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ADMINISTRATIVE SURVEY OF THE TERRITORY OF HAWAII

Preliminary Report Number 6

~~For Committee Use Only~~

ADMINISTRATIVE SURVEY OF THE TERRITORY OF HAWAII

Preliminary Report Number 6

Prepared for the Sub-Committee on Governmental Efficiency
of the Holdover Committee of 1949

1. Financial Administration
 - a) Bureau of the Budget
 - b) Audits
2. Treasurer / FINANCIAL ADMINISTRATION
(Draft No. 2)
3. Tax Office

LEGISLATIVE REFERENCE BUREAU

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TERRITORY OF HAWAII

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LEGISLATIVE REFERENCE BUREAU
University of Hawaii

TABLE OF CONTENTS

	<u>Page</u>
Introduction	
Present Organization for Financial Administration	
I. Bureau of the Budget	1
II. Audit Department	3
III. Treasury Department	6
Analysis of Present Organization	10
Recommendations	14
Figures:	
1. Recommended Finance and Administration Reorganization Under Present Organic Act	16
2. Recommended Regrouping of Finance and Administrative Functions	17
Appendix A Recommended Legislation	18

INTRODUCTION

Government finance is concerned with the complete cycle of raising and spending public funds, including tax levying and collection, budgeting, appropriation, expenditure controls, the handling and disbursing of funds and the audit of expenditures, as well as many other minor but closely related functions. Revenue functions, primarily concerned with tax levying and collecting, are largely centralized for the Territory of Hawaii in the office of the tax commissioner. Expenditure functions of budgeting, purchasing, accounting, executive control over expenditures and the handling of money, are presently divided among three territorial agencies--the budget bureau, auditor's office and treasurer's office. Appropriation of funds is in all cases a legislative function.

Many mainland states, in recent reorganizations, have combined revenue and expenditure functions in one department under an administrator appointed by the governor. However, most of the states reorganizing in such a manner do not have the highly developed and centralized tax structure which characterizes Hawaii's revenue system. Since the present territorial organization for revenue administration apparently is generally satisfactory, it is felt that there would be little advantage in combining revenue and expenditure functions at this time. Therefore, this study is confined to consideration of the expenditure function. None of the observations or recommendations contained herein pertain to tax administration, unless specifically stated.

This report incorporates the recommendations of reports numbers 1 - 5 of this series,¹ which should be referred to for detail concerning many of the proposals made herein.

¹Duplicating Services, Mail and Messenger Services, Stenographic Services, Printing and Purchasing Services.

PRESENT ORGANIZATION FOR FINANCIAL ADMINISTRATION

I. Bureau of the Budget

A. Organization

The bureau of the budget, under the supervision of a director appointed by the governor, was established in 1925, with a supplies division being added in 1933. The bureau employs 12 persons, most of whom are executive and administrative personnel in the examining, fiscal, and supplies divisions. Appropriations for the current biennium total \$212,217.

B. Functions

1. Budgeting

The principal function of the budget bureau is the preparation and execution of the biennial budget, which is prepared for the governor under rules and regulations prescribed by him. The budget is based on budget estimates submitted by the various departments, showing their actual expenditures for the last three bienniums, their estimated expenditures for the current biennium and their estimated needs for the next biennium. The budget director consolidates these estimates and may revise them in any way he sees fit. He prepares the budget document setting forth the following summary information for all funds:

- (1) actual expenditures for past 3 bienniums;
- (2) appropriations for current biennium;
- (3) estimated expenditures for next biennium;
- (4) departmental requests for next biennium;
- (5) governor's recommendations for next biennium;

(6) increase or decrease of recommended appropriations over current appropriations.

In addition, estimated expenditures are broken down to show individual items of expenditure, including payroll data. The budget also contains information pertaining to receipts, anticipated revenues and the amount of bonded indebtedness.

The bureau also prepares any supplemental or deficiency estimates which may be necessary. It further acts as financial advisor to the governor, recommending new sources of revenue, when necessary, gathering information and making recommendations on other financial matters, particularly those pertaining to the budget.

After appropriations are approved by the legislature, the budget bureau makes quarterly allotments to the various agencies of the territorial government based on allotment requests submitted by them.

2. Administrative analysis

The bureau is charged with continuous investigation of the administration of all territorial agencies, particularly procedures and personnel matters, with a view to recommending to the governor and legislature changes to achieve greater economy or efficiency. However, in practice, such analysis has been carried out only in connection with specific requests relative to increased staff or appropriations.

3. Purchasing

The bureau is charged with certain centralized purchasing and disposal functions.¹

¹Discussion of these functions may be found in Report No. 5 of this series.

4. Miscellaneous

The 1949 regular session of the legislature (Act 389) gave to the bureau the responsibility for regulating the use of territorially owned and controlled motor vehicles. Procedure has been established in this matter and the bureau now issues temporary and regular permits for the use of such automobiles.

All claims for legislative relief, such as refunds or reimbursements, must be filed with the bureau at least 30 days before the legislature convenes, for study and recommendation.

The director of the bureau is a member of a special board which handles the purchase of federal government surplus material, and is chairman of the board of disposal which is charged with the disposal of unused or surplus public property.

II. Audit Department

A. Organization

The Hawaiian Organic Act provides that the governor shall appoint an auditor and deputy auditor. Principal functions of the department are auditing, both pre-audit and post-audit, accounting and disbursing.

Thirty-five positions are authorized for the department, and appropriations for the current biennium total \$396,638.

B. Functions

1. Auditing

The law makes no clear distinction between the auditor's pre-audit and post-audit functions.² He is authorized to record "settlements, . . .

²The pre-audit of accounts is a financial check of proposed expenditures before obligations are entered into. The post-audit is a check of transactions after they have been completed.

salaries, . . . bids, . . . and prices current wholesale and retail of same," to compare bills or claims with such records and "strike out . . . all amounts in excess of the current rates and prices . . . or that in his judgment are excessive,"³ to "audit every receipt and disbursement of money made to by or through the treasury. . . . He shall have the power, by withholding his approval when necessary, to prevent the misappropriation of public funds, as well as the disbursement of public moneys in excess of specific appropriations."⁴ He is also specifically charged with the audit of public school accounts and accounts of the clerks of the circuit courts dealing with minors and certain other classes of persons.

In practice, all vouchers are routed through the auditor for check and approval before payment is made, although usually after the commodity has been received by the using department.⁵ In addition, a continuous audit of departmental records and accounts is carried out by a staff of field auditors which visits each agency once a year and audits all transactions for the past 12-month period.

