

**State of Hawaii**  
**Department of Agriculture**  
**Internal Control and Business Issues Report**  
**June 30, 2009**

March 19, 2010

To the Auditor and Board of Agriculture  
State of Hawaii

In planning and performing our audit of the basic financial statements of the State of Hawaii, Department of Agriculture (the "Department") as of and for the year ended June 30, 2009, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation, and are submitting for your consideration our observations and recommendations designed to help the Department improve internal control and achieve operational efficiencies.

The Department's responses to the comments identified in our audit are described in the Department's corrective action plan included in this report. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the State Auditor, the Board of Agriculture, and management of the Department, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Acuity LLP*

CKY:dn

Attachment

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**Current Year Comment**  
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**1. Time-Stamped Bids**

During our procurement testing of invitations for bids, we noted three out of four instances where we were unable to obtain evidence to validate whether bids were received prior to the specified deadline and time-stamped upon receipt.

In accordance with Hawaii Administrative Rules (“HAR”) 3-122-30a, “each bid and modification shall be time-stamped but not opened and shall be stored in a secure place by the procurement officer until the time and date set for opening.”

**Recommendation**

The Department should retain documentation of time-stamped bids with the other supporting documents in its procurement files to provide clear evidence of compliance with HAR 3-122-30a.

**Corrective Action Plan**

The Department’s management believes the existing procedures implemented by the Department of Land and Natural Resources (“DLNR”) during the bid opening process are in accordance with Hawaii Administrative Rules 3-122-30a as there are no requirements to retain documentation beyond the time and date set for opening. DLNR’s procedure is to maintain a record, with signatures of two employees, confirming the timely receipt of bids. Due to a shortage of engineers, DLNR has been assisting the Department with bid openings for several years. DLNR personnel oversee and control this process.

Contact Person: Brian Kau

Anticipated completion date: Not applicable.

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**1. State of Hawaii Escheat Requirements**

During our prior year testing of animal quarantine payments, we noted numerous instances where customers' prepayments for animal quarantine services remained on the Department's deferred revenue listing for several years. Therefore, it appeared that the Department had not properly and timely investigated whether these amounts should have been submitted to the State Director of Finance under Hawaii's escheat law for unclaimed property as documented below.

Hawaii Revised Statutes ("HRS") §523A-3.5 *Escheat Process* stated the following guidance and outlined the time frame at which a valued property under \$1,000 should escheat back to the State of Hawaii (the "State"):

- *If the value of the property is greater than \$100 but less than or equal to \$1,000, the property shall escheat three years after the end of the fiscal year in which the property was paid or delivered to the director; and*
- *If the value of the property is less than or equal to \$100, the property shall escheat two years after the end of the fiscal year in which the property was paid or delivered to the director.*

We recommended that the Department establish procedures to properly maintain the Department's deferred revenue listing and to comply with State laws related to escheat property.

**Status**

Unresolved. We noted that HRS §523A was revised and effective July 1, 2009 is known as the Unclaimed Property Act. HRS §523A-3(6) states that a property is presumed abandoned if it is unclaimed by the apparent owner five years after the obligation is accrued for money or credits owed to a customer under a retail business transaction. HRS §523A-3(11) states that property is presumed abandoned if it is unclaimed one year after it becomes distributable by a government agency. Under HRS §523A-5(3)(B), the State shall take custody of the unclaimed property if the holder of the unclaimed property is a government agency and has not previously paid or delivered the property to the state of the owner's last known address.

We noted that the Department updated its procedures for handling escheat property. However, the implementation of these procedures was delayed. As the prior year's comment has yet to be resolved, the comment is still applicable.

**Corrective Action Plan**

The Animal Quarantine Station implemented procedural changes as follows:

1. Update the procedures manual (refer to "Unclaimed Property and Refunds" section below) and provide training for staff to access, understand and comply with these procedures.
2. An individual shall be assigned to properly maintain the Division's deferred revenue listing and to comply with the existing laws related to escheat property.

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Unclaimed Property and Refunds

- ▶ A report of prepayments shall be printed out semi-annually and compared with account releases for the preceding six-month period. Prepayments on the report exceeding three years in age (without an associated documented entry) shall be transferred to the Director of Finance after appropriate reporting per 2b. below.
- ▶ Copies of all refund checks will be attached to the credit memo and filed in a refund file.

Chapter 523A-13, HRS, addresses property held by courts and public agencies. It states:

“Intangible property held for the owner by a court, state, or other government, governmental subdivision or agency, public corporation, or public authority which remains unclaimed by the owner for more than one year after becoming payable or distributable is presumed abandoned.”

In accordance with section 523A-13, HRS,

1. If an item is less than or equal to \$50.00, then:
  - a. The unclaimed property or refund shall be reported on an Annual Report of Property Presumed Abandoned form BFF 3. The description of the property, owner(s) name(s), last known address and taxpayer identification number, if any, shall be included on this form.
  - b. While a list of each individual item shall be maintained, the Department shall report these items in aggregate.
  - c. In accordance with chapter 4-29-17 (a) (27), HAR, refunds of less than \$15.00 shall not be processed without a written request from the owner. Moreover, the request must be submitted within one year of the release date of the animal.
2. If an item is more than \$50.00, then:
  - a. A written notice shall be sent to the owner’s last known mailing address informing the owner(s) that the department is in possession of property subject to escheat not more than six months from the Annual Report of Property Presumed Abandoned.
    - ▶ A copy of the written notice shall be filed in an unclaimed property file.
    - ▶ An entry will be made into the Unclaimed Property log indicating mailing of the notice.
  - b. The unclaimed property or refund shall be reported on an Annual Report of Property Presumed Abandoned, form BFF 3. The description of the property owner(s) name(s), last known address and taxpayer identification number, if any, shall be included on this form.

Contact Person: Isaac Maeda; James Foppoli

Anticipated completion date: Corrective action has already been implemented.

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**2. Reporting**

During our prior year testing of the reporting compliance requirement for the Federal Emergency Management Agency Flood-proofing program (CFDA 97.017), we noted that there were inconsistencies in the expenditures reported by the Department on its quarterly performance reports to the State Civil Defense Division ("Civil Defense"). We noted that the expenditures did not agree to the underlying Financial Accounting and Management Information System data. In those reports, only expenditures of federal funds were reported, while expenditures of State funds were not reported.

The Department subsequently received clarification from Civil Defense that reporting total expenditures (both federal and State share) is an acceptable methodology. Since receiving clarification from Civil Defense, the Department has been reporting expenditures on the quarterly performance reports in this manner.

**Status**

Unresolved. Due to the completion date of the prior year audit, the corrective action plan was implemented during fiscal year 2010.

**Corrective Action Plan**

As noted above, the Department received clarification from Civil Defense and is now reporting expenditures on the quarterly performance reports in the agreed-upon manner.

Contact Person: Brian Kau

Anticipated completion date: Corrective action has already been implemented.