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# Financial Audit of the Department of Labor and Industrial Relations

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A Report to the  
Governor  
and the  
Legislature of  
the State of  
Hawai'i

Report No. 93-16  
December 1993



**THE AUDITOR**  
STATE OF HAWAII

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## The Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds and existing funds meet legislative criteria.
7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



## THE AUDITOR STATE OF HAWAII

Kekuanao'a Building  
465 South King Street, Room 500  
Honolulu, Hawaii 96813

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Financial Audit of the Department of Labor and Industrial Relations

### Summary

The office of the Auditor and the certified public accounting firm of Coopers & Lybrand conducted a financial audit of the Department of Labor and Industrial Relations for the fiscal year July 1, 1992 to June 30, 1993. The audit examined the department's financial records and its system of accounting and internal controls and tested these for compliance with applicable laws and regulations.

In the opinion of Coopers & Lybrand, the department's financial statements present fairly its financial position as of June 30, 1993, and the results of its operations for the year then ended in conformity with generally accepted accounting principles. Coopers & Lybrand noted no matters in the department's internal control structure and its operation that would be material weaknesses. It also noted, with respect to items tested, that the department has complied, in all material respects, with applicable laws and regulations.

Some weaknesses were found in the department's accounting procedures. We found that the cash balance in the Special Fund for Disability Benefits exceeds program needs and continues to grow. It now has a balance of almost \$5.5 million that cannot be transferred to the general fund without a change in Chapter 392, HRS. Excess funds within the Special Premium Supplementation Fund also continue to grow. The fund balance now stands at more than \$2.4 million. We also found that disability compensation assessments which are received by the Insurance Division of the Department of Commerce and Consumer Affairs (DCCA), are not deposited in a timely manner. Delays in opening mail and processing checks could result in misplaced checks and lost interest revenues. Controls over fund transfers need to be improved. Estimates of benefit payments to be transferred to the department's bank account from the federal treasury should receive prior review and approval. Treasury deposit receipts for federal reimbursement should be prepared for each deposit. In addition, inaccurate projections are used to prepare billings to the state. Lastly, we found that workers' compensation benefits are not verified.

### Recommendations and Response

We recommend that the Legislature consider amending Section 392-62, HRS, to require excess funds to be transferred from the Special Fund for Disability Benefits to the general fund. We also recommend that the Legislature consider repealing the Special Premium Supplementation Fund.

We recommend that DLIR request DCCA to process and deposit on a daily basis all disability compensation assessment payments received. With respect to transfers, we recommend that the department develop a policy that all estimates used to prepare wire transfers from the unemployment compensation trust fund held at the federal treasury be reviewed and approved, prior to processing, by an appropriate supervisor. We also recommend that the department follow its policy of requiring preparation of a Treasury Deposit Receipt (TDR) to record each deposit into the state treasury.

We recommend that the Research and Statistics Office reevaluate its methodology used to project quarterly unemployment compensation benefit payments to former state employees. We also recommend that the department perform random audits of insurance companies and authorized self-insured employers to ensure that they are actually paying the benefit adjustments for which they are seeking reimbursement.

The department is in general agreement with all of our findings and recommendations. It is prepared to abide by any future changes in statutes affecting the Special Fund for Disability Benefits and the Special Premium Supplementation Fund. The department states it will work with DCCA on ensuring timely deposits of disability compensation assessments. The department will also formalize a policy requiring all estimates for fund transfers from the Unemployment Compensation Trust Fund to be reviewed and approved prior to processing by an appropriate supervisor. The department states it is now generating TDRs for each deposit from the Unemployment Compensation Trust Fund. The department's Research and Statistics Office is working to institute a new estimating methodology to be used in projecting quarterly unemployment compensation benefit payments to former state employees. In addition, the DLIR Disability Compensation Division will, within available resources, conduct random audits of insurance companies and authorized self-insured employers to ensure they are actually paying adjustments for which reimbursements are made.

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State of Hawaii

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# Financial Audit of the Department of Labor and Industrial Relations

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A Report to the  
Governor  
and the  
Legislature of  
the State of  
Hawaii

Conducted by

The Auditor  
State of Hawaii  
and  
Coopers & Lybrand,  
Certified Public  
Accountants

Submitted by

**THE AUDITOR**  
STATE OF HAWAII

Report No. 93-16  
December 1993



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## Foreword

This is a report of our financial audit of the Department of Labor and Industrial Relations for the fiscal year July 1, 1992 to June 30, 1993. The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the State Auditor to conduct post audits of all departments, offices, and agencies of the State. The audit was conducted by the Office of the Auditor and the certified public accounting firm of Coopers & Lybrand.

We wish to express our appreciation for the cooperation and assistance extended by the officials and staff of the Department of Labor and Industrial Relations.

