



**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,
ON HOUSE BILL NO. 26, MAKING APPROPRIATIONS FOR THE EXPENSES OF
THE LEGISLATURE, THE AUDITOR, THE LEGISLATIVE REFERENCE BUREAU,
THE OMBUDSMAN, AND THE ETHICS COMMISSION**

House Committee on Finance

January 23, 2013

Chair Luke and Members of the Committee:

Thank you for this opportunity to testify in support of this bill that would, among other purposes, appropriate funds for my office for FY2013-14.

In summary, our budget request of \$2,673,849 in general funds for operations represents a restoration of \$160,000, or 6.4% of the current budget. Even with this restoration, however, our total budget remains *below* FY 2009 funding levels by \$236,836 or 8.1%. With these funds, we expect to be able to shore up our thin in-house audit staff ranks. In addition, these funds will be used to replace IT equipment vital to our work. Over five years ago we developed and then converted from a hardcopy working paper system to an electronic one with an electronic workflow. As you are aware, the performance of IT equipment declines with age and it is past time for those servers and other IT equipment to be replaced.

More specifically, Exhibit 1 presents our proposed budget by program and compares amounts with the current year's budget. Exhibit 2 presents the budget request by objects of expenditure. Exhibit 3 presents our current budget and estimated expenditures.

I am pleased to report to you that again this past year, the financial statements for my office, the Legislative Reference Bureau, the Ombudsman, and the Ethics Commission (which is administratively attached to my office) have earned clean opinions from a contracted CPA firm.

Also, we have again won an Impact Award from the National Legislative Program Evaluation Society (NLPES), a staff section of the National Conference of State Legislatures (NCSL). This award was for our 2012 *Performance Audit of the Hawai'i Charter School System*. The award was announced at the NCSL 2012 Legislative Summit in Chicago and presented at the NLPES 2012 Professional Development Conference in Atlanta.

We remain active in our profession, serving as training conference speakers and legislative staff leaders. I serve on the NCSL Executive Committee and Assistant Auditor Rachel Hibbard serves on the NLPES Executive Committee. Both Rachel and I made presentations at the NCSL Legislative Summit and the NLPES Professional Development Conference. In addition, I was the winner of the 2012 Legislative Education Staff Network Recognition Award for outstanding service to the legislative process awarded jointly by the Education Commission of the States and the NCSL.

Exhibit 4 lists our reports to the 2012 and 2013 Legislatures in chronological order and Exhibit 5 presents the same information by categories of work. I'd like to thank the audit teams, managers, and support staff who have worked so diligently to deliver meaningful audits and information to assist you with your legislative decision-making.

The financial statement audits that we administer through the Audit Revolving Fund include the audit of the State's Comprehensive Annual Financial Report, or CAFR. I am pleased to be able to tell you that the current administration has committed the time and attention of its cabinet members to substantially improve on its timeline for issuing this key financial report. Previous years' CAFRs for fiscal years 2009 and 2010 were issued in October of their respective following years. With the current administration's commitment of cabinet-level staff to the effort, last year the FY2011 CAFR was issued in mid-February. This year, the FY2012 CAFR is

targeted for issuance by the end of January, reflecting a substantial improvement in timeliness from three years ago.

Financial reporting deadlines are also important in our relationship with the federal government. State entities that receive more than \$500,000 in federal funds must report via *Single Audits* nine months after the close of the fiscal year (i.e., March 31, 2013 for the FY2011-12 Single Audit). The prior administration's comptroller decided to consolidate Hawai'i's department-based Single Audits into a singular administration-wide Single Audit without laying the groundwork for a smooth consolidation. Although the current administration is still grappling with this change, everyone is working diligently to issue the Single Audit by March 2013.

In prior years, we brought to your attention that we administer most—but not all—of the State's financial statement audits. The Hawai'i Health Systems Corporation (HHSC) and University of Hawai'i financial statement audits have remained outside administration by my office. In the past, we have suggested that this needs to change, especially in the case of HHSC. With the severe fiscal constraints facing the hospital system, and given the difficulties we encountered the last time we tried to conduct a financial review of it, I offer the idea of bringing the HHSC audit contract under our Audit Revolving Fund. This would entail raising the revolving fund ceiling by \$850,000 and shifting the appropriation of that amount of general funds to the fund, with a parallel reduction in HHSC's budget as the session proceeds.