2. Accounting

The auditor supervises accounts of the Territory and its political subdivisions. He maintains accounts for all territorial funds, recording all appropriations and other revenues, and all expenditures, transfers or other transactions. In general, the accounts are maintained on a cash basis, which records transactions after funds have actually been expended,

³Sec. 1586, Revised Laws of Hawaii 1945.

⁴Sec. 1564, Revised Laws of Hawaii 1945.

⁵Discussion of this procedure may be found in Report No. 5 of this series.

rather than at the time they are obligated, as they would be under an encumbrance system. He prepares annual financial statements from these accounts.

In order to gather necessary financial data, he is authorized to approve, standardize and catalogue all "business and accounting" forms.⁶

3. Disbursing

The auditor has certain responsibilities in connection with payments into and out of territorial funds. He is charged with enforcing payment of public moneys by the various agencies into the treasury and receives reports of all such payments. He issues and signs all warrants, including payroll warrants. He establishes and supervises petty cash funds whenever he believes they are necessary.

4. Miscellaneous

Among his miscellaneous duties, the auditor

1. Makes estimates of non-tax revenues to the budget bureau before each legislative session.
2. Assists in the counting of money and securities in the territorial treasury at the end of each quarter.
3. Is custodian of inventory records of territorial property.
4. Is member of the board which handles the purchase of federal government surplus property.
5. Is member of the board of disposal.

⁶Discussion of this function may be found in Report No. 4 of this series.

III. Treasury Department

A. Organization

The Organic Act provides that there shall be a treasurer appointed by the governor. The treasurer is, ex officio, bank examiner, insurance commissioner, fire marshal and commissioner of securities. The bureau of conveyances is also a part of the treasury department, although independent of control by the treasurer in many respects. Approximately 70 persons are employed in the treasury department, about half of whom are in the bureau of conveyances. The department's biennial operating budget is approximately \$750,000, of which more than \$300,000 goes to the bureau of conveyances.

B. Functions

1. Treasurer's office

The treasurer is charged with "general supervision over the financial affairs of the Territory", "the enforcement of all revenue laws and the collection of taxes", and "the safe-keeping and disbursement of the public moneys."⁷

Under this authorization, he collects and disburses territorial funds and is custodian of various securities and deposits required by law. He issues territorial bonds and invests certain territorial funds in short-term securities.

All articles of incorporation and statements of partnership are filed with the treasurer and he grants charters to certain corporations not organized for profit. He administers regulatory laws relating to

⁷Sec. 5802, Revised Laws of Hawaii 1945.

both foreign and domestic corporations and partnerships and also issues certificates of registration in connection with applications for trade marks, trade names or labels.

The treasurer administers the inheritance, estate and insurance tax laws⁸ and determines the real property tax rate for the counties of Hawaii and Kauai, from data submitted by them.

2. Bank examiner

The principal function of the bank examiner is an annual examination of the "condition and resources" of every bank, trust company, building and loan association, fiduciary company and industrial loan and investment company in the Territory. The examination goes into "the mode of managing its . . . business and conducting its . . . affairs, the action of its officers and directors . . . in the investment, management and disposition of its funds, . . . and whether such bank . . . is complying with the laws of the Territory."⁹ It has also been the practice of the treasurer to delegate certain functions relating to the examination of insurance companies to this division.

The bank examiner conducts a semi-annual audit of the books and accounts of the city and county and the three counties. By special mandate, the division has also been called on to audit legislative records and accounts.

3. Insurance commissioner

The insurance commissioner is authorized to "supervise all insurance

⁸All other functions of tax administration within the territorial government have been transferred to the office of the tax commissioner, created in 1932.

⁹Sec. 5823, Revised Laws of Hawaii 1945.

transactions within the Territory, or affecting property situate therein."¹⁰
He issues certificates of authority to companies desiring to transact insurance business and may revoke such certificates for certain causes. All companies are required to post bonds and file annual statements with the commissioner, who administers all insurance laws of the Territory.

4. Fire marshal

Somewhat connected with his duties relating to fire insurance are the treasurer's functions as fire marshal. He collects information on all fires occurring in the Territory and investigates them as he sees fit; he makes and enforces regulations relating to fire prevention, the handling of explosives, fire alarm systems, fire escapes and exits. He supervises fire safety in such public places as schools and hospitals and in certain businesses, such as paint shops and dry-cleaning plants. He enforces the fire code and has general supervision over all fire safety matters throughout the Territory.

5. Commissioner of securities

The principal duty of the securities commissioner is the registration of all securities sold in the Territory, except certain kinds specifically exempted by law, and of all dealers and salesmen engaged in selling such securities. Dealers are required to post a \$5,000 surety bond, unless members of an exchange in existence more than five years prior to April 29, 1931, or dealing in certain infrequent small sales. Registration may be revoked by the commissioner under circumstances prescribed by law. The work of this division is performed by personnel of the treasury division.

¹⁰Sec. 8452, Revised Laws of Hawaii 1945.

6. Bureau of conveyances

The Organic Act delegates to the treasurer powers and duties formerly assigned to the minister of the interior of the Republic of Hawaii relating to the "registry of conveyances,"¹¹ which accounts for the bureau of conveyances being a part of the treasury department. The registrar of conveyances, nominated by the treasurer, is appointed by and serves at the pleasure of the governor. This organizational pattern, plus the fact that there is little relationship between the functions of the bureau and those of the treasury, results in a relatively autonomous bureau. There is some administrative or "housekeeping" supervision by the department, but the substantive work of the bureau is largely independent of control by the treasurer.

The bureau is an archives for the recording and filing of documents reflecting title, conveyances and encumbrances of lands on all the islands, with the registrar of conveyances serving as the assistant registrar of the land court. The bureau has two major divisions, one dealing with unregistered land and one with registered. It receives, files and copies records and maps, issues certificates of title for registered land and collects fees.

¹¹Sec. 72, Hawaiian Organic Act.

ANALYSIS OF PRESENT ORGANIZATION

The most important objective of administrative organization is to secure an efficient framework for the performance of duties and responsibilities. The principal financial duties and responsibilities of the executive are the following:

(1) Budgeting: the preparation and execution of the executive budget.

(2) Accounting: the development of an adequate accounting procedure for and the recording of fiscal transactions.

(3) Pre-auditing: the determination, before the obligation of funds, that a transaction is legal, proper and that unencumbered funds are available.

(4) Purchasing: the expenditure of public funds for supplies, equipment and contractual services to the best advantage of the Territory.

(5) Administration and handling of moneys and securities: the collection, safe-keeping, investment and disbursement of all public funds.

Also closely related to these financial functions are certain administrative responsibilities which are being recognized in many jurisdictions as belonging in a central staff agency. These functions include the following:

(1) Property control: the custody, supervision of government property, including assignment of space in public office buildings.

