

April 15, 2019

VIA EMAIL & HAND DELIVERY

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
Hawaii State Capitol, Room 409
Honolulu, Hawaii 96813

VIA EMAIL & HAND DELIVERY

The Honorable Scott K. Saiki
Speaker, House of Representatives
415 South Beretania Street
Hawaii State Capitol, Room 431
Honolulu, Hawaii 96813

RE: Financial and Compliance Audit of the Department of the Attorney General

Dear President Kouchi and Speaker Saiki:

The financial and compliance audit of the Department of the Attorney General for the fiscal year ended June 30, 2018, was issued on March 11, 2019. The Office of the Auditor retained Egami & Ichikawa CPAs Inc. to perform the financial and compliance audit. For your information, we are attaching a copy of the two-page Auditor's Summary of the financial and compliance audit report.

You may view the financial and compliance audit report and Auditor's Summary on our website at:

http://files.hawaii.gov/auditor/Reports/2018_Audit/AG2018.pdf; and

http://files.hawaii.gov/auditor/Reports/2018_Audit/AG_Summary_2018.pdf.

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:emo

Enclosures

cc/attach (Auditor's Summary only): Senators

Representatives

Brian Takeshita, House Chief Clerk

Carol Taniguchi, Senate Chief Clerk

Auditor's Summary

Financial and Compliance Audit of the Department of the Attorney General

Financial Statements, Fiscal Year Ended June 30, 2018



PHOTO: OFFICE OF THE AUDITOR

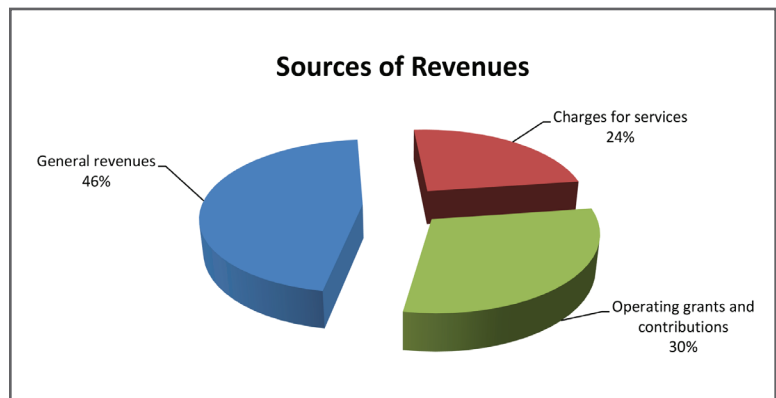
***THE PRIMARY PURPOSE** of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of the Attorney General (ATG), as of and for the fiscal year ended June 30, 2018, and to comply with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by Egami & Ichikawa CPAs, Inc.*

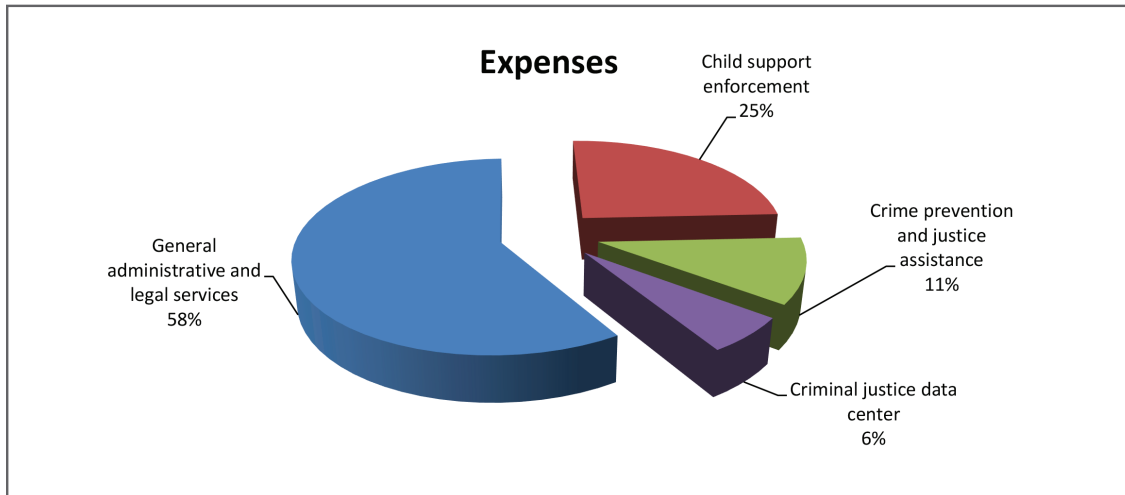
About the Department

ATG ADMINISTERS and renders legal services, including furnishing written legal opinions to the Governor, State Legislature, and the heads of State departments and offices as the Governor may direct; represents the State in all civil actions in which the State is a party; approves as to legality and form all documents relating to the acquisition of any land or interest in the State. ATG also maintains criminal justice information and conducts investigations, crime prevention programs, prosecutes certain criminal matters, and a number of other programs. ATG's Child Support Enforcement Agency (CSEA) provides assistance to children by locating parents, establishing paternity and support obligations, and enforcing those obligations.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2018, ATG reported total revenues of \$107 million and total expenses of \$103.2 million, resulting in an increase in net position of \$3.8 million. Revenues include general revenues of \$49.2 million, primarily State general fund appropriations; program revenues consisting of charges for services of \$26 million; and \$31.8 million in operating grants and contributions.





Expenses of \$103.2 million consist of \$60.5 million for general administrative and legal services, \$25.4 million for child support enforcement, \$11 million for crime prevention and justice assistance, and \$6.3 million for criminal justice data center activities.

Fiduciary Fund Deficit

Inflows and outflows of funds related to the CSEA program are accounted for separately in an agency fund. Normally, agency fund assets should be equal to agency fund liabilities, as the funds are held on behalf of others. However, ATG continues to maintain a deficit balance of approximately \$655,000 at June 30, 2018. According to ATG, the deficit balance is caused by a combination of uncollected recoupments due from custodial parents resulting from overpayments and uncollected non-sufficient fund payments due from non-custodial parents.

Auditors' Opinions

ATG RECEIVED AN UNMODIFIED OPINION that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. ATG also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*.

Findings

THERE WERE NO MATERIAL WEAKNESSES and two significant deficiencies in internal control over financial reporting that are required to be reported under *Government Auditing Standards*.

- Deficit in CSEA agency fund balance of \$655,000 needs to be resolved.
- Lack of adequate procedures to ensure that funds were properly encumbered. As a result, ATG paid \$25,000 with fiscal year 2019 funds for fiscal year 2018 expenditures.

There were no findings that were considered to be material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2018_Audit/AG2018.pdf

State of Hawaii
Department of the Attorney General
Financial and Compliance Audit
June 30, 2018

Submitted By
Office of the Auditor
State of Hawaii

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PART I
TRANSMITTAL



Office of the Auditor
State of Hawaii

We have completed our financial audit of State of Hawaii Department of the Attorney General (“the AG”) as of and for the year ended June 30, 2018. The audit was performed in accordance with our agreement, dated May 25, 2018 with the Office of the Auditor, State of Hawaii.

OBJECTIVES

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the AG's financial statements as of and for the fiscal year ended June 30, 2018, and to comply with the requirements of the Uniform Guidance. More specifically, the objectives of our audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the AG's financial statements.
2. To ascertain whether or not expenditures have been made and all revenues and other receipts to which the AG is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government.
3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the State and the AG with the proper information to plan, evaluate, control, and correct program activities.
4. To evaluate the adequacy, effectiveness, and efficiency of the systems and procedures for financial accounting, reporting, operational and internal controls, and to recommend improvements to such systems and procedures.
5. To satisfy the audit requirements of the Federal grantor agency.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants, the *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the Uniform Guidance and *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of our audit included an examination of the transactions and accounting records of the AG for the fiscal year ended June 30, 2018.

ORGANIZATION OF THE REPORT

This report is organized into six parts:

- PART I - Presents the transmittal letter.
- PART II - Presents management's discussion and analysis.
- PART III - Presents the financial section which includes the Division's financial statements and the auditors' report on such statements and supplementary financial information.
- PART IV - Contains the reports on internal controls over financial reporting and compliance.
- PART V - Presents the schedules of audit findings and questioned costs.
- PART VI - Contains the corrective action plan.

At this time, we wish to thank the personnel of the Department of the Attorney General for their cooperation and assistance extended to us. We will be happy to respond to any questions that you may have on this report.

Eganis + Johnson CPAs Inc.

Honolulu, Hawaii
March 11, 2019

PART II
MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

The State of Hawaii ("the State"), Department of the Attorney General ("the AG") was created in 1959 by the Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959). The primary function of the AG is to provide legal and other services to the State, including agencies, officers, and employees of the Executive, Legislative, and Judicial branches of the State's government.

As management of the AG, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the AG for the year ended June 30, 2018. This discussion and analysis is designed to assist the reader in the analysis of the AG's financial statements based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with the financial statements which follows this section.

FINANCIAL HIGHLIGHTS

- The AG's current assets were \$31,508,000, which increased by \$657,000 or 2.1% from the prior year. The increase is due primarily to increase in cash resulting from legislative appropriation to fund legal claims payable.
- The AG's current liabilities were \$13,909,000 which decreased by \$3,097,000 or 18.2% from the prior year. The decrease was primarily attributable to decreased liabilities for legal claims payable.
- The AG ended with a net position of \$21,122,000 at June 30, 2018, which was an increase of \$3,793,000 or 21.9% from the prior year. The increase is due primarily to increase in general revenues.
- The AG's total revenues were \$105,533,000, which increased by \$11,785,000 or 12.6% from the prior year. The increase is due primarily to increase in general revenues, operating grants, and general administrative and legal services.
- The AG's total expenses were \$103,244,000, which increased by \$8,125,000 or 8.5% from the prior year. The increase is due primarily to increased general administrative and legal services, and increase in crime prevention and justice assistance expenses.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS

The financial statements consists of six parts: a transmittal, Management's Discussion and Analysis, which discusses the AG's financial performance during the fiscal year; a financial section which presents the AG's financial statements, notes to the financial statements and supplementary information; reports on internal controls and compliance; schedule of prior audit findings and questioned costs; schedules of findings and questioned costs; and the AG's corrective action plan. These components are described below:

Government-Wide Financial Statements

The government-wide financial statements reports information about the AG as a whole using accounting methods similar to those used by private sector companies. The *Statement of Net Position* provides both short-term and long-term information about the AG's financial position, which reflects the AG's financial condition at the end of the fiscal year.

The *Statement of Net Position* presents the AG's assets and liabilities with the difference between the two reported as "net position". The *Statement of Activities* reflects the operations of the AG during the fiscal year and the resultant change in the net position. All of the current fiscal year's revenues and expenses are accounted for in the *Statement of Activities* on the accrual basis of accounting.

Fund Financial Statements

The fund financial statements provide detailed information about the AG's significant funds. A fund is a grouping of accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are either reported as major or a non-major fund.

The AG has two types of funds:

- Governmental Funds:

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purposes. The Special Revenue Funds were established to account for the federal funds that are subject to grant restrictions and funds used for attorney services contracted by other State departments.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

The Department maintains five individual governmental funds; the General Fund, Child Support Enforcement, Legal Services, Crime Prevention and Justice Assistance, and Criminal Justice Data Center funds. The financial information for each fund is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

- **Fiduciary Funds**

Agency Fund – The Agency Fund is used to account for assets held by the AG in an agency capacity for other parties outside of the AG. Agency funds presented separately are not reflected in the government-wide financial statements because the funds are not rightfully the AG's funds to use for its operations.