Lastly, since the start of session, those legislators who have introduced bills that propose to create new special, trust, or revolving funds have been contacted by my staff. One of our statutorily mandated tasks, as noted in Exhibits 4 and 5, is to analyze these bills and submit our analyses by a statutory deadline. Our practice is to submit them by mid-February so that all committees of referral will have a chance to see the analyses. Last year, all of the analyses were submitted by our earlier deadline. Thank you to you and your staff for your expeditious responses to our questions.

Thank you also to the entire Legislature for its enduring support of our constitutional and statutory responsibilities. We ask for your favorable consideration of this budget request. I welcome your questions.

OFFICE OF THE AUDITOR
Budget for FY2013-14
(With Comparative Amounts for FY2012-13)

Exhibit 1

AUDIT	<u>2012-2013</u>		<u>2013-2014</u>	
Personal services				
Staff	1,109,464	(18)	1,158,113	(18)
Contract	134,942		134,942	
Other expenses	<u>73,014</u>		<u>102,203</u>	
Total audit	<u>1,317,420</u>		<u>1,395,258</u>	
 PROGRAM EVALUATION AND SPECIAL STUDIES				
Personal services				
Staff	446,057	(8)	467,678	(8)
Contract	59,974		59,974	
Other expenses	<u>32,451</u>		<u>45,424</u>	
Total program evaluation and special studies	<u>538,482</u>		<u>573,076</u>	
 LEGISLATIVE SERVICES				
Personal services - staff	223,029	(4)	233,839	(4)
Other expenses	<u>16,225</u>		<u>22,712</u>	
Total legislative services	<u>239,254</u>		<u>256,551</u>	
 SUNSET EVALUATIONS AND SUNRISE ANALYSES				
Personal services - staff	55,757	(1)	58,460	(1)
Other expenses	<u>4,056</u>		<u>5,678</u>	
Total sunset evaluation and sunrise analyses	<u>59,813</u>		<u>64,138</u>	
 FOLLOW-UP				
Personal services - staff	167,271	(3)	175,379	(3)
Other expenses	<u>12,169</u>		<u>17,034</u>	
Total follow-up	<u>179,440</u>		<u>192,413</u>	
 GENERAL SUPPORT				
Personal services - staff	167,271	(3)	175,379	(3)
Other expenses	<u>12,169</u>		<u>17,034</u>	
Total general support	<u>179,440</u>		<u>192,413</u>	
 TOTAL OPERATING BUDGET				
	<u>2,513,849</u>	(37)	<u>2,673,849</u>	(37)
 AUDIT REVOLVING FUND				
	<u>2,550,828</u>		<u>2,550,828</u>	

OFFICE OF THE AUDITOR
Statement Showing Budget for Office Operations
By Object of Expenditure for FY2013-14

Exhibit 2

Operating Budget

Personal services:

Staff salaries	\$2,268,849
Contractual services	<u>\$194,916</u>
Total personal services	<u>\$2,463,765</u>

Other expenses:

Office Expenses	45,500
Intrastate transportation and travel	4,800
Out-of-state travel	42,000
Training	12,000
Printing	7,000
Rental and maintenance of equipment	20,000
Books	500
Equipment	76,284
Miscellaneous	<u>2,000</u>
Total other expenses	<u>210,084</u>

Total operating budget \$2,673,849

Audit Revolving Fund

Expenditure Ceiling

\$2,550,828

\$6,000,000

OFFICE OF THE AUDITOR
Statement Showing Budget and Estimated Expenditures
By Object of Expenditure for FY2012-13

Exhibit 3

	Budget	Estimated	Variance
Personal services:			
Staff salaries	\$2,168,849	\$ 2,168,849	\$ -
Contractual services	\$194,916	194,916	-
Total personal services	\$ 2,363,765	\$ 2,363,765	\$ -
Other expenses:			
Office expenses	45,500	45,500	-
Intrastate transportation and travel	4,800	4,800	-
Out-of-state travel	42,000	42,000	-
Training	12,000	12,000	-
Printing	7,000	7,000	-
Rental and maintenance of equipment	20,000	20,000	-
Books	500	500	-
Equipment	16,284	16,284	-
Miscellaneous	2,000	2,000	-
Total other expenses	\$ 150,084	\$ 150,084	\$ -
TOTAL	\$ 2,513,849	\$ 2,513,849	\$ -
Special Studies Appropriation (Act 1, SLH 2010)	\$ 150,000	\$ -	\$ 150,000
Audit Revolving Fund Appropriation (Act 1, SLH 2010)	\$ 2,550,828	\$ 2,550,828	\$ -

**Office of the Auditor
Reports Submitted to Date to 2012 Legislature and Work to the 2013 Legislature
In Chronological Order**