(2) Administrative research and analysis: the continuous study of government functions and organization, to develop and encourage improved administrative methods.

(3) Housekeeping functions: providing certain services, such as duplicating, mail and messenger services, for the use of all departments.

(4) Contract approval: the clearing of all contracts through one agency to determine their legality and the availability of funds.

(5) Transportation and travel regulation: the control of the use of public motor vehicles and the establishment of standards regarding the travel of public officers and employees.

(6) Printing and form control: the control of all forms in use by the governmental unit and the supervision of the form of all public printing.

Some of these functions, such as administrative research and transportation regulation, have already been integrated in the Territory's financial administration. Others, such as housekeeping services, are presently handled by the various agencies. The property control function is presently vested in the public works department under an administrator appointed by the governor.

All of these functions are of a staff and service nature. That is, they are not, in themselves, an aim or end of government. The Territory does not exist to prepare budgets, keep accounts or print forms. Each function mentioned above is performed so that the legitimate purpose of government--service to the people--can be performed as effectively and efficiently as possible.

All of the functions are closely related to financial administration, and there is a definite trend in most recently reorganized state governments toward placing all such functions in a staff agency under the governor, with a title such as "Department of Finance and Administration."

The Territory's present finance organization had its beginning long before Hawaii was a modern American community. It was no doubt sufficient for the few functions carried on by government fifty years ago. It is not sufficient for the complex government of Hawaii in 1950. In 1900, the Territory's total governmental expenditures were \$3,500,000. During the 1949-50 fiscal year, they totaled more than \$75,000,000 or 20 times the 1900 amount.

Finance functions are presently allocated to three distinct departments--the budget bureau, the audit department and the treasury, with certain allied

administrative duties being performed by public works and the individual agencies themselves.

Of the three financial agencies, the budget bureau is the only one which does not contain miscellaneous or unrelated functions, probably because it was established the most recently. However, not all functions of the budget bureau have been adequately staffed and carried out. The present supplies division does not function as a modern and effective purchasing agency.¹² Although the budget bureau is charged with administrative analysis, a comprehensive study and research program has never been provided for, and the bureau is not staffed to conduct such research.¹³ Individual studies are sometimes made, but they are undertaken only in connection with particular budgetary problems which have arisen.

The auditor's duties violate a well recognized principle of government administration: that of complete separation of the pre-audit and post-audit functions, preferably placing the post-audit agency outside the executive branch of the government so that it is not responsible to the chief executive.¹⁴ At present, the auditor checks his own work, since he approves payments before they are made--by means of a pre-audit--and also checks transactions and accounts at the end of the fiscal period. Pre-audit, properly a tool of the executive in the control of expenditures, is closely related to budgeting, purchasing and accounting. Post-audit, however, can best be utilized by the legislature as a valuable aid in furnishing information as to executive operations and as an independent check on such operations. If this is not possible because of constitutional restraints, the

¹²Discussion of this may be found in Report No. 5 of this series.

¹³The type of continuing research which could be undertaken, if adequate staffing were provided, is illustrated by Reports Nos. 1 through 5 of this series.

¹⁴This is reflected in the provisions of Article VI, sec. 8, The Constitution of the State of Hawaii, which establishes a legislative (post-) auditor.

post-audit should be separated from the pre-audit within the executive branch.

The collection, handling and disbursing of money are generally recognized treasury functions, but the Territory's treasurer is burdened with many duties largely unrelated to such functions. He is charged with the regulation and inspection of banks and insurance companies, the regulation of the sale of securities, the investigation of fires and the registration of land instruments. It is not a satisfactory answer to say that the present system is working well enough. It works because it has to work, not because it is well considered and properly designed for efficient administration.

RECOMMENDATIONS

In order to achieve effective and efficient finance administration, it is recommended that there be established a single department concerned with financial and administrative functions to be headed by a treasurer, appointed by the governor by and with the consent of the senate. Principal functions of the department would be responsibility for budgeting, accounting, pre-auditing, purchasing and property management, treasury functions, administrative analysis, and certain other administrative services. The employees' retirement system would also be located in the department for "housekeeping" purposes only.¹⁵ This is because the retirement system is principally a financial organization, and it is believed that economy could be effected through the joint use of clerical, bookkeeping and accounting personnel and equipment. The board of trustees would retain complete control over the retirement system's substantive program.

A proposed organization chart for such a department is shown in Figure 1. Proposed regrouping of finance functions is shown in Figure 2. In brief, the proposed regrouping of functions would be as follows. All functions of the budget bureau would be transferred to the proposed treasury department with considerable strengthening of the purchasing unit. All functions of the auditor, except that of the post-audit, would be transferred to the proposed department. The post-audit function would remain the function of a separate executive department, under the supervision of an auditor and deputy auditor, appointed by the governor in compliance with the Organic Act.

¹⁵The recent reorganization plan of New Jersey placed the employees' retirement board in the finance department. A recent study in Nevada recommended that employees' retirement be placed either in the finance or personnel department.

Such an organization would provide for the consolidation and coordination of the principal finance functions and still be in accordance with the Hawaiian Organic Act, which requires the appointment by the governor of a treasurer, auditor and deputy auditor. With an amendment to the Organic Act, or under the proposed Constitution of the State of Hawaii, complete financial integration would be possible by means of only one additional organizational change--that is, transfer of the post-audit function to an auditor appointed by the legislature.¹⁶

The legislation recommended for present enactment consolidates finance and administrative functions to such a degree that an efficient and workable system can be established. It effects a major part of the reorganization desirable to consolidate and modernize the financial structure, and, at the same time, lays the foundation for such further change as will be necessary and desirable under the state constitution.

¹⁶This change would be mandatory under the provisions of Article VI, sec. 8, of the Constitution of the State of Hawaii.

FIGURE 1.