The net excess of liabilities over assets of \$655,332 in the Statement of Fiduciary Net Assets (Liabilities) result from the Child Support Enforcement Services program and are due to uncollected recoupments due from custodial parents resulting from overpayments, and uncollected nonsufficient fund (NSF) payments due from non-custodial parents.

Notes to Financial Statements

The Notes to Financial Statements provide additional disclosures for the information reflected in the financial statements, which is essential to understanding the financial data provided in the government-wide fund financial statements.

Other Reports

Following the Notes to the Financial Statements and supplementary information are the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters. Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and a Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance. The schedules of prior and current findings and questioned cost and the AG's corrective action plan accompany these reports.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Government-wide Financial Analysis

The Statement of Net Position reflects the AG's financial condition at the end of the fiscal year. As of June 30, 2018, the AG's total net position was \$21,122,000.

The following presents a summarized comparison of net position and changes in net position for the fiscal years ended June 30, 2018 and 2017

STATEMENTS OF NET POSITION
June 30, 2018 and 2017
(Rounded to nearest \$1,000)

	<u>2018</u>	<u>2017</u>
ASSETS		
Current	\$ 31,508,000	\$ 30,851,000
Capital assets net of depreciation	<u>6,579,000</u>	<u>7,234,000</u>
Total assets	<u>\$ 38,087,000</u>	<u>\$ 38,085,000</u>
LIABILITIES		
Current	\$ 13,909,000	\$ 17,006,000
Long-term	<u>3,056,000</u>	<u>3,750,000</u>
Total liabilities	<u>16,965,000</u>	<u>20,756,000</u>
NET POSITION		
Investment in capital assets, net of related debt	5,653,000	5,703,000
Restricted	12,899,000	13,758,000
Unrestricted (deficit)	<u>2,570,000</u>	<u>(2,132,000)</u>
Total net position	<u>21,122,000</u>	<u>17,329,000</u>
Total liabilities and net position	<u>\$ 38,087,000</u>	<u>\$ 38,085,000</u>

Current assets increased by approximately \$657,000, or 2.1% due to increase in cash resulting from legislative appropriation to fund legal claims payable. Current liabilities decreased by approximately \$3,097,000, or 18.2% due mainly to decreased liabilities for legal claims payable.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Investment in capital assets (i.e. building and improvements, furniture and equipment) and restricted funds, represent a large portion of the AG's net position. The AG uses these capital assets for the benefit and use by government agencies; consequently, these assets are not available for future spending and cannot be used to liquidate any liabilities. The remaining restricted assets of \$12,899,000 and \$13,758,000 at June 30, 2018 and 2017 represents resources that are subject to external restrictions or enabling legislation on how they may be used. Unrestricted assets (deficits) were \$2,570,000 and \$(2,132,000) at June 30, 2018 and 2017, respectively.

The Statements of Activities reflect the AG's current fiscal year's revenues and expenses on the accrual basis of accounting.

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2018 and 2017
(Rounded to nearest \$1,000)

	<u>2018</u>	<u>2017</u>
Program revenues:		
Charges for services	\$ 25,950,000	\$ 22,363,000
Operating grants and contributions	31,783,000	28,669,000
General revenues	<u>47,800,000</u>	<u>42,716,000</u>
Total revenues	<u>105,533,000</u>	<u>93,748,000</u>
Expenses:		
General administrative and legal services	60,458,000	54,892,000
Child support enforcement	25,415,000	25,556,000
Crime prevention and justice assistance	11,028,000	7,532,000
Criminal justice data center	<u>6,343,000</u>	<u>7,139,000</u>
Total expenses	<u>103,244,000</u>	<u>95,119,000</u>
Excess (deficit) before transfers and lapses	2,289,000	(1,371,000)
Other financing uses-Transfers in (out)	<u>1,504,000</u>	<u>(356,000)</u>
Change in net position	<u>3,793,000</u>	<u>(1,727,000)</u>
Net position, beginning of the year	<u>17,329,000</u>	<u>19,056,000</u>
Net position, end of year	<u>\$ 21,122,000</u>	<u>\$ 17,329,000</u>

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

The AG's total revenues increased by \$11,785,000, or 12.6% from 2017. Increases were primarily attributed to increase in: general administrative and legal services of \$2,981,000 (15.2%); crime preventions and justice assistance \$2,079,000 (29.0%); State appropriations and general revenues \$5,084,000 (11.9%).

Total expenses increased by \$8,125,000, or 8.5% from 2017. Increases were primarily attributed to increase in: general administrative and legal services of \$5,566,000 (10.1%); and crime preventions and justice assistance \$3,496,000 (46.4%).

BUDGETARY ANALYSIS

General Fund Budget Results

The annual budget for the AG is based on appropriations to support its governmental activities as detailed in the Notes to the Financial Statements. Revenues differed by \$758,000 or 2.1% under budget, and total expenditures were \$521,000 or 1.4% under budget.

Special Funds Budget Results

Revenues differed by \$9,064,000 or 14.81% over budget, and total expenditure were \$25,508,000 or 52.9% over budget. The differences reflects the timing of restricted cash received versus expenditures and budget allotments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2018 and 2017, the AG had \$6,579,000 and \$7,234,000, respectively, in capital assets net of accumulated depreciation. The 2018 amount represents a net decrease of \$655,000 or 9.1% from 2017. For the fiscal year ended June 30, 2018, there was approximately \$922,000 in additions for building improvements and equipment. Dispositions of capital assets totaled approximately \$387,000 for the fiscal year ended June 30, 2018.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2018

Capital Assets (Continued)

	<u>2018</u>	<u>2017</u>
Capital assets:		
Building, improvements, furniture and equipment	\$ 22,273,000	\$ 21,738,000
Less accumulated depreciation	<u>15,694,000</u>	<u>14,504,000</u>
Total capital assets, net	<u>\$ 6,579,000</u>	<u>\$ 7,234,000</u>

Debt Administration

None

CURRENTLY KNOWN DECISIONS AND FACTS

None

REQUEST FOR INFORMATION

Questions concerning any of the information provided in this report or request for additional financial information should be addressed in writing to the State of Hawaii, Department of the Attorney General, 425 Queen Street, Honolulu, Hawaii 96813 or by email at hawaiiag@hawaii.gov. General information about the AG can be found on the State's website, <https://www.hawaii.gov/ag>.

PART III
FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

Office of the Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii Department of the Attorney General (the “AG) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department’s basic financial statements, as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the AG as of June 30, 2018, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the AG and do not purport to and do not, present fairly the financial position of the State of Hawaii, or any other segment thereof, as of June 30, 2018, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 - 9 and 50-51 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the AG's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2019 on our consideration of the AG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the AG's, internal control over financial reporting and compliance.

This report is intended solely for the information and use of the Office of the Auditor, management of the AG, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

 Egan & Associates CPAs Inc.

Honolulu, Hawaii
March 11, 2019

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
June 30, 2018

Current assets	
Cash and cash equivalents	\$ 27,781,775
Due from grantor - Federal	1,222,290
Due from other State agencies	<u>2,503,822</u>
Total current assets	<u>31,507,887</u>
Capital assets, net of depreciation	<u>6,579,095</u>
Total assets	<u>38,086,982</u>
Current liabilities	
Vouchers and contracts payable	2,834,429
Accrued wages and employee benefits	3,135,027
Accrued vacation	3,748,079
Obligation under capital lease	614,815
Due to State of Hawaii	<u>3,576,171</u>
Total current liabilities	<u>13,908,521</u>
Long-term liabilities	
Accrued vacation	2,745,305
Obligation under capital lease	<u>310,886</u>
Total long-term liabilities	<u>3,056,191</u>
Total liabilities	<u>16,964,712</u>
Net position	
Net investment in capital assets	5,653,394
Restricted	12,899,302
Unrestricted	<u>2,569,574</u>
Total net position	<u>\$ 21,122,270</u>

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
General administrative and legal services	\$ 60,458,210	\$ 22,623,990	\$ 1,674,909	\$ (36,159,311)
Child support enforcement	25,415,144	-	19,783,326	(5,631,818)
Crime prevention and justice assistance	11,027,763	-	9,246,532	(1,781,231)
Criminal justice data center	6,342,913	3,326,103	1,079,152	(1,937,658)
Total governmental activities	<u>103,244,030</u>	<u>25,950,093</u>	<u>31,783,919</u>	<u>(45,510,018)</u>
General revenues:				
State appropriations, net of lapsed appropriation of \$757,934				35,512,647
Non-imposed employee fringe benefits				12,286,879
Total general revenues				<u>47,799,526</u>
Excess revenues over expenses				2,289,508
Other financing uses - transfers, net				1,503,976
Change in net position				<u>3,793,484</u>
Net position, beginning of the year				<u>17,328,786</u>
Net position, end of year				<u>\$ 21,122,270</u>

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Child Support Enforcement	Legal Services	Crime Prevention and Justice Assistance	Criminal Justice Data Center	Total
ASSETS						
Cash and cash equivalents	\$ 3,087,491	\$ 12,566,466	\$ 8,871,715	\$ 945,649	\$ 2,310,454	\$ 27,781,775
Due from grantor - Federal	-	-	27,681	965,470	229,139	1,222,290
Due from other State agencies	-	-	2,503,822	-	-	2,503,822
Due from other funds	399,206	-	-	-	-	399,206
Total assets	<u>\$ 3,486,697</u>	<u>\$ 12,566,466</u>	<u>\$ 11,403,218</u>	<u>\$ 1,911,119</u>	<u>\$ 2,539,593</u>	<u>\$ 31,907,093</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Vouchers and contracts payable	\$ 724,551	\$ 143,718	\$ 43,071	\$ 1,847,594	\$ 75,495	\$ 2,834,429
Accrued wages and employee benefits	1,578,107	437,931	985,278	36,970	96,741	3,135,027
Due to the State of Hawaii	25,400	-	3,550,771	-	-	3,576,171
Due to other funds	-	-	399,206	-	-	399,206
Total liabilities	<u>2,328,058</u>	<u>581,649</u>	<u>4,978,326</u>	<u>1,884,564</u>	<u>172,236</u>	<u>9,944,833</u>
FUND BALANCES (DEFICIT)						
Restricted	-	11,984,817	539,685	26,555	348,245	12,899,302
Committed	-	-	5,885,207	-	2,019,112	7,904,319
Assigned	2,693,303	-	-	-	-	2,693,303
Unassigned	(1,534,664)	-	-	-	-	(1,534,664)
Total fund balances	<u>1,158,639</u>	<u>11,984,817</u>	<u>6,424,892</u>	<u>26,555</u>	<u>2,367,357</u>	<u>21,962,260</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,486,697</u>	<u>\$ 12,566,466</u>	<u>\$ 11,403,218</u>	<u>\$ 1,911,119</u>	<u>\$ 2,539,593</u>	<u>\$ 31,907,093</u>

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2018

Total fund balances - governmental funds	\$ 21,962,260
Amounts reported for governmental activities that are different in the Statement of Net Position due to:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds	6,579,095
Accrued employee benefits not reported in the governmental funds	(6,493,384)
Obligation under capital lease not report in governmental funds	<u>(925,701)</u>
Total net position - governmental activities	\$ <u><u>21,122,270</u></u>

