

STATE OF HAWAII
OFFICE OF THE AUDITOR
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Honolulu, Hawai'i 96813-2917



DEPT. COMM. NO. 76

MARION M. HIGA
State Auditor

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March 18, 2010

The Honorable Colleen Hanabusa
President of the Senate
State Capitol, Room 409
Honolulu, Hawai'i 96813

Dear Madam President:

I transmit to you a copy of our report, *Financial Examination of the Department of Budget and Finance*.

The examination was conducted by the Office of the Auditor and the certified public accounting firm of Accuity LLP. Our examination revealed a lack of proper leadership and accountability in the Department of Budget and Finance and resulting deficiencies in its execution of statutorily mandated fiscal responsibilities. We found that the department is not efficiently and effectively managing the state treasury, which accordingly now holds approximately \$1 billion of illiquid auction-rate securities. The value of those securities is expected to be written down by approximately \$255 million as of June 30, 2009. We also found that the department has not performed other required financial functions essential to proper oversight and safeguarding of state funds. Additionally, the department has not formalized internal budget policies and procedures and has not established adequate information technology structure and controls to improve efficiency and ensure its systems and data are reasonably protected.

We hope that the report will assist you in reviewing the issues examined. We will place the report on our website, www.state.hi.us/auditor, and release it to the public and press today.

Sincerely,

A handwritten signature in cursive script, reading "marion m. higa".

Marion M. Higa
State Auditor

Enclosure

c:\Carol Taniguchi, Senate Clerk .10 4617 63 00