Marion M. Higa  
State Auditor



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# Table of Contents

## Chapter 1 Introduction

Objectives of the Audit .....	1
Scope and Methodology .....	1
Background .....	2
Organization of the Department .....	2

## Chapter 2 Internal Control Practices

Summary of Findings .....	5
Excess Funds Should Be Transferred To The General Fund .....	5
<i>Recommendations</i> .....	6
Disability Compensation Assessments Are Not Deposited In A Timely Manner .....	7
<i>Recommendation</i> .....	7
Controls Over Fund Transfers Need to be Improved .....	7
<i>Recommendations</i> .....	9
Inaccurate Projections Are Used To Prepare Billings To The State .....	9
<i>Recommendation</i> .....	10
Workers' Compensation Benefit Adjustment Payments Are Not Verified .....	10
<i>Recommendation</i> .....	10

## Chapter 3 Financial Audit

Summary of Findings .....	11
Independent Auditor's Report .....	11
Report on the Internal Control Structure Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards ..	13
Report on Tests of Compliance Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards ..	15
Descriptions and Definitions .....	16
Notes to Financial Statements .....	18

Response of the Affected Agency .....	37
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## List of Tables

Table 2.1	Delays in Depositing Disability Compensation Assessments .....	7
Table 2.2	Shortages in Projected Benefit Payments .....	9

## List of Exhibits

Exhibit A	State of Hawaii, Department of Labor and Industrial Relations, Combined balance sheet-all fund types and account groups, June 30, 1993 .....	27
Exhibit B	State of Hawaii, Department of Labor and Industrial Relations, Combined statement of revenues, expenditures and changes in fund equity-all governmental fund types and expendable trust funds for the year ended June 30, 1993 .....	29
Exhibit C	State of Hawaii, Department of Labor and Industrial Relations, Combined state of revenues and expenditures-budget and actual (budgetary basis)-general and budgeted special revenue fund types for the year ended June 30, 1993 .....	30

## List of Schedules

Schedule I	State of Hawaii, Department of Labor and Industrial Relations, Combining balance sheet-all special revenue funds, June 30, 1993 .....	31
Schedule II	State of Hawaii, Department of Labor and Industrial Relations, Combining statement of revenues, expenditures and changes in fund equity-all special revenue funds for the year ended June 30, 1993 .....	32
Schedule III	State of Hawaii, Department of Labor and Industrial Relations, Combining statement of revenues and expenditures-budget and actual (budgetary basis)-budgeted special revenue funds for the year ended June 30, 1993 .....	33
Schedule IV	State of Hawaii, Department of Labor and Industrial Relations, Combining balance sheet-fiduciary funds types, June 30, 1993 .....	34

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Schedule V	State of Hawaii, Department of Labor and Industrial Relations, Combining statement of revenues, expenditures and changes in fund equity-expendable trust funds for the year ended June 30, 1993 .....	35
Schedule VI	State of Hawaii, Department of Labor and Industrial Relations, Combining statement of changes in assets and liabilities-agency funds for the year ended June 30, 1993 .....	36

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# Chapter 1

## Introduction

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This is a report of our financial audit of the State of Hawaii Department of Labor and Industrial Relations. The audit was conducted by the Office of the Auditor and the certified public accounting firm of Coopers & Lybrand.

The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the State Auditor to conduct post audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions.

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### Objectives of the Audit

1. Report on the fair presentation of the financial statements of the department.
2. Assess the adequacy, effectiveness, and efficiency of the department's systems and procedures for financial accounting, internal control, and financial reporting; and recommend improvements.
3. Ascertain whether expenditures and other disbursements have been made and all revenues and other receipts have been collected and accounted for in accordance with federal and state laws, rules and regulations, and policies and procedures.
4. Ascertain the extent to which recommendations contained in Chapter 3 of the State Auditor's Report No. 86-12, *Financial Audit of the Department of Labor and Industrial Relations for the Fiscal Year Ended June 30, 1985*, have been implemented.

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### Scope and Methodology

We audited the financial records and transactions and the related systems of accounting and internal controls of the department for the fiscal year July 1, 1992 to June 30, 1993. Included were all fund types and account groups, except the general fixed assets account group. We also reviewed for compliance with applicable laws and regulations those transactions, systems, and procedures tested.

The audit examined the accounting, reporting, and internal control structure to identify deficiencies and weaknesses and make appropriate

recommendations for improvements. The audit also examined the forms and records, the management information system, and the accounting and operating procedures.

The accountants' opinion as to the fairness of the financial statements presented is that of Coopers & Lybrand. The audit was conducted from June 1993 through September 1993 in accordance with generally accepted government auditing standards.

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## Background

In the Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959), the Legislature created the Department of Labor and Industrial Relations. Section 26-20, Hawaii Revised Statutes, describes the department's responsibilities as follows:

The department shall administer programs designed to increase the economic security, physical and economic well-being, and productivity of workers, and to achieve good labor-management relations, including the administration of workers' compensation, employment security, apprenticeship training, wage and hour, and industrial relations laws. The department shall also have the function of developing, preparing, and disseminating information on employment, unemployment, and general labor market conditions.

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## Organization of the Department

The department is headed by the director of labor and industrial relations. The director has overall responsibility for planning, directing, and coordinating the various programs of the department. The director is supported by a deputy director and advised by the Labor and Industrial Relations Advisory Committee. Committee members are appointed by the director and represent labor, business, and the public.

### *Divisions and offices*

The divisions and offices that carry out the programs of the department are as follows:

**Administrative Services Office.** This office provides financial management and analysis, and fiscal and data processing support for the department's programs.

**Apprenticeship Division.** This division administers the apprenticeship program and other on-the-job training programs to produce skilled workers for the labor force.

**Disability Compensation Division.** This division administers employee benefit programs to protect workers against hospitalization/health care costs and lost wages when they suffer on- or off-the-job injuries and illnesses. Major programs include workers' compensation, temporary disability insurance, and prepaid health care.

**Employment Security Appeals Referees' Office.** This office hears appeals by claimants and employers and renders decisions on unemployment compensation determinations, trade readjustment allowances, disaster unemployment assistance, and other employment security determinations.

**Employment Service Division.** This division provides employment and training services to workers and industries throughout the state and administers a statewide employment and training services system in accordance with state and federal laws.

**Enforcement Division.** This division administers programs concerning wages and hours, payment of wages, fair employment practices, child labor, and garment industry homeworkers.