- 12-01: Report on the Implementation of State Auditor's 2008 Recommendations
- 12-02: Investigation of the Stadium Authority's Swap Meet Operations
- 12-03: Management Audit of the Natural Energy Laboratory of Hawai'i Authority
- 2011 Annual Report
- 12-04: Study of the Transfer of Non-general Funds to the General Fund
- 12-05: Audit of the Department of Taxation's Administrative Oversight of High-Technology Business Investment and Research Activities Tax Credits
- 12-06: Report on the Implementation of State Auditor's 2009 Recommendations
- 12-07: Management Audit of the Department of Education's School Bus Transportation Services
- 12-08: Sunrise Analysis: Regulation of Ziplines and Canopy Tours
- 12-09: Mandatory Health Insurance Coverage for Fertility Preservation Procedures for People of Reproductive Age Diagnosed With Cancer
- State of Hawai'i Deposit Beverage Container Deposit Special Fund Financial and Program Audit, June 30, 2008
- State of Hawai'i Deposit Beverage Container Deposit Special Fund Financial and Program Audit, June 30, 2010
- 12-10: Review of Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation
- 12-11: Study of the Higher Education Act

- 13-__ : Management Audit of the Measurement Standards Branch of the Department of Agriculture (SCR89, SD1, 2012)
- 13-__ : Management and Financial Audit of the Department of Hawaiian Home Lands' Homestead Services Division (Act 106, SLH 2012)
- 13-__ : Fiscal Audit of the Kaho'olawe Rehabilitation Trust Fund (SCR63, SD1, 2012)
- State of Hawai'i Deposit Beverage Container Deposit Special Fund Financial and Program Audit, June 30, 2012 (Sect. 342G-107, Hawai'i Revised Statutes)
- 13-__ : Management Audit of the Office of Hawaiian Affairs (Sect. 10-14.55, Hawai'i Revised Statutes)
- 13-__ : Report on the Implementation of State Auditor's 2010 Recommendations (Sect. 23-7.5, Hawai'i Revised Statutes)
- 2012 Annual Report

Pending Work

- Study on Removing Amateur Boxing From the State Boxing Commission (HCR171; 2009)
- Health Care Summit Membership, Report, and Strategic Plan 2010 and 2011 (SCR170, SD2; 2009)
- Nursing Joint Advisory Committee (SCR167, SD 2; HR98, HD1; 2010)
- Department of Transportation Procurement Examination
- Department of Labor and Industrial Relations IT Security Audit
- Audit of the Administration of the Child Protective Services Program
- 2050 Branding Report

Act 4 Financial Statement Audits—FY2011

- State of Hawai'i, Comprehensive Annual Financial Report and Statewide Single Audit—Deloitte & Touche LLP
- Department of Accounting and General Services:
 - Stadium Authority—Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs
 - State Parking Control/State Motor Pool Revolving Funds—Egami & Ichikawa CPAs, Inc.
- Department of the Attorney General—Akamine, Oyadomari & Kosaki CPAs
- Department of Budget & Finance, Hawai'i Employer Union Health Benefits Trust Fund—Macias, Gini & O'Connell LLP

- Department of Business, Economic Development, & Tourism:
 - Hawai'i Housing, Finance, & Development Corporation—Accuity LLP
 - Hawai'i Community Development Authority—Ohata, Chun & Yuen CPAs, Inc.
 - Hawai'i Tourism Authority & Hawai'i Convention Center—KPMG LLP
- Department of Education—KPMG LLP
- Department of Hawaiian Home Lands—Accuity LLP
- Department of Health, Water Pollution Control Revolving Fund, and Drinking Water Treatment Revolving Loan Fund—Accuity LLP
- Department of Human Services—N&K CPAs, Inc.
 - Hawai'i Public Housing Authority—KMH LLP
- Department of Transportation Administration—CW Associates
- Department of Transportation Airports—KPMG LLP
- Department of Transportation Harbors—Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs
- Department of Transportation Highways—KMH LLP
- Oahu Metropolitan Planning Office—Gilford Sato & Associates CPAs

