

**AN OVERVIEW BY THE LEGISLATIVE AUDITOR  
OF THE FINANCIAL AUDIT  
OF THE DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**FOREWORD**

The audit report on the department of labor and industrial relations contains the results of the financial audit of the department. The report is divided into three parts. Part I displays the financial statements and the auditors' opinion as to the reasonable accuracy of the statements; Part II presents the findings and recommendations relating to the policies, practices and operating procedures of the department; and Part III contains the department's response to the audit findings. The reader who wishes to obtain an initial understanding of the substance of the report should refer to the summary of findings which begins on page 2 of the introduction.

The report makes a number of recommendations to improve the department's management, operational and fiscal controls. We emphasize that the department, in turn, has proposed a course of action which is highly responsive to the audit findings and recommendations. It is noteworthy that the department has taken the lead to establish a joint Federal-State task force to review all areas of weaknesses and deficiencies and to develop a specific schedule for corrective action. The participation of Federal officials is important because, as the department has observed, the audit recommendations affect all operational areas of the department and Federal-State programs and functions. The systematic manner in which the department proposes to review its operations indicates that substantial improvements may be expected.

The purpose of this overview is to present a summary of some of the significant findings of the audit.

**REIMBURSEMENTS FROM FEDERAL GOVERNMENT FOR ADMINISTRATIVE COSTS**

The audit disclosed that, with respect to the department's employment security programs, the department has not been receiving full reimbursements from the Federal government for certain costs. This is because the cost base from which reimbursement claims are made is outdated and does not reflect present day costs and because claims for all eligible costs have not been made. The effect of these deficiencies is that State claims for reimbursement are understated by at least 50 percent. While the exact, additional reimbursable amount to which the State is entitled can be determined only after complete cost analysis, the amount very likely runs into tens of thousands of dollars annually.

Among the major costs for which the department is entitled to claim reimbursement are operating and maintenance costs for areas in state-owned buildings which are used for Federal programs. The reimbursable costs include such items as custodial salaries and supplies, utility expenses, insurance and depreciation of the building. The audit noted that the reimbursable cost base for the Federal programs housed in the Keelikolani Building has not been updated since 1961 by the State department of accounting and general services (DAGS) to reflect increases in maintenance costs over the past ten years. In addition, certain overhead expenses such as insurance and depreciation of the building have not been included in the cost base. The audit recommends the analysis of current maintenance costs and development of an updated and more complete cost base so that the State can claim payment for all of the costs reimbursable by the Federal government.

### **INVESTMENT OF CASH BALANCES**

The audit disclosed that several of the department's special funds show no interest earnings whatsoever even though idle cash balances have been available for investment. The cash balances for these funds for the 1970-71 fiscal year ranged from \$477,000 - \$714,000. Even at a nominal 5 percent investment rate, the special funds should be receiving \$25,000 - \$35,000 annually from interest earnings on idle cash balance.

The State can ill-afford to have any idle cash resources. To the extent that the State fails to capitalize on the opportunity to earn interest on funds, demands are increased on other revenue sources, such as taxation, fees and charges. The public interest requires that officials who manage funds should be continuously responsible for assuring that all revenues are productive from the time they are acquired to the time they are used.

### **REPORTING SYSTEM**

The audit notes that a high number of reports (as many as 255 reports) are prepared periodically by the department. These include statistical, fiscal and general information reports. Many of the reports are prepared solely to satisfy Federal reporting requirements, and the system for such reports has not been integrated to produce information required by the department. Thus, much effort and cost are being expended for recordkeeping and report publication without corresponding benefits to the managers administering the programs.

The audit also finds a number of the reports deficient with respect to their timeliness, accuracy and usefulness. Several of the reports were published as late as three years after the period covered by the reports. Many inaccuracies were noted in the department's reports. This, of course, destroys the users' confidence in the contents of the reports. The audit also cites a 1600-page monthly report which was evaluated by some of the department's own managers as being inaccurate and unreliable. The sheer volume of the report minimizes its usefulness.

Because of the significant costs involved in preparing reports, we recommend that the department review the need for all of the reports currently being prepared and determine how the reports which are needed can be modified to be more useful to program managers.

### **FINANCIAL MANAGEMENT OF THE JOB CORPS PROGRAM**

Major inadequacies in the financial records and fiscal controls of the federally funded Job Corps program were disclosed in the audit. The method of accounting for financial transactions as required by the Federal government was not being observed; financial records and fiscal controls were not being maintained in a manner which would assure accuracy of the records; and controls over cash collections and disbursements were weak.

So inadequate were the financial controls and records that no audit opinion could be rendered as to the accuracy of the Job Corps financial statements.

We note that in 1968 Federal auditors, who likewise were unable to render an audit opinion, severely criticized the Job Corps program for its lack of proper fiscal management. From the results of this audit, it is apparent that significant deficiencies still exist. We believe that the development of appropriate fiscal and accounting controls for the Job Corps program should be among the department's priorities.

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