STATE OF HAWAII
Department of Accounting and General Services

STATE POLICY

Code of Conduct For Employees with Accounting, Auditing, Financial Reporting, or Tax Filing Duties Policy

Authority: Section 40-02, Hawaii Revised Statutes (HRS)

Effective Date: November 1, 2009

Applicable: State employees with accounting, auditing, financial reporting, or tax filling duties

Objective: To create a values-based ethical framework for employees with accounting, auditing, financial reporting, or tax filing duties to:

- increase accountability,
- strengthen governance processes,
- promote the timely detection of significant internal control deficiencies,
- improve the accuracy and reliability of the state's comprehensive annual financial report and other state and federal reports including tax filings, Single Audit, and other grant reports, and
- support the preparation of meaningful certified financial statements and internal control assessments.

To direct department management to ensure that a solid ethics program that includes appropriate communication and training mechanisms exists within their organization.

To enhance employees' knowledge and skills needed to review and understand financial information, thus enabling them to recognize accounting transactions that are reported improperly.

Policy: Section 40-04, HRS, Publication of statements, states:

“The comptroller shall prepare and submit to the governor, immediately following the close of each fiscal year, a statement of income and expenditure by funds, showing the principal sources of revenue, the function or purpose for which expenditures were made, together with a consolidated statement showing similar information for all funds; also a statement showing the balance in each fund at the beginning of the fiscal year, plus the receipts, minus the disbursements, and the balance on hand at the close of the fiscal year after deducting outstanding warrants and vouchers."

Governmental Accounting Standards Board Statement No. 34, which establishes accounting and financial reporting standards, states, in part:

"Accountability is the paramount objective of governmental financial reporting - the objective from which all other financial reporting objectives flow. Governments' duty to be accountable includes providing financial information that is useful for economic, social, and political decisions. Financial reports that contribute to these decisions include information useful for (a) comparing actual financial results with the legally adopted budget, (b) assessing financial condition and results of operations, (c) assisting in determining compliance with finance-related laws, rules, and regulations, and (d) assisting in evaluating efficiency and effectiveness."

Consistent with these provisions, each department head is obligated to establish an ethical tone within their organization culture that promotes honesty and accountability, and is conducive to preparing reliable financial information for decision makers. Recognizing employees are likely to develop the same attitudes about right and wrong as those demonstrated by top management, department heads must embody the code of conduct in their words and actions.

To provide reliable financial information, each department head is primarily responsible for maintaining an effective internal control system within their organization, and creating an infrastructure whereby employees:

- understand their ethical duties,
- possess the necessary knowledge and skills to detect wrongdoings or weaknesses that might significantly impair the integrity of financial data, and
- can comfortably report evidence of such actions through retaliation-free communication channels.

The internal control system established within each department must be consistent with the definition provided in this policy and procedure.

Department heads must devote sufficient financial resources and management involvement to implement the required practices for effective administration of this code.

All employees with accounting, auditing, financial reporting, or tax filing duties have an ethical responsibility to instill the values of honesty and integrity in their day-to-day decisions and actions. This includes all employees involved directly or indirectly in recording, processing, summarizing or reporting financial transactions. Employees with indirect involvement include those individuals without authority to access the state's accounting system, but whose decisions and actions materially impact financial activities. The financial reports, tax filings, and other reports, including any related disclosures that these employees prepare, or assist in developing, must be complete, fair, accurate, timely, and understandable to their intended audience.

Employees are required to comply with this code of conduct and other finance-related policies and procedures and legal provisions that are pertinent to their job duties. Employees are expected to put aside their personal beliefs, motivations, biases or desires so that department management are informed of financial reporting problems and quality improvements in internal controls and financial information can be made.

This code of conduct supplements the code of ethics for employees in the executive branch (Chapter 84, HRS) and the requirements of the statewide purchasing ethics policy developed pursuant to Section 103D-106, HRS and Chapter 3-131, Hawaii Administrative Rules.

Any employee who dishonestly or fraudulently affects the state's accounting processes, auditing processes, financial reports, or tax filings; inappropriately destroys documents; or improperly influences or misleads auditors is subject to disciplinary action, up to and including termination of state employment.

Employees are required to report violations of this code and any significant internal control deficiencies through appropriate agency communication channels to their supervisors, or to other proper authorities within the department.

An employee who makes a good faith report of evidence of a violation of this code of conduct, a significant internal control deficiency, or other unlawful employee action(s) is covered by the state's whistle blower act (Section 378-0062, HRS) that prohibits the employer from disciplining, discharging, threatening, penalizing, or otherwise discriminating against the employee. It is improper for an employee to knowingly make any false statement or disclosure. Making a false statement with the intent to injure or defraud will be subject to disciplinary action, up to and including termination of state employment.