Act 4 Financial Statement Audits—FY2012

- State of Hawai'i, Comprehensive Annual Financial Report and Statewide Single Audit—Deloitte & Touche LLP
- Department of Accounting and General Services:
 - Stadium Authority—Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs
 - State Parking Control/State Motor Pool Revolving Funds—Egami & Ichikawa CPAs, Inc.
- Department of the Attorney General—Akamine, Oyadomari & Kosaki CPAs
- Department of Budget & Finance:
 - Employees' Retirement System, Comprehensive Annual Financial Report—KPMG LLP
 - Hawai'i Employer Union Health Benefits Trust Fund—Macias, Gini & O'Connell LLP
- Department of Business, Economic Development, & Tourism:
 - Hawai'i Housing, Finance, & Development Corporation—Accuity LLP
 - Hawai'i Community Development Authority—Ohata, Chun & Yuen CPAs, Inc.
 - Hawai'i Tourism Authority & Hawai'i Convention Center—KPMG LLP
- Department of Education—KPMG LLP
- Department of Hawaiian Home Lands—Accuity LLP
- Department of Health, Water Pollution Control Revolving Fund, and Drinking Water Treatment Revolving Loan Fund—Accuity LLP
- Department of Human Services—N&K CPAs, Inc.
 - Hawai'i Public Housing Authority—KMH LLP

- Department of Transportation Administration—CW Associates
- Department of Transportation Airports—KPMG LLP
- Department of Transportation Harbors—Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs
- Department of Transportation Highways—KMH LLP
- Oahu Metropolitan Planning Office—Gilford Sato & Associates CPAs

Other Reports – None

Proposed Funds Review

- We expect to perform up to 90 reviews of proposed special and revolving funds during the 2013 legislative session.

**Office of the Auditor
Work to the 2012 and 2013 Legislatures
By Categories of Work**

Performance Audits and Special Studies

Report on the Implementation of State Auditor's 2008 Recommendations (Report No. 12-01)

Investigation of the Stadium Authority's Swap Meet Operations (Report No. 12-02)

Management Audit of the Natural Energy Laboratory of Hawai'i Authority (Report No. 12-02)

Study of the Transfer of Non-general Funds to the General Fund (Report No. 12-04)

Audit of the Department of Taxation's Administrative Oversight of High-Technology Business Investment and Research Activities Tax Credits (Report No. 12-05)

Report on the Implementation of State Auditor's 2009 Recommendations (Report No. 12-06)

Management Audit of the Department of Education's School Bus Transportation Services (Report No. 12-07)

Sunrise Analysis: Regulation of Ziplines and Canopy Tours (Report No. 12-08)

Mandatory Health Insurance Coverage for Fertility Preservation Procedures for People of Reproductive age Diagnosed With Cancer (Report No. 12-09)

State of Hawai'i Deposit Beverage Container Deposit Special Fund Financial and Program Audit, June 30, 2008 (Unnumbered)

State of Hawai'i Deposit Beverage Container Deposit Special Fund Financial and Program Audit, June 30, 2010 (Unnumbered)

Study of the Higher Education Act (Report No. 12-11)

Management Audit of the Measurement Standards Branch of the Department of Agriculture (SCR89, SD1, 2012)

Management and Financial Audit of the Department of Hawaiian Home Lands' Homestead Services Division (Act 106, SLH 2012)

Fiscal Audit of the Kaho'olawe Rehabilitation Trust Fund (SCR63, SD1, 2012)

State of Hawai'i Deposit Beverage Container Deposit Special Fund Financial and Program Audit, June 30, 2012 (Sect. 342G-107, Hawai'i Revised Statutes)

Management Audit of the Office of Hawaiian Affairs (Sect. 10-14.55, Hawai'i Revised Statutes)

Report on the Implementation of State Auditor's 2010 Recommendations (Sect. 23-7.5, Hawai'i Revised Statutes)

Department of Labor and Industrial Relations IT Security Audit

Audit of the Administration of the Child Protective Services Program

Pending Work

- Study on Removing Amateur Boxing From the State Boxing Commission (HCR171; 2009)
- Health Care Summit Membership, Report, and Strategic Plan 2010 and 2011 (SCR170, SD2; 2009)
- 2050 Branding Report
- Nursing Joint Advisory Committee (SCR167, SD 2; HR98, HD1; 2010)

Financial Audits

- Department of Transportation Procurement Examination

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. 12-10)

Act 4 Financial Statement Audits—FY2011

- State of Hawai'i, Comprehensive Annual Financial Report and Statewide Single Audit—Deloitte & Touche LLP
- Department of Accounting and General Services:
 - Stadium Authority—Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs
 - State Parking Control/State Motor Pool Revolving Funds—Egami & Ichikawa CPAs, Inc.