**Occupational Safety and Health Division.** This division enforces occupational safety and health standards throughout the state by conducting inspections and investigations. It also provides education, training, and consultation with employers and employees to encourage compliance.

**Office of Employment and Training Administration.** This office administers employment and training programs under the federal Job Training Partnership Act (JTPA) and Older Americans Act, in partnership with local governments and private industry councils.

**School-to-Work Transition Center Program.** This program helps students make realistic career decisions and prepares them for the world of work. Transition centers offer classroom presentations at each grade level, sponsor career and job fairs, and link students with community vocational resources.

**Personnel Office.** This office performs centralized personnel transactions, processes and keeps records, and guides department managers and supervisors on interpreting and applying civil service laws, personnel rules, and collective bargaining agreements.

**Research and Statistics Office.** This office conducts labor research and provides statistical services and reports. It also administers the Career Kokua program which helps people learn about careers, jobs in Hawaii, and schools and scholarships that meet their needs.

***Administratively  
attached agencies***

**Unemployment Insurance Division.** This division administers the state's unemployment insurance program.

Agencies attached to the department for administrative purposes are as follows:

**State Commission on Employment and Human Resources.** This commission advises the Legislature and the governor on worker and employment related problems and policies.

**Hawaii Civil Rights Commission.** This commission receives, investigates, and conciliates complaints alleging any unlawful discriminatory practices in employment, housing, public accommodations, and access to state-funded services by persons with disabilities.

**Hawaii Job Training Coordinating Council.** This council advises the governor on statewide employment and training needs and resources.

**Hawaii Labor Relations Board.** This board exercises powers and duties in accordance with Chapters 89 and 377, HRS, relating to harmonious and cooperative labor-management relations.

**Hawaii State Occupational Information Coordinating Committee.** This committee coordinates the development and implementation of an occupational information system to meet the common occupational data needs of vocational education and employment and training programs.

**Labor and Industrial Relations Appeals Board.** This board hears and decides appeals from decisions and orders of the director issued under the Worker's Compensation Law and any other law for which an appeal to the board is provided.

**Office of Community Services.** This office facilitates and enhances the development, delivery, and coordination of programs to achieve economic self sufficiency for the economically disadvantaged, immigrants, and refugees.

**State Fire Council.** This council advises the governor and Legislature on fire prevention and protection, life safety, and any other functions or activities for which the various county fire departments are responsible.

**Tourism Training Council.** This council advises and makes recommendations to the governor, Legislature, and the visitor industry regarding visitor industry employment and visitor industry training programs.

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# Chapter 2

## Internal Control Practices

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Internal controls are steps instituted by management to assure that objectives are met and resources are safeguarded. This chapter presents our findings and recommendations on the financial accounting and internal control practices and procedures of the Department of Labor and Industrial Relations (DLIR).

The department has made certain improvements since our audit in 1986. It is now in compliance with the statute governing the proper use of petty cash funds. The department has also consulted with the State Attorney General's Office concerning the transfer of the excess fund balance from the Special Fund for Disability Benefits to the State of Hawaii General Fund. We acknowledge the department's progress, but we also found certain weaknesses in the department's financial accounting procedures.

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### Summary of Findings

Weaknesses in the department's accounting procedures could result in lost or misappropriated funds, lost interest revenue, and untimely financial information. In addition, the department's review and supervision of certain transactions can be improved. Specifically, our findings are:

1. Excess funds held in special funds should be transferred to the general fund.
2. Disability compensation assessments are not deposited in a timely manner.
3. Controls over fund transfers need to be improved.
4. Inaccurate projections are used to prepare billings to the State.
5. Workers' compensation benefit adjustment payments are not verified.

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### Excess Funds Should Be Transferred To The General Fund

In our Report No. 86-12, *Financial Audit of the Department of Labor and Industrial Relations*, we recommended that excess funds held in the Special Fund for Disability Benefits and the Special Premium Supplementation Fund be transferred to the general fund. We believe those recommendations are still appropriate.

**Special fund for disability benefits**

In 1986, we reported that the Special Fund For Disability Benefits had annual revenues that far exceeded program needs. The fund had a balance of almost \$3.5 million. We recommended that the department review the fund to determine the level at which the balance should be maintained and transfer any excess to the general fund.

Following issuance of our report, the department obtained an opinion from the State Attorney General that moneys could not be transferred from this fund to the general fund. The opinion cited Section 392-62, HRS which states "All moneys in the fund shall be held in trust for the purposes of this part only and shall not be expended, released, or appropriated or otherwise disposed of for any other purpose."

We now find that current year receipts of the fund still exceed current year expenditures. The fund now has a balance of almost \$5.5 million and continues to grow. The statutory prohibition against transfers from the fund should be removed so that funds not needed for program purposes can be transferred to the general fund.

**Special premium supplementation fund**

We also reported in 1986 that the Special Premium Supplementation Fund had annual revenues in excess of \$100,000 but annual expenditures of less than \$5,000. The fund had a balance in excess of \$1.5 million. We recommended that the department review the fund and transfer unneeded funds to the general fund. The department did not follow our recommendation.

In our Report No. 92-11, *Review of Special and Revolving Funds of the Judiciary and the Departments of the Attorney General, Labor and Industrial Relations, Land and Natural Resources, Personnel Services, Taxation, Transportation, and Public Safety*, we again reviewed the use of this special fund. In that report we found that revenues still exceeded expenses. The fund balance had grown to more than \$2.2 million. We recommended that the Legislature repeal the fund and budget special premium supplementation payments through the general fund. The Legislature did not repeal the fund.