Department heads and all employees with accounting, auditing, financial reporting, or tax filing duties are required annually to affirm their knowledge, understanding, and compliance with their respective responsibilities set forth in this code of conduct.

Definitions

Accountability - "Being obliged to explain one's actions, to justify what one does. Accountability requires governments to answers to the citizenry - to justify the raising of public resources and the purposes for which they are used. Governmental accountability is based on the belief that the citizenry has a "right to know", a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives". (Source: Government Finance Officer's Association 2005 Governmental Accounting, Auditing, and Financial Reporting, authored by Stephen J. Gauthier, p. 675).

Comprehensive Annual Financial Report (CAFR) - "A financial report that encompasses all funds and component units of a government. The CAFR should contain (a) the basic financial statements and required supplementary information, (b) combining statements to support columns in the basic financial statements that aggregate information from more than one fund or component unit, and (c) individual fund statements as needed. The CAFR is the governmental unit's official annual report and also should contain introductory information, schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, and statistical data." (Source: Government Finance Officer's Association 2005 Governmental Accounting, Auditing, and Financial Reporting, authored by Stephen J. Gauthier, p. 682).

Control(s) - "A control is any action taken by management, the board, and other parties to manage the risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved." (Source: Institute of Internal Auditors, Glossary to the International Standards for the Professional Practice of Internal Auditing). "Controls may be preventative (to deter undesirable events from occurring), detective (to detect and correct undesirable events that have occurred), or directive (to cause or encourage a desirable event to occur)." (Source: Institute of Internal Auditors January 2002 Professional Practices Framework, Practice Advisory 2100-1: Nature of Work, paragraph 6.)

Governance - "The combination of processes and structures implemented ... to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives". (Source: Institute of Internal Auditors, Glossary to the International

Standards for the Professional Practice of Internal Auditing) Executive management teams, boards, and audit committees have an oversight role and responsibility for good governance.

External Auditors - "Independent auditors, typically engaged to conduct the audit of a government's financial statements." (Source: Government Finance Officer's Association 2005 Governmental Accounting, Auditing, and Financial Reporting, authored by Stephen J. Gauthier, p. 688). An example includes independent certified public accountants engaged to express an opinion on the fair presentation of an organization's financial statements.

Honesty - This term relates to being candid, open with all relevant facts and information, truthful even if difficult, and free from deception in all actions.

Integrity - Unimpaired adherence to a value system that does not compromise ethical issues or behavior.

Internal Auditors - Independent and objective employees of an organization who provide assurance and advisory services that are designed to add value and improve an organization's operations. Unlike consultants, financial advisors, and business analysts, internal auditors perform these services using a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. (Source: The Institute of Internal Auditor's 1999 definition of Internal Auditing contained in the January 2002 Professional Practices Framework, page iii).

Internal Control Framework - A process, effected by an entity's oversight body, management and other personnel, designed to provide reasonable assurance that operations are effective and efficient, financial information is reliable, applicable laws and regulations are complied with, assets are safeguarded against loss or unauthorized use, and strategic goals and objectives are attained. The process consists of five interrelated components that are derived from the way that management runs a business: (1) a positive control environment, (2) continuous assessment of risk, (3) the design, implementation, and maintenance of effective control-related policies and procedures, (4) effective communication of information, and (5) ongoing monitoring of the effectiveness of control-related policies and procedures. (Source: Internal Control Integrated Framework that the Committee of Sponsoring Organizations (COSO) of the Treadway Commission developed in 1992)

Risk(s) - "The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood." (Source: Institute of Internal Auditors, Glossary to the International Standards for the Professional Practice of Internal Auditing). Examples include errors, omissions, delays, frauds, productivity losses, dysfunctional workplaces, opportunity costs, obsolescence, customer demand shortfalls, supplier problems, natural disasters, and lawsuits.

Risk Management - "A process to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of the organization's objectives." (Source: Institute of Internal Auditors, Glossary to the International Standards for the Professional Practice of Internal Auditing).

Significant Internal Control Deficiency - A weakness in the design or operation of an internal control, which in an individual's professional judgment, could adversely affect an organization's ability to initiate, record, process, summarize, or report financial data. Such deficiencies may involve aspects of the five components of an integrated internal control framework: (1) the control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Examples include: reporting transactions not in accordance with generally accepted accounting principles that, if uncorrected, could trigger a material misstatement of a financial statement account balance, or performing untimely account reconciliations.