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	General Fund	Child Support Enforcement	Legal Services	Crime			Total
				Prevention and Justice Assistance	Criminal Justice Data Center		
REVENUES							
State appropriations, net of lapsed	\$ 35,512,647	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,512,647
State revenue for non-imposed employee fringe benefits	-	1,792,022	9,823,345	-	671,512	-	12,286,879
Fees and other	-	99,647	3,393,841	12,687	3,326,103	-	6,832,278
Intergovernmental	-	-	1,674,909	9,232,691	1,079,152	-	11,986,752
Special fund revenues	-	15,916,077	19,230,149	1,154	-	-	35,147,380
Share of TANF Collections	-	3,767,601	-	-	-	-	3,767,601
	<u>35,512,647</u>	<u>21,575,347</u>	<u>34,122,244</u>	<u>9,246,532</u>	<u>5,076,767</u>	<u>-</u>	<u>105,533,537</u>
EXPENDITURES							
General administrative and legal services	26,657,948	-	33,958,001	-	-	-	60,615,949
Child support enforcement	4,715,539	20,714,220	-	-	-	-	25,429,759
Crime prevention and justice assistance	-	-	-	11,046,496	-	-	11,046,496
Criminal justice data center	1,990,002	-	-	-	4,231,595	-	6,221,597
	<u>33,363,489</u>	<u>20,714,220</u>	<u>33,958,001</u>	<u>11,046,496</u>	<u>4,231,595</u>	<u>-</u>	<u>103,313,801</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	2,149,158	861,127	164,243	(1,799,964)	845,172	-	2,219,736
OTHER FINANCING SOURCES (USES)							
Transfers in / (out)	476,999	-	1,026,977	(140,723)	140,723	-	1,503,976
NET CHANGE IN FUND BALANCES	2,626,157	861,127	1,191,220	(1,940,687)	985,895	-	3,723,712
Fund balances (deficits), beginning of year	(1,467,518)	11,123,690	5,233,672	1,967,242	1,381,462	-	18,238,548
Fund balances, end of year	<u>\$ 1,158,639</u>	<u>\$ 11,984,817</u>	<u>\$ 6,424,892</u>	<u>\$ 26,555</u>	<u>\$ 2,367,357</u>	<u>\$ -</u>	<u>\$ 21,962,260</u>

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Total net change in fund balances - governmental funds	\$	3,723,712
Amounts reported for governmental activities that are different in the Statement of Net Assets due to:		
Capital asset outlays, net transfers and disposals	\$	839,192
Depreciation expense		<u>(1,494,319)</u>
Excess of capital asset outlays over depreciation expense		(655,127)
The net change in obligations for accrued vested vacation benefits is reported in the Statement of Activities, but is not reported as an expenditure in the governmental funds as it does not require the use of current financial resources.		
		119,245
The net change in obligations for capital lease is reported in the Statement of Activities, but is not reported as an expenditure in the governmental funds as it does not require the use of current financial resources.		
		<u>605,654</u>
Change in net position of governmental activities	\$	<u><u>3,793,484</u></u>

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2018

ASSETS

Cash and cash equivalents	\$ <u>13,252,415</u>
Total assets	<u>13,252,415</u>

LIABILITIES

Due to agency recipients	<u>13,907,747</u>
Total liabilities	<u>13,907,747</u>

NET POSITION	\$ <u><u>(655,332)</u></u>
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See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Department of the Attorney General of the State of Hawaii (the “AG”) administers and renders legal services, including furnishing written legal opinions to the Governor, State Legislature, and such state departments and offices as the Governor may direct; represents the State of Hawaii (State) in all civil actions in which the State is a party; approves as to legality and form all documents relating to the acquisition of any land or interest in land by the State; and unless otherwise provided by law, prosecutes cases involving agreements, uniform laws, or other matters which are enforceable in the courts of the State.

The AG’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the AG is discussed below.

Reporting Entity - The AG is part of the Executive Branch of the State of Hawaii. The AG’s financial statements reflect only its portion of the activities attributable to the AG. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which includes the AG’s financial activities.

The accompanying financial statements reflect the financial position and changes in financial position of the following divisions of the AG:

Administrative Services Office - This office provides fiscal, personnel, data processing, library, messenger, reception, and other support services to the department and its operating divisions.

Office of Child Support Hearings (OCSH) - The Office of Child Support Hearings is an office funded with State and Federal funds that provides a fair and impartial forum for expeditious resolution of child support disputes. Once a part of the Child Support Enforcement Agency, the office has been a separate office of the AG since 1992. The office has concurrent jurisdiction with the court in proceedings in which a support obligation is established, modified, or terminated. Attorney hearings officers issue orders establishing, modifying, terminating, and enforcing child support obligations.

Child Support Enforcement Agency (CSEA) - The Child Support Enforcement Agency provides assistance to children by locating parents, establishing paternity and support obligations (both financial and medical), and enforcing those obligations.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Hawaii Criminal Justice Data Center (HCJDC) - The Hawaii Criminal Justice Data Center is responsible for the statewide Criminal Justice Information System (CJIS-Hawaii), the statewide Automated Fingerprint Identification System (AFIS), and the statewide sex offender registry.

Investigations Division - The Investigations Division conducts investigations in support of the department's civil, criminal, and administrative cases. These investigations involve such areas as homeland security; internet crimes against children; high technology computer crimes; drug nuisance abatement; environmental crimes; tobacco tax enforcement; airport, harbors, and highways; cold homicide cases; and other criminal and civil matters.

Crime Prevention and Justice Assistance Division (CPJA) - The Crime Prevention and Justice Assistance Division serves as a central point for obtaining, disseminating, and maintaining information regarding available financial (Federal and State funds) and non-financial resources to assist in improving the coordination of programs of the criminal justice and juvenile justice systems and agencies. It administers grants, provides training and technical assistance, engages in multi-agency and statewide planning efforts, conducts crime prevention programs, researches and analyzes crime issues, develops and maintains a computerized juvenile offender information system, and assists in locating, recovering, and reuniting missing children and runaways with their families.

Legal Services –

- Administration Division: The Administration Division is principally responsible for commercial-related and financial-related legal issues. The division provides legal advice and litigation support to various departments and offices, including the Office of the Governor; the Office of the Lieutenant Governor; the Department of Accounting and General Services (including the State Foundation on Culture and the Arts, the Stadium Authority, and the State Procurement Office); the Department of Budget and Finance (including advice regarding bond matters and advice to the Employees' Retirement System, the Employer-Union Health Benefits Trust Fund, and the Office of the Public Defender); the Judiciary (including the Commission of Judicial Conduct, the Office of Disciplinary Counsel, the Judiciary Personnel Appeals Board, the Judicial Selection Commission; general consultation with and advice to the staff attorney's office, and representation of judges in writs and civil lawsuits); the Hawaii State Land Use Commission; the Hawaii State Commission on the Status of Women; the Campaign Spending Commission; and the Office of Elections.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Legal Services (continued) -

- Civil Recoveries Division: This division systematically recovers and collects monies ranging from accounts receivable, dishonored checks, delinquent loans, salary and benefit overpayments, complex delinquent child support cases, civil judgments, delinquent patient accounts, property damage claims, lease rents, construction litigation, contract disputes, and miscellaneous fees owed to the State and its agencies. In addition, it represents the State in major contract or construction disputes.
- Civil Rights Litigation: This division provides legal defense to all State departments and agencies that are sued for monetary damages in cases that may involve an element of personal injury, but primarily arise from allegations of constitutional/civil rights violations.
- Commerce and Economic Development Division: The Commerce and Economic Development Division provides legal services and litigation support to the Department of Commerce and Consumer Affairs (including the Professional and Vocational Licensing Boards), the Department of Business, Economic Development, and Tourism (including the Aloha Tower Development Corporation, the Hawaii Strategic Development Corporation, the Hawaii Tourism Authority, the High Technology Development Corporation, and the Natural Energy Laboratory of Hawaii Authority), and the Department of Agriculture (including the Agribusiness Development Corporation). The division also enforces the antitrust laws, administers the laws providing for the commissioning of notaries public, and provides legal services to the Board of Trustees of the State's Deferred Compensation Plan and to other state agencies involved in administering tax deferral programs.
- Commission to Promote Uniform Legislation: This commission was placed in the AG to provide advice on matters relating to the promotion of uniform legislation in accordance with HRS Chapter 3 (Uniformity of Legislation) and Section 26-7. The commission consists of five members appointed by the Governor and confirmed by the State Senate, who serve without compensation for a term of four years.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Legal Services (continued) -

- Criminal Justice Division: The Criminal Justice Division performs prosecutorial functions on behalf of the State in areas such as welfare fraud, tax fraud, unemployment fraud, unauthorized practice of law, and public corruption. The division is also responsible for prosecuting Internet crimes against children, high technology crimes, Medicaid fraud and elder abuse, violations of State tobacco laws, drug nuisance, environmental crimes, cold homicide cases, and conflict cases from the four county prosecutor's offices.
- Education Division: The Education Division principally provides legal advice and support to the Department of Education and the Board of Education. Other clients include the Charter School Administrative Office and the Charter Schools; the Hawaii Teacher Standards Board; the Research Corporation of the University of Hawaii; and the Hawaii State Public Library System.
- Employment Law Division: The Employment Law Division provides legal representation and advice to the Department of Human Resources Development and to all State departments and agencies on employment-related issues. The division represents all State employers in mandatory arbitration hearings, administrative agency hearings, and civil litigation involving disputes over employment matters with the State's employees.
- Family Law Division: The Family Law Division handles all State litigation under the jurisdiction of Family Court, such as child and adult protection, guardianships, truancy, adolescent mental health cases, and involuntary civil mental commitment hearings. Clients include the Department of Health, the Department of Human Services, the Department of Education, and the Office of the Public Guardian. The division also provides support to the Child Support Enforcement Agency.
- Health and Human Services Division: The Health and Human Services Division provides the principal legal services and support to the Department of Health and the Department of Human Services. The division enforces the State's environmental laws, provides legal advice to all Department of Health and Department of Human Services programs, takes appeals to circuit court from administrative decisions, defends actions against the State in both State and Federal court, and handles some appeals in both the State and Federal appellate systems.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Legal Services (continued) -

- Labor Division: The Labor Division provides legal services and litigation support to the Department of Labor and Industrial Relations and boards and agencies administratively attached to that department, including the State Fire Council. In connection with its enforcement of the various labor laws, the division also collects penalties, fines, and reimbursements.
- Land/Transportation Division: The Land/Transportation Division provides legal services to both the Department of Land and Natural Resources (DLNR) and the Department of Transportation (DOT). These assignments include servicing all divisions of the DLNR (Aquatic Resources, Boating, Conservation and Resources Enforcement, Forestry and Wildlife, Land, State Historic Preservation, State Parks, and Water Resource Management) and the DOT (Airports, Harbors, and Highways). The division also provides services to the following attached commissions, boards, or agencies:

Kaho'olawe Island Reserve Commission, Natural Area Reserves System Commission, Bureau of Conveyances, the four island Burial Councils, Hawaii Historic Places Review Board, Hawaii Invasive Species Council, Commission on Transportation, State Highway Safety Council, and Medical Advisory Board. Most tort litigation involving the DLNR or the DOT is handled by another division, but the Land/Transportation Division handles a number of cases involving the State as a landlord and as a source of permits or as regulator. The division is responsible for all quiet title actions involving the State and virtually all State eminent domain actions, the bulk of which are done on behalf of the State highways program. The division prepares land disposition documents for the DLNR and the DOT and prepares office leases for the Department of Accounting and General Services when State agencies rent private property as tenants. The division reviews for legality its clients' contracts and administrative rules. The litigation that the division handles includes enforcement actions for violations of the State Historic Preservation law and the law governing land use in conservation districts and actions for damage to natural resources of the State. The division works on the DOT's complex construction cases.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Legal Services (continued) -

