



**TESTIMONY OF MARION M. HIGA, STATE AUDITOR, ON THE PROPOSED
BUDGET FOR FISCAL YEAR 2008-09 FOR THE OFFICE OF THE AUDITOR**

**House Committee on Finance
January 7, 2008**

Chair Oshiro and Members of the Committee:

Thank you for this opportunity to brief you on our proposed budget for FY2008-09.

Proposed Budget

We are proposing a general fund budget of \$2,910,684 for our regular operations and \$2,429,360 (with an expenditure ceiling of \$5,600,438) for our Audit Revolving Fund. You might note that the general fund request for the Audit Revolving Fund is approximately half of what it was last year because it represents only maintenance of the financial audit program, not additions. These are effectively transfers--what the affected agencies would have been spending for audits from their respective departmental budgets. Except for the audits of the University of Hawai'i and the Hawai'i Health Systems Corporation, all major financial audits are now under my office's administration.

The details of the budget request are presented in the following exhibits:

- Exhibit 1 presents the proposed budget by program.
- Exhibit 2 presents that budget by objects of expenditure. The proposed budget is flat except for authorized salary increases. After hearing my testimony today, I hope you will be assured that my outstanding staff well deserves these increases.
- Exhibit 3 presents budgeted and estimated expenditures for the current fiscal year. Exhibit 3 also includes the miscellaneous appropriations for the additional tasks that the Legislature has sent our way that I will discuss later in my testimony.
- Exhibit 4 presents our reports to date, in chronological order.
- Exhibit 5 presents both the to-date and the expected work, by categories of work.

Audits/Peer Review

I am pleased to report to you that all three legislative service agencies plus the Ethics Commission, which is administratively attached to my office, expect to receive clean opinions from the external CPA firm that is conducting audits of our books.

Also, my office received a clean opinion again in its sixth triennial peer review last June. This time, we contracted with the National Conference of State Legislatures (NCSL). A team of performance evaluators from Wisconsin, Utah, Mississippi, New Mexico, and Colorado spent five days at our office to test our system of quality control and concluded that we met government auditing standards.

Professional Recognition

We continue to be involved and recognized professionally.

- We again won an impact award from the National Legislative Program Evaluation Society (NLPES) at the annual NCSL conference, this one for our management audit of Kailua High School.
- Deputy Auditor/General Counsel Jan Yamane has risen in the ranks at NCSL and NLPES. Jan is the vice chair of NLPES, staff vice chair of the NCSL Forum Education Committee, and steering committee member of the Legislative Education Staff Network. She was a presenter at NCSL and NLPES conferences.
- My speaking engagements this past year were at the national and regional conferences of the Association of Government Accountants. I also continue to sit on the U.S. Comptroller General's Advisory Council on Auditing Standards.

One exciting piece of news to bring to you is our success, after many years of trying, in bringing the annual training conference of NLPES to Honolulu in 2009. In fact, we may have succeeded beyond our expectations because two other NCSL staff sections are now considering joining us. We have also asked NCSL to consider Hawai'i as the site for the Fall 2009 NCSL Executive Committee meeting and that proposal is under consideration. So if all plans gel, we will be hosting several hundred conferees in 2009.

A Wide-Ranging Work Year: Salient Issues

Our work year has been notable for the larger and interesting range of projects. The attendant challenges of reassigning staff in a tight personnel market has meant doubling up, especially for my managers, longer work hours, and deferring or delaying some work you requested. With reference to the appropriations at the lower portion of Exhibit 3, I would like to report the following:

- Special Studies—We initiated an audit of the executive branch's governance of information technology. Expanding our audit program to include IT audits is a promising strategic initiative made possible by our fortunate hiring of technical staff.
- Audit Revolving Fund—Our assumption of responsibility for the financial statement audits has been manageable, but I have some lingering concerns. For one thing, the Comprehensive Annual Financial Report, or CAFR, will again be late. One of my reasons for seeking the administration of all financial audit contracts was to reduce the executive branch's delay in reporting on the State's financial picture. Issuing our CAFR nine months after the close of the fiscal year, when large federal agencies can complete their audits in less than six months, is bothersome. And even at that, some of the CAFR numbers are estimates because some entities' audits are incomplete. Again this year, the

primary cause of the delay will be the University of Hawai'i. A contributing cause will be the Hawai'i Public Housing Authority. In previous years, the contributing causes were the Hawai'i Health Systems Corporation and the Housing and Community Development Corporation of Hawai'i.

