

STATE OF HAWAII
OFFICE OF THE AUDITOR
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DEPT COMM. NO. 65

MARION M. HIGA
State Auditor

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January 28, 2010

The Honorable Colleen Hanabusa
President of the Senate
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear Madam President:

I transmit to you a copy of our report, *Investigation of Specific Issues of the Department of Business, Economic Development & Tourism*.

In tracking CBED allocations and monetary transfers into the Chinese office bank accounts, we noted the existence of federal funds related to the Market Development Cooperator Program (MDCP) under the U.S. Department of Commerce. We refocused the scope of our investigation and found the department failed to disclose key information to lawmakers and the director of finance regarding the financial mechanics of its MDCP award. The department's characterization of the award as a grant and not as a reimbursement program and its failure to disclose the full impact the reimbursements would have on its general fund expenditures enabled the department to receive approval to spend the money at its discretion. We also found that the department provided incomplete or misleading information to the State Procurement Office, enabling it to expend mission sponsor funds outside the procurement code with no restrictions and ineffective internal controls. Finally, we located fiscal records associated with the mission that the department had said did not exist and had withheld from state lawmakers. Overall, our findings relate to an established pattern of behavior that reflects poorly on the department and its director.

We hope that the report will assist you in reviewing the issues examined. We will place the report on our website, www.state.hi.us/auditor, and release it to the public and press, on Friday, January 29, 2010.

Sincerely,

Handwritten signature of Marion M. Higa in cursive.

Marion M. Higa
State Auditor

Enclosure

✓ c: Carol Taniguchi, Senate Clerk

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