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Lapses noted in fiscal reporting

State risks painting false picture of its finances, audit says

By [Greg Wiles](#)

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Criticism of how the state accounted for the value of \$1 billion of auction-rate securities is only one of the red flags raised in an audit of the state's internal controls on financial reporting.

The recent report by Deloitte & Touche LLP found certain lapses in financial reporting that could possibly lead to inaccurate statements about Hawai'i's finances.

It was the second consecutive year Deloitte examined the state's controls over financial reporting and suggested improvements. While not finding any instances of noncompliance, the Deloitte audit raised questions about how closely the state's comprehensive financial statement represents actual state finances.

"It is important there be some attention paid to the findings this year," said Marion Higa, state auditor.

"According to our contractor (Deloitte), they have real concerns about the underlying system of record keeping, then subsequent preparation of financial statements off of those records."

The audit notes state accountants are having to cope with old financial accounting and computer systems, leading some departments to set up their own systems. That poses problems for the state.

"Although the state's accounting system is thought to be centralized, and the departments are required to reconcile their separate accounting systems to the state's accounting system, the reality is that the departments operate independently from DAGS (the Department of Accounting and General Services), which is responsible for the state's accounting system," the audit said.

"Because of this, statewide accounting, internal control and financial reporting policies and procedures are difficult to implement and enforce."

The audit points up areas where it found what accountants call significant deficiencies or material weaknesses.

"Because of the inadequate internal control over financial reporting ... material misstatements in the financial presentation due to error or fraud could occur and not be detected on a timely basis," the audit said.

The Department of Accounting and General Services "should establish a well-defined, systematic and orderly process for financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control."

The report offers a number of examples of problems, including an instance in which a \$251 camera bought by the Department of Education was entered as a \$25,100 asset addition.

It also found an excessive number of accounting errors and adjustments, inadequately staffed accounting and financial reporting units and a cumbersome process for reconciling bank statements to cash ledgers.

The report does note areas where the state has made progress on recommendations the auditors made last year.

Russell Saito, state comptroller, said DAGS is working on a response to the findings, but that many of the suggestions have required funding the department doesn't have in the current fiscal crisis.

He said the department has tried to work on improvement in areas that don't require funding, while trying to come up with work-arounds.

"The fact is our accounting system is 30 years old," Saito said.

Higa agreed that it will cost much money to update the state's accounting system with new computers, software and training.

But she said there are costs for not taking action, including the possibility that investors who buy Hawai'i's bonds will require higher interest rates because they aren't as confident in numbers produced by the state.

Rep. Karl Rhoads, D-28th (Palama, Downtown, Lower Makiki), said having an accurate view of the state's finances and knowing what money the state has and its location, is a necessity.

"It should be all at our fingertips," said Rhoads, who obtained an early copy of the audit. "It doesn't sound to me from what I've read in this report that that's the case."

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