes were underway and completed or partially executed.

The need to meet Davis-Bacon Act requirements was not confirmed by the federal granting agency until April 9, 2010. The Nature Conservancy contract was awarded and signed in January 2010, and the Hawaiian Silversword contract was awarded and issued to the contractor for signature prior to this determination. It was not possible to cancel and re-do issued RFPs and contracts without legal challenge and delays that would have prevented implementation of the projects. The Division did inform all registered offerors of the Davis-Bacon Act requirements and the selected contractors were provided the wage rates for compliance with Davis-Bacon Act. The contractors did comply with Davis-Bacon Act despite the fact that specific language was missing from the contract documents.

The Division is in the process of hiring a procurement and contracts specialist to oversee all Division of Forestry and Wildlife procurement to provide expertise in requirements on federal contracting requirements that could avoid technical procedural mistakes such as this.

Person Responsible	Paul J. Conry, Administrator, Division of Forestry and Wildlife
Anticipated Completion Date	December 31, 2012

2011-21 Subrecipient Monitoring (Material Weakness) (Page 172)
State Department of Defense

CFDA No. 11.555

Corrective Action Plan

The audit finding notes that the State Civil Defense (SCD) was not compliant with the Federal compliance regulations, namely subrecipient monitoring. SCD did not determine whether: (1) the subrecipients had spent more than $500,000 during the year, thus requiring a single audit; (2) Issuing a management decision on audit findings within six months after receipt of subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. Also, the audit finding noted that the SCD staff was not familiar with subrecipient monitoring requirements.

The State Department of Defense (DOD) Administrative Services Office (ASO) and the SCD will identify appropriate staff within their respective areas and determine their understanding with Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The Grant Management Section (GMS) maintains close contact with subrecipients including face-to-face meetings, site visits, telephone and email contact. In the future, written documentation will reflect monitoring of all subrecipient activities. Monitoring protocols have been established and will be implemented. Included in the monitoring procedures are steps to identify subrecipients required to submit a single audit report, issuing a management decision on audit findings within six months after the receipt of the subrecipient's single audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

Person Responsible	Douglas Mayne, Vice Director of State Civil Defense
Anticipated Completion Date	June 30, 2012

2011-22 Personnel Activity Reports (Significant Deficiency) (Page 173)
State Department of Defense

CFDA Nos. 11.555, 97.067

Corrective Action Plan

The audit finding notes that the SCD was not in compliance with Federal compliance regulations, regarding preparing personnel activity reports. Also, the audit finding noted that the SCD staff was not aware of the requirement.

The State DOD ASO and the SCD will identify appropriate staff within their respective areas and determine their understanding with Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The GMS has developed procedures requiring program personnel working on multiple activities to maintain semi-monthly time sheets to account for their time on different grants. The time sheets will be reviewed for correctness by the GMS manager or a designated supervisor. The time sheets will be used to allocate payroll costs to the various Federal grants.

Person Responsible	Douglas Mayne, Vice Director of State Civil Defense
Anticipated Completion Date	December 31, 2012

2011-23 Inability to Verify Timely Submittal of Report (Deficiency) (Page 174)
State Department of Defense

CFDA No. 11.555

Corrective Action Plan

The audit finding notes that the SCD was not in compliance with Federal compliance regulations, regarding grant requirements that Categorical Assistance Progress Report (CAPR) reports be submitted within 30 days after the end of the reporting period. There was no written evidence in the program files that SCD submitted the CAPR report on time. The report is submitted electronically.

Procedures will be implemented requiring the GMS to retain copies of the confirmation email received from the Federal Emergency Management Agency (FEMA) after the CAPR reports are submitted electronically via a FEMA portal. Also as a backup procedure, other independent verifications indicating the date and time the CAPR report was submitted will be initiated.

Person Responsible	Douglas Mayne, Vice Director of State Civil Defense
Anticipated Completion Date	June 30, 2012

2011-24 Property Records (Significant Deficiency) (Page 175)
State Department of Defense

CFDA No. 12.401

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, requiring reporting of equipment to the United States Property Fiscal Office (USPFO). In fiscal year 2011, the listing of equipment was not updated on a regular basis, and thus did not include all of the equipment that should have been reported.

The State DOD ASO and the program manager will identify appropriate staff within their respective areas and determine their level of understanding regarding property records. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD ASO will provide the National Guard program with the 2011 listing of equipment reported to the USPFO. The program will conduct a physical inventory of all the equipment purchased with Federal funds in its possession. Based on the physical inventory taken, the equipment accounting records will be updated and a correct listing of equipment will be submitted to the USPFO as required. Procedures will be implemented to ensure that the program schedules to conduct a physical inventory of its equipment at least once every two years.

Person Responsible	Tom Moriyasu, Business Management Officer
Anticipated Completion Date	March 31, 2013

2011-25 Davis-Bacon Act (Significant Deficiency) (Page 176)
State Department of Defense

CFDA No. 12.401

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations, namely the Davis-Bacon Act. DOD's project managers do not consistently review the contractors' submitted certified payroll reports for compliance with the Act.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their understanding with regard to the Bacon-Davis Act Federal compliance requirements. Based on this determination, training will be conducted to address the ability of staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The Engineering Office (EO) will ensure that contracts include language that contractors need to submit certified payroll reports to comply with the Davis-Bacon Act. At present the requirement is in the General Condition of the contract and also is one of the items on the Pre-Construction meeting agenda and documented in the minutes. These meetings are attended by the contractors and the respective project manager.

The EO will hold training sessions for all project managers to inform them of what the contractors are responsible for in addition to the contracted services, such as submittal of copies of their payroll timesheets and completion of required forms. EO will periodically obtain copies of the certified payroll for the current period for all contracts requiring this form. The contract assistant I position will verify that the wage rates are being met. Documentation will be kept in file for each contract that requires these forms.

Person Responsible	Lt. Col. Neal Mitsuyoshi, Chief Engineering Officer
Anticipated Completion Date	March 31, 2013

2011-26 ARRA Reporting Requirements (Significant Deficiency) (Page 177)

State Department of Defense

CFDA No. ARRA 12.401

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations. DOD does not normally communicate the ARRA requirements to its contractors, and does not usually monitor the contractors for compliance with these requirements.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their understanding with regard to the ARRA Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The EO will ensure that contracts include language that contractors need to adhere to the ARRA requirements. The grant or program officer who submits a contract request form shall be required to itemize any specialized compliance requirements and restrictions that are exclusive for the ARRA grant. These specialized compliance requirements and restrictions will be made a part of the agenda for the contractors' brief and also repeated at the Pre-Construction meeting and documented in the minutes. These meetings are attended by the contractors and the respective project manager.