- Legislative Division: The Legislative Division provides legal services on matters pertaining to legislation and to proposed administrative rules. The division coordinates the preparation and review of all legislative bills proposed by the executive branch agencies and coordinates the review, monitoring, and evaluation of all legislative bills during and after each session of the Legislature. In addition, the division coordinates, monitors, and reviews the preparation of administrative rules of the Department of the Attorney General. This division also performs the final review of the formal opinions issued by the Attorney General and performs the initial review of complaints involving the Sunshine Law.
- Public Safety, Hawaiian Home Lands, and Housing Division: The Public Safety, Hawaiian Home Lands, and Housing Division provides legal services and support to the Department of Public Safety, the Department of Hawaiian Home Lands, the Hawaii Public Housing Authority, and the Hawaii Community Development Agency. The division is responsible for reviewing pardon applications and extradition documents, and responding to petitions for release from inmates under Rule 40 of the Hawaii Rules of Penal Procedure.
- Tax and Charities Division: The Tax Division provides legal representation and advice to the Department of Taxation and other State departments and agencies, primarily in the areas of tax litigation, legislation, rules, investigations, and opinions and advice. The division includes an informal bankruptcy unit devoted to handling all bankruptcy cases for the Department of Taxation, and occasionally assists other agencies in bankruptcy matters. The division represents the Attorney General in the oversight and enforcement of laws pertaining to charitable trusts, public charities, public benefit corporations, and private foundations. The division is also responsible for the department's registration and bonding function for professional solicitors and professional fundraising counsels under HRS Chapter 467B, and enforcement of the State's charitable solicitation laws. The division is the custodian of certifications by charities that issue charitable gift annuities under HRS § 431:204(b).

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Legal Services (continued) -

- Tort Litigation Division: The Tort Litigation Division provides legal defense to personal injury lawsuits and claims made against the State and its departments and agencies. The division does not have primary responsibility for giving advice and counsel to any State department or agency, to provide representation in criminal matters, or to collect monies owed to the State. In general, the services provided by the division include accepting service of legal complaints for the Attorney General, answering legal complaints made against State departments and agencies, investigating claims, conducting discovery on claims, and representing State interests in arbitrations, mediations, and trials.

Government-Wide and Fund Financial Statements - (the statement of net position and the statement of activities) report information of all of the nonfiduciary activities of the AG. In general, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The AG does not allocate general government (indirect) expenses to other functions.

Net position components are classified restricted when legally enforceable enabling legislation places restrictions or are externally imposed by citizens and/or public interest groups. Additionally, restricted net position are re-evaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the government has other cause for reconsideration. Internally imposed designations of resources are not presented as restricted components of net position. When both restricted and unrestricted resources are available for use, generally it is the AG's policy to use restricted resources first, then unrestricted resources as they are needed.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued) –

Separate financial statements are provided for Governmental Funds and Fiduciary Funds. However, the Fiduciary Funds are not included in the government-wide financial statements. Major Governmental Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government Wide Financial Statements - are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Funds Financial Statements - are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the AG considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the fiscal year.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred and funds are available.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Encumbrances are recorded obligations in the form of purchase orders or contracts. The AG records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end are reported as restrictions, assignments, or commitments of fund balances since they do not constitute expenditures or liabilities.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund - financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above. Agency Funds do not have a measurement focus, and report only assets and liabilities.

Fund Accounting - The financial statements of the AG are recorded in individual funds, each of which is deemed to be a separate accounting entity. The AG uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the AG that are reported in the accompanying fund financial statements have been classified into the following major Governmental Fund. In addition, a description of the Fiduciary Fund follows.

Governmental Fund Type

General Fund – This is the AG’s primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Fiduciary Fund Type

Agency Fund - is used to account for assets held by the AG in an agency capacity. These assets include funds for recipients of child support obligations and TANF collections used for child support enforcement operations, a revolving fund set up and restricted under HRS §712A-10(4) and (9) for the administrative forfeiture of property other than real property seized by the Department. These assets can only be used or applied if certain requirements are met. The AG’s fiduciary activities are reported in a separate Statement of Fiduciary Net Position. These activities are excluded from the AG’s basic financial statements because the AG cannot use these assets to finance its operations.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position - In the government wide financial statements, net position is reported in three categories: net investment in capital assets, net of related debt; if any; restricted; and unrestricted. Restricted components are restricted by parties outside of the State (such as citizens, public interest groups or the judiciary) or imposed by law through enabling legislation.

Fund Balance Reporting - In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

In accordance with GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Division classifies fund balances based primarily on the extent to which it is bound to follow constraints on how resources can be spent. Classifications used by the Division are:

Restricted - Represents resources that are restricted to specific purposes usually imposed by external parties such as creditors, grantors, or other governments.

Committed - Represents resources that can only be used for specific purposes pursuant to formal action of the Legislature.

Assigned - Represents resources that are constrained by management's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned - Represents residual balances that are neither nonspendable, restricted, committed or assigned.

Encumbrance balances at year-end are reflected as assigned. The AG's Special Funds consist of specific revenue sources restricted or committed to expenditure for specific purposes other than debt service or capital projects. Restricted and committed revenues are expected to comprise a substantial portion of the fund inflows. Funds not meeting these criteria are reported in the general fund. The spending policy of the AG's Special Funds is, in order of priority, restricted, committed, and then assigned. The AG's classification of Special Fund inflows are restricted (federal grants), program revenues (committed), transfers from other funds (assigned), investment income (assigned unless restricted), and miscellaneous revenues (assigned). The AG's Special Funds are not encumbered.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances

At June 30, 2018, the AG's governmental fund financial statements reported fund balances as follows:

	<u>GENERAL</u>	<u>CSEA</u>	<u>LEGAL</u>	<u>CPJA</u>	<u>CJDC</u>	<u>TOTAL</u>
Restricted for:						
Federal Grants	\$ -	\$ -	\$ (70,458)	\$ 26,555	\$ 348,245	\$ 304,342
Child Support Enforcement	-	11,984,817	-	-	-	11,984,817
Tobacco Enforcement Fund	-	-	444,819	-	-	444,819
Other	-	-	165,324	-	-	165,324
	<u>-</u>	<u>11,984,817</u>	<u>539,685</u>	<u>26,555</u>	<u>348,245</u>	<u>12,899,302</u>
Committed to:						
Medicaid Investigation Recovery Fund	-	-	704,676	-	-	704,676
DNA Registry	-	-	650,157	-	-	650,157
Litigation Services	-	-	1,898,182	-	-	1,898,182
Enforcement for Charitable Solicitations	-	-	1,827,204	-	-	1,827,204
Criminal Forfeiture Fund	-	-	252,559	-	-	252,559
Criminal History Record Revolving Fund	-	-	-	-	2,019,112	2,019,112
Other	-	-	552,429	-	-	552,429
	<u>-</u>	<u>-</u>	<u>5,885,207</u>	<u>-</u>	<u>2,019,112</u>	<u>7,904,319</u>
Assigned to:						
Encumbrances	2,693,303	-	-	-	-	2,693,303
Unassigned	<u>(1,534,664)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,534,664)</u>
Total Fund Balances	<u>\$ 1,158,639</u>	<u>\$ 11,984,817</u>	<u>\$ 6,424,892</u>	<u>\$ 26,555</u>	<u>\$ 2,367,357</u>	<u>\$ 21,962,260</u>

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management - The AG is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The AG is insured under the State of Hawaii (the State) as follows: The State generally retains the first \$1,000,000 per occurrence of property losses, the first \$4,000,000 with respect to general liability claims, and the first \$500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$200,000,000, except for terrorism, which is \$50,000,000 per occurrence. The annual aggregate for general liability losses is \$9,000,000 per occurrence, \$50,000,000 for cyber liability losses and, for crime losses, the limit per occurrence is \$10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of \$35,000,000 per occurrence and \$39,000,000 in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

Interfund and Intrafund Transfers - Significant transfers of financial resources between activities within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them are recorded as operating transfers in the financial statements.

Compensated Absences - The AG's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred. A liability for these amounts is reported only if they have matured, for example, as a result of employee resignations and retirements.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Compensation Plan - The AG offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all AG employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All Plan assets are held in a trust fund to protect them from claims of general creditors. The AG has no responsibility for loss due to the investment or failure of investment of funds and assets in the Plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the AG's deferred compensation plan are not reported in the accompanying basic financial statements.

Cash and Cash Equivalents - Cash and cash equivalents include all cash, repurchase agreements, U.S. government securities and time certificates of deposits with original maturities of three months or less.

Investments - The State's investments are reported at fair value within the fair value hierarchy established by generally accepted accounting principles.

Fair Value Measurements - The State measures the fair value of assets and liabilities as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between independent observable inputs and unobservable inputs used to measure fair value, as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted market prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets - Capital assets of the AG include buildings and improvements, and furniture and equipment with estimated useful lives greater than one year and acquisition costs greater than the following amounts:

Buildings and improvements	\$100,000
Furniture and equipment	\$5,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation. Transfers are recorded at cost, net of the depreciation which would have been charged had the asset been directly acquired by the AG. Major outlays for capital assets and improvements are capitalized as projects are constructed to the extent the State’s capitalization thresholds are met. Interest incurred during the construction phase of the capital assets is reflected in the capitalized value of the asset constructed, net of interest earned, on the invested proceeds over the same period. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Useful Lives</u>
Buildings and improvements	15 - 30 years
Furniture and equipment	5 - 7 years

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

Grants – Revenues for all federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred and funds are available.

Leases - Leases that transfer substantially all of the risks and benefits of ownership to the lessee are accounted for as capital leases and recorded as an acquisition of an asset and liability. All other leases are accounted for as operating leases.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Due To State of Hawaii - The AG receives payments for legal settlements on behalf of the State of Hawaii. The undistributed balance of settlements at fiscal year-end are recorded as Due to State of Hawaii. At June 30, 2018, the AG had legal settlements included in Due to State of Hawaii amounting to approximately \$2,034,000.

2. BUDGETING AND BUDGETARY CONTROL

The AG's budget is established through the State of Hawaii's (State) budgetary process.

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the general fund statement of revenues and expenditures - budget and actual (budgetary basis) are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act, Supplemental Appropriations Act, and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes, and other specific appropriations acts in various State Legislative Hearings.

All expenditures of appropriated funds are made pursuant to the appropriations in the biennial budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund's appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying general fund statement of revenues and expenditures - budget and actual (budgetary basis) represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

2. BUDGETING AND BUDGETARY CONTROL (Continued)

legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services.

To the extent not expended or encumbered, the General Fund's appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations. During 2018, the AG expended approximately \$25,000 in excess of the general fund appropriation. This amount was included in the vouchers payable balance at June 30, 2018.

Budgets adopted by the State Legislature for the General Fund are presented in the general fund statement of revenues and expenditures - budget and actual (budgetary basis). The State's annual budget is prepared on the modified-accrual basis of accounting with several differences, acquired through long-term financing (basis difference) and (2) the accounting for transfers of principally related to (1) the encumbrance of purchase order and contract obligations and equipment debt service payments through the General Fund (perspective difference), which represent departures from GAAP.