We now find that current year receipts of the fund exceeded current year expenditures by \$100,000. The fund balance now stands at more than \$2.4 million. It is clear that the fund's revenues far exceed its needs. We again urge the Legislature to consider repealing the fund.

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**Recommendations**

We recommend the Legislature consider amending Section 392-62, HRS, to require excess funds to be transferred from the Special Fund for Disability Benefits to the general fund. We also recommend that the Legislature consider repealing the Special Premium Supplementation Fund.

## Disability Compensation Assessments Are Not Deposited In A Timely Manner

The Insurance Division of the State of Hawaii Department of Commerce and Consumer Affairs (DCCA) is responsible for monitoring and collecting disability compensation assessments on behalf of DLIR. The DCCA receives assessment payments by mail from insurance companies and authorized self-insured employers. DCCA allows the mail to remain unopened for up to a week before opening it and stamping it "received."

Furthermore, once stamped, the payments are not forwarded to the DCCA cashier in a timely manner. There is a two to six working day lag from the day the mail is opened ("received" stamp date) to the day payment is received and recorded by the DCCA cashier for deposit (deposit date). Delays in processing the deposits result in untimely financial information. These delays also could result in misplaced checks and lost interest revenues. We noted the following:

**Table 2.1**  
**Delays in Depositing Disability Compensation Assessments**

Amount Received	"Received" Stamp Date	Deposit Date	Workdays Delayed
\$ 242,305	3/15/93	3/19/93	4
\$ 1,424,462	3/15/93	3/22/93	5
\$ 1,064,590	3/15/93	3/19/93	4
\$ 1,040,356	3/15/93	3/19/93	4
\$ 437,024	3/15/93	3/19/93	4
\$ 772,327	10/2/92	10/6/92	2
\$ 124,337	9/29/92	10/6/92	5
\$ 232,055	9/29/92	10/6/92	5
\$ 502,082	9/28/92	10/6/92	6
\$ 130,340	9/18/92	9/24/92	4

### **Recommendation**

We recommend that DLIR request DCCA to process and deposit on a daily basis all disability compensation assessment payments received.

## Controls Over Fund Transfers Need to be Improved

The federal government holds the state's unemployment compensation funds until needed to pay benefits. These funds are transferred to the department based on estimates of unemployment compensation benefits to be paid. Also, the federal government transfers funds to the

department as reimbursement for unemployment compensation claims filed by former federal employees. The department needs to improve its controls over these transfers.

***Estimates used to prepare wire transfers are not approved***

DLIR's Administrative Services Office prepares and processes wire transfers from the unemployment compensation trust fund held at the federal treasury to the department's benefit payment account at First Hawaiian Bank. The office requests wire transfers through a computer that has access to the federal treasury. Wire transfers are received in two days.

The amounts requested are based on the department's estimates of benefit payments. These estimates are based on actual unemployment compensation benefit payments made during the previous four weeks. The estimates are not reviewed and approved by an appropriate supervisor prior to the processing of wire transfers. The department does not have a policy requiring review and approval of estimates.

Review and approval of the estimates by an appropriate supervisor would be a strong internal accounting control to ensure proper wire transfers. It would reduce the risk of inaccurate requests for wire transfers. Any inaccurate request could result in penalties against the department, for example, if transfers requested are in excess of actual benefit payments made.

***Treasury deposit receipts are not prepared daily***

The department receives unemployment compensation benefit reimbursements daily from the federal government which it deposits into the State Treasury. During fiscal 1993, the reimbursements ranged from approximately \$3 million to \$6 million per month. The department does not record the deposits, however, until the end of the month when it prepares one Treasury Deposit Receipt (TDR) for all federal reimbursements received during that month.

The department's financial management manual section 3.2(2) states that the "State Form B-13, "Treasury Deposit Receipt," shall be prepared for each deposit into the State Treasury to account for all deposits." Instead of following the policy, the department submits one TDR to the Department of Accounting and General Services in the subsequent month. The department's failure to follow its policy results in approximately a one-month lag in the recording of federal reimbursements (revenue) received. The department telephones the Department of Budget and Finance daily to apprise it that the transfers are available for investing, otherwise the failure to follow its policy would also result in lost interest revenue.

**Recommendations**

We recommend that the department develop a policy that all estimates used to prepare wire transfers from the unemployment compensation trust fund held at the federal treasury be reviewed and approved, prior to processing, by an appropriate supervisor.

We also recommend that the department follow its policy of requiring preparation of a TDR for each deposit into the state treasury.

### **Inaccurate Projections Are Used To Prepare Billings To The State**

Estimated unemployment compensation benefits for former state employees are prepaid by the State of Hawaii on a quarterly basis. The Unemployment Insurance Division prepares quarterly billings to the State that are based on projected benefit payments. The state prepayments for fiscal year 1993 were not sufficient to cover actual benefit payments to former state employees. They were consistently short, ranging from \$100,000 to \$450,000 during the past four quarters. The following table summarizes the prepayments received from the State and actual benefits paid to former state employees during fiscal 1993:

**Table 2.2  
Shortages in Projected Benefit Payments**

Quarter Ending	Projection	Actual	Shortage
9/30/92	\$ 1,400,000	\$ 1,800,000	\$ (400,000)
12/31/92	\$ 850,000	\$ 1,300,000	\$ (450,000)
3/31/93	\$ 850,000	\$ 1,100,000	\$ (250,000)
6/30/93	\$ 800,000	\$ 900,000	\$ (100,000)

Shortfalls in the projections are paid by the State in the subsequent quarter. In the interim, the department uses contributions made by other employers to cover the shortfall.