The EO or the program/grant manager will hold training sessions for all project managers to inform them of what the contractors are responsible for administratively in addition to the contracted services, especially those requirements that are not covered in the General Conditions of the contract. The program/grant manager will periodically monitor the contractor and provide the EO or the ASO with documentation of their activities. The EO or ASO will include the report as part of the checklist of items that should be in the contract files. As progress payments are made and outstanding items are noted, the ASO will be notified and the program manager will be contacted to execute whatever needs to be completed.

Person Responsible	Lt Col Neal Mitsuyoshi, Chief Engineering Officer
Anticipated Completion Date	June 30, 2013

2011-27 Payroll Certifications (Significant Deficiency) (Page 178)
State Department of Defense

CFDA Nos. 11.555, 93.558, 97.067

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations, which require that the State DOD prepare payroll certifications.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will implement procedures to ensure that employees that are expected to work solely on a single Federal award will prepare periodic certifications that the employee worked solely on the program for the period covered by the certification. The certifications will be prepared at least semiannually and will be signed by the employee or supervisor having first-hand knowledge of the work performed by the employee.

Person Responsible	Tom Moriyasu, Business Management Officer
Anticipated Completion Date	January 31, 2013

2011-28 Cash Management (Material Weakness) (Page 179)
State Department of Defense

CFDA No. 12.404

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations, which require that the State DOD's actual cash outlay does not exceed 30 days from the date of DOD's receipt of the advance payment.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The Director, Youth Challenge Academy (YCA), will incorporate into his weekly staff meeting's agenda a more detailed reporting by the Budget Officer (BO). The BO will report on the status of disbursements for the respective advances. Also to be included in the status report of advances/disbursements will be assurances by the BO that all advances were expended within the 30 day period as per the Master Youth Program Cooperative Agreement. Unspent advances/disbursements should be explained as to reasons for not being expended and this information will be sent to the Federal program manager. Information provided at the weekly staff meetings will be incorporated into the meeting minutes to be made available to inspectors or auditors.

Person Responsible	Richard Campbell, Director of Hawaii National Guard Youth Challenge Academy
Anticipated completion date	June 30, 2012

2011-29 Close Out Reporting (Significant Deficiency) (Page 180)
State Department of Defense

CFDA No. 12.404

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations, which require that the State DOD complete the grant required closeout and settlement reporting for two program sites.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their understanding with regard to the grant compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The Director, YCA, will have BO establish a checklist that incorporates all issues and milestones to ensure the timely closing of each fiscal year, accounting for all funding and disbursements within the required 90 days. The BO will report at each weekly staff meeting, following the end of the Federal fiscal year, the status of all closeout items on his checklist. Problems in meeting any of the milestones will be discussed with the Director, YCA until resolved.

In addition, the checklist will be shared with the ASO to keep a log of all the due outs for the department's grants. All future grants received by the department will be monitored by the ASO to ensure that requirements of grants are being met.

Person Responsible	Richard Campbell, Director of Hawaii National Guard Youth Challenge Academy
Anticipated completion date	March 31, 2013

2011-30 Close Out Reporting, Kulani Program Site (Significant Deficiency) (Page 180)

State Department of Defense

CFDA No. 12.404

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which requires close out reporting. There is no written evidence of an approval letter from the Federal agency as required by the grant agreement to allow funds to be spent after the prescribed close out period.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the grant compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD ASO will prepare for both YCA campuses a list of encumbrances (purchase orders and contracts) that have outstanding balances as of September 30 which is 90 days after the close of the program year. This listing will be sent to the USPFO asking for approval to extend the time to liquidate the balances for another 90 days. The staff of YCA will continue to liquidate the balances during the extension period until the balances are totally liquidated or the balances are determined to be no longer required, i.e. over stated encumbrances. There will also be developed, within the ASO, a log system of all due outs by grant requirements.

Person Responsible	Richard Campbell, Director of Hawaii National Guard Youth Challenge Academy
Anticipated completion date	December 31, 2012

2011-31 Payroll Certifications (Significant Deficiency) (Page 181)
State Department of Defense

CFDA No. 12.404

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations. OMB Circular A-87 requires the preparation of periodic payroll certifications that employees worked solely on one program for the period covered by the certification.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will implement procedures to ensure that employees that are expected to work solely on a single Federal award will prepare periodic certifications that the employee worked solely on the program for the period covered by the certification. The certifications will be prepared at least semiannually and will be signed by the employee or supervisor having first-hand knowledge of the work performed by the employee.

The Director, YCA will require at the first weekly staff meeting of each class a report from the Deputy Director, YCA, to submit completed Employee Certifications for both campuses of all YCA staff certifications in accordance with OMB A-87. The certifications for the period January to June will be submitted at the first weekly staff meeting in July; the certifications for the period July to December will be submitted at the first weekly staff meeting in January. Each employee will submit a signed certification authenticated by their immediate supervisor. Completed certifications will be filed with Admin Services Section of YCA.

Person Responsible	Richard Campbell, Director, Hawaii National Guard Youth Challenge Academy
Anticipated completion date	January 31, 2013

2011-32 Payroll Allowable Costs (Deficiency) (Page 182)
State Department of Land and Natural Resources

CFDA No. 15.605

Corrective Action Plan

The audit finding notes that the State DLNR is not in compliance with Federal compliance regulations; payroll costs were not allocated properly to Federal grants.

The State DLNR FMO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

Effective immediately, whenever there is any change in pay rate, a copy of the Employee Personnel Action Report will be sent to the federal grant accountants with the employee's time sheet. The accountants will update the information used to populate the grant worksheets so that the correct rates are charged to the federal grants.

Person Responsible	Guy H. Kaulukukui, Interim Administrator, Division of Aquatic Resources
Anticipated Completion Date	June 30, 2012

2011-33 Allowable Costs - Allocation of R&D Expenses (Deficiency) (Page 183)
State Department of Land and Natural Resources

CFDA No. 15.611, 15.615, 15.634

Corrective Action Plan

The audit finding notes that the State DLNR is not in compliance with Federal compliance regulations. The Single Audit Reporting requirement that the research and development cluster be reported separately on the SEFA was a challenge for the grant program. The grant program's allocation method to report separately the research and development Federal expenditures on the SEFA could not be substantiated.

The State DLNR Division verified with the U.S. Fish and Wildlife Service, which administers these grants, that it does not require the reporting of research and development (R&D) expenditures separately outside the comprehensive requirement to report expenditures under the grant. There is no requirement to develop a basis to support this figure for the granting agency. An estimate is provided for general information.

The State DLNR program staff provides an estimate of the research and development expenditures based on professional and personnel knowledge of the grant and activities. This meets the needs of the grant agency and the Division.

The State DLNR grant program manager will follow-up with the granting agency to determine the proper R&D reporting requirements. Based on this determination, training will be conducted to improve the level of understanding for reporting R&D costs. Supervisory or independent reviews will also be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

Person Responsible	Paul J. Conry, Administrator, Division of Forestry and Wildlife
Anticipated Completion Date	December 31, 2012

2011-34 Untimely Submission of Reports (Significant Deficiency) (Page 184)
State Department of Labor and Industrial Relations

CFDA Nos. 17.207, 17.801, 17.804

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations. Required Expenditure Register Reports were not submitted in a timely manner.