RECOMMENDED FINANCE AND ADMINISTRATION REORGANIZATION UNDER PRESENT ORGANIC ACT

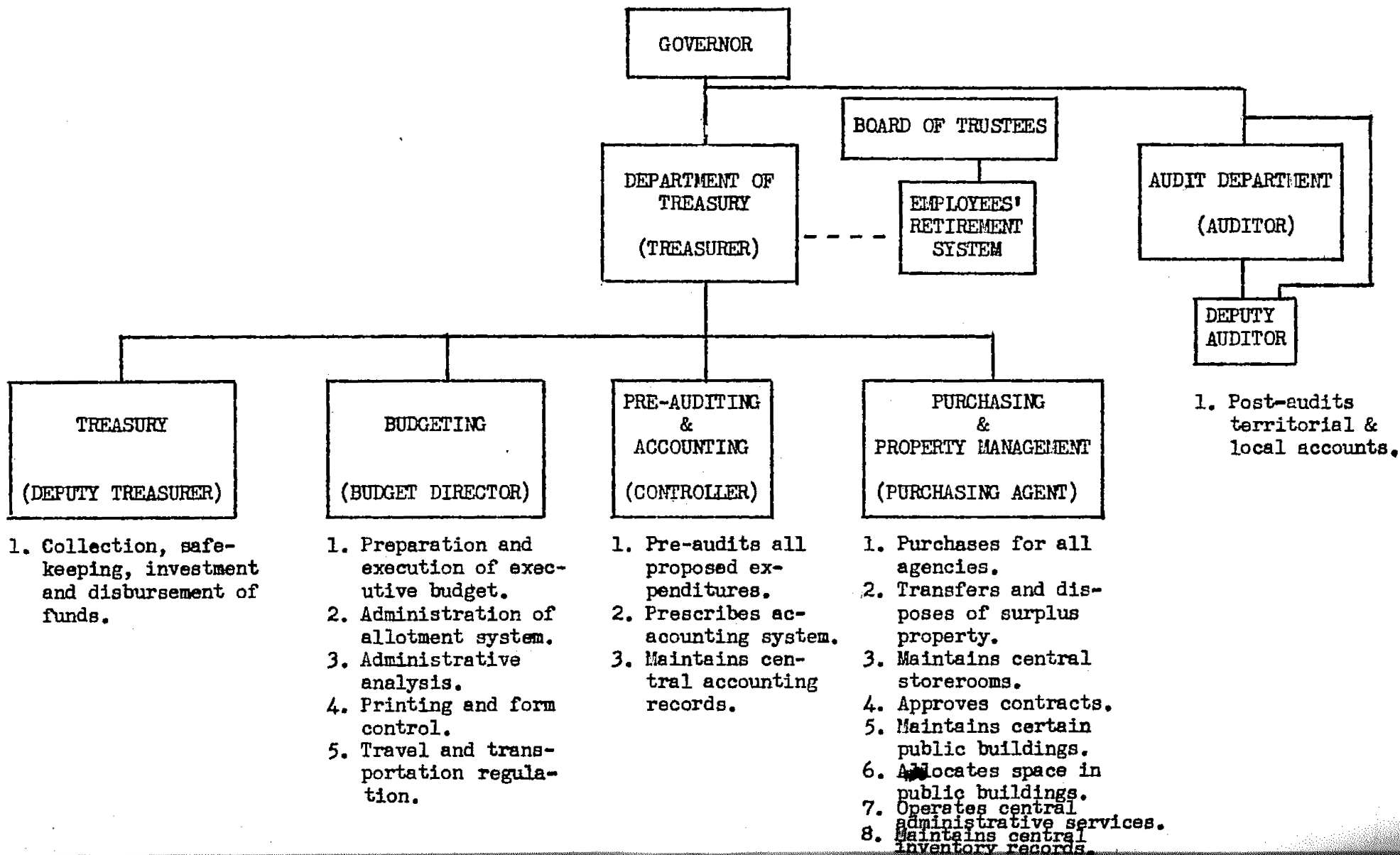


FIGURE 2.

RECOMMENDED REGROUPING OF FINANCE AND ADMINISTRATIVE FUNCTIONS

Present Delegation of Functions	Functions to Proposed Treasury Department	Functions to Agency Other Than Treasury Department
<u>BUDGET BUREAU</u>		
Budgeting ----->		
Supplies ----->		
Administrative Analysis ----->		
Vehicle Regulation ----->		
Allotment System ----->		
<u>AUDIT DEPARTMENT</u>		
Disbursing ----->		
Pre-Audit ----->		
Accounting ----->		
Non-Tax Revenue Estimates ----->		
Inventory ----->		
Petty Cash Funds ----->		
(Retains Post-Audit Functions)		
<u>TREASURY</u>		
Receiving, Handling and Disbursing Funds ----->		
✓ Tax Administration ----->		Tax Commissioner
Fire Marshal ----->		Proposed Commerce Department
Insurance ----->		Proposed Commerce Department
Securities ----->		Proposed Commerce Department
Conveyances ----->		Other Executive Department
Banking:		
Bank Examining ----->		Proposed Commerce Department
Audit County Accounts ----->		Audit Department
<u>PUBLIC WORKS</u>		
Maintenance and Supervision of Certain Buildings and Grounds ----->		
<u>BOARDS</u>		
Disposal Property ----->		
Purchase Surplus Property ----->		
<u>ALL TERRITORIAL AGENCIES</u>		
Certain Administrative Services ----->		

APPENDIX A

AN ACT

RELATING TO THE ORGANIZATION OF CERTAIN EXECUTIVE AGENCIES OF THE TERRITORY OF HAWAII; REORGANIZING THE DEPARTMENT OF THE TREASURY; DEFINING ITS POWERS AND DUTIES; ABOLISHING CERTAIN AGENCIES AND TRANSFERRING CERTAIN POWERS AND DUTIES.

BE IT ENACTED BY THE LEGISLATURE OF THE TERRITORY OF HAWAII:

SECTION 1. Chapter 110 of the Revised Laws of Hawaii 1945, as amended, is hereby amended to read as follows:

"SECTION 5801. Definitions. Wherever used in this chapter, unless the context clearly indicates otherwise, the word 'department' or 'treasury department' shall mean the department of the treasury established herein. The term 'territorial agency' or 'agency' shall include any office, department, board, council, commission, institution or other division of the executive department of the territorial government.

"SECTION 5801.01. Department of treasury. There is hereby created a department to be known as the department of the treasury.

"SECTION 5802. Treasurer. The department of the treasury shall be under the supervision and control of a treasurer to be appointed by the governor, with the advice and consent of the senate. He shall hold office for four years and until his successor is appointed and shall qualify. The governor may remove the treasurer with the advice and consent of the senate.¹ He shall receive such salary as shall be provided by law. He shall furnish a bond to the Territory in the sum of _____ which shall be filed with the secretary of Hawaii.²

"SECTION 5802.01. Appointments by the treasurer. The treasurer is hereby authorized to appoint an assistant or deputy treasurer and such division directors as he may see fit, including, but not limited to, a budget

¹These provisions relating to term of office and removal conform with provisions of the Organic Act. It would be highly desirable to make the term of this officer coterminous with that of the governor and provide for his removal by the governor, for cause, in accordance with the provisions of Article IV, sec. 6, The Constitution of the State of Hawaii, when that is possible.