Adjustments necessary to convert the results of operations and fund balances for the year ended June 30, 2018 from the GAAP basis to the budget basis are as follows:

	<u>General</u>	<u>Special</u>
Excess of revenues and expenditures over transfers, GAAP basis	\$ 2,626,157	\$ 1,097,555
Increase (decrease) in revenues:		
Current year receivables	-	(3,726,112)
Prior year receivables	<u>-</u>	<u>3,971,557</u>
	<u>-</u>	<u>245,445</u>
Increase (decrease) in expenditures:		
Current year accrued liabilities	(2,302,658)	(3,666,798)
Prior year accrued liabilities	2,652,696	4,327,391
Current year encumbrances, net of adjustments	2,693,303	22,860,188
Prior year encumbrances	<u>(780,005)</u>	<u>(19,706,066)</u>
	<u>2,263,336</u>	<u>3,814,715</u>
Excess of revenues over expenditures and transfers, budgetary basis	<u>\$ 362,821</u>	<u>\$ (2,471,715)</u>

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

AG’s cash at June 30, 2018 consisted of the following:

	<u>Governmental Funds</u>	<u>Agency Funds</u>
Cash in State Treasury	\$ 17,965,602	\$ 1,013,146
Cash held outside of State Treasury	<u>9,816,173</u>	<u>12,239,269</u>
	<u>\$ 27,781,775</u>	<u>\$ 13,252,415</u>

The AG’s cash held in State Treasury is pooled with cash from other State agencies and departments. Cash that is not required for immediate payments is invested by the Department of Budget and Finance, State of Hawaii. Cash accounts that participate in the investment pool accrue interest based on average weighted cash balances.

Detailed information relating to cash and investments held in the State Treasury and related insurance, collateral and risks relating to interest rate, credit, custodial, and concentration are further described in the State of Hawaii Comprehensive Annual Financial Report (CAFR).

The AG also maintains certain funds in two interest bearing accounts in a Hawaii bank which are held separately from the State Treasury. One bank account is used primarily for CSEA agency transactions. As of June 30, 2018, the carrying amount of this account was \$12,239,269 and was reflected in “Cash” of the Agency Fund’s Statement of Fiduciary Net Position.

The second bank account, opened in fiscal year 2003, is used solely to account for the Federal share of child support payment collections retained by CSEA under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) and the Temporary Assistance for Needy Families (TANF) program. As the use of these funds is for CSEA’s benefit, this account is reflected in “Cash” of the Governmental Fund Balance Sheet under the special fund for Child Support Enforcement. As of June 30, 2018, the carrying amount of this bank account was \$9,816,173.

With respect to the cash held outside the State Treasury, the Federal Deposit Insurance Corporation provided insurance coverage limited to \$250,000 per depositor. At June 30, 2018, the uninsured amount totaled approximately \$25,361,000.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

4. CAPITAL ASSETS

Capital assets activities for the governmental activities of the AG for the year ended June 30, 2018, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets:</u>				
Buildings and improvements	\$ 12,241,669	\$ 579,268	\$ -	\$ 12,820,937
Accumulated depreciation	<u>(9,123,299)</u>	<u>(381,005)</u>	<u>-</u>	<u>(9,504,304)</u>
	<u>3,118,370</u>	<u>198,263</u>	<u>-</u>	<u>3,316,633</u>
Furniture & equipment	9,496,131	343,146	386,708	9,452,569
Accumulated depreciation	<u>(5,380,278)</u>	<u>(1,113,315)</u>	<u>(303,486)</u>	<u>(6,190,107)</u>
	<u>4,115,853</u>	<u>(770,169)</u>	<u>83,222</u>	<u>3,262,462</u>
Capital assets, net of depreciation	<u>\$ 7,234,223</u>	<u>\$ (571,906)</u>	<u>\$ 83,222</u>	<u>\$ 6,579,095</u>

Depreciation expense was charged to functions of the AG in the statement of activities as follows:

Government activities:

General administrative and legal services	\$ 282,646
Crime prevention and justice assistance	170,496
Criminal justice data center	179,023
Child support enforcement	<u>862,155</u>
Total governmental activities depreciation expense	<u>\$ 1,494,320</u>

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

5. ACCRUED VACATION

Effective July 1, 2004, eligible employees are credited with vacation at a rate of 14 hours per month. Accumulation of such vacation credits is limited to 720 hours at calendar year-end. The departmental financial statements present the cost of accumulated vacation leave as a liability. Liabilities for vacation pay are inventoried at the end of each accounting period and adjusted to current salary levels.

Accrued vacation consists of the following:

Balance at June 30, 2017	\$ 6,612,630
Decreases	<u>119,246</u>
Balance at June 30, 2018	6,493,384
Less current portion	<u>3,748,079</u>
Total accrued vacation, long-term	\$ <u>2,745,305</u>

6. CHANGES IN LONG-TERM LIABILITIES

Changes in non-current liabilities were as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Due within</u> <u>one year</u>
Accrued vacation	\$2,824,630	\$3,708,675	\$3,788,000	\$2,745,305	\$3,748,079
Obligations-capital lease	<u>925,702</u>	<u>-</u>	<u>614,816</u>	<u>310,886</u>	<u>614,815</u>
	<u>\$3,750,332</u>	<u>\$3,708,675</u>	<u>\$4,402,816</u>	<u>\$3,056,191</u>	<u>\$4,362,894</u>

7. NON-IMPOSED EMPLOYEE FRINGE BENEFITS

Payroll fringe benefit costs of the AG's employees funded by State appropriations (general fund) are assumed by the State and are not paid by the AG's operating funds. These costs, totaling \$12,286,879 for the year ended June 30, 2018, have been reported as revenues and expenditures in the AG's General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and in the departmental statement of activities.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

8. RELATED PARTY TRANSACTIONS

Certain AG employees perform services for other State departments and agencies. The AG bills those departments and agencies for such services and records revenues in the special fund to which the payroll costs were actually charged. Revenues totaled approximately \$16,300,000 for the fiscal year ended June 30, 2018, and the amount due from other State agencies totaled approximately \$2,504,000 at June 30, 2018.

9. LEASE COMMITMENTS

The AG leases office facilities and office equipment on a long-term basis, the expenditures of which are reported in the general and special funds.

In addition to the minimum rent, certain leases also provide for the payment of operating costs and general excise taxes.

Total rent expense, including rents under short-term operating leases for the fiscal year ended June 30, 2018 was approximately \$1,047,000.

The AG also leased office equipment under a noncancelable lease expiring in December 2019 with interest at approximately 1.5%. Payments of \$156,321 are due quarterly. The lease meets the criteria for capitalization established by the Financial Accounting Standards Board in *Accounting Standards Codification 840*. The lease is financed from federal grants. The estimated value of the leased equipment at the inception of the capital lease aggregated approximately \$3,007,422.

Capital lease expenditures for the year ended June 30, 2018, approximated \$606,000 and \$20,000, for principal and interest, respectively. Depreciation expense totaling approximately \$601,000 is included in the statement of activities for these assets.

The cost basis and accumulated depreciation of the leased assets at June 30, 2018 were as follows:

Cost	\$ 3,007,422
Less accumulated depreciation	<u>902,227</u>
	<u>\$ 2,105,195</u>

These amounts are included with capital assets in the financial statements and footnotes.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

9. LEASE COMMITMENTS (Continued)

The following is a schedule of minimum future payments on noncancelable leases expiring through July 2022:

Year ending June 30,:	<u>Operating lease</u>	<u>Capital lease</u>
2019	\$ 744,000	\$ 625,000
2020	682,000	313,000
2021	514,000	-
2022	368,000	-
Thereafter	<u>172,000</u>	<u>-</u>
	<u>\$ 2,480,000</u>	<u>938,000</u>
	Less amount representing interest	<u>12,299</u>
		<u>\$ 925,701</u>

The following is a summary of the changes in the obligation under capital lease for the year ended June 30, 2018:

	<u>Amount</u>
Balance at July 1, 2017	\$ 1,531,355
Less principal payments	<u>605,654</u>
Balance at June 30, 2018	925,701
Less current portion	<u>614,815</u>
Noncurrent portion	<u>\$ 310,886</u>

The interest portion of the lease payments is included in direct expenses of the Criminal Justice Data Center in the statement of activities.

10. RETIREMENT BENEFITS

Employees' Retirement System

Plan Description

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost sharing multiple-employer defined benefit pension plan administered by the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS's website: <http://www.ers.ehawaii.gov>.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

10. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

Benefits provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability, and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

10. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

Noncontributory Class

- Retirement Benefits - General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- Death Benefits - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

10. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

Contributory Class for Members Hired prior to July 1, 2012

- Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.
- Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.
- Death Benefits - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

10. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

Contributory Class for Members Hired After June 30, 2012

- Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.
- Disability and Death Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 1.75% of average final compensation for each year of service for police officers and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

Death benefits for contributory plan members hired after June 30, 2012 are generally the same as those for contributory plan members hired June 30, 2012 and prior.

Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

10. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

- *Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.
- *Disability and Death Benefits* - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

10. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2018 were 18.00%. Contributions to the pension plan from the State was \$470,548,000 for the fiscal year ended June 30, 2018.

On May 18, 2017, the Governor signed into law Act 17 SLH 2017. Per Act 17, future employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate increases to 18.00% on July 1, 2017; 19.00% on July 1, 2018; 22.00% on July 1, 2019; and 24.00% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

State Policy

Actuarial valuations are prepared for the entire ERS and are not separately computed for each department or agency. Information on vested and nonvested benefits and other aspects of the ERS is also not available on a departmental or agency basis. Accordingly, the State's policy on the accounting and reporting for pension benefits is to allocate a portion of the net pension liability, pension expense, and deferred inflows and outflows of resources required under GASB Statement No. 68 only to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's Comprehensive Annual Financial Report (CAFR). The basis for the allocation is the number of covered employees for each component unit and proprietary fund for pension benefits.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

10. RETIREMENT BENEFITS (Continued)

The State's policy is to fund its required contribution annually. The AG's share of the retirement system expense for the year ended June 30, 2018, was included as an item to be expended by the Department of Budget and Finance and is not reflected in the AG's financial statements.

The ERS issues a publicly available financial report that included financial statements and required supplemental information. That report may be obtained from the ERS.

Post-Retirement Health Care and Life Insurance Benefits

Plan Descriptions

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the EUTF, agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at PO Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire monthly contribution for employees retiring with ten years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

10. RETIREMENT BENEFITS (Continued)

Post-Retirement Health Care and Life Insurance Benefits (Continued)

For employees hired on or after July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

State's Policy

The actuarial valuation of the EUTF does not provide OPEB information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of the State's Annual Required Contribution funds ("ARC"), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's CAFR. The basis for the allocation is the proportionate share of the State's total covered employee headcount by each component unit or proprietary fund for retiree health benefits.

The State's CAFR includes the required footnote disclosures and required supplementary information on the State's OPEB plans. The State's CAFR can be found at the Department of Accounting and General Services' website: <http://hawaii.gov/dags/rpts>.

The AG's share of the non-pension post-retirement benefits is expended by the Department of Budget and Finance and is not reflected in the Division's financial statements.

The State's CAFR also includes financial disclosure and required supplementary information on the State's pension and non-pension retirement benefits.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

11. COMMITMENTS AND CONTINGENCIES

Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. The AG's accumulated sick leave as of June 30, 2018, was approximately \$26,599,000.