- Hawai'i 2050 Sustainability Task Force—This task force's final report was issued December 27 in its black and white format.
- Hawai'i Broadband Task Force—This task force's interim report was issued December 31.
- Identity Theft Task Force—This task force's final report was issued December 27.

Responding to the expanded work program, however, has been hampered by tussles with the executive branch over access to information. Whether it was investigative committee work on the Bureau of Conveyances, or, currently, the audit of the decision to exempt the Superferry from environmental assessment requirements, we have encountered numerous roadblocks to receiving information that we believe the statutes entitle us to have without impediment. For example, as of January 2, we have received only one box of documents of the approximately 30 we requested of the executive branch and none from the Superferry. Only the Public Utilities Commission has been cooperative and responsive and has willingly given us access. The rest of the administration has not.

At issue are these:

- (1) Whether "executive privilege" is limited to the governor and lieutenant governor personally and individually or encompasses their staffs and the cabinet down through deputy directors;
- (2) The nature of "attorney-client privilege" and whether it includes all communication between the Department of the Attorney General and all executive agencies;
- (3) Whether all requests, including requests for documents already public, must be reviewed by the attorney general before being released to my office; and
- (4) Whether the executive branch stands behind the policy of the Department of Human Resources Development that electronic mail sent or received by state personnel on state computers is not private, but public, property.

Given where these unresolved issues stand today, we anticipate all our work schedules to be adversely affected. We have spent inordinate amounts of time trying to secure information for which we believe the statutes already provide sufficient protection.

Carrying further the theme of delays, I am alerting you to the difficulties we have encountered for the past year with our financial review of the Hawai'i Health Systems Corporation for FY2005-06. The corporation now refuses to sign a representation letter, a standard document in auditing that affirms that an audited entity asserts its belief that its financial statements are accurate. This is only the latest in a series of delays marked by the corporation's assertions that its books were not ready for audit by our contracted CPA firm.

Conclusion

One might wonder, after the preceding testimony, what motivates my staff to weather the challenges of the job. The answer is, we keep our eyes on our constitutional mission and the conviction that our work improves accountability for the expenditure of state resources. We hope you will entertain our budget request favorably.

OFFICE OF THE AUDITOR
Budget for FY2008-09
(With Comparative Amounts for FY2007-08)

Exhibit 1

AUDIT	2008-09		2007-08	
Personal services				
Staff	1,071,929	(18)	1,022,311	(18)
Contract	259,592		259,592	
Other expenses	74,617		74,617	
Total audit	1,406,138		1,356,519	
 PROGRAM EVALUATION AND SPECIAL STUDIES				
Personal services				
Staff	476,413	(8)	454,360	(8)
Contract	152,459		152,459	
Other expenses	30,369		30,369	
Total program evaluation and special studies	659,241		637,188	
 LEGISLATIVE SERVICES				
Personal services - staff	261,560	(4)	249,453	(4)
Other expenses	19,920		19,920	
Total legislative services	281,480		269,372	
 SUNSET EVALUATIONS AND SUNRISE ANALYSES				
Personal services - staff	70,061	(1)	66,818	(1)
Other expenses	9,960		9,960	
Total sunset evaluation and sunrise analyses	80,021		76,778	
 FOLLOW-UP				
Personal services - staff	203,176	(3)	193,771	(3)
Other expenses	9,960		9,960	
Total follow-up	213,136		203,731	
 GENERAL SUPPORT				
Personal services - staff	252,219	(3)	240,544	(3)
Other expenses	18,450		18,450	
Total general support	270,669		258,994	
 TOTAL OPERATING BUDGET				
	2,910,684	(37)	2,802,583	(37)
 AUDIT REVOLVING FUND				
	2,429,360		4,221,820	

OFFICE OF THE AUDITOR
Statement Showing Budget for Office Operations
By Object of Expenditure for FY2008-09

Exhibit 2

Personal services:

Staff salaries	\$2,335,358
Contractual services	412,050
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Total personal services	\$2,747,408
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Other expenses:

Office Expenses	39,195
Intrastate transportation and travel	15,075
Out-of-state travel	37,500
Training	26,130
Printing	13,065
Rental and maintenance of equipment	15,226
Books	2,010
Equipment	15,075
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Total other expenses	163,276
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Total operating budget \$2,910,684