The department's projections should approximate the actual payments made. DLIR's Research and Statistics Office prepares the quarterly benefit payment projections. The projections are based on the average of actual unemployment compensation benefit payments to former state employees for the past four years and for the four most recent quarters. In developing the estimates the office should consider placing more weight on actual benefit payments made during the four most recent quarters since they reflect the current trend in benefit payments.

**Recommendation**

We recommend that the Research and Statistics Office reevaluate its methodology used to project quarterly unemployment compensation benefit payments to former state employees.

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**Workers'  
Compensation  
Benefit  
Adjustment  
Payments Are Not  
Verified**

Insurance companies and authorized self-insured employers are entitled to reimbursement from the disability compensation trust fund for workers' compensation benefit adjustments they pay to claimants. The department does not verify that these insurance companies and authorized self-insured employers have actually paid the benefits before making reimbursements.

A benefit adjustment is a supplemental adjustment for permanently and totally disabled claimants that would increase weekly benefits based on a current maximum weekly benefit amount. Insurance companies and self-insured employers are required to make the payments throughout the year and to request reimbursement annually from the disability compensation trust fund. In 1992, approximately \$4.5 million in benefit adjustments were reimbursed by the disability compensation trust fund.

The reimbursement form requires a certification regarding the accuracy of the claim. The department, however, has no procedures to verify that benefit adjustments were actually paid by the insurance companies and authorized self-insured employers. Since the department does not verify benefit adjustment payments, insurance companies and authorized self-insured employers may be receiving reimbursements that were not paid to claimants.

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**Recommendation**

We recommend that the department perform random audits of insurance companies and authorized self-insured employers to ensure that they are actually paying the benefit adjustments for which they are seeking reimbursement.

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# Chapter 3

## Financial Audit

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This chapter presents the results of the financial audit of the Department of Labor and Industrial Relations for the year ended June 30, 1993. It displays financial statements of all fund types and account groups administered by the department, together with explanatory notes. It also includes the reports on the internal control structure and tests of compliance with laws and regulations.

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### Summary of Findings

In the opinion of Coopers & Lybrand, based on their audit, except for the general fixed assets account group, the financial statements present fairly, in all material respects, the financial position of the department as of June 30, 1993, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand noted no matters involving the internal control structure and its operation that they considered to be material weaknesses as defined in the report on the internal control structure. They also noted, with respect to items tested, that the department has complied, in all material respects, with laws and regulations applicable to the department.

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### Independent Auditor's Report

To the Auditor  
State of Hawaii

We have audited the following financial statements of the State of Hawaii, Department of Labor and Industrial Relations:

Combined balance sheet - all fund types and account groups  
June 30, 1993 (Exhibit A);

Combined statement of revenues, expenditures and changes  
in fund equity - all governmental fund types and expendable  
trust funds for the year ended June 30, 1993 (Exhibit B);

Combined statement of revenues and expenditures - budget  
and actual (budgetary basis), general and budgeted special  
revenue fund types for the year ended June 30, 1993  
(Exhibit C).

These financial statements are the responsibility of the management of the State of Hawaii, Department of Labor and Industrial Relations. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with the terms of our engagement, the scope of our audit did not include the audit of the general fixed assets account group and, accordingly, we express no opinion on it.

As discussed in the notes to the financial statements, the general fund accounts of the Department of Labor and Industrial Relations are a part of the State of Hawaii's general fund and our opinion expressed herein, insofar as it relates to the amounts included for the general fund, is limited to only the transactions of the Department of Labor and Industrial Relations.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Hawaii, Department of Labor & Industrial Relations as of June 30, 1993, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining financial statements (Schedules I through VI) are presented for purposes of additional analysis and are not a required part of the financial statements of the Department of Labor and Industrial Relations, State of Hawaii. Such information has been subjected to the auditing procedures applied in the audit of the financial

statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Coopers & Lybrand

Honolulu, Hawaii  
September 30, 1993

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**Report on the  
Internal Control  
Structure Based  
on an Audit of  
Financial  
Statements  
Performed in  
Accordance with  
Government  
Auditing  
Standards**

To the Auditor  
State of Hawaii

We have audited the financial statements of the State of Hawaii, Department of Labor and Industrial Relations as of and for the year ended June 30, 1993, and have issued our report thereon dated September 30, 1993.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

In planning and performing our audit of the financial statements of the State of Hawaii, Department of Labor and Industrial Relations for the year ended June 30, 1993, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the State of Hawaii, Department of Labor and Industrial Relations is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to

permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Revenue/Receipts cycle
- Purchases/Disbursements cycle
- Payroll cycle
- Compliance with laws and regulations that would have a material impact on the financial statements

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the Auditor, State of Hawaii, in Chapter 2 of this report.

This report is intended for the information of the Auditor, State of Hawaii and management of the State of Hawaii, Department

of Labor and Industrial Relations. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

/s/ Coopers & Lybrand

Honolulu, Hawaii  
September 30, 1993

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**Report on Tests of  
Compliance Based  
on an Audit of the  
Financial  
Statements  
Performed in  
Accordance with  
Government  
Auditing  
Standards**

To the Auditor  
State of Hawaii

We have audited the financial statements of the State of Hawaii, Department of Labor and Industrial Relations as of and for the year ended June 30, 1993, and have issued our report thereon dated September 30, 1993.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the State of Hawaii, Department of Labor and Industrial Relations is the responsibility of the State of Hawaii, Department of Labor and Industrial Relations' management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the State of Hawaii, Department of Labor and Industrial Relations' compliance with certain provisions of laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the State of Hawaii, Department of Labor and Industrial Relations complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe

that the State of Hawaii, Department of Labor and Industrial Relations had not complied, in all material respects, with those provisions.