General Contingencies

The AG operates throughout the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects on the financial statements of the Division, from such changes in economic conditions, if any, are not presently determinable.

12. CRIMINAL FORFEITURE REVOLVING FUND

The AG is the coordinating agency for the Hawaii Omnibus Criminal Forfeiture Act. Pursuant to this Act, the AG is mandated to process petitions for administrative forfeiture of personal property and to distribute administratively or judicially forfeited property, or its proceeds, to law enforcement agencies according to a specified formula.

Forfeited property is recorded as revenue in a special revenue fund at the time of forfeiture, and the funds may be used for specified purposes only. Currency seized by a law enforcement agency and held by the AG pending a forfeiture decision is recorded in an agency fund. Any bonds posted in connection with judicial forfeitures are similarly recorded.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2018

13. WELFARE REFORM ACT

The enactment of Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), implemented changes in the availability of Federal funding and in the information required to compute State grant awards. PRWORA made effective the Temporary Assistance for Needy Families (TANF) Program under Title IV-A of the Social Security Act and repealed the Aid to Families With Dependent Children (AFDC) Program under Title IV-A of this Act.

14. FIDUCIARY NET POSITION

The net excess of liabilities over assets of approximately \$655,000 in the Statement of Fiduciary Net Position results from the Child Support Enforcement program and are due to uncollected recoupments due from custodial parents resulting from overpayments, and uncollected non-sufficient fund (NSF) payments due from non-custodial parents.

The AG has requested funding from the Legislature to cover the deficit in the CSEA Agency Fund.

**SUPPLEMENTARY FINANCIAL
INFORMATION**

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
BUDGETARY COMPARISON STATEMENT (NON-GAAP BUDGETARY BASIS) -
GENERAL FUND
For the Year Ended June 30, 2018

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenues			
State appropriations	\$ 36,270,581	\$ 35,512,647	\$ 757,934
Total revenues	<u>36,270,581</u>	<u>35,512,647</u>	<u>757,934</u>
 Expenditures			
Personal services	22,440,808	22,417,552	23,256
Other	13,706,772	13,209,273	497,499
Total expenditures	<u>36,147,580</u>	<u>35,626,825</u>	<u>520,755</u>
Excess (deficiency) of Revenues over expenditures	123,001	(114,178)	(237,179)
Transfers to others	<u>476,999</u>	<u>476,999</u>	<u>-</u>
Excess of revenues over expenditures and transfers	<u>\$ 600,000</u>	<u>\$ 362,821</u>	<u>\$ (237,179)</u>

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
BUDGETARY COMPARISON STATEMENT (NON-GAAP BUDGETARY BASIS) -
SPECIAL REVENUE FUND
For the Year Ended June 30, 2018

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenues			
Special funds and others	\$ 61,202,467	\$ 70,266,335	\$ 9,063,868
Total revenues	<u>61,202,467</u>	<u>70,266,335</u>	<u>9,063,868</u>
Expenditures			
Personal services	31,325,136	44,456,316	(13,131,180)
Other	16,931,949	29,308,711	(12,376,762)
Total expenditures	<u>48,257,085</u>	<u>73,765,027</u>	<u>(25,507,942)</u>
Excess (deficiency) of Revenues over expenditures	12,945,382	(3,498,692)	(16,444,074)
Transfers	<u>325,582</u>	<u>1,026,977</u>	<u>701,395</u>
Excess (deficiency) of revenues over expenditures and transfers	<u>\$ 13,270,964</u>	<u>\$ (2,471,715)</u>	<u>\$ (15,742,679)</u>

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount
<u>U.S. Department of Justice:</u>				
Sexual Assault Services Formula Program:	16.017	2015-KF-AX-0050	\$ 308,254	\$ 72,846
		2016-KF-AX-0036	416,439	342,056
			<u>724,693</u>	<u>* 414,902</u>
Missing Children's Assistance:	16.543	2014-MC-FX-K002	760,901	199,720
		2017-MC-FX-K018	255,520	47,535
			<u>1,016,421</u>	<u>* 247,255</u>
State Justice Statistics Program for Statistical Analysis Centers:	16.550	2016-BJ-CX-K027	53,988	24,683
			<u>53,988</u>	<u>24,683</u>
National Criminal History Improvement Program (Nchip):	16.554	2013-MUBX-K056	250,004	154,343
		2014-RUBX-K012	392,371	21,660
		2015-RUBX-K010	1,067,197	57,899
		2016-RUBX-K005	638,680	156,295
		2017-RUBX-K032	436,828	10,593
		<u>2,785,080</u>	<u>* 400,790</u>	
Crime Victim Assistance:	16.575	2014-VA-GX-0049	2,380,094	654,143
		2015-VA-GX-0035	8,995,705	5,006,319
		2016-VA-GX-0063	10,147,586	446,438
		<u>21,523,385</u>	<u>* 6,106,900</u>	

* Denotes major program expenditures

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount
<u>U.S. Department of Justice:</u>				
Crime Victim Assistance/Discretionary Grants:	16.582	2015-VF-GX-0035	\$ <u>147,757</u>	\$ <u>81,182</u>
			<u>147,757</u>	<u>81,182</u>
Violence Against Women Formula Grants:	16.588	2013-WF-AX-0002	1,010,149	88,710
		2014-WF-AX-0019	1,075,272	380,620
		2015-WF-AX-0024	<u>1,061,994</u>	<u>624,209</u>
			<u>3,147,415</u>	* <u>1,093,539</u>
Residential Substance Abuse Treatment for State Prisoners:	16.593	2012-RT-BX-0042	53,278	18,278
		2013-RT-BX-0025	66,442	66,442
		2014-RT-BX-0037	53,982	22,820
		2015-RT-BX-0028	<u>54,181</u>	<u>425</u>
			<u>227,883</u>	<u>107,965</u>
Public Safety Partnership And Community Policing Grants:	16.710	2010-CKWX-0492	<u>2,000,000</u>	<u>55,737</u>
			<u>2,000,000</u>	<u>55,737</u>
Special Data Collections And Statistical Studies:	16.734	2016-FU-CX-K067	<u>480,268</u>	<u>21,702</u>
			<u>480,268</u>	<u>21,702</u>

* Denotes major program expenditures

(Continued)

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount
<u>U.S. Department of Justice:</u>				
Edward Byrne Memorial Justice Assistance				
Grant Program:	16.738	2014-DJ-BX-0049	\$ 908,157	\$ 332,172
		2015-DJ-BX-0342	798,144	544,475
		2016-DJ-BX-0089	862,956	101,496
		2013-DGBX-K010	700,000	371,390
			<u>3,269,257</u>	<u>1,349,533</u>
			*	
Paul Coverdell Forensic Sciences Improvement				
Grant Program:	16.742	2016-CD-BX-0002	71,530	66,255
		2017-CD-BX-0014	108,332	17,402
			<u>179,862</u>	<u>83,657</u>
Support For Adam Walsh Act Implementation				
Grant Program:	16.750	2014-AWBX-0016	200,000	496
		2015-AWBX-0006	400,000	-
		2016-AWBX-0006	300,000	75,738
		201-AWBX-0042	300,000	120,333
			<u>1,200,000</u>	<u>196,567</u>
			*	
Edward Byrne Memorial Competitive				
Grant Program:	16.751	2016-XT-BX-0009	25,143	16,000
			<u>25,143</u>	<u>16,000</u>

* Denotes major program expenditures

(Continued)

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount
<u>U.S. Department of Justice:</u>				
NICS Act Record Improvement (NARIP)	16.813	2015-NS-BX-K018	\$ 401,249	\$ -
		2016-NS-BX-K003	818,076	56,840
			<u>1,219,325</u>	<u>56,840</u>
John R. Justice Prosecutors And Defenders Incentive Act:	16.816	2017-RJ-BX-0013	33,001	193
			<u>33,001</u>	<u>193</u>
National Sexual Assault Kit Initiative:	16.833	2016-AK-BX-K005	2,000,000	390,459
			<u>2,000,000</u>	<u>390,459</u>
<u>Total U.S. Department of Justice:</u>			<u>40,033,478</u>	<u>10,647,904</u>
<u>U.S. Department of Health and Human Services:</u>				
ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers:	93.506	1A1CMS331099-01-01	290,000	197,000
			<u>290,000</u>	<u>197,000</u> *
Child Support Enforcement:	93.563	G-17-04-HI-4004	-	479,188
		G-18-04-HI-4004	-	12,753,493
			<u>-</u>	<u>13,232,681</u> *

* Denotes major program expenditures

(Continued)

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount
State Medicaid Fraud Control Units:	93.775	1701-HI-5050	\$ 1,612,712	\$ 314,437
		1801-HI-5050	<u>1,640,720</u>	<u>1,105,137</u>
			<u>3,253,432</u>	<u>* 1,419,574</u>
<u>Total U.S. Department of Health and Human Services:</u>			<u>3,543,432</u>	<u>14,849,255</u>
<u>U.S. Department of Homeland Security</u>				
Homeland Security Grant Program:	97.067	EMW-2015-SS-00003	<u>150,000</u>	<u>99,435</u>
			<u>150,000</u>	<u>99,435</u>
<u>Total U.S. Department of Homeland Security</u>			<u>150,000</u>	<u>99,435</u>
<u>Executive Office of the President</u>				
High Intensity Drug Trafficking Areas Program:	95.001	G16HI0007A	862,825	396,335
		G17HI0007A	<u>847,400</u>	<u>409,974</u>
			<u>1,710,225</u>	<u>* 806,309</u>
<u>Total Executive Office of the President</u>			<u>1,710,225</u>	<u>806,309</u>
<u>Total Federal Financial Assistance</u>			<u>\$ 45,437,135</u>	<u>\$ 26,402,903</u>

* Denotes major program expenditures

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the Federal award activity of the Department of the Attorney General of the State of Hawaii (AG). The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the AG, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the AG.

*Denotes major program expenditures, comprising 96% of total expenditure of federal awards of a low-risk auditee.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The expenditures are recognized following the cost principles contained in Title 2 CFR, Subtitle A, Chapter II, Part 225, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. In addition, pass-through entity identifying numbers are presented where available.

Of the federal expenditures presented in the Schedule, sub-recipients were provided federal awards as follows on pages 59-60.