The State DLIR Vets 402 report was late due to an isolated incident when the federal e-system was unable to accept data entry from any state. Documentation regarding the inability to submit first quarter data was provided to the auditor, including verification from the Regional Office regarding the problem. The problem has been corrected and the first quarter report for FY 12 was submitted and certified on time.

Supervisory reviews has be strengthened to ensure that staff is responsible in processing and administering Federal grant expenditures and compliance requirements.

Person Responsible	Carol Kanayama, WDD Program Officer
Anticipated Completion Date	April 30, 2012

2011-35 Physical Inventory of Equipment (Deficiency) (Page 185)
State Department of Labor and Industrial Relations

CFDA Nos. 17.207, 17.801, 17.804

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require that a physical inventory of equipment shall be taken at least once every two years.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR Workforce Development Division (WDD) Branches and staff in the Administration Office will conduct a physical inventory of equipment and meet the required due dates.

Person Responsible	Carol Kanayama, WDD Program Officer
Anticipated Completion Date	August 31, 2012

2011-36 Property Records (Deficiency) (Page 186)
State Department of Labor and Industrial Relations

CFDA Nos. 17.207, 17.801, 17.804

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require that equipment purchased with Federal grant funds shall be recorded in an appropriate control system. The State's FAIS system is the appropriate control system that is used.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR staff involved in the inventory process has assisted in eliminating the back-log as of April 30, 2012. Supervisors will monitor and ensure that all future equipment purchases will be recorded within the quarter it was purchased and submitted to DAGS on a timely basis.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	June 30, 2012

2011-37 Travel Policy (Significant Deficiency) (Page 187)
State Department of Labor and Industrial Relations

CFDA No. 17.225

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations. The State's travel policy requires that a Statement of Completed Travel be submitted within 10 days upon return to duty.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR ASO developed a tracking method to list and notify Divisions of delinquent travel reimbursement submittals on a bi-weekly basis.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	April 15, 2012

2011-38 Property Records (Significant Deficiency) (Page 188)
State Department of Labor and Industrial Relations

CFDA No. 17.225

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require that acquisition and disposal of equipment purchased with Federal grant funds shall be recorded in an appropriate control system. The State's FAIS system is the appropriate control system that is used.

The State DLIR ASO and the grant program manager will determine the Federal grant program and ASO staffs' level of understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the level of understanding deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR staff involved in the inventory process has assisted in eliminating the back-log as of April 30, 2012. Supervisors will monitor and ensure that all future equipment purchases and disposals will be recorded within the quarter it was purchased and submitted to DAGS on a timely basis.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	June 30, 2012

2011-39 Federal Withholding Taxes (Significant Deficiency) (Page 188)
State Department of Labor and Industrial Relations

CFDA No. 17.225

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which allows individuals to withhold income taxes from their Federal Additional Compensation (FAC) benefit payment.

The FAC benefits for Unemployment Insurance (UI) claimants ended on the week ending December 11, 2010. Federal income tax withholding will no longer be required for FAC payments.

Person Responsible	Anne Perreira-Eustaquio, UI Program Development Officer
Anticipated Completion Date	December 11, 2010

2011-40 Timeliness of Unemployment Insurance Claim Processing (Significant Deficiency) (Page 189)
State Department of Labor and Industrial Relations

CFDA No. 17.225

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require that the State DLIR complete UI cases timely in order to maintain a current database.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

To meet timely federal requirements, two investigators were hired in January and February of 2012 and recruitment for the 3rd investigator will be in July 2012.

Person Responsible	Anne Perreira-Eustaquio, UI Program Development Officer
Anticipated Completion Date	March 31, 2013

2011-41 Property Records (Significant Deficiency) (Page 191)
State Department of Labor and Industrial Relations

CFDA No. ARRA 17.275

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require that acquisition and disposal of equipment purchased with Federal grant funds shall be recorded in an appropriate control system. The State's FAIS system is the appropriate control system that is used.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR staff involved in the inventory process has assisted in eliminating the back-log as of April 30, 2012. Supervisors will monitor and ensure that all future equipment purchases and disposals will be recorded within the quarter it was purchased and submitted to DAGS on a timely basis.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	June 30, 2012

2011-42 Subrecipient Monitoring: No On-Site Review Performed (Significant Deficiency) (Page 192)
State Department of Labor and Industrial Relations

CFDA No. ARRA 17.275

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require that On-Site reviews of subrecipients be performed.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program will amend internal policy and practice to ensure that annual monitoring will be conducted within twelve (12) months of contract execution date as opposed to the date of initial request for reimbursement. Additionally, the program will be drafting new protocols to subrecipients to ensure accurate and timely calendaring of monitoring activities.

Person Responsible	James Hardway, WDC Executive Director
Anticipated Completion Date	August 31, 2012

2011-43 Travel Policy (Significant Deficiency) (Page 192)
State Department of Labor and Industrial Relations

CFDA No. ARRA 17.275

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations. The State's travel policy requires that a Statement of Completed Travel be submitted within 10 days upon return to duty.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR will prepare a directive to all Programs as a reminder to all employees and their supervisors about the travel policy and travel report filing requirements. In addition, all Division Heads/Executive Directors will be requested to establish procedures within their division/agency to ensure the compliance with monitoring of travel reports, timely submission of reports, and following up when reports are delinquent.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	April 15, 2012

2011-44 Federal Reporting Accuracy (Deficiency) (Page 193)
State Department of Business, Economic Development and Tourism

CFDA No. 81.041

Corrective Action Plan

The audit finding notes that the State Department of Business, Economic Development and Tourism (DBEDT) is not in compliance with Federal compliance regulations, which require that quarterly Federal Form SF-425 reports contain accurate amounts.

The State DBEDT Strategic Industries Division (SID) will implement monthly reconciliations of expenditure and revenue after the end of each month, prepare adjusting journal vouchers or take necessary actions if required, and prepare reports based on reconciliations and adjustments. Qualified staffing to support the level of transparency required for reporting is being addressed. Internal control procedures are being developed to derive complete and accurate data for financial reporting.

Person Responsible	Donna Mau, SID Federal Grants & Fiscal Officer
Anticipated Completion Date	June 30, 2012

2011-45 ARRA Reported Information (Significant Deficiency) (Page 194)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.041

Corrective Action Plan

The audit finding notes that the State DBEDT is not in compliance with Federal compliance regulations, which require that quarterly ARRA 1512 reports contain accurate amounts.

The State DBEDT SID will secure training to support program in making subrecipient determinations and prepare schedule of subrecipients on a quarterly basis with appropriate data elements. Internal control procedures are being developed to derive complete and accurate data for financial reporting.