This report is intended for the information of the Auditor, State of Hawaii and management of the State of Hawaii, Department of Labor and Industrial Relations. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

/s/ Coopers & Lybrand

Honolulu, Hawaii  
September 30, 1993

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## **Descriptions and Definitions**

This section provides descriptions of the financial statements audited and definitions of technical terms used in this chapter.

### ***Descriptions of financial statements and schedules***

The following is a brief description of the financial statements audited by Coopers & Lybrand. The financial statements are attached at the end of this chapter.

**Combined balance sheet - all fund types and account groups (Exhibit A).** This statement presents assets, liabilities, and fund balances of all fund types and account groups used by the department on an aggregate basis.

**Combined statement of revenues, expenditures and changes in fund equity - all governmental fund types and expendable trust funds (Exhibit B).** This statement presents revenues, expenditures, other financing sources (uses) and changes in fund equity for all governmental fund types, and expendable trust funds used by the department on an aggregate basis. Revenues include state appropriations authorized by the General Appropriations Act of 1991 (Act 296, SLH 1991) as amended by the Supplemental Appropriations Act of 1992 (Act 300, SLH 1992) and other specific appropriations acts.

**Combined statement of revenues and expenditures - budget and actual (budgetary basis), general and special revenue funds (Exhibit C).** This statement presents a comparison of budgeted and

actual revenues, expenditures, and other financing sources for the general fund accounts and special revenue funds used by the department.

**Combining balance sheet - all special revenue funds, June 30, 1993 (Schedule I).** This schedule presents assets, liabilities and fund balances of the special revenue funds of the department.

**Combining statement of revenues, expenditures and changes in fund equity - all special revenue funds, for the year ended June 30, 1993 (Schedule II).** This schedule presents revenues, expenditures and fund balances of the special revenue funds of the department.

**Combining statement of revenues and expenditures - budget and actual (budgetary basis) - budgeted special revenue funds, for the year ended June 30, 1993. (Schedule III).** This schedule presents the actual revenues and expenditures of the budgeted special revenue funds, compares them to budgeted revenues and expenditures, and presents the variances between them.

**Combining balance sheet - fiduciary fund types, June 30, 1993. (Schedule IV).** This schedule presents assets, liabilities, and fund balances of trust and agency funds of the department.

**Combining statement of revenues, expenditures and changes in fund equity - expendable trust funds, for the year ended June 30, 1993. (Schedule V).** This schedule presents revenues, expenditures and fund balances of the expendable trust funds of the department.

**Combining statement of changes in assets and liabilities - agency funds, for the year ended June 30, 1993. (Schedule VI).** This schedule presents changes in assets and liabilities of the agency funds of the department.

### ***Definition of terms***

Technical terms are used in the financial statements and in the notes to the financial statements. The more common terms and their definitions are as follows:

**Appropriation.** An authorization granted by the state Legislature permitting a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures.

**Allotment.** An authorization by the director of finance to a state agency to incur obligations and to make expenditures pursuant to the appropriation made by the state Legislature.

**Encumbrance.** An obligation in the form of a purchase order or contract which is chargeable to an appropriation, the incurring of which sets aside the appropriation for the amount of the obligation.

**Expenditure.** The actual disbursement of funds for the payment of goods delivered or services rendered, the obligation to pay for such goods or services having been incurred against authorized funds.

**Lapsed appropriation.** A lapsed appropriation represents the balance of funds authorized, which is unexpended and uncommitted at the end of the prescribed time period. The balance reverts to the designated fund and is available for appropriation by the state Legislature in the ensuing fiscal year.

**Reserve.** An account used to earmark a portion of the fund balance to indicate that it is not available for expenditure.

**Transfers.** The transactions between funds, departments, and/or programs which are approved by the appropriate authority.

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## Notes to Financial Statements

Explanatory notes which are pertinent to an understanding of the financial statements and financial condition of the funds administered by the department are discussed in this section.

### *Financial statement presentation*

**General.** The accompanying financial statements of the Department of Labor and Industrial Relations (department) present the financial position of the various fund types and account groups and the results of operations of the various fund types for the year ended June 30, 1993.

**Reporting entity.** The Department of Labor and Industrial Relations is a department of the State of Hawaii.

**Fund accounting.** The financial activities are recorded in individual funds classified by type and described in the following sections, each of which is deemed to be a separate accounting entity. The financial position and operations of each fund are accounted for in separate self-balancing accounts which represent the fund's assets, liabilities, equity, revenues, and expenditures.

Account groups are used to establish accounting control and accountability for the department's general fixed assets and general long-term obligations. Account groups are not funds as they do not reflect available financial resources and related liabilities.

**Governmental fund types.** Financial resources which are not accounted for in other funds are accounted for in the general fund. The measurement focus of governmental funds is on determination of financial position and changes in financial position rather than upon net income determination. The budget as adopted by the state Legislature provides the basic framework within which the resources and obligations of the general fund are accounted. The general fund of the department is a part of the State's general fund and the accompanying general fund financial statements are limited to and reflect only the appropriations, expenditures, and obligations of the general fund accounts used by the department, and the general fund allotments received by the department.

Financial resources obtained from specific revenue sources and used for restricted purposes are accounted for in special revenue funds.

**Fiduciary fund types.** Expendable trust funds account for transactions related to assets held by the department in a trustee capacity to be expended for designated purposes. Agency funds account for funds held by the department as agent. Agency funds include funds delegated to the department by other state agencies for purposes of administering various projects.