Audit Revolving Fund \$2,429,360
Expenditure Ceiling \$5,600,438

OFFICE OF THE AUDITOR
Statement Showing Budget and Estimated Expenditures
By Object of Expenditure for FY2007-08

Exhibit 3

	Budget	Estimated	Variance
Personal services:			
Staff salaries	\$ 2,227,257	\$ 1,664,930	\$ 562,327
Contractual services	412,050	412,050	-
Total personal services	\$ 2,639,307	\$ 2,076,980	\$ 562,327
Other expenses:			
Office expenses	39,195	39,195	-
Intrastate transportation and travel	15,075	15,075	-
Out-of-state travel	37,500	37,500	-
Training	26,130	26,130	-
Printing	13,065	13,065	-
Rental and maintenance of equipment	15,226	15,226	-
Books	2,010	2,010	-
Equipment	15,075	15,075	-
Total other expenses	\$ 163,276	\$ 163,276	\$ -
TOTAL	\$ 2,802,583	\$ 2,240,256	\$ 562,327
Special Studies Appropriation (Act 1, SLH 2007)	\$ 150,000	\$ 150,000	\$ -
Audit Revolving Fund Appropriation (Act 1, SLH 2007)	\$ 5,600,438	\$ 4,855,200	\$ 745,238
Hawai'i 2050 Task Force & Sustainability Plan (Act 4, SSLH 2007)	\$ 850,000	\$ 850,000	\$ -
Hawai'i Broadband Task Force (Act 2, SSLH 2007)	\$ 50,000	\$ 50,000	\$ -
Identity Theft Task Force (Act 183, SLH 2007)	\$ 100,000	\$ 100,000	\$ -

Office of the Auditor
Reports Submitted to Date to 2007 Legislature and Work to the 2008 Legislature

- 07-01: Financial Audit of the Hawai‘i Youth Correctional Facility
- 07-02: Sunrise Analysis: Mixed Martial Arts
- 07-03: Management Audit of Student Housing Services at the University of Hawai‘i at Mānoa Part 1
- 07-04: Audit of the Child Support Enforcement Agency
- 07-05: Cost Analysis of Disability Parking Placards
- 07-06: Sunrise Analysis: Nurse Aides
- 07-07: Review of Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation
- 07-08: Systemwide Financial Audit of the University of Hawai‘i System: Phase II
- 07-09: Financial Audit of the Department of Human Resources Development
- 08-__: Management Audit of the Department of Education’s Hawaiian Studies Program
- 08-__: Management Audit of the Moloka‘i Irrigation System
- 08-__: Audit of the Status of the Information Technology Governance Within the State of Hawai‘i
- 08-__: Management Audit of Student Housing Services at the University of Hawai‘i at Mānoa Part 2
- 08-__: Audit of the Deposit Beverage Container Program (FY2005-06)
- 08-__: Investigation of the Department of Business, Economic Development and Tourism
- 08-__: Performance Audit of the State Administration’s Actions Relating to the Superferry

- 08-__: Sunrise Analysis: Debt-management Service Providers
- 08-__: Sunrise Analysis: Destination Clubs
- 08-__: Sunrise Analysis: Condominium Commission for 514B Condominium Entities
- 08-__: Medical Health Insurance: Medical Vigilance Services

Pending Work

- Audit of the Department of Hawaiian Home Lands
- Study on the Impact of Voluntary Employees' Beneficiary Association (VEBA) Trusts
- Financial and Management Audit of the Insurance Regulation Sub-account
- University of Hawai'i Board of Regents Conflict of Interest Policy
- Aloha Stadium Plan Review
- A Comparative Study of the Department of Commerce and Consumer Affairs' Requirements for Professional and Vocational Licenses Part 2

Act 4 Financial Statement Audits – FY2006

- State of Hawai'i, Comprehensive Annual Financial Report, KPMG LLP
- Department of Education, Financial Statements and Single Audit Report, Nishihama & Kishida, CPA's Inc.
- Department of Health, Financial and Compliance Audit Report, Water Pollution Control Revolving Fund Financial Statements, and Drinking Water Treatment Revolving Loan Fund Financial Statements, PricewaterhouseCoopers, LLP
- Department of Human Services, Financial Statements and Single Audit Report, Grant Thornton, LLP
- Department of Transportation Administration, Financial and Compliance Audit Report, Endo & Company
- Department of Transportation Airports, Financial Statements, Single Audit Report, and Passenger Facility Charge Report, Deloitte & Touche, LLP
- Department of Transportation Harbors, Financial Statements and Government Auditing Standards Report, Grant Thornton, LLP
- Department of Transportation Highways, Financial Statements and Single Audit Report, Deloitte & Touche, LLP
- Oahu Metropolitan Planning Organization, Financial Statements and Single Audit Report, Egami and Ichikawa, CPA's Inc.