Person Responsible	Donna Mau, SID Federal Grants & Fiscal Officer
Anticipated Completion Date	June 30, 2012

2011-46 Communicating CFDA Numbers to Subrecipients (Deficiency) (Page 195)
State Department of Business, Economic Development and Tourism

CFDA No. 81.041

Corrective Action Plan

The audit finding notes that the State DBEDT is not in compliance with Federal compliance regulations, which require that CFDA titles and numbers be communicated to the subrecipients.

The State DBEDT ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DBEDT SID will secure training to support program in making subrecipient determinations and provide written communication to the subrecipients identified by the audit findings with the appropriate information (i.e., the CFDA title, number and other additional information).

Person Responsible	Donna Mau, SID Federal Grants & Fiscal Officer
Anticipated Completion Date	June 30, 2012

2011-47 Travel Policy (Deficiency) (Page 196)
State Department of Business, Economic Development and Tourism

CFDA No. 81.041

Corrective Action Plan

The audit finding notes that the State DBEDT is not in compliance with Federal compliance regulations. The State's travel policy requires a Statement of Completed Travel to be submitted within 10 days upon return to duty.

The State DBEDT will prepare a directive to all Programs as a reminder to all employees and their supervisors about the travel policy and travel report filing requirements. In addition, all Division Heads/Executive Directors will be requested to establish procedures within their division/agency to ensure the compliance with monitoring of travel reports, timely submission of reports, and following up when reports are delinquent.

Person Responsible	Wendy Yoshinaga, DBEDT Fiscal Officer
Anticipated Completion Date	June 30, 2012

2011-48 Untimely Submission of Reports (Significant Deficiency) (Page 197)
State Department of Business, Economic Development and Tourism

CFDA No. 81.041

Corrective Action Plan

The audit finding notes that the State DBEDT is not in compliance with Federal compliance regulations, which require that performance reports be submitted within 30 days after the end of the quarter.

The State DBEDT ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DBEDT SID is developing internal control procedures to derive complete and accurate financial data and achieve timely reporting.

Person Responsible	Donna Mau, SID Federal Grants & Fiscal Officer
Anticipated Completion Date	June 30, 2012

2011-49 Preparation of the Schedule of Expenditures of Federal Awards (Significant Deficiency) (Page 198)
State Department of Labor and Industrial Relations

CFDA Nos. 81.042, ARRA 81.042

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require that Federal grant expenditures be listed correctly on the Schedule of Expenditures of Federal Awards (SEFA).

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program staff attended the DAGS' SEFA preparation training to improve its preparation of SEFA information for the State single audit.

Person Responsible Mila Kaahanui, OCS Executive Director

Anticipated Completion Date June 30, 2012

2011-50 Federal Reporting Accuracy (Significant Deficiency) (Page 199)
State Department of Labor and Industrial Relations

CFDA Nos. 81.042, ARRA 81.042

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require that quarterly Form SF- 425 and ARRA 1512 reports contain accurate amounts.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program strengthened its supervisory review of quarterly Form SF- 425 and ARRA 1512 reports to ensure that the reports contain accurate amounts. Supporting documentation was filed with the program's copy of the report.

Person Responsible Mila Kaahanui, OCS Executive Director

Anticipated Completion Date April 30, 2012

2011-51 Subrecipient Monitoring – No On-Site Review Performed (Page 200)
(Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 81.042

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations, which require that On-Site reviews of subrecipients be performed.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program implemented an office on-site monitoring schedule for the fiscal and program staff to monitor non-ARRA contracts on an annual basis.

Person Responsible	Mila Kaahanui, OCS Executive Director
Anticipated Completion Date	April 30, 2012

2011-52 Procurement – Competitive Purchases of Services (Page 201)
(Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 81.042

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with the Federal compliance regulations. State procurement laws, policies and regulations, require supporting documents and posting on the State Procurement website.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program implemented a tracking system for procurement file maintenance to ensure compliance with State procurement requirements and completeness of procurement files. Program staff attended training to ensure awards are posted to the State Procurement Office's Posting Procurement Awards, Notices and Solicitations by the required due date.

Person Responsible	Mila Kaahanui, OCS Executive Director
Anticipated Completion Date	April 30, 2012

2011-53 Untimely Submission of Reports (Significant Deficiency) (Page 202)
State Department of Labor and Industrial Relations

CFDA Nos. 81.042 and ARRA 81.042

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with the Federal compliance regulations, which have reporting deadlines for the SF-425 and Quarterly Program reports.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program established an office calendar listing the program and financial reporting due dates for the fiscal and program staffs to ensure that reports are submitted on a timely basis. A supervisor will review the office calendar at the beginning of each month to remind fiscal and program staffs of upcoming reporting requirements.

Person Responsible	Mila Kaahanui, OCS Executive Director
Anticipated Completion Date	April 30, 2012

2011-54 Recording of Expenditures in Proper Period (Page 203)
(Material Weakness)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.122

Corrective Action Plan

The audit finding notes that the State DBEDT is not in compliance with the Federal compliance regulations, which relates to activities that are allowed or unallowed. The final State DBEDT 2011 drawdown for a grant exceeded the spending allotment for the 2011 fiscal year, with the excess recorded as 2012 fiscal year expenditures.

The State DBEDT ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DBEDT SID program managers will monitor allotment ceilings for programs under their oversight. Fiscal manager shall adjust allotments, as necessary, in a timely manner.

Person Responsible	Donna Mau, SID Federal Grants & Fiscal Officer
Anticipated Completion Date	June 30, 2012

2011-55 Reporting – Untimely Submission of Reports (Page 204)
(Significant Deficiency)
State Department of Budget and Finance

CFDA No. ARRA 81.122

Corrective Action Plan

The audit finding notes that the State B&F is not in compliance with the Federal compliance regulations, which have required reporting deadlines.

The State B&F Administrative and Research Office (ARO) and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

After submitting the Project Management Plan and Workforce Development Plan on January 13, 2010 and February 12, 2010 to the USDOE, respectively, the Public Utilities Commission (Commission) was able to create and fill the ARRA Program Administrator position to specifically oversee the Commission's ARRA activities to ensure that the Commission is in compliance with federal and state policies.

With the ARRA Program Administrator in place, reporting requirements has been timely.

Person Responsible	Loren Okamura, ARRA Program Administrator
Anticipated Completion Date	April 30, 2012

2011-56 ARRA Reported Information (Significant Deficiency) (Page 205)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.127

Corrective Action Plan

The audit finding notes that the State DBEDT is not in compliance with Federal compliance regulations, which require that quarterly ARRA 1512 reports contain accurate amounts.

The State DBEDT SID will seek training to support program in making subrecipient determinations and prepare schedule of subrecipients on a quarterly basis with appropriate data elements. Internal control procedures are being developed to derive complete and accurate data for financial reporting.