²In the event that the Territory adopts a blanket bond provision for all territorial officers and employees, this provision should be removed.

director, a controller and a purchasing agent, and he may delegate to such assistant, deputy or division directors full authority to perform any of the duties imposed on him. The treasurer may also appoint such other technical, professional or clerical personnel as he may deem necessary to carry out the provisions of this chapter. All such appointments shall be made in accordance with the provisions of chapters 2 and 3, Revised Laws of Hawaii 1945. If an assistant or deputy treasurer be appointed under the provisions of this section, such assistant shall furnish a bond to the Territory in the sum of _____ . Like provisions shall apply to the purchasing agent, except that the sum of his bond shall be set at _____, to the controller, the sum of whose bond shall be set at _____, and to the budget director, whose bond shall be set at _____. Any such bonds shall be filed in the governor's office.³

"SECTION 5803. Powers and duties of the treasurer. The treasurer shall have the power and authority, and it shall be his duty, subject to the provisions of this chapter:

(1) To formulate a budget plan and prepare a budget for each fiscal period.

(2) To maintain the territorial treasury; to collect, provide for the safekeeping of, invest and disburse all territorial funds in accordance with law.

(3) To control expenditures under such system of allotments as may be prescribed by law.

(4) To approve requests for and to effect the transfer, within any agency, of funds appropriated to that agency.

(5) To investigate and study continuously the organization and administration of the various territorial agencies and keep the governor fully informed concerning such organization and administration; to recommend to the governor any changes in organization, administration, methods, procedures or techniques for the purpose of improving effectiveness and economy in the conduct of the government. To make such investigations, studies and recommendations for the legislature, or any committee thereof, upon request.

(6) To examine every receipt, account, bill, claim, refund and demand against the Territory arising from activities carried on by all territorial agencies; to approve each legal, correct and proper claim, to designate the account to be charged therefor, and to issue a warrant in payment thereof in the manner provided by law.

(7) To maintain centralized accounting records for the Territory, keeping the general books of account on a double entry basis, and maintain such accounts as will reflect, in detail or in summary, all assets, liabilities, reserves, surpluses, revenues and receipts, appropriations, allotments,

³See note 1, supra.

expenditures and encumbrances. The accounting records and procedures shall be such as will provide complete fiscal control over all agencies of the Territory and over all activities carried on by them.

(6) To furnish each agency periodic reports showing the status of its appropriations and allotments.

(9) To make such financial reports as he may deem necessary or as may be requested by the governor or legislature; so prepare and submit to the governor and publish in a newspaper of general circulation in the Territory immediately following the close of each fiscal year, a general financial report for the year for all funds including the unencumbered balance on hand in each of such funds.

(10) To prescribe the system of accounts, statements and estimates, and the form of all financial records and documents used by all territorial agencies, and to require, supervise and control the use of such systems and forms by all such agencies. To prescribe the system of accounts used by all political subdivisions of the Territory. To prescribe such accounting standards as may be necessary for all quasi-public bodies or institutions which receive territorial funds.

(11) To provide for the printing and distribution of all territorial publications and printed material of whatsoever nature, including printing required by the legislative and judicial departments. To supervise and control the form of all such printed material for the purpose of effecting economy and efficiency, coordinating such material, avoiding duplication and making it useful and informative to the public.

(12) To control, supervise and approve all forms in use in all territorial agencies and to maintain a complete and continuous record of all such forms.

(13) To operate a central duplicating service and central mail and messenger services and such other central administrative services as may hereafter be established. To determine, with the approval of the governor, which agencies may economically and practically perform duplicating service and to effect the transfer all other territorial duplicating equipment owned or in use by any agency to the central duplicating service. To approve at any future time the use of duplicating equipment by an individual agency, if such should be necessary or practical.

(14) To supervise the allocation of all space, including buildings and offices, whether owned, rented, leased or otherwise held by the Territory, but this shall not apply to any hospital, educational, correctional or penal institution.

(15) To have custody of and operate the territorial office building, board of health building, territorial tax building, Library of Hawaii, public archives building, Queen Liliokalani building, Iolani Palace, and all temporary structures located on the palace grounds, and the grounds appertaining to all such buildings, also, when deemed advisable and practicable by the

treasurer, any other building or premises owned, rented or otherwise in use by any territorial agency; but this shall not apply to any educational, penal or correctional agency.

(16) To promulgate with the approval of the governor, rules and regulations relative to travel of territorial officers and employees on territorial business and the expenses incurred therein.

(17) To control and supervise the use of all motor vehicles owned or in use by the Territory, and to make and enforce rules and regulations relative to their use by all territorial agencies and employees.

(18) To canvass all sources of supply and to contract for the purchase of all supplies, materials and equipment required by all agencies of the territorial government, under competitive bidding in the manner hereinafter provided; to provide for inspecting and testing the same. Supplies, material and equipment shall be interpreted to include, without limiting the generality of the foregoing, all printing, binding and legal notices, repairs, rentals, insurance, fidelity bonds and all utility services.

(19) To adopt and enforce standard specifications wherever possible for the purchase or use of supplies, materials and equipment for all territorial agencies and to make, or cause to be made, any test, examination or analysis necessary therefor. Each standard specification shall, until revised or rescinded, apply in like terms and effect to each future purchase and contract for such commodity.

(20) To rent or lease, with the approval of the governor, all ground, buildings, offices or other space required by all territorial agencies for terms in excess of two years, or without such approval, for terms of less than two years.

(21) To approve all contracts entered into by or on behalf of the Territory or any agency thereof, certifying as to the availability of funds and the compliance of such contracts with law and with regulations issued in accordance with Section 5803.01 (7) herein, but such contracts shall be approved as to form by the attorney general. To prescribe the amount of any certified check, deposit or bond to be submitted in connection therewith.

(22) To have custody and supervision over all central storerooms of the Territory.

(23) To maintain complete inventories covering all territorial property. To require all territorial agencies to report the property in their custody or possession in such form and at such intervals as he may deem necessary.

(24) To transfer to or between any territorial agencies, or to sell or otherwise dispose of any surplus, unused, discarded or obsolete supplies, equipment or materials in the manner most advantageous to the territorial government. All monies received from the sale of any such property shall be credited to the general revenues of the Territory.

(25) To establish, whenever necessary, petty cash funds for the use of any territorial agency, upon application by the agency, but no such petty cash fund shall exceed the sum of _____.⁴

(26) To expend the monies from the revolving fund established by Act 207, Session Laws of Hawaii 1945, for the purposes of and in accordance with the provisions prescribed therein.

(27) To supervise certain clerical and recording personnel of the employees' retirement system, as set forth in Section 5817 (4) herein.

(28) To perform any or all services or functions herein set forth for the legislative or judicial departments or any agency thereof upon its request.