Whistle-blowing - The action of bringing a wrongdoing within an organization to light. (Source: The American Heritage College Dictionary, Third Edition, page 1538). An example of whistle-blowing is when an employee reports an employer who is breaking the law.

General Procedures

Step No.	Actions to be Performed	Responsible Party
1.	Develop a training session and materials, and provide education to state employees on the content of this policy, including what constitutes fraud or unacceptable behavior.	Department of Accounting and General Services
2.	Establish the ethical tone within each department to promote honesty, integrity, and accountability, as well as demonstrate compliance through the individual's words and actions.	Department/ Agency Head

3.	Ensure that a solid ethics program exists within each department that includes an appropriate communication channel to receive and respond to evidence of fraudulent or dishonest accounting, auditing, financial reporting, or tax filing practices, or insufficient internal controls. • Communication mechanisms established for purposes of this policy should be designed to ensure employees feel comfortable in raising ethical issues internally and can bring their complaints or allegations forward through retaliation-free channels. Examples of communication mechanisms include anonymous reporting systems and independent fraud hotlines that are accompanied with training and awareness sessions for employees and other internal procedures for handling and investigating complaints. • Internal procedures must address the process for investigating alleged wrongdoings. Whenever possible, departments shall establish an internal audit function.	Department/ Agency Head
4.	Ensure that an effective internal control system is designed, implemented, and maintained for accounting, financial reporting, or tax filing processes. The internal control framework established must be consistent with the definition provided in this policy and procedure.	Department/ Agency Head
5.	Administer and support training programs so that employees responsible for accounting, auditing, financial reporting, or tax filing duties are knowledgeable in relevant professional accounting and auditing standards, taxation regulations, internal controls, and ethical responsibilities.	Department/ Agency Head
6.	Periodically assess the effectiveness of the	Department/

	ethics and training programs and the internal control system to ensure that the programs are working as intended and achieving desired results.	Agency Head
7.	Require full cooperation by staff with internal, legislative, and external auditors who are acting in their capacity to examine official accounting records, financial reports, or tax filings.	Department/ Agency Head
8.	As necessary, take appropriate disciplinary action, up to and including dismissal from state employment, against an employee failing to carry out the duties established in step 10, or making false statements or disclosures. Report any evidence of unlawful employee actions promptly in writing to the State Comptroller. Unlawful employee actions include theft, embezzlement, or unlawful use of public funds or property, Direct department employees to report any evidence of theft, embezzlement, or unlawful use of public funds or property to the department head, or authorized designee, so such evidence can be reported to the appropriate authority.	Department/ Agency Head
9.	Upon initial employment and by July 1 of each year thereafter, sign a statement that he/she has knowledge of and understands this code of conduct, and certifies that a due diligence program is maintained, complete with policies and procedures and adequate controls that are reasonably designed to prevent, and to detect and report, any wrongdoings or significant internal controls deficiencies.	Department/ Agency Head
10.	Conduct oneself in the following manner: 1. Act honestly and ethically in carrying out their duties. 2. Prepare or facilitate the preparation of full, fair, accurate, timely, and	Department/ Agency Head and Management

	understandable financial reports, tax filings, or related disclosures. 3. Comply with applicable policies, law, rules and regulations. 4. Cooperate fully with internal, legislative, and external auditors who are acting in their capacity to examine official accounting records, financial reports, or tax filings.	
11.	Report evidence of the following actions through appropriate communication channels established in step 3 of this policy and procedure to the employee's supervisor or to other proper authorities within the department: • Violations of requirement 10.A through 10.D, or • Significant deficiencies in internal controls. Examples of violations of this policy include fraudulent financial reporting or document destruction to intentionally conceal data from auditors. An employee also must report evidence of a suspected violation of this code of conduct to proper authorities through appropriate agency communication channels. If an employee suspects a violation, the employee must have a reasonable basis for this belief. If an employee just complains to a coworker within the organization, this action generally is not whistle blowing. The state's whistle-blower laws may not protect the employee in this situation.	All state employees with accounting, auditing, financial reporting, or tax filing duties.
12.	Upon initial employment and by July 1 of each year thereafter, sign a statement that he/she has knowledge of, understands, and agrees to fulfill his/her responsibilities set	All state employees with accounting,

	forth within this code of conduct.	auditing, financial reporting, or tax filing duties.

Additional Information:

None.

This policy contains information adapted from the State of Minnesota's Code of Conduct, published in 2006.