



GOV. MSG. NO. 5

EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

January 11, 2019

The Honorable Ronald D. Kouchi
President of the Senate
Thirtieth State Legislature
State Capitol, Room 409
Honolulu, Hawai'i 96813

The Honorable Scott K. Saiki
Speaker of the House of Representatives
Thirtieth State Legislature
State Capitol, Room 431
Honolulu, Hawai'i 96813

Dear Senate President Kouchi and Speaker Saiki:

Subject: Act 169, SLH 2017, Relating to the Variance Report

As required by Act 169, SLH 2017, the Department of Budget and Finance is submitting a report to the Legislature with its recommendation on whether similar information should be required for future variance reports.

This measure requires the Governor to submit a report with budgeted versus actual/estimated expenditures with comparative information, including permanent and temporary position ceilings and breakdowns by cost element and means of financing by department.

We note the following concerns with this report. These new requirements are labor intensive and time consuming to complete. The production of this report is further complicated by the non-uniform use of object codes by each of the departments. The State does not use a uniform accounting chart of accounts in which comparative data can easily be obtained. The current accounting system breaks down expenditures by "personal services" and "other current expenses." Breaking down the actual expenditures by cost elements requires the departments to manually track actual expenditures by cost element outside of the current accounting system. With the additional information required in this measure, the same personnel, accounting and budget staff that are tasked with budget preparation duties need to divert work hours and resources to satisfy the requirements of this additional report.

Several departments that have budgets that are highly dependent on federal funds had difficulty providing a timely breakdown of their actual expenditures. These departments usually must front general funds that are subsequently reimbursed by the federal government through their grants process after approval.

These expenditures are coded as general fund expenditures and submitted to the granting federal agency for reimbursement. Because of the delay in getting reimbursed, these reimbursements cross fiscal years, which lead to inaccuracies in comparison between budgeted versus actual expenditures. As such, accounting for these expenditures in the correct cost elements, in the applicable fiscal year, is problematic for such departments.

Due to the difficulties experienced by multiple departments, it is the recommendation by the Department of Budget and Finance that future variance reports not include the additional reporting requirements in Act 169, SLH 2017, until a more automated comprehensive financial system can be implemented.

Sincerely,

A handwritten signature in black ink, appearing to read "David Y. Ige". The signature is fluid and cursive, with a prominent loop at the end of the last name.

DAVID Y. IGE
Governor, State of Hawai'i