NOTE C – INDIRECT COST RATE

The AG has not elected to use the 10-percent de-minimus indirect cost rate allowed under the Uniform Guidance.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures Passed-Through
<u>U.S. Department of Justice:</u>			
Sexual Assault Services Formula Program:	16.017	2015-KF-AX-0050	\$ 72,846
		2016-KF-AX-0036	342,056
			* <u>414,902</u>
State Justice Statistics Program for Statistical Analysis Centers:	16.550	2016-BJ-CX-K027	23,700
			<u>23,700</u>
Crime Victim Assistance:	16.575	2014-VA-GX-0049	636,703
		2015-VA-GX-0035	4,727,362
		2016-VA-GX-0063	375,415
			<u>5,739,480</u>
Crime Victim Assistance/Discretionary Grants:	16.582	2015-VF-GX-0035	33,794
			<u>33,794</u>
Violence Against Women Formula Grants:	16.588	2013-WF-AX-0002	36,482
		2014-WF-AX-0019	122,737
		2015-WF-AX-0024	624,209
			* <u>783,428</u>
Residential Substance Abuse Treatment for State Prisoners:	16.593	2012-RT-BX-0042	18,278
		2013-RT-BX-0025	66,442
		2014-RT-BX-0037	20,000
			<u>104,720</u>

* Denotes major program expenditures

(Continued)

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures Passed-Through
<u>U.S. Department of Justice:</u>			
Special Data Collections And Statistical Studies:	16.734	2016-FU-CX-K067	\$ <u>19,575</u> <u>19,575</u>
Edward Byrne Memorial Justice Assistance Grant Program:	16.738	2014-DJ-BX-0049 2015-DJ-BX-0342 2016-DJ-BX-0089	331,073 541,695 66,433 * <u>939,201</u>
Paul Coverdell Forensic Sciences Improvement Grant Program:	16.742	2016-CD-BX-0002 2017-CD-BX-0014	64,377 13,000 <u>77,377</u>
Edward Byrne Memorial Competitive Grant Program:	16.751	2016-XT-BX-0009	<u>16,000</u> <u>16,000</u>
National Sexual Assault Kit Initiative:	16.833	2016-AK-BX-K005	\$ <u>221,781</u> <u>221,781</u>
<u>Total U.S. Department of Justice:</u>			<u>8,373,958</u>
<u>Total Pass-through of Federal Financial Assistance</u>			\$ <u><u>8,373,958</u></u>

* Denotes major program expenditures

PART IV

INTERNAL CONTROL AND COMPLIANCE SECTION

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

Office of the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of State of Hawaii Department of the Attorney General (the “AG”) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department’s basic financial statements, and have issued our report thereon dated, March 11, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the AG’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the AG’s internal control. Accordingly, we do not express an opinion on the effectiveness of the AG’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, as item 2018-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AG's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2018-01 and 2018-02.

The State of Hawaii, Department of the Attorney General's Response to Findings

The State of Hawaii, Department of the Attorney General's response to the findings identified in our audit is described in the accompanying response to schedule of findings and questioned costs. The State of Hawaii, Department of the Attorney General's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance.

This report is intended solely for the information and use of the Office of the Auditor, management of the Department, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Eganis + O'Connell CPAs Inc.

Honolulu, Hawaii
March 11, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE

Office of the Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the State of Hawaii Department of the Attorney General (the "AG") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the AG's major federal programs for the year ended June 30, 2018. The AG's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the AG's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the AG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the AG's compliance.

Opinion on Each Major Federal Program

In our opinion, the AG complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the AG, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the AG's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information and use of the Office of the Auditor, management of the Department, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Egami + Kumu CPA's Inc.

Honolulu, Hawaii
March 11, 2019

PART V

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Status of Prior Year Comments

FINANCIAL STATEMENT FINDINGS

2017-001 - Deficit in CSEA Agency Fund should be addressed and resolved.

Criteria:

The Department of the Attorney General (AG) maintains four agency funds including an Agency Fund for the Child Support Enforcement Agency (CSEA), a division of the Department of the Attorney General, which provides for a system of collections, disbursements, and enforcement of court ordered child support payments. Amounts collected for child support are custodial in nature and are under the control of the CSEA as a fiduciary and are not available for use in government operations.

Condition:

Cash receipts collected from non-custodial parents are deposited into the CSEA bank account for disbursement to custodial parents. Transactions are recorded in the CSEA Agency Fund.

At June 30, 2017 the balance sheet of the CSEA Agency Fund comprised:

Cash, net of outstanding check of \$3,493,000 of which \$2,864,000 were over one year old	\$ 11,639,000
Liability to agency recipients	<u>12,912,000</u>
Deficit	<u>\$ 1,273,000</u>

The deficit of \$1,273,000 is compromised of the following:

Unrecovered nonsufficient funds support payments from Non-custodial parents	\$ 1,104,000
Uncollected amounts due from custodial parents resulting From overpayment of child support payments	837,000
Other	<u>(668,000)</u>
	<u>\$ 1,273,000</u>

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Status of Prior Year Comments (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

Federal regulations provide for child support payments from the non-custodial parent to be remitted to the custodial parent within two business days upon receipt by the CSEA. Certain support payments, however, are held and not immediately disbursed due to payments received with insufficient information to identify the intended custodial parent, child support payment checks returned as undeliverable to the custodial parent, amounts intercepted and withheld from the delinquent non-custodial parent's income tax return refund which are subject to challenge, prepaid child support payments made by the non-custodial parent not yet due to the custodial parent, and amounts held for overpayments for public assistance to the custodial parent.

The total support payments due to agency recipients was approximately \$12,912,000 at June 30, 2017. CSEA has over the years accumulated a deficit of approximately \$1,273,000 in the Agency Fund at June 30, 2017. Since the child support monies are custodial in nature, the Agency Fund should not be operating with a deficit.

It was noted that during the fiscal year ending June 30, 2017, the AG reduced the deficit by replenishing the Agency Fund with reserves from federal incentive payments. These transfers aggregated approximately \$300,000.

Cause:

Since Federal regulations require disbursement of child support payments to custodial parents within two business days of receipt, CSEA disbursed amounts received without knowing whether the non-custodial parent had sufficient funds at the bank. Nonsufficient funds (NSF) checks rejected by the bank result in amounts due from non-custodial parents. Recovery of such funds were dependent on collecting from the non-custodial parent and not by reducing future child support payments to the custodial parent.

Errors in the payment process gave rise to uncollected recoupments due from the custodial parent resulting from overpayment of child support payments. CSEA's ability to collect such overpayment from the custodial parent by reducing future child support payments was limited. Over the years, the Agency trust fund monies have been used by CSEA to pay for all of the above items and as of June 30, 2017, obligations exceeded cash, resulting in a \$1,273,000 deficit in the CSEA Agency Fund. The present deficit is being funded by the "float" created by outstanding uncashed checks (\$2,864,000 over one year old) and from obligations due to parents not being immediately payable. Any recovery from parents for either NSF payments or overpayments of support is problematic.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Status of Prior Year Comments (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

Effect:

As a result of the deficit, there is presently not enough cash in the Agency Fund to pay all of the Agency Fund obligations.

Recommendation:

The auditors noted that during the fiscal years ended June 30, 2017 and 2016, the AG made transfers amounting to approximately \$300,000 and \$869,000, respectively, to replenish the Agency Fund. The auditors recommended that the AG continue to resolve the deficit position in its Agency Fund.

Status:

This situation has improved. See current audit finding 2018-01

2017-002 - Controls over expenditures and encumbrances should be improved.

Criteria:

HRS §37-42, relating to expenditure controls, provides that no department or establishment shall expend or be allowed to expend any sum, or incur or be allowed to incur any obligation in excess of an allotment. Under HRS §37-31, appropriated funds are intended to meet the requirements of the department for the period of the appropriation.

Condition and Effect:

During the audit, it was noted that the department paid approximately \$406,000 with fiscal 2018 funds for fiscal 2017 expenditures, although the department lapsed approximately \$1,000 of fiscal 2017 general funds. Accordingly, the AG may have expended at least \$405,000 in excess of its appropriation for the fiscal year ended June 30, 2017. This excess resulted primarily from expenditures for services rendered from April 2017 through June 2017 funded with monies budgeted for fiscal 2018.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Status of Prior Year Comments (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

Cause:

The AG does not have adequate procedures in place to ensure that the necessary funds are available prior to, and encumbered upon, entering into a firm commitment.

Recommendation:

The auditors recommended that the AG establish the necessary policies and procedures to help ensure that adequate funds are available prior to entering into a firm commitment. In addition, the AG should implement the necessary policies and procedures to utilize encumbrances upon entering firm commitments. In this connection, expenditures should be encumbered on a timely basis in the appropriate fiscal year.

Status:

This situation has improved. See current audit finding 2018-002.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-003 - Cash Management Federal Programs:

U.S. Department of Justice - (Passed Through the Department of Transportation, State of Hawaii) 16.554 National Criminal History Improvement Program; (Direct) 16.750 Support for Adam Walsh Act Implementation Grant Program

Questioned Costs:

\$0

Criteria:

The Attorney General should minimize the time between drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes pursuant to 31 CFR Part 205.33(a).

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Status of Prior Year Comments (Continued)

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Condition:

During the audit, it was noted that 16 instances out of 25 tested in which the Department of the Attorney General disbursed Federal funds more than ten business days after the drawdown of funds from the Federal government. The delays ranged from 11 to 47 business days.

Cause:

AG did not follow its policy of timely processing payments once Federal draws were received.

Effect:

The delays in disbursing funds could jeopardize future Federal funding or prompt additional restrictions on funding by the granting agency.

Recommendation:

The auditors recommended the AG review its cash management policies and procedures to minimize the time elapsing between the drawdown of Federal funds and the related disbursement.

Status:

This situation is resolved. There were no current year findings.

2017-004 - Reporting

Federal Program:

U.S. Department of Justice: (Passed Through the Department of Transportation, State of Hawaii)
16.554 National Criminal History Improvement Program

Questioned Costs:

\$0

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Status of Prior Year Comments (Continued)

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Criteria:

The Uniform Guidance requests that financial management systems must provide for the identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received, pursuant to 2CFR §200.302(b)(1).

Condition:

During the audit, the client provided reconciliations between the expenditures reported on the Federal Financial Report (SF-425) and the expenditures reported in the accounting records. However, the reconciliation for the National Criminal History Improvement Program (NCHIP) was incomplete. After further investigation, we determined the expenditures reported on the June 30, 2017 Federal Financial Report for the 2015-RU-BX-K010 grant was overstated by approximately \$8,380.

Cause:

The AG's internal control over reporting did not function properly and was ineffective in preventing an error in the Federal Financial Report.

Effect:

An audit adjustment of \$8,380 was made to the schedule of expenditures of federal awards for the 2015-RU-BX-K010 grants.

Recommendation:

The auditors recommended the AG strengthen its internal controls over reporting in order to prevent, or detect and correct, errors in Federal expenditure reports.

Status:

This situation is resolved. There were no current year findings.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

- | | |
|--|-------------------|
| Type of auditors' report issued: | <u>Unmodified</u> |
| 1. Internal control over financial reporting: | |
| 2. Material weaknesses identified? | <u>No</u> |
| Significant deficiency(ies) identified that are not considered to be material weakness | <u>Yes</u> |
| 3. Noncompliance material to financial statements noted? | <u>No</u> |

FEDERAL AWARDS:

- | | |
|---|-------------------|
| 1. Internal control over major program:
Material weaknesses identified? | <u>No</u> |
| Significant deficiency(ies) identified that are not considered to be material weakness | <u>Yes</u> |
| 2. Type of auditors' report issued on compliance for major program: | <u>Unmodified</u> |
| 3. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? | <u>No</u> |
| 4. Identification of major program: | |

a. <u>CFDA No.</u>	<u>Name of Federal Program or Cluster</u>
16.017	Sexual Assault Services Formula Program
16.543	Missing Children's Assistance
16.554	National Criminal History Improvement Program
16.575	Crime Victim Assistance
16.588	Violence Against Women Formula Grants
16.738	Edward Byrne Memorial Justice Assistance Grant Program
16.750	Support for Adam Walsh Act Implementation Grant Program
93.506	ACA Nationwide Program for National State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers
93.563	Child Support Enforcement
93.775	State Medicaid Fraud Control Units
95.001	High Intensity Drug Trafficking Areas Program

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

FEDERAL AWARDS (continued):

4. Identification of major program (continued):
- b. Dollar threshold used to distinguish between type A and type B programs: \$750,000
 - c. Auditee qualified as low-risk auditee? Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

FINANCIAL STATEMENT FINDINGS

2018-001 - Deficit in CSEA Agency Fund should be addressed and resolved.