Once trained, supervisory or independent reviews will be strengthened to ensure that staff is responsible in processing and administering Federal grant expenditures and compliance requirements.

Person Responsible	Donna Mau, SID Federal Grants & Fiscal Officer
Anticipated Completion Date	June 30, 2012

2011-57 ARRA Reported Information (Significant Deficiency) (Page 206)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.128

Corrective Action Plan

The audit finding notes that the State DBEDT is not in compliance with Federal compliance regulations, which require that quarterly ARRA 1512 reports contain accurate amounts.

The State DBEDT SID will secure training for making proper subrecipient determinations and prepare schedule of subrecipients on a quarterly basis with appropriate data elements. Appropriate personnel have been hired and controls for the preparation and review of reports are being developed to ensure that reporting guidelines are adhered to.

Once trained, supervisory or independent reviews will be strengthened to ensure that staff is responsible in processing and administering Federal grant expenditures and compliance requirements.

Person Responsible	Donna Mau, SID Federal Grants & Fiscal Officer
Anticipated Completion Date	June 30, 2012

2011-58 Federal Reporting Accuracy (Material Weakness) (Page 207)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.128

Corrective Action Plan

The audit finding notes that the State DBEDT is not in compliance with the Federal compliance regulations, which require that reports be completed accurately and filed by the reporting deadline.

The State DBEDT SID will perform monthly reconciliations of expenditure and revenue after the end of each month, prepare adjusting journal vouchers or take necessary actions as required, and prepare reports based on reconciliations and adjustments. Internal control procedures are being developed to derive complete and accurate financial data and achieve timely reporting.

Person Responsible	Donna Mau, SID Federal Grants & Fiscal Officer
Anticipated Completion Date	June 30, 2012

2011-59 Communicating CFDA Numbers to Subrecipients (Deficiency) (Page 207)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.128

Corrective Action Plan

The audit finding notes that the State DBEDT is not in compliance with the Federal compliance regulations, which require that the State DBEDT communicate to its subrecipient all of the required Federal award information.

The State DBEDT ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DBEDT SID will secure training to support the program in making subrecipient determinations and provide written communication to the subrecipients identified by the audit findings with the appropriate information (i.e., the CFDA title, number and other additional information).

Person Responsible	Donna Mau, SID Federal Grants & Fiscal Officer
Anticipated Completion Date	June 30, 2012

2011-60 Untimely Submission of Reports (Significant Deficiency) (Page 208)
State Department of Business, Economic Development and Tourism

CFDA No. ARRA 81.128

Corrective Action Plan

The audit finding notes that the State DBEDT is not in compliance with the Federal compliance regulations, which have required reporting deadlines.

The State DBEDT ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

Appropriate personnel have been hired and controls for the preparation and review of reports are being developed to ensure that reporting guidelines are adhered to.

Person Responsible	Donna Mau, SID Federal Grants & Fiscal Officer
Anticipated Completion Date	June 30, 2012

2011-61 Procurement (Significant Deficiency) (Page 209)
State Office of the Governor

CFDA No. ARRA 84.397A

Corrective Action Plan

The audit finding notes that the State Office of the Governor (GOV) is not in compliance with Federal compliance regulations. The State GOV conducted procurement and executed a contract with a subrecipient. The subrecipient did not disclose that a GOV employee was affiliated or associated with the subrecipient.

The Office of the Governor will ensure that the subrecipient is in compliance with appropriate state and federal requirements, which includes the State of Hawaii's Contractor's Standards of Conduct Declaration. The Office of the Governor will follow-up with the subrecipient regarding the representative's participation, and will determine and pursue the appropriate course of action. As the contract was executed and funds disbursed by the previous administration, we are reviewing and monitoring the various activities associated with the State Fiscal Stabilization Funds to ensure compliance with applicable federal stimulus requirements.

Person Responsible	Tammi Chun, Policy Analyst, Office of the Governor
Anticipated Completion Date	June 30, 2012

2011-62 Subrecipient Monitoring (Significant Deficiency) (Page 210)
State Office of the Governor

CFDA Nos. ARRA 84.394A and ARRA 84.397A

Corrective Action Plan

The audit finding notes that the State GOV is not in compliance with the Federal compliance regulations, which require that subrecipients subject to OMB Circular A-133 single audit requirement submit a single audit report by the required deadline.

The Governor's Office reminded the Charter School Administrative Office (CSAO) Executive Director of the requirement for timely audits. Additionally, the Charter School Review Panel and the State Board of Education was notified concerning the single audit requirement. The CSAO 2011 single audit report was completed and issued by March 31, 2012. Monitoring will continue of the CSAO's timeline of audit findings' corrective action plans.

Person Responsible	Tammi Chun, Policy Analyst, Office of the Governor
Anticipated Completion Date	June 30, 2012

2011-63 Subrecipient Classified as Vendor (Significant Deficiency) (Page 211)
State Office of the Governor

CFDA No. ARRA 84.397A

Corrective Action Plan

The audit finding notes that the State GOV is not in compliance with the Federal compliance regulations, which require that a determination between vendor and subrecipient be made before the Federal grant funds are awarded.

The Office of the Governor has secured training to support its program in making subrecipient determinations and ensure that future activities and determination of entities providing goods/services are properly documented and in compliance with applicable federal requirements. As the contract was executed and funds disbursed by the previous administration, we are reviewing and monitoring the various activities associated with future State Fiscal Stabilization Funds to ensure the proper contract entity classification in expending federal expenditures.

Person Responsible	Tammi Chun, Policy Analyst, Office of the Governor
Anticipated Completion Date	April 30, 2012

2011-64 Procurement – Required Approval of Governor (Page 213)
(Material Weakness)
State Department of Defense

CFDA No. 93.558

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations. The master agreement with RCUH state that the Governor's approval is required before requesting RCUH's services for a project. The State DOD obtained the Governor's approval before requesting RCUH's services for the use of only federal funds; however, the MOU included the use of federal funds, transferred federal funds, and state funds.

The State DOD ASO and the grant program manager will determine the Federal grant program and ASO staffs' level of understanding with regard to the State procurement and agreement requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

A Policy Directive will be issued to advise that all agreements and actions that require Governor's approval adhere to what was approved by the Governor.

Person Responsible	Tom Moriyasu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2011-65 Procurement – Contract Execution Date (Material Weakness) (Page 214)
State Department of Defense

CFDA No. ARRA 93.714

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations. State procurement and contracts require that contracts should be executed before goods and services are provided.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the State procurement and contract requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The Comptroller Memorandum 2009-14 will be distributed to all fund managers and program managers. All contracts will be executed before any goods or services are provided. Contracts submitted for DAGS certification will first be reviewed by the EO and secondly by the ASO before being sent to DAGS for contract encumbrance.