Other Reports

- Hawai'i Identity Theft Task Force Report, December 2007 (unnumbered report)
- Hawai'i 2050 Sustainability Task Force Report, December 2007 (unnumbered report)
- Hawai'i Broadband Task Force Report, December 2007

Assistance on Other Projects

- The Joint Senate-House Investigative Committee on the Bureau of Conveyances,
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**Office of the Auditor
Work to 2007 and 2008 Legislatures**

Performance Audits and Special Studies

- Sunrise Analysis: Mixed Martial Arts, **Report No. 07-02**
- Management Audit of Student Housing Services at the University of Hawai'i at Mānoa Part I, **Report No. 07-03**
- Audit of the Child Support Enforcement Agency, **Report No. 07-04**
- Cost Analysis of Disability Parking Placards, **Report No. 07-05**
- Sunrise Analysis: Nurse Aides, **Report No. 07-06**
- Systemwide Financial Audit of the University of Hawai'i System: Phase II, **Report No. 07-08**
- Management Audit of the Department of Education's Hawaiian Studies Program
- Management Audit of the Moloka'i Irrigation System
- Audit of the Status of the Information Technology Governance Within the State of Hawai'i
- Management Audit of Student Housing Services at the University of Hawai'i at Mānoa Part 2
- Audit of the Deposit Beverage Container Program (FY2005-06)
- Investigation of the Department of Business, Economic Development and Tourism
- Performance Audit of the State Administration's Actions Relating to the Superferry
- Sunrise Analysis: Debt-management Service Providers
- Sunrise Analysis: Destination Clubs
- Sunrise Analysis: Condominium Commission for 514B Condominium Entities
- Medical Health Insurance: Medical Vigilance Services
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- Financial and Management Audit of the Insurance Regulation Sub-account
- University of Hawai'i Board of Regents Conflict of Interest Policy
- Aloha Stadium Plan Review
- A Comparative Study of the Department of Commerce and Consumer Affairs' Requirements for Professional and Vocational Licenses Part 2

Financial Audits

- Financial Audit of the Hawai'i Youth Correctional Facility, **Report No. 07-01**
- Financial Audit of the Department of Human Resources Development, **Report No. 07-09**

Existing Fund Reviews

- Review of Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation, **Report No. 07-07**

Act 4 Financial Statement Audits

- State of Hawai‘i, Comprehensive Annual Financial Report, KPMG LLP
- Department of Education, Financial Statements and Single Audit Report, Nishihama & Kishida, CPA’s Inc.
- Department of Health, Financial and Compliance Audit Report, Water Pollution Control Revolving Fund Financial Statements, and Drinking Water Treatment Revolving Loan Fund Financial Statements, PricewaterhouseCoopers, LLP
- Department of Human Services, Financial Statements and Single Audit Report, Grant Thornton, LLP
- Department of Transportation Administration, Financial and Compliance Audit Report, Endo & Company
- Department of Transportation Airports, Financial Statements, Single Audit Report, and Passenger Facility Charge Report, Deloitte & Touche, LLP
- Department of Transportation Harbors, Financial Statements and Government Auditing Standards Report, Grant Thornton, LLP
- Department of Transportation Highways, Financial Statements and Single Audit Report, Deloitte & Touche, LLP
- Oahu Metropolitan Planning Organization, Financial Statements and Single Audit Report, Egami and Ichikawa, CPA’s Inc.

Proposed Funds Review

- We also expect to perform up to 90 reviews of proposed special and revolving funds during the 2008 legislative session.

Task Forces

- Hawai‘i Identity Theft Task Force Report, December 2007 (unnumbered report)
- Hawai‘i 2050 Sustainability Task Force Report, December 2007 (unnumbered report)
- Hawai‘i Broadband Task Force Report, December 2007

Assistance on Other Projects

- The Joint Senate-House Investigative Committee on the Bureau of Conveyances, _____ 2008