"SECTION 5803.01. Rules and regulations. The treasurer shall have the power to make, amend or rescind rules and regulations, not inconsistent with law, respecting any matter within the scope of the powers and duties hereby conferred, which rules and regulations shall have the force and effect of law; but any such rules and regulations affecting any person or agency, other than a member of the treasury department, shall not take effect until they have been filed with the governor. He shall make rules and regulations as follows:

(1) To prescribe the manner in which purchases shall be made in accordance with Section 5804 of this chapter.

(2) To prescribe the manner in which all supplies, materials and equipment shall be delivered, stored and distributed.

(3) To prescribe the manner of inspecting deliveries of supplies, materials or equipment and making chemical or physical tests of samples submitted with bids and samples of delivered supplies to determine their compliance with specifications.

(4) To prescribe the manner and form in which requisitions and estimates are to be submitted and the manner of their authentication.

(5) To require and prescribe the form of regular reports by all agencies of stocks of supplies, materials and equipment, including such items as may be unused, surplus or discarded.

(6) To provide for the transfer to or between all agencies of any supplies, materials or equipment which is surplus or unused or has been discarded by one agency.

(7) To prescribe the method of obtaining bids and the procedure for the letting of contracts on behalf of the Territory or any agency thereof.

⁴Present amount is \$5,000. Sec. 1567, Revised Laws of Hawaii 1945.

(8) To determine whether a deposit or bond is to be submitted with a bid or contract and to prescribe the amount and form of such deposit or bond, if required.

(9) To prescribe the procedure and form for determining the responsibility of bidders.

(10) To prescribe the procedure for supervision and approval of all forms controlled by the treasurer.

(11) To prescribe standards of form for all territorial printing and the manner in which the form of all such printing or proposed printing shall be controlled.

(12) To prescribe the manner in which all territorial funds shall be collected, handled and disbursed.

(13) To prescribe the manner in which all financial documents shall be presented to the treasurer for review and recording.

(14) To prescribe the manner in which each central administrative service shall be operated.

(15) To prescribe the manner in which petty cash funds shall be requested and established and the method of disbursing the same; and

(16) To provide for all other matters which may be necessary to effect the provisions and the rules and regulations of this chapter.

"SECTION 5804. Purchasing. (a) It shall be the duty of the treasurer to contract for the purchase of all supplies, material and equipment required by all agencies.

(b) The treasurer may authorize any agency, under rules and regulations prescribed by him, to purchase directly specified supplies, material and equipment; but, in making such purchases the agency shall call for bids and proceed otherwise in like manner as herein required in case of purchases by the treasurer.

(c) The treasurer may purchase, or may authorize any agency to purchase, in the open market, without filing requisitions or estimates, specific supplies, materials or equipment for immediate delivery to meet emergencies arising from unforeseen causes, including delays by contractors, delays in transportation and an unanticipated volume of work. The conditions constituting such an emergency shall be defined by regulation. A written account of the circumstances of each such purchase shall be submitted to the treasurer and be available to the public at any reasonable time.

"SECTION 5804.01. Competitive bids. All purchases of, or contracts for, supplies, materials, equipment or contractual services shall be based on competitive bids whenever possible. The treasurer shall solicit sealed bids by sending notice to prospective suppliers and by posting notice on a

public bulletin board in his office. He may solicit bids in any other reasonable manner which is designed to secure wide competition on each purchase, taking into consideration the amount of the purchase and the particular market conditions. Whenever the treasurer considers it necessary or desirable, he shall solicit sealed bids by publication of a notice including all pertinent facts thereto in a newspaper of general circulation in the Territory, once each week for two consecutive weeks before the final date for submitting bids. Whenever possible, all purchases shall be based on at least three competitive bids. The treasurer may solicit bids from suppliers outside the Territory. All bids shall be opened by the treasurer, or his authorized representative, at the time and place specified in the call for bids.

"SECTION 5805. Award of contracts. No expenditure of public funds shall be made for any project contained in any capital improvement budget except under contract let in the manner prescribed by this chapter. All such contracts shall be in writing and shall be executed by the treasurer in the name of the Territory. All purchases and contracts shall be awarded to the lowest responsible bidder, taking into consideration reasonable variations of prices in various parts of the Territory, the qualities of the articles to be supplied, their conformity with the specifications, their suitability to the requirements of the Territory, any discounts allowed, transportation costs, and delivery terms. If any such bidder shall, within ten days, refuse to accept a contract awarded to him, such contract may be awarded to the next lowest responsible qualified bidder, and so on until such contract shall be awarded and accepted. When, in the opinion of the treasurer, the best interest of the Territory will be served thereby, he may order that any or all bids may be rejected. If all bids shall be so rejected, the treasurer shall advertise again for proposals and such proposals shall be opened, awarded and approved in like manner as herein provided. If all bids received on a pending order or contract shall be for the same unit price or total amount, the treasurer shall have authority to award the contract to one of the tie bidders by drawing lots in public, or to order the rejection of all bids and to order the purchase of the required supplies, materials, equipment or contractual services in the open market, but, in such an event, the price paid in the open market shall not exceed the bid price. Each bid, with the name of the bidder, shall be entered on a record, and each record, with the successful bid indicated thereon, shall, after the award of the order or contract, be open to public inspection.

"SECTION 5805.01. Unlawful purchases. When any agency shall purchase or contract for any supplies, materials, equipment or contractual services contrary to the provisions of this chapter, or to the rules and regulations promulgated in pursuance thereto, such order or contract shall be void and of no effect. The administrative head of any such agency shall be personally liable for the costs of such order or contract, and, if already paid for out of territorial funds, the amount thereof may be recovered from any such administrative head by the Territory in a civil action.

"SECTION 5806. Preference to home products. The treasurer shall give preference to contracts with and purchases from citizens of the Territory. In giving such preference, no sacrifice or loss in quality shall be permitted. Whenever it shall be established that any purchase cannot be made within the Territory, or that the lowest bid received for such supplies, materials,

equipment or contractual service from citizens or firms which maintain regularly established places of business in the Territory exceeds by more than _____ per cent a bid received from a firm or individual outside the Territory, then such purchases may be made outside the Territory.

"SECTION 5806.01. Financing. Money shall be appropriated to the agencies based on estimates of their purchasing needs. However, the expenditure of such funds shall be effected by the treasurer, and shall be based on estimates agreed on jointly by the treasurer and the individual agency.

Except in emergencies, no purchase or order for delivery on a contract shall be issued until the treasurer shall have certified that the unencumbered balance, in excess of all unpaid obligations, is sufficient to defray the amount of such order.

"SECTION 5807. Advisory board on standardization. There is hereby created an advisory board on standardization referred to hereinafter as 'board', to be composed, ex-officio, of the heads of all principal agencies, or such representatives as they shall appoint.