Criteria:

The Department of the Attorney General (AG) maintains four agency funds including an Agency Fund for the Child Support Enforcement Agency (CSEA), a division of the Department of the Attorney General, which provides for a system of collections, disbursements, and enforcement of court ordered child support payments. Amounts collected for child support are custodial in nature and are under the control of the CSEA as a fiduciary and are not available for use in government operations.

Condition:

Cash receipts collected from non-custodial parents are deposited into the CSEA bank account for disbursement to custodial parents. Transactions are recorded in the CSEA Agency Fund.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2018-001 - Deficit in CSEA Agency Fund should be addressed and resolved. (Continued)

At June 30, 2018 the balance sheet of the CSEA Agency Fund comprised:

Cash, net of outstanding check of \$3,500,000 of which \$2,913,000 were over 360 days old	\$ 13,253,000
Liability to agency recipients	<u>13,908,000</u>
Deficit	<u>\$ 655,000</u>

The deficit of \$655,000 is compromised of the following:

Unrecovered nonsufficient funds support payments from Non-custodial parents	\$ 1,111,000
Uncollected amounts due from custodial parents resulting From overpayment of child support payments	823,000
Other	<u>(1,279,000)</u>
	<u>\$ 655,000</u>

Federal regulations provide for child support payments from the non-custodial parent to be remitted to the custodial parent within two business days upon receipt by the CSEA. Certain support payments, however, are held and not immediately disbursed due to payments received with insufficient information to identify the intended custodial parent, child support payment checks returned as undeliverable to the custodial parent, amounts intercepted and withheld from the delinquent non-custodial parent's income tax return refund which are subject to challenge, prepaid child support payments made by the non-custodial parent not yet due to the custodial parent, and amounts held for overpayments for public assistance to the custodial parent.

The total support payments due to agency recipients was approximately \$13,908,000 at June 30, 2018. CSEA has over the years accumulated a deficit of approximately \$655,000 in the Agency Fund at June 30, 2018. Since the child support monies are custodial in nature, the Agency Fund should not be operating with a deficit.

It was noted that during the fiscal years ending June 30, 2018 the AG reduced the deficit by replenishing the Agency Fund with reserves from federal incentive payments. These transfers totaled \$575,000.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2018-001 - Deficit in CSEA Agency Fund should be addressed and resolved. (Continued)

Cause:

Since Federal regulations require disbursement of child support payments to custodial parents within two business days of receipt, CSEA disbursed amounts received without knowing whether the non-custodial parent had sufficient funds at the bank. Nonsufficient funds (NSF) checks rejected by the bank result in amounts due from non-custodial parents. Recovery of such funds were dependent on collecting from the non-custodial parent and not by reducing future child support payments to the custodial parent.

Errors in the payment process gave rise to uncollected recoupments due from the custodial parent resulting from overpayment of child support payments. CSEA's ability to collect such overpayment from the custodial parent by reducing future child support payments was limited.

Over the years, the Agency trust fund monies have been used by CSEA to pay for all of the above items and as of June 30, 2018, obligations exceeded cash, resulting in a \$655,000 deficit in the CSEA Agency Fund. The present deficit is being funded by the "float" created by outstanding uncashed checks (\$2,913,000 over 360 days old) and from obligations due to parents not being immediately payable. Any recovery from parents for either NSF payments or overpayments of support is problematic.

Effect:

As a result of the deficit, there is presently not enough cash in the Agency Fund to pay all of the Agency Fund obligations.

Recommendation:

We noted that, during the fiscal years ending June 30, 2018 and 2017, the AG made transfers totaling \$575,000 and \$300,000, respectively, to replenish the Agency Fund. We recommend that the AG continue to resolve the deficit position in its Agency Fund.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2018-002 - Controls over expenditures and encumbrances should be improved.

Criteria:

HRS §37-42, relating to expenditure controls, provides that no department or establishment shall expend or be allowed to expend any sum, or incur or be allowed to incur any obligation in excess of an allotment. Under HRS §37-31, appropriated funds are intended to meet the requirements of the department for the period of the appropriation.

Condition and Effect:

During the audit, it was noted that the department paid approximately \$25,000 with fiscal 2019 funds for fiscal 2018. Accordingly, the AG may have expended at least \$25,000 in excess of its appropriation for the fiscal year ended June 30, 2018. This excess resulted primarily from expenditures for services rendered in June 2018 funded with monies budgeted for fiscal 2019.

Cause:

The Administrative Services Office did not properly identify and encumber the expenditure to the proper appropriation.

Recommendation:

We recommend that expenditures should be encumbered on a timely basis in the appropriate fiscal year.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

PART VI
CORRECTIVE ACTION PLAN

DAVID Y. IGE
GOVERNOR



CLARE E. CONNORS
ATTORNEY GENERAL

DANA O. VIOLA
FIRST DEPUTY ATTORNEY GENERAL

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
425 QUEEN STREET
HONOLULU, HAWAII 96813
(808) 586-1500

DEPARTMENT OF THE ATTORNEY GENERAL
FISCAL YEAR ENDED JUNE 30, 2018
RESPONSE TO SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2018-001 - Deficit in CSEA Agency Fund should be addressed and resolved.

Criteria:

The Department of the Attorney General (AG) maintains four agency funds including an Agency Fund for the Child Support Enforcement Agency (CSEA), a division of the Department of the Attorney General, which provides for a system of collections, disbursements, and enforcement of court ordered child support payments. Amounts collected for child support are custodial in nature and are under the control of the CSEA as a fiduciary and are not available for use in government operations.

Condition:

Cash receipts collected from non-custodial parents are deposited into the CSEA bank account for disbursement to custodial parents. Transactions are recorded in the CSEA Agency Fund.

At June 30, 2018 the balance sheet of the CSEA Agency Fund comprised:

Cash, net of outstanding check of \$3,500,000 of which \$2,913,000 were over 360 days old	\$ 13,253,000
Liability to agency recipients	<u>13,908,000</u>
Deficit	<u>\$ 655,000</u>

The deficit of \$655,000 is comprised of the following:

Unrecovered nonsufficient funds support payments from Non-custodial parents	\$ 1,111,000
Uncollected amounts due from custodial parents resulting From overpayment of child support payments	823,000
Other	<u>(1,279,000)</u>
	<u>\$ 655,000</u>

Federal regulations provide for child support payments from the non-custodial parent to be remitted to the custodial parent within two business days upon receipt by the CSEA. Certain support payments, however, are held and not immediately disbursed due to payments received with insufficient information to identify the intended custodial parent, child support payment checks returned as undeliverable to the custodial parent, amounts intercepted and withheld from the delinquent non-custodial parent's income tax return refund which are subject to challenge, prepaid child support payments made by the non-custodial parent not yet due to the custodial parent, and amounts held for overpayments for public assistance to the custodial parent.

The total support payments due to agency recipients was approximately \$13,908,000 at June 30, 2018. CSEA has over the years accumulated a deficit of approximately \$655,000 in the Agency Fund at June 30, 2018. Since the child support monies are custodial in nature, the Agency Fund should not be operating with a deficit.

It was noted that during the fiscal years ending June 30, 2018 the AG reduced the deficit by replenishing the Agency Fund with reserves from federal incentive payments. These transfers totaled \$575,000.

Cause:

Since Federal regulations require disbursement of child support payments to custodial parents within two business days of receipt, CSEA disbursed amounts received without knowing whether the non-custodial parent had sufficient funds at the bank. Nonsufficient funds (NSF) checks rejected by the bank result in amounts due from non-custodial parents. Recovery of such funds were dependent on collecting from the non-custodial parent and not by reducing future child support payments to the custodial parent.

Errors in the payment process gave rise to uncollected recoupments due from the custodial parent resulting from overpayment of child support payments. CSEA's ability to collect such overpayment from the custodial parent by reducing future child support payments was limited.

Over the years, the Agency trust fund monies have been used by CSEA to pay for all of the above items and as of June 30, 2018, obligations exceeded cash, resulting in a \$655,000 deficit in the CSEA Agency Fund. The present deficit is being funded by the "float" created by outstanding uncashed checks (\$2,913,000 over 360 days old) and from obligations due to parents not being immediately payable. Any recovery from parents for either NSF payments or overpayments of support is problematic.

Effect:

As a result of the deficit, there is presently not enough cash in the Agency Fund to pay all of the Agency Fund obligations.

Recommendation:

We noted that, during the fiscal years ending June 30, 2018 and 2017, the AG made transfers totaling \$575,000 and \$300,000, respectively, to replenish the Agency Fund. We recommend that the AG continue to resolve the deficit position in its Agency Fund.

Response:

The AG concurs with the recommendation. The Child Support Enforcement Agency will continue its efforts to reduce the cash deficit in the child support collection and disbursement bank account. The deficit is generally the result of non-sufficient fund (NSF) checks received from obligors; fraudulent checks; and involuntary pullbacks from the IRS on tax refund intercepts all of which remain out of the control of the agency. Although complete elimination of the deficit is difficult, the agency has implemented procedural changes to minimize any increase to the deficit. For example, the agency is required under federal law to disburse child support payments to custodial parents within two days; however, the agency has instituted a policy to place a hold on disbursement when the check is over a certain threshold amount until it clears from the bank. In addition, the agency has developed and strengthened its recoupment process to collect on NSF fees and NSF payments. Since 2016, the agency has recouped over \$800,000. Moving forward the agency is committed to continuing its efforts to identify ways to reduce the deficit.

2018-002 - Controls over expenditures and encumbrances should be improved.

Criteria:

HRS §37-42, relating to expenditure controls, provides that no department or establishment shall expend or be allowed to expend any sum, or incur or be allowed to incur any obligation in excess of an allotment. Under HRS §37-31, appropriated funds are intended to meet the requirements of the department for the period of the appropriation.

Condition and Effect:

During the audit, it was noted that the department paid approximately \$25,000 with fiscal 2019 funds for fiscal 2018. Accordingly, the AG may have expended at least \$25,000 in excess of its appropriation for the fiscal year ended June 30, 2018. This excess resulted primarily from expenditures for services rendered in June 2018 funded with monies budgeted for fiscal 2019.

Cause:

The Administrative Services Office did not properly identify and encumber the expenditure to the proper appropriation.

Recommendation:

We recommend that expenditures should be encumbered on a timely basis in the appropriate fiscal year.

Response:

The AG concurs with the recommendation. The Department recognizes that on an accrual basis it appears that over expending may have occurred in relation to the expenditure stated in the audit findings. However, the current process is that invoices are paid when presented for payment by the vendor, thus, the payment is done the following fiscal year. The AG would like to mention the circumstances that are causing this condition such as: 1) invoices were received for payment after the fiscal year ended; 2) invoices contained questionable and/or disallowed costs being claimed by the vendor, 3) needed a revised contract for the professional services rendered is needed, or 4) the vendor was not compliant at the time of payment as required by Comptroller's Memorandum 2011-17 pursuant to Sec 103D-310(c) of the Hawaii Revised Statutes, as amended by Act 190, SLH 2011. Moreover, most invoices tagged as possibly exceeding appropriations were to be paid from interdepartmental funds, which were below appropriation level.

The Administrative Services Office (ASO) has established policies and procedures:

- *At the beginning and before the end of each fiscal year, the ASO implements a process to identify all projectable expenditures and encumber them as appropriate.*