**Account groups.** The general fixed assets account group is used to account for all fixed assets of the department. The general long-term debt account group is used to account for accrued vacation and compensation payable for governmental fund types.

**Total columns on financial statements.** Total columns on the accompanying financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not purport to present financial position, results of operations, or changes in fund equity of the department in conformity with generally accepted accounting principles. Such data are not comparable to a consolidation.

### ***Summary of significant accounting policies***

The accounting policies of the department conform to generally accepted accounting principles as applicable to governmental units. The department's financial statements reflect only its activities. The state comptroller maintains the central accounts for all state funds and publishes a comprehensive annual financial report for the State annually which includes the department's financial activities. The following is a summary of the significant accounting policies:

**Fund accounting.** The accounts of the department are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets,

liabilities, equity, revenues and expenditures. The various funds are summarized by type in the accompanying financial statements.

**Governmental fund types.** Governmental funds are those through which the acquisition, use, and balances of the department's expendable financial resources and the related liabilities are accounted. The measurement focus is on the flow of current financial resources. The following are the department's governmental fund types:

**General Fund.** The general fund is the general operating fund of the department. It is used to account for all financial resources except for those required to be accounted for in another fund. The general fund presented is a part of the state's general fund and is limited to only those appropriations and obligations of the department.

**Special revenue funds.** The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust funds) that are legally restricted to expenditures for specified purposes.

**Fiduciary fund types.** Fiduciary funds are used to account for assets held by the department in a trustee or agency capacity. These include expendable trust funds which account for cash collected and expended by the department as trustee, and agency funds which account for cash collected and expended by the department in a custodial capacity.

**Account groups.** Account groups are used to establish accounting control and accountability for the department's general fixed assets and long-term debt. The following are the department's account groups:

**General fixed assets account group.** This account group is established to account for all fixed assets (principally furniture and equipment) of the department.

**General long-term debt account group.** This account group is established to account for all long-term obligations of the department.

**Basis of accounting.** The modified accrual basis of accounting is followed by the governmental fund types, expendable trust funds, and agency funds. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual (that is, both measurable and available), usually when the appropriations are allotted. Expenditures are generally recognized when the related liability is incurred, except for accumulated unpaid vacation which is recognized as an expenditure when payable from expendable available financial resources.

In applying the susceptible to accrual concept to federal grant revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Under most of the department's federal programs, moneys must be expended for a specific purpose or project; therefore, revenue is recognized to the extent that expenditures are recognized.

**Cash and cash equivalents.** Cash reported in the combined balance sheet includes cash in the State Treasury, cash in various Hawaii banks and certificates of deposit where maturities are three months or less.

The State of Hawaii maintains a cash pool that is available for all funds. Each fund type's portion of this pool is displayed on the combined balance sheet within cash and cash equivalents. Those funds are pooled with funds from other State of Hawaii agencies and departments and deposited in approved financial institutions by the director of the State of Hawaii, Department of Budget and Finance. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State of Hawaii by third party custodians. Statutes authorize the department to invest in certificates of deposit and money market accounts.

The Hawaii Revised Statutes authorize the director of finance to invest in obligations of or guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions.

**Investments.** Employers, except the State, any county or political subdivision of the State, or other public entity within the State, are required by Hawaii Revised Statutes Section 386-121 to secure unemployment compensation for their employees in several ways, including depositing and maintaining with the director of finance security satisfactory to the Director of Labor and Industrial Relations. Such securities, held at the State Treasury (stated at cost which approximates market) totaled \$1,891,000 on June 30, 1993, and are accounted for in the department's agency funds.

**Reserve for encumbrances.** Encumbrance accounting, under which purchase orders and contractual commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as reservations of fund balances because the commitments will be honored when the goods or services are received. Encumbrances do not constitute expenditures or liabilities.

**Fixed assets.** Fixed assets (primarily furniture and equipment) have been acquired for general government purposes. Assets purchased are recorded as expenditures in the governmental funds and capitalized at cost in the General Fixed Assets Account Group. No depreciation has been provided for general fixed assets.

**Accrued payroll and vacation payable.** Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarters working days for each month of service up to 720 hours at calendar year-end, and is convertible to pay upon termination of employment. In governmental fund types, the amounts expected to be liquidated with expendable available financial resources are accrued in the respective funds, and the amounts payable from future resources are recorded in the general long-term debt account group.

**Inventory.** Inventory is valued at the lower of cost (first in, first out) or market and consists of food commodities from the U.S. Department of Agriculture, Food and Nutrition Service Agency, under the Food Distribution Program. The cost is recorded as an expenditure when items are distributed (consumption method) rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net assets.

**Intrafund and interfund transactions.** Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them are recorded as operating transfers in the financial statements.

### ***Budgeting and budgetary control***

The budget of the department is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan, and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented and controlled. Revenue estimates are provided to the Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in Exhibit C are those estimates as compiled by the department. Budgeted expenditures are derived primarily from the General Appropriations Act of 1991 (Act 296, SLH 1991), as amended by the Supplemental Appropriations Act of 1992 (Act 300, SLH 1992) and other specific appropriations acts.

All expenditures of these appropriated funds are made pursuant to the appropriations in the 1991-1993 biennial budget as amended by

subsequent supplemental appropriations. The final legally adopted budget in Exhibit C represents the original appropriations, supplemental appropriations, transfers, and other legally authorized legislative and executive changes. Budgetary control is maintained at the appropriation line item as established in the appropriations acts. The governor is authorized to transfer appropriations within a state agency; however, transfers of appropriations between state agencies generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the department.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The Legislature specifies the lapse date and any other contingencies which may terminate the authorization for other appropriations.

