



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

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Statement of

THEODORE E. LIU
Director

Department of Business, Economic Development & Tourism
before the

**HOUSE COMMITTEE ON
LEGISLATIVE MANAGEMENT**

Thursday, April 17, 2008
3:00 p.m.
State Capitol, Conference Room 309
on

**SCR 212 SD2
REQUESTING THE AUDITOR TO INVESTIGATE PROCUREMENT AND
EXPENDITURE PRACTICES OF THE DEPARTMENT OF BUSINESS, ECONOMIC
DEVELOPMENT, AND TOURISM AND SELECTED ATTACHED AGENCIES.**

The Department of Business, Economic Development & Tourism does not take a position on Senate Concurrent Resolution 212 SD2. Should the Legislature pass this resolution, the department will cooperate fully with any audit by the State Auditor.

We would, however, respectfully provide the following information:

1. The department undergoes an annual financial and compliance single audit conducted by independent auditors contracted by DBEDT. The results of these audits are posted on the department's website, www.hawaii.gov/dbedt/main/about/annual. I am pleased to let the committee know that the formal results of the recent audits for FY 2007 and FY 2006 were that there were no questioned costs, no management findings, and there was only one audit finding in each fiscal year relating to federal grant programs as follows:

FY 2007: The Office of Planning and the High Technology Development Corporation are required to prepare and maintain semi-annual payroll certifications for employees working solely on federal programs. These two affected agencies have taken corrective action to prepare the required certifications.

FY 2006: The Office of Planning is required to obtain and review single audit of each subrecipient. The affected agency has taken corrective action and currently includes the requirement to submit a single audit report in contracts with all subrecipients.

2. The last audit by the State Auditor was conducted in 2003. That audit found there were some deficiencies in the management of the loan programs, the Hawaii Tourism Authority did not adequately manage its contracts, the department does not properly lapse unrequired encumbrances, and improvements are needed in the administration of petty cash funds. All corrective actions to the Auditor's findings have been taken.
3. In 2005, the State Auditor commenced an audit of the State's energy programs within the Strategic Industries Division of the department. After extensive information flow and discussions with the audit team, that audit was discontinued.
4. The budget for FY08 contained a proviso for the State Auditor to audit the department's **Act 213 Part VII. Special Provisions. Section 197**. Pursuant to that proviso, since August of 2007, a team of auditors have spent approximately 320+ hours reviewing information, documentation and materials and interviewing departmental staff. Audits of the following programs are on-going: Community Based Economic Development (CBED), Enterprise Zones and State of Hawaii Overseas offices (Beijing and Taiwan). To-date, we are aware of no findings or reports.

Through this legislative session, audits have been requested for the entire department, for the High Technology Development Corporation (HTDC), for the Hawaii Strategic Development Corporation (HSDC), for the Aloha Tower Development Corporation (ATDC) and for the Natural Energy Laboratory of Hawaii Authority (NELHA). While the department intends to cooperate fully with these audits, we are concerned over the time and resources that staff both of the department and of the Office of the State Auditor will expend on them.

Written Statement of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
President
High Technology Innovation Corporation
before the
HOUSE COMMITTEE ON LEGISLATIVE MANAGEMENT
Thursday April 17, 2008
3:00 PM
State Capitol, Conference Room 309

In consideration of
**SCR 212 SD2 REQUESTING THE AUDITOR TO INVESTIGATE PROCUREMENT
AND EXPENDITURE PRACTICES OF THE DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT, AND TOURISM AND SELECTED ATTACHED
AGENCIES.**

Chair Magaoay, Vice Chair Tokioka, and Members of the House Committee on
Legislative Management.

The High Technology Development Corporation (HTDC) believes in transparency and accountability of its programs and services, and therefore, respectfully welcomes this audit. We offer the following comments on parts of Senate Concurrent Resolution 212 SD2 that relate to HTDC and the High Technology Innovation Corporation (HTIC) (a State of Hawaii Non-Profit Entity under Chapter 501-c (3) to provide some background the Committee may find useful:

- (1) The last full audit and report performed by the State Office of the Auditor has been over ten years and another audit of the agency's programs and financial oversight is over due. We again look forward to working with Marion Higa, State Auditor, and her staff. Our federal programs, however, are audited annually in compliance with OMB Circular A-133 by an independent CPA firm as part of the financial audit done on DBEDT, thus request that the scope of this audit not replicate the CPA firm's review of the federal programs.

- (2) This last audit focused on the HTDC's contracting policies and procedures and primarily reviewed our Contracting Manual and the agreement between HTDC and the Maui Economic

Development Board, then manager and operator of the Maui Research & Technology Center. If there is an opportunity to focus the scope of the audit and because our staff time is maximized due to major budget cuts and reductions since 1996 and 1997, we would appreciate the consideration, to ensure that everyone, including the auditors, can focus their efforts to provide relevant information.

(3) HTIC established by the legislature in 2005 (HRS 206M PART IV) as a non-profit state entity with a complete Board of Directors appointment since November of 2007 and created to service and support HTDC's mission of facilitating the commercial high tech industry is a new organization learning to operate within the state's system. This proposed audit could assist by identifying appropriate scopes or oversights of each agency that HTIC is required to consult with or obtain approvals from.

Thank you for the opportunity to offer comments on SCR 212 SD2.



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Statement of
JOHN A. CHOCK
President

Hawaii Strategic Development Corporation

Before the
HOUSE COMMITTEE ON LEGISLATIVE MANAGEMENT

Thursday, April 17, 2008
3:00 PM
State Capitol, Conference Room 309

In consideration of

SCR 212, SD2

REQUESTING THE AUDITOR TO INVESTIGATE PROCUREMENT AND EXPENDITURE PRACTICES OF THE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM AND SELECTED ATTACHED AGENCIES.

Chair Magaoay, Vice Chair Tokioka, and Committee Members:

HSDC is open to any review of its venture capital and entrepreneurial support programs. We would like to point out that HSDC's revolving fund is audited annually along with all funds within DBEDT and its attached agencies, and the recently completed audit resulted in no management findings relating to HSDC.

Further, in that this resolution relates to procurement, we would point out that the Office of the Attorney General has in the past advised HSDC that its venture capital investments are not considered purchases, and as such are not subject to normal procurement practices.

Thank you for the opportunity to offer these comments.