Person Responsible	Tom Moriyasu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2011-66 Procurement Exemption (Material Weakness) (Page 215)
State Department of Defense

CFDA No. ARRA 93.714

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations. The State DOD obtained an exemption from procurement in accordance with State procurement policy and procedures. The DOD allowed the awarded vendor to start providing services before the procurement exemption was approved.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the State procurement and contract requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will implement procedures, which include the EO ensuring that the contractor does not begin work prior to the Notice to Proceed date. All project managers will also instruct the vendor that the awarding of the contract does not authorize the vendor to start the work or incur cost towards the contract. Support documents to help the project managers will be developed for their use to support their activities. All invoices will be reviewed for costs that were incurred before the Notice to Proceed was given and deducted from the invoice.

Person Responsible	Lt. Colonel Neal Mitsuyoshi, Chief Contracting Officer Tom Moriyasu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2011-67 Expenditure of State Funds on Federal Programs (Material Weakness) (Page 216)
State Department of Defense

CFDA No. ARRA 93.714

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations, which state that no State department shall expend or encumber more than the approved allotment amount. Also, Federal grant programs should monitor that grant expenditures do not exceed approved allotment spending ceilings.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the State allotment and Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will implement additional controls requiring all Memorandum of Agreements (MOA) Federal expenditures be submitted to the deputy department head for review. Expenditures to date will be compared to State allotment spending ceilings to ensure that expenditures do not exceed the allotment within the State fiscal year. For the period between the State fiscal year end and the Federal fiscal year end, expenditures will be limited to written Federal award commitments and cash drawdowns before the end of the Federal fiscal year.

Person Responsible	Tom Moriyasu, Business Management Officer
Anticipated Completion Date	September 30, 2012

2011-68 Reimbursement Requests (Material Weakness) (Page 217)
State Department of Defense

CFDA No. 93.558

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations, which require the State DOD to submit requests for reimbursement from the State DHS. $737,480 was not submitted for reimbursement.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the State allotment and Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will implement procedures to ensure that expenditure reporting of federal grants and Memorandum of Agreements (MOA) are reconciled monthly to the cash reimbursement requests and the cash received. Federal closeout procedures will be applied to MOA, i.e. reconciliation 90 days after the close of the contract and request for the total amount of cash as of the end of the contract.

Person Responsible	Tom Moriyasu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2011-69 Segregation of Duties (Material Weakness) (Page 218)
State Department of Defense

CFDA No. ARRA 93.714

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations, which require that the State DOD implement internal controls over Federal grant expenditures.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the State allotment and Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will implement procedures to address the presences of poor segregation of duties. Program and fiscal employees' assigned fiscal responsibilities are required to have a supervisor review and approve any fiscal transaction prepared by the employee. At times the

Business Management Officer (BMO) is needed to supplement fiscal staff in managing the work load. It is acceptable for the BMO to prepare program fiscal transactions for processing and maintain program accounting records. However, the BMO requires a supervisor to review and approve the fiscal transactions prepared by the BMO. The department head, deputy department head or a department head authorized individual should supervise the BMO. This control will mitigate the presence of poor segregation of duties concerning the BMO. In addition, the department will evaluate all new program requirements and the capacity to take on additional grants and programs responsibilities without additional support.

A flow chart depicting the signing authority will be prepared for all fiscal documents to help the staff visualize the separation of duties.

Person Responsible	Tom Moriyasu, Business Management Officer
Anticipated Completion Date	June 30, 2012

2011-70 Unauthorized Use of Purchasing Card (Significant Deficiency) (Page 219)
State Department of Defense

CFDA No. 93.558

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations. The State pCard policy and procedures require that the State DOD use the pCards only for official State business and not personal expenses.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the State pCard policy and procedures. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will issue a policy directive on the proper use of the State pCard for state business purposes. The directive will also include instructions on how to remedy any unauthorized use and the consequence of repeat violations. The directive will also be a part of the package that is issued to all new department pCard applicants and is on the agenda of the fund managers' meeting in June 2012. The employee that used the pCard for personal use has reimbursed the department and future pCard purchases are being monitored.

Person Responsible	Tom Moriyasu, Business Management Officer
Anticipated Completion Date	June 30, 2012

2011-71 Procurement – Travel Documentation (Significant Deficiency) (Page 220)
State Department of Defense

CFDA No. 93.558

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations. The State SPO travel policy and procedure require that the State DOD employees traveling inter-island on State business submit the boarding pass with the Statement of Completed Travel form.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal grant requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD has policies and procedures in place and will ensure that ASO Fiscal Services strengthen its efforts to obtain all required supporting documents to the Statement of Completed Travel. At present a delinquency list is reviewed monthly by the deputy department head and distributed monthly to all the fund managers. Fund managers are given a week by the deputy department head to submit the delinquent documents to ASO Fiscal Services. Part of this report includes missing support documents, such as boarding passes, and late submittal of the Statement of Completed Travel. Individuals who have misplaced their boarding pass are asked to submit in its place a self certified statement that the individual did board the plane. Timely submittal is encouraged and delinquencies are usually resolved in the same month that they are on the delinquent document list.

Person Responsible	Tom Moriyasu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2011-72 Reporting (Significant Deficiency) (Page 221)
State Department of Defense

CFDA No. 93.558

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which grant agreement requires a quarterly report be prepared and submitted to the State DHS. No reports were submitted for the 4 quarters in fiscal year 2011.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal grant requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will implement procedures to ensure that all new federal grant reporting requirements are known to the program manager. Due dates will be registered with the ASO and reminders will be forwarded on a timely basis in order to have the reports completed on time. The fund managers meeting will also be used to remind the appropriate managers that reports are due for certain programs.

Person Responsible	Tom Moriyasu, Business Management Officer
Anticipated Completion Date	September 30, 2012

2011-73 Reporting – Summer Youth Employment Program (Page 222)
(Significant Deficiency)
State Department of Defense

CFDA No. ARRA 93.714

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which grant agreement requires periodic reports be prepared and submitted to the State DHS.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal grant requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will implement procedures to ensure that all new federal grant reporting requirements are known to the program manager. Due dates for submitting progress reports will be registered in a log system with the ASO and reminders will be forwarded on a timely basis in order to have the reports completed on time. The fund managers' meeting, which is chaired by the deputy department head will also be used to remind the appropriate managers that reports are due for certain programs.

Person Responsible	Tom Moriyasu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2011-74 Eligibility Testing – Summer Youth Employment Program (Significant Deficiency) (Page 223)
State Department of Defense

CFDA No. ARRA 93.714

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which require that only eligible individuals participate in the Federal grant program.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will review eligibility requirements for all new and ongoing programs. The required documentation to verify eligibility will be determined before the program is executed and the required documents will be added to the checklist for what is to be in each participant's case file. An eligibility checklist will be developed to aid the case worker who will use it to determine what criteria were used to find the participant eligible. Site visitation by program managers will be required to test eligibility and review the security of the files. Standard operating procedures will also be developed to insure that all sites control the filing and maintenance of the participants' records to prevent loss or misplaced documents.