- Department of the Attorney General—Akamine, Oyadomari & Kosaki CPAs
- Department of Budget & Finance, Hawai'i Employer Union Health Benefits Trust Fund—Macias, Gini & O'Connell LLP
- Department of Business, Economic Development, & Tourism:
 - Hawai'i Housing, Finance, & Development Corporation—Accuity LLP
 - Hawai'i Community Development Authority—Ohata, Chun & Yuen CPAs, Inc.
 - Hawai'i Tourism Authority & Hawai'i Convention Center—KPMG LLP
- Department of Education—KPMG LLP
- Department of Hawaiian Home Lands—Accuity LLP
- Department of Health, Water Pollution Control Revolving Fund, and Drinking Water Treatment Revolving Loan Fund—Accuity LLP
- Department of Human Services—N&K CPAs, Inc.
 - Hawai'i Public Housing Authority—KMH LLP
- Department of Transportation Administration—CW Associates
- Department of Transportation Airports—KPMG LLP
- Department of Transportation Harbors—Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs
- Department of Transportation Highways—KMH LLP
- Oahu Metropolitan Planning Office—Gilford Sato & Associates CPAs

Act 4 Financial Statement Audits—FY2012

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- Department of Accounting and General Services:
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 - Employees' Retirement System, Comprehensive Annual Financial Report—KPMG LLP
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- Department of Transportation Airports—KPMG LLP
- Department of Transportation Harbors—Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs
- Department of Transportation Highways—KMH LLP
- Oahu Metropolitan Planning Office—Gilford Sato & Associates CPAs

Other Reports

- 2011 Annual Report
- 2012 Annual Report

Proposed Funds Review

We expect to perform up to 90 reviews of proposed special and revolving funds during the 2012 legislative session.

# of Contracts	Department - Agency Financial Statement (and Single Audits, as applicable) Audits	Expenditure Ceiling Requested FY2014 Fees	Funding Source Breakdown		General Fund Request (General Fund portion of fees)	
			General Fund	Non-GF (Reimbursement)		
1	Department of Accounting and General Services CAFR-Combined Single Audits ICSD - SSAE 16: IT Controls DAGS - Stadium Authority (& agreed upon procedures)	\$ 1,560,600	100.0%	0.0%	n/a	\$ 1,560,600
2	Schedule of gross receipts & percentage rent reported and paid by the Concessionaire Agreed-upon proc. Reserve acct of Concessionaire & F&B operations of the Concessionaire Schedule of gross receipts & percentage commission paid by the Swap Meet Mgt Co. DAGS - State Parking Revolving Fund DAGS - State Motor Pool Revolving Fund	\$ 82,000	0.0%	100.0%	Special	\$ -
3	Department of the Attorney General	\$ 49,440	0.0%	100.0%	Special	\$ -
4	Department of Budget and Finance	\$ 100,940	55.0%	45.0%	Federal	\$ 55,517
5	Hawaii Employer - Union Health Benefits Trust Fund	\$ 128,750	0.0%	100.0%	Trust	\$ -
6	Employees' Retirement System	\$ 165,240	0.0%	100.0%	Other Non-GF	\$ -
7	Department of Business, Economic Development & Tourism Hawaii Housing Finance & Development Corporation	\$ 246,170	0.0%	100.0%	Special	\$ -
8	HITA - Hawaii Tourism Authority Hawaii Convention Center - Special Purpose F/S	\$ 113,300	0.0%	100.0%	Special	\$ -
9	Hawaii Community Development Authority	\$ 39,140	0.0%	100.0%	Special	\$ -
10	Department of Education	\$ 375,950	90.0%	10.0%	Federal	\$ 338,355
11	Department of Hawaiian Home Lands	\$ 156,560	0.0%	100.0%	Trust	\$ -
12	Department of Health Water Pollution Control Revolving Fund Drinking Water Treatment Revolving Loan Fund Deposit Beverage Container Program	\$ 370,800	70.0%	30.0%	Federal	\$ 259,560
13	Department of Human Services	\$ 417,150	50.344%	49.656%	Federal	\$ 210,010
14	Hawaii Public Housing Authority	\$ 373,890	0.0%	100.0%	Various	\$ -
15	Department of Transportation Administration	\$ 35,020	0.0%	100.0%	Special	\$ -
16	Airports	\$ 434,660	0.0%	100.0%	Special	\$ -
17	Harbors	\$ 203,638	0.0%	100.0%	Special	\$ -
18	Highways	\$ 297,670	0.0%	100.0%	Special	\$ -
19	Oahu Metropolitan Planning Organization	\$ 19,570	0.0%	100.0%	Special	\$ -

TOTAL Managed 19 Contracts:

\$ 5,190,488

\$ 2,424,042

Reserve for Estimated Adjustments/Overages:

\$ 809,512

\$ 126,786

TOTAL Requested Budget Amounts:

\$ 6,000,000

\$ 2,550,828