The treasurer shall serve as chairman of such board, and the board shall adopt rules and regulations for its functioning. The board shall advise the treasurer in the adoption, amendment or modification of standard specifications. Standard specifications adopted by the treasurer shall, insofar as possible, follow the recommendations of the board.

"SECTION 5807.01. Budget estimates. (a) It shall be the duty of the treasurer to prepare the budget for all territorial agencies, subject to the approval of the governor.

(b) The treasurer shall furnish to all territorial agencies, at such time as he may prescribe, but not later than the _____ day of _____ preceding each session of the legislature, budget estimate forms on which he shall show, in such detail as may be appropriate, for each of the last two completed fiscal years, the actual receipts of such territorial agency by source and the actual expenditures for the administration, operation, maintenance and support of such agency; and he shall also show for the current fiscal year the appropriations and the receipts as estimated in the budget.

(c) On or before the _____ day of _____⁵ of each fiscal period, every territorial agency shall submit to the treasurer a written statement on the said budget estimate forms furnished by the treasurer showing in such detail as the treasurer may direct the following:

(1) For the current fiscal year: the most recent estimate of receipts of such agency by source and the estimated expenditures to be made for the administration, operation, maintenance and support of such agency;

⁵Under present law, this is October 15.

(2) For the next ensuing fiscal period: the total estimated receipts of such territorial agency by source and the estimated expenditures necessary to be made for the administration, operation, maintenance and support of such agency;

(3) A written statement setting forth the necessity for all such classes or types of estimated expenditures as the treasurer may require;

(4) Proposals for expenditures for new projects, construction, additions, buildings, improvements, undertakings or expansions of the work of the agency which require capital outlays;

(5) Data concerning the source of all monies which are available for expenditure by the agency;

(6) A statement of the work program accomplished during the current fiscal period and of the work program proposed to be accomplished during the next fiscal period; and

(7) Any other related estimates, data or information which the governor or treasurer may request.

The treasurer shall prepare estimates for all agencies which fail to file requests.

(d) On or before the _____ day of _____⁶ of each fiscal period, the territorial tax commissioner shall submit to the treasurer a written statement in the form and in such detail as shall be prescribed by the treasurer, showing the estimated tax receipts and collections under existing laws for the next fiscal period.

(e) The treasurer may from time to time call for any additional or more detailed information from any agency, and shall have authority to make or cause to be made such examinations or investigations into the operation of any such agency as in the discretion of the treasurer may be necessary to enable him to determine intelligently the estimates for appropriations which should be recommended and included in the budget.

"SECTION 5808. Budget document. The governor shall transmit to the legislature on _____⁷ the budget which shall be compiled in two parts, one relating to operating expenditures and one to capital improvements. The budget document shall contain:

(a) A message by the governor including his recommendations with

⁶Should be same date as specified in Section 5807.01 (c).

⁷Present law reads as follows: "The governor shall transmit to the legislature on the first day of each regular session, and to each of the members thereof, not less than twenty days before the legislature convenes. . . ."

respect to the fiscal policy of the Territory for the next fiscal period, describing the important features of the budget plan, embracing a general budget summary which shall include a statement showing the following: (1) a statement of total anticipated revenues and total proposed expenditures; (2) the means of financing the government; and (3) comparable figures for the present fiscal year and at least the last two completed fiscal periods.

(b) Detailed budget estimates of expenditures, revenues and debt service, including a statement of bonded indebtedness of the Territory as of December 31, next preceding the legislative session and comparable data for at least the last two fiscal periods. It shall also include appropriations, estimated expenditures and estimated receipts for the current fiscal period. All such figures shall be in detail, classified by agency, and shall include all territorial funds and receipts, as well as any federal funds or other income. It shall contain all information which, in the opinion of the governor, is necessary or desirable to make known in all practical detail the financial condition of the territorial government. It shall contain an item to be known as the "contingent fund" which sum shall be available for allocation by the governor during the ensuing fiscal period to meet contingencies as they arise.

(c) Detailed plans relating to any projects, construction, improvements, additions, buildings, undertaking or expansion of the work of the Territory requiring capital outlays.

(d) Bills to provide for the financing of the budget.

The treasurer shall, upon request, furnish the governor or the legislature with any further information concerning the budget, and shall, upon request, and may at other times, attend legislative committee meetings or hearings concerning the budget.

"SECTION 5808.01. Supplemental or deficiency estimates. The governor from time to time may transmit to the legislature supplemental or deficiency estimates for such appropriations or expenditures as in his judgment may be necessary on account of laws enacted after the transmission of the budget, or are otherwise in the public interest. He shall accompany such estimates with a statement of the reasons therefor, including the reason for their omission from the budget, and proposed means of financing such proposed supplemental or deficiency appropriation.

"SECTION 5808.02. (Same as present Section 1626, Revised Laws of Hawaii 1945, "Claims for legislative relief must be filed with; conditions").

"SECTION 5808.03. (Same as present Section 1633, Revised Laws of Hawaii 1945, "Estimates or requests not submitted by department officers or employees except by request").

"SECTION 5808.04. (Same as present Section 1634, Revised Laws of Hawaii 1945, "No expenditures to be made for items not specifically authorized by the legislature or the governor").

"SECTION 5809. Allotment system. For the purposes of the quarterly allotment system, each fiscal year shall be divided into four quarterly allotment periods, beginning, respectively, on the first days of July, October, January and April; provided that in any case where the quarterly allotment period is impractical, the treasurer may prescribe a different period suited to the circumstances, not extending beyond the end of the fiscal year.

Every agency shall submit to the treasurer at such times and in such form as he shall prescribe, an estimate for the next allotment period of the amount required for each activity to be carried on and the purposes for which the money is to be expended.

If the estimate is within the terms of the appropriation as to amount and purposes, having due regard for the probable further needs of the agency for the remainder of the fiscal year or other term for which the appropriation was made, the treasurer shall approve the same and allow the estimated amount for expenditure. Otherwise the treasurer shall modify the estimate so as to conform with the terms of the appropriation and the prospective needs of the agency and shall reduce the amount allotted accordingly. The treasurer shall notify every agency of its allotments at least five days before the beginning of each allotment period; he shall also notify the territorial auditor. The total amount allotted to any agency for the fiscal year or other terms for which the appropriation was made shall not exceed the amount appropriated for such year or term.

The treasurer shall, with the approval of the governor, and after notice to the agency concerned, reduce the amount allotted or to be allotted to any agency by the amount of any saving which can be effected upon previous estimates through a reduction in prices or other cause.