Person Responsible	Thomas Moriyasu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2011-75 Reporting – Subrecipient (Significant Deficiency) (Page 224)
State Department of Accounting and General Services

CFDA No. 93.558

Corrective Action Plan

The audit finding notes that the State DAGS is not in compliance with the Federal compliance regulations, which require that semi-annual reports be submitted by its subrecipient under the TANF program.

No corrective action plan is necessary as the Hawaii State Foundation on Culture and the Arts no longer receives TANF funds from DHS. Fiscal Year 2011 was the last year TANF funds were expended.

Person Responsible	Susan Naanos, Accountant
Anticipated Completion Date	June 30, 2012

2011-76 Inaccurate Payroll Allocation (Significant Deficiency) (Page 225)
State Department of Defense

CFDA No. 93.558

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which require that payroll costs be allocated between grants properly and that payroll certificates be completed as required.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD BMO will implement procedures requiring each fiscal and program employee that works on multiple Federal grants to prepare a time sheet of hours spend on each grant. These time sheets will be summarized and used by DOD to allocate payroll cost to the various grants. Fiscal and program employees that are 100% dedicated to one federal grant will prepare and submit an Employee Certification on a quarterly basis signed by their immediate supervisor. Completed certifications will be filed with ASO. The use of RCUH for additional personnel will adhere to what was approved by the Governor.

Person Responsible	Thomas Moriyasu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2011-77 Untimely Submission of Reports (Significant Deficiency) (Page 226)
State Department of Defense

CFDA No. 93.558

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with Federal compliance regulations. The executed MOA requires that monthly reports be submitted no later than the 15th day of the month that immediately follows each calendar month. Four reports were not submitted by the due date.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the level of understanding deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will implement procedures to ensure that all new federal grant reporting requirements are known to the program manager. Due dates will be registered with the ASO and reminders will be forwarded on a timely basis in order to have the reports completed on time. The fund managers meeting will also be used to remind the appropriate managers that reports are due for certain programs.

Person Responsible	Thomas Moriyasu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2011-78 Cash Management (Material Weakness) (Page 227)
State Department of Defense

CFDA No. ARRA 93.714

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which require that the State DOD minimize the time lag between federal fund drawdown and disbursement.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will identify weekly the grant expenditures to be paid. The BMO or Supervising Accountant will request drawdowns as required instead of on a quarterly basis in order to comply with the Federal Cash Management regulation of minimizing the time lag between the federal fund drawdown and the disbursement.

Person Responsible	Thomas Moriyasu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2011-79 Lack of Supporting Records (Material Weakness) (Page 228)
State Department of Defense

CFDA No. 93.558

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which require that the State DOD provide supporting documentation as evidence with amounts that agree with the request for reimbursement submitted to State departments.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will strengthen its fiscal controls regarding the Federal grant request for reimbursement process. Program or fiscal employees that prepare the request for reimbursement will be reminded that the supporting documentation for the request is required to be submitted with the request for approval and further processing. A documented supervisory review will be required for all reimbursement requests to State departments ensuring that the supporting documentation amount agrees with the State journal voucher. The supporting documentation will be retained and filed with the State journal voucher.

Person Responsible	Thomas Moriyasu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2011-80 Reporting - Lack of Support (Significant Deficiency) (Page 229)
State Department of Defense

CFDA No. 93.558

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which require that, the State DOD submit accurate reports.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will strengthen its fiscal controls regarding the Federal grant request for reimbursement process. Program or fiscal employees that prepare the request for reimbursement will be reminded that the requested amounts must have supporting documentation. A documented supervisory review will be required for all reimbursement requests to State departments ensuring that the supporting documentation amount agrees with the State journal voucher. The supporting documentation will be retained and filed with the State journal voucher.

Person Responsible	Thomas Moriyasu, Fiscal Officer
Anticipated Completion Date	December 31, 2012

2011-81 Earmarking – Excess Administrative Expenses (Page 230)
(Significant Deficiency)
State Department of Labor and Industrial Relations

CFDA No. 93.569

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with the Federal compliance regulations, which require that the State DLIR not exceed the 5% limitation of administrative expenditures recorded to the Federal grants.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR ASO and grant program staffs are monitoring monthly administrative expenditures recorded to the Federal grant, to ensure that the administrative expenditures does not exceed the 5% grant limitation.

Person Responsible Mila Kaahanui, OCS Executive Director

Anticipated Completion Date	April 30, 2012

2011-82 Preparation of the Schedule of Expenditures of Federal Awards (Significant Deficiency) (Page 231)
State Department of Labor and Industrial Relations

CFDA No. ARRA 93.710

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with the Federal compliance regulations, which require that Federal expenditures included in the SEFA be accurate. The amount reported on the SEFA is greater than the amount reported on SF-269 reports.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program staff prepares the SEFA on a cash basis of accounting. Also, the State DLIR submits its Federal grant reporting on an accrual basis of accounting. The State DLIR will reconcile the SEFA expenditures (cash basis) with the Federal Financial Status report SF-269 (accrual basis) to ensure that there is no duplication of SEFA grant expenditures reported for a fiscal year or across fiscal years.

Person Responsible	Mila Kaahunui, OCS Executive Director
Anticipated Completion Date	August 31, 2012

2011-83 Subrecipient Monitoring – Follow Up on Subrecipient (Deficiency) (Page 232)
State Department of Labor and Industrial Relations

CFDA No. 93.569

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with the Federal compliance regulations, which require that the State DLIR monitor the activities and reporting of subrecipients on a timely basis.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR ASO and program staffs have scheduled follow-up monitoring visits to ensure a corrective action plan is submitted and implemented.

Person Responsible	Mila Kaahunui, OCS Executive Director
Anticipated Completion Date	April 30, 2012

2011-84 Subrecipient Monitoring – Management Decision (Significant Deficiency)
State Department of Labor and Industrial Relations (Page 233)

CFDA No. 93.569, ARRA 93.710

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with the Federal compliance regulations, which requires that the State DLIR issue a management decision on the subrecipient's audit findings within six months after the receipt of the single audit report.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program staff will respond and issue management decisions on 2010 subrecipient Single Audit Report findings. The program staff will issue management decisions on future subrecipients' Single Audit Report findings within the six months after the receipt of the single audit report.

Person Responsible	Mila Kaahunui, OCS Executive Director
Anticipated Completion Date	June 30, 2012

2011-85 Untimely Submission of Reports (Significant Deficiency) (Page 234)
State Department of Labor and Industrial Relations

CFDA No. ARRA 93.710

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with the Federal compliance regulations, which require that the State DLIR submit Final SF-269 Reports by the required due date.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program established an office calendar listing the program and financial reporting due dates for the fiscal and program staffs to ensure that reports are submitted on a timely basis. A supervisor will review the office calendar at the beginning of each month to remind fiscal and program staffs of upcoming reporting requirements.