Budgets adopted by the Legislature for the general and special revenue funds are presented in Exhibit C. The department's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to the encumbrances of purchase order and contract obligations as expenditures for budgetary purposes. These differences represent departures from generally accepted accounting principles (GAAP). A reconciliation between non-GAAP budgetary actual and GAAP actual is as follows:

	General Fund	Special Revenue Funds
Excess of revenues over expenditures - actual (budgetary basis)	\$ 26,479	\$ 1,728,620
Encumbrances	158,904	—
Net reserve for unemployment compensation costs	(313,000)	—
Accrued revenues and expenditures at June 30, not recognized for budgetary purposes - net of prior year accruals	(126,780)	1,551,067
Expenditures for liquidation of prior year encumbrances	(476,406)	—
Nonbudgeted revenues and expenditures	<u>—</u>	<u>(1,784,071)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses - actual (GAAP basis)	<u>\$ (730,803)</u>	<u>\$ 1,495,616</u>

**General fixed assets  
account group**

Changes in general fixed assets (unaudited) during the year ended June 30, 1993, were as follows:

Balance at July 1, 1992	\$ 9,764,161
Additions	1,198,085
Retirements	<u>226,032</u>
Balance at June 30, 1993	<u>\$ 10,736,214</u>

**Retirement benefits**

**Employees' retirement system.** Substantially all eligible employees of the department are members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively.

Required employer contributions to the ERS are based on actuarially determined rates that should provide sufficient resources to pay member pension benefits when due. The funding method used to calculate the total employer contribution required is the frozen initial liability method, and includes amortization of the accrued unfunded liability of pension benefits and post retirement benefits fixed at \$470 million over a period of twenty-eight years beginning July 1, 1987. The State's policy is to fund its required contribution annually. The department's general fund share of the retirement system expense for the year ended June 30, 1993, was included in the Supplemental Appropriations Act as an item to be expended by the Department of Budget and Finance and is not reflected in the department's general fund financial statements. No contributions were required by the department's special revenue funds.

Measurement of assets and actuarial valuations are made for the entire ERS and are not separately computed for individual participating employers such as the department. The disclosures required by Governmental Accounting Standards Board Statement No. 5 are presented in the ERS Comprehensive Annual Financial Report (CAFR).

The following data are provided as of June 30, 1992 for the entire ERS from the disclosures contained in the CAFR for the year then ended, the most recent available:

Pension benefit obligation	\$ 6,092,482,400
Net assets available for benefits (at cost)	<u>4,502,354,880</u>
Unfunded pension benefit obligation	<u>\$ 1,590,127,520</u>

The pension benefit obligation is a standardized measure of the present value of credited projected pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date.

The entire ERS actuarially determined employer contribution requirements were met as of June 30, 1993.

**Post-retirement health care and life insurance benefits.** In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired state employees. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. The department's general fund share of the expense for post-retirement benefits for the year ended June 30, 1993 has not been separately computed and is not reflected in the department's general fund financial statements.

### **Operating leases**

The department leases office facilities on a long-term basis. Rental expense for those leases is reported in the general fund. Total rentals amounted to approximately \$872,000 for the year ended June 30, 1993. Minimum future rentals on noncancelable operating leases with terms of one year or more at June 30, 1993 are as follows:

	Office Facilities
Year ending June 30:	
1994	\$ 814,000
1995	554,000
1996	258,000
1997	211,000
1998	224,000
Thereafter	<u>265,000</u>
	<u>\$ 2,326,000</u>

The office facilities leases expire on various dates throughout 1999. Those office leases contain two-year renewal options at rates to be determined upon expiration of the original terms.

### ***Commitments and contingencies***

**Accumulated sick pay.** Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System. Accumulated sick leave at June 30, 1993, aggregated approximately \$18,339,000.

**Deferred compensation plan.** In 1983, the State established a deferred compensation plan which enables state employees to defer a portion of their compensation. The State of Hawaii, Department of Personnel Services, has the fiduciary responsibility of administering the plan. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject to the claims of the State's general creditors. Participants' rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.

**Insurance coverage.** The State maintains certain insurance coverages to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. Expenditures for workers' compensation are appropriated annually.

**Litigation.** The department is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the department's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State's general fund.

**STATE OF HAWAII  
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

Combined balance sheet - all fund types and account groups  
June 30, 1993

	Governmental Fund Types		Fiduciary Fund Types		Account Groups			Total (Memorandum Only)
	General	Special Revenue	Trust and Agency	General Fixed Assets (Unaudited)	General Long-Term Debt			
<b>Assets</b>								
Cash and deposits:								
Petty cash and imprest funds	\$ 10,100	\$ 26,000	\$ --	\$ --	\$ --	\$ --	\$ 36,100	
Cash in bank	--	--	709,398	--	--	--	709,398	
Cash in State Treasury	686,143	6,322,612	14,728,591	--	--	--	21,737,346	
Cash in Federal Treasury	--	--	329,285,320	--	--	--	329,285,320	
<b>Receivables:</b>								
Advances to subrecipients and others	--	446,782	--	--	--	--	446,782	
Due from Federal Government	--	2,520,312	--	--	--	--	2,520,312	
Due from other State Special Revenue Funds	107,140	--	--	--	--	--	107,140	
<b>Inventory</b>								
Prepaid unemployment insurance	--	211,900	--	--	--	--	211,900	
Prepaid expenses	379,860