

STAND. COM. REP. NO. 2231

Honolulu, Hawaii

FEB 12 2010

RE: S.B. No. 2625  
S.D. 1

Honorable Colleen Hanabusa  
President of the Senate  
Twenty-Fifth State Legislature  
Regular Session of 2010  
State of Hawaii

Madam:

Your Committee on Economic Development and Technology, to which was referred S.B. No. 2625 entitled:

"A BILL FOR AN ACT RELATING TO OUT-OF-STATE OFFICES,"

begs leave to report as follows:

The purpose of this measure is to address concerns regarding the Department of Business, Economic Development, and Tourism's out-of-state offices by:

- (1) Requiring the Auditor, beginning July 1, 2010, to conduct at least every two years a management and financial audit of the out-of-state offices, with a report to the Legislature; and
- (2) Repealing the exemption from audit and accounting requirements for the out-of-state offices.

No written testimony was received.

Prior to the hearing, your Committee requested that the Auditor be present to answer any questions that might arise regarding the recently released Auditor's Report No. 10-01, *Investigation of Specific Issues of the Department of Business, Economic Development & Tourism*. The Auditor's report found that the Department has demonstrated a troubling pattern of nondisclosure regarding the 2005 China trade mission and provided misleading and inaccurate information regarding the Department's Market Development Cooperator Program award. In addition, in two



of the three operational areas examined, internal controls were found to be seriously lacking, which created opportunities for fraud and abuse in the out-of-state offices.

In response to questions, the Auditor noted that while this measure does implement recommendations from the report, it would be difficult for the Office of the Auditor to conduct the required audit, due to travel and language concerns. The current out-of-state offices in Taipei, Taiwan (1994) and Beijing, China (2001) present very different concerns regarding their respective host country governance and financial requirements, so that the audits for the two offices would need to be structured quite differently. In addition, the Auditor does not have staff sufficiently fluent in the language or dialects of the two countries that would be necessary to conduct the audits. The Auditor anticipated that conducting audits of both offices every two years could be more costly than the level of funding currently available to the offices.

Subsequent to the hearing, on February 9, 2010, your Committee conducted a joint Informational Briefing with the Senate Committee on Ways and Means for further discussion on Auditor's Report No. 10-01.

Your Committee has amended this measure to incorporate further recommendations of the Auditor by:


- (1) Adding a findings and purpose section;
- (2) Requiring the Department of Business, Economic Development, and Tourism to conduct the audit of the out-of-state offices;
- (3) Beginning February 1, 2010, requiring the Department to cease expending or transferring any remaining federal reimbursement Marketing Development Cooperator Program funds; with a report to the Legislature by June 30, 2010;
- (4) Requiring the Department to update policies and procedures of the out-of-state offices; with a report to the Legislature by June 30, 2010;



- (5) Requiring the State Procurement Office to review financial records of the 2005 trade mission; with a report to the Legislature by September 30, 2010; and
- (6) Making the effective date upon approval.

As affirmed by the record of votes of the members of your Committee on Economic Development and Technology that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2625, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2625, S.D. 1, and be referred to the Committee on Ways and Means.

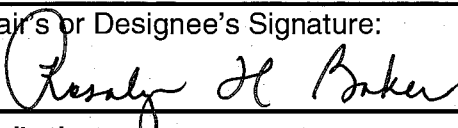
Respectfully submitted on  
behalf of the members of the  
Committee on Economic  
Development and Technology,

  
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CAROL FUKUNAGA, Chair



The Senate  
Twenty-Fifth Legislature  
State of Hawaii

**Record of Votes**  
**Committee on Economic Development and Technology**  
**EDT**

Bill / Resolution No.:* <b>SB 2625</b>	Committee Referral: <b>EDT, WAM</b>	Date: <b>2-10-2010</b>		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
FUKUNAGA, Carol (C)	✓			
BAKER, Rosalyn H. (VC)	✓			
HEE, Clayton				✓
IGE, David Y.	✓			
SLOM, Sam		✓		
<b>TOTAL</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>1</b>
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
<b>Distribution:</b> Original     Yellow     Pink     Goldenrod File with Committee Report     Clerk's Office     Drafting Agency     Committee File Copy				

\*Only one measure per Record of Votes