Person Responsible	Mila Kaahanui, OCS Executive Director
Anticipated Completion Date	April 30, 2012

2011-86 ARRA Reported Information (Significant Deficiency) (Page 235)
State Department of Labor and Industrial Relations

CFDA No. ARRA 93.710

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with the Federal compliance regulations, which require that the State DLIR submit correct financial information on its ARRA 1512 reports.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program has implemented controls that only staff properly trained in the preparation of the ARRA 1512 report is allowed to prepare the report. A supervisor properly trained in the preparation of the ARRA 1512 report will review the report and compare it to the program's accounting records to ensure the report's accuracy.

Person Responsible Mila Kaahanui, OCS Executive Director

Anticipated Completion Date June 30, 2012

2011-87 Procurement – Small Purchase Bids (Deficiency) (Page 236)
State Department of Labor and Industrial Relations

CFDA No. 93.569

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with Federal compliance regulations. The State's procurement policies and procedures satisfy the Federal procurement regulations. The State's procurement policies and procedures require that the State DLIR prepare a SPO-10 form for small purchase.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the SPO procurement requirements. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program has implemented controls that: (1) only program staff trained in the State Procurement Office's small purchases procurement method; and (2) delegated the authority by the State DLIR Director to procure small purchases, is allowed to procure small purchases for the program. As required by the small purchase procurement method, Form SPO-10 will be completed and maintained for all small purchase procurements.

Person Responsible Mila Kaahanui, OCS Executive Director

Anticipated Completion Date June 30, 2012

2011-88 Untimely Awarding of Subgrant (Deficiency) (Page 237)
State Department of Labor and Industrial Relations

CFDA No. ARRA 93.710

Corrective Action Plan

The audit finding notes that the State DLIR is not in compliance with the Federal compliance regulations, which require the State DLIR award subgrants in a timely manner.

The State DLIR ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DLIR program has implemented procedures to adequately disclose the grant objectives, requirements, allowable activities and grant period to prospective subgrantees to minimize delays in the grant awarding process. The State DLIR program will monitor the subgrantees' activities to ensure that the grant award will be expended within the grant period.

Person Responsible	Mila Kaahanui, OCS Executive Director
Anticipated Completion Date	June 30, 2012

2011-89 Federal Transparency Act Reporting (Material Weakness) (Page 238)
State Department of Defense

CFDA No. 97.036

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which require that the State DOD submit Federal Transparency Act reports by the required due date.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD SCD will immediately begin to develop procedures to record and report subawards that are $25,000 or more to meet the Federal Funding and Accountability Transparency Act reporting requirements. The procedures will be incorporated into the operating procedures for all disaster staff and monitored by the disaster assistance branch to ensure that the department is in compliance.

Person Responsible	Douglas Mayne, Vice Director of State Civil Defense
Anticipated Completion Date	December 31, 2012

2011-90 Subrecipient Monitoring (Significant Deficiency) (Page 239)
State Department of Defense

CFDA No. 97.036

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which require that the State DOD review the subrecipient's compliance reports.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD SCD has created a disaster assistance branch. The branch will be responsible to review subrecipient's compliance reports.

Person Responsible	Douglas Mayne, Vice Director of State Civil Defense
Anticipated Completion Date	September 30, 2013. Immediate action will be accomplished by December 31, 2012 by assignment of available general funded staff to begin the necessary procedures.

2011-91 Communicating CDFA Numbers to Subrecipients (Page 240)
(Significant Deficiency)
State Department of Defense

CFDA No. 97.036

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which require that the State DOD communicate all of the Federal grant required information to the subrecipients.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will implement procedures to ensure that it identifies to subrecipients the Federal award information (i.e., the CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements at the time of the subaward. Existing subaward agreements will be reviewed to determine if the above Federal award information was communicated to the subrecipients at the time of the subaward. For agreements reviewed that are deficient, the agreement will be amended to include all required Federal award information. In addition, training will be provided for program employees that prepare subaward agreements to ensure that the Federal award information is included in future agreements.

Person Responsible	Tom Moriyasu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2011-92 Payroll Certifications (Significant Deficiency) (Page 241)
State Department of Defense

CFDA No. 97.036

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which require that the State DOD prepare payroll certifications for employees that work on a single Federal grant during the pay period.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will implement procedures to ensure that program or fiscal employees that are expected to work solely on a single Federal award will prepare periodic certifications that the employee worked solely on the program for the period covered by the certification. The certifications will be prepared at least semiannually and will be signed by the employee or supervisor having first-hand knowledge of the work performed by the employee.

Person Responsible	Tom Moriyasu, Business Management Officer

Anticipated Completion Date December 31, 2012

2011-93 Monitoring of Subrecipient Audit Findings (Material Weakness) (Page 242)
State Department of Defense

CFDA No. 97.067

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which require that the State DOD follow up on findings in the subrecipients' single audit reports.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD SCD has created a disaster assistance branch. The branch will be responsible to follow up on findings in the subrecipients' single audit reports.

Person Responsible Douglas Mayne, Vice Director of State Civil Defense

Anticipated Completion Date December 31, 2012

2011-94 Lack of Evidence of Timely Filing of Reports (Page 243)
(Significant Deficiency)
State Department of Defense

CFDA No. 97.067

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which require that the State DOD submit the After Action Report (AAR) and Improvement Plan reports' by the required due date. The State DOD does not have any written evidence that the reports were submitted on time.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The GMS will require all subrecipients to submit a copy of the AAR prior to processing their request for reimbursement. The State Training Branch, SCD, will be responsible for submitting the AAR to FEMA. Written evidence that the report was submitted timely will be obtained and filed in the contract procurement files.

Person Responsible	Tom Moriyasu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2011-95 Untimely Submission of Reports (Deficiency) (Page 244)
State Department of Defense

CFDA No. 97.067

Corrective Action Plan

The audit finding notes that the State DOD is not in compliance with the Federal compliance regulations, which require that the State DOD submit reports by the required due date. The State DOD does not have any written evidence that the reports were submitted on time.

The State DOD ASO and the grant program manager will identify appropriate staff within their respective areas and determine their level of understanding with regard to the Federal compliance regulations. Based on this determination, training will be conducted to address the ability for staff to identify and correct deficiencies. Upon completion of training, supervisory or independent reviews will be strengthened to ensure that staffs are responsible in processing and administering Federal grant expenditures and compliance requirements.

The State DOD will implement procedures to document that required Federal reports are issued by the required due date. The Semi-Annual Progress reports, the Initial Strategy Implementation Plan and the Biannual Strategy Implementation Report are submitted electronically via a FEMA portal. The GMS will retain copies of the confirmation email or other independent verifications indicating the date and time of report submittal.

Person Responsible	Douglas Mayne, Vice Director of State Civil Defense
Anticipated Completion Date	June 30, 2012