"SECTION 5809.01. Accounting system. The treasurer shall maintain an accounting system which shall show at all times, for all agencies and all funds, amounts appropriated, estimated revenues, amounts allotted and available for expenditure, amounts of expenditures or obligations authorized to be incurred, actual receipts and disbursements, actual balances on hand and the unencumbered balances after deduction of all actual and authorized expenditures.

"SECTION 5810. Pre-audit of expenditures. No payment shall be made and no obligation shall be incurred against any fund, allotment or appropriation unless the treasurer first certifies that there is a sufficient unencumbered balance in such fund, allotment or appropriation to meet such payment or obligation. Any payment made in violation of this provision shall be void and of no effect, and every official authorizing or making such payment, or taking part therein, and every person receiving such payment, or any part thereof, shall be jointly and severally liable to the Territory for the full amount so paid or received.

"SECTION 5810.01. Appropriations to revert to territorial treasury; exceptions. Except as otherwise provided by law or in any appropriation act, every appropriation or part thereof of any kind hereafter made subject to the provisions of this section remaining unexpended and unencumbered at the close of any fiscal period shall lapse and be returned to the general fund, except

that an appropriation for construction or other permanent improvements shall not lapse until the purpose for which the appropriation was made shall have been accomplished or abandoned, unless such appropriation has stood for a period of four years without any expenditure therefrom or encumbrance thereon.

"SECTION 5811. Receipts deposited with the treasurer. All territorial receipts from any source shall be deposited with the treasurer each day, unless otherwise provided by law, except that the treasurer may provide for payments at other specified periods whenever necessary or desirable. At the time of deposit, a report of all receipts since the last previous report and of the disposition thereof shall be made by the depositing agency to the treasurer and to the territorial auditor. All monies received by the treasurer during any month shall be credited by him to the proper funds not later than the last day of the following month.

"SECTION 5811.01. (Same as present Section 5802.01, Revised Laws of Hawaii 1945, "Short term investment of territorial moneys").

"SECTION 5811.02. (Same as present Section 5803, Revised Laws of Hawaii 1945, "Fiscal Agents").

"SECTION 5812. (Same as present Section 5807, Revised Laws of Hawaii 1945, "Responsibility for moneys").

"SECTION 5812.01. (Same as present Section 5809, Revised Laws of Hawaii 1945, "Treasurer may administer oaths").

"SECTION 5812.02. (Same as present Section 5810, Revised Laws of Hawaii 1945, "Treasurer's certificate, evidence").

"SECTION 5813. (Same as present Section 5812, Revised Laws of Hawaii 1945, as amended, "Purchase of county bonds").

"SECTION 5813.01. (Same as present Section 5813, Revised Laws of Hawaii 1945, "Fees").

"SECTION 5813.02. (Same as present Section 1575, Revised Laws of Hawaii 1945, "Payment to Territory under protest").

"SECTION 5814. (a) (Same as present Section 1582, Revised Laws of Hawaii 1945, "Pay rolls, etc."⁸).

(b) (Same as present Section 1581.01, Revised Laws of Hawaii 1945, "Auditors to make certain deductions when"⁹).

⁸The word "auditor" when appearing in this section shall be amended to read "treasurer".

⁹See Note 8, Supra.

"SECTION 5814.01. (a) (Same as present Section 1583, Revised Laws of Hawaii 1945, "Supplies, incidentals"¹⁰).

(b) (Same as present Section 1584, Revised Laws of Hawaii 1945, "On account of contracts"¹¹).

(c) (Same as present Section 1585, Revised Laws of Hawaii 1945, "To assignees"¹²).

"SECTION 5814.02. (Same as present Section 1592, Revised Laws of Hawaii 1945, "Warrants, payment, issue of treasurer's warrant notes"¹³).

"SECTION 5815. (Same as present Section 1593, Revised Laws of Hawaii 1945, "Interest designated on warrant note").

"SECTION 5815.01. (Same as present Section 1594, Revised Laws of Hawaii 1945, "Notice of payment; warrant notes advertised by number").

"SECTION 5815.02. (Same as present Section 1597, Revised Laws of Hawaii 1945, "Warrants barred when").

"SECTION 5816. Mail service. All official mail of any agency designated by the treasurer under Section 5803 (13) hereof as being under the jurisdiction of the central mail service established by him, shall be delivered unsealed and unstamped to the central mailing station or stations. Account may be kept of the postage required on such mail, which may, for the purpose of maintaining adequate cost records, be charged against the respective agencies. Funds for the payment of all postage shall be appropriated to the treasurer but he may, from time to time, allot sufficient sums to cover postage obligations of agencies not included in the central mail service.

"SECTION 5816.01. Cooperative agreements with city and county. The treasurer is hereby authorized to enter into any cooperative agreement, after approval by the governor, with the city and county of Honolulu, of any other public body, concerning the purchase of supplies, material and equipment, whenever, in the opinion of the treasurer, benefit would accrue to either the Territory or the other public body and no loss would thereby accrue to the Territory.

"SECTION 5817. Powers transferred to treasurer. The following powers and duties are hereby transferred to the treasurer.

(1) All powers and duties presently vested in the director of the bureau of the budget.

¹⁰See Note 8, Supra.

¹²See Note 8, Supra.

¹¹See Note 8, Supra.

¹³The portion of this section prescribing the form to be used shall be deleted.

(2) The powers and duties presently vested in the auditor, except those relating to a post-audit of accounts.

(3) The powers and duties presently vested in the superintendent of public works relating to the custody and operation of the public buildings and grounds specified in Section 5803 (15).

(4) The authority vested in the board of trustees of the employees' retirement system of the Territory of Hawaii relating to the engaging, employing or dismissing of clerical or recording personnel, except any secretary or actuary. Persons so appointed by the treasurer under this authorization shall be assigned to such duties as the treasurer shall prescribe.

(5) All powers and duties presently vested in the board of disposal.

(6) All powers and duties presently vested in the treasurer, auditor, budget officer and superintendent of public works by Act 207, Session Laws of Hawaii 1945, relative to the expenditure of the revolving fund established for the purchase of federal surplus property."

SECTION 2. Transfer of personnel, equipment, records. All personnel and property, including, but not limited to, equipment, supplies and records, of any territorial officer and agency, the functions, powers and duties of which have been herein assigned to the treasury, are hereby transferred thereto.

SECTION 3. Conflicting acts repealed. Chapter 25 of the Revised Laws of Hawaii 1945, as amended, is hereby repealed. All other laws or parts of laws inconsistent herewith are hereby amended to conform to the provisions of this Act.

SECTION 4. Short title. This Act may be cited as the "Treasury Reorganization Act of 1951".

SECTION 5. This Act shall take effect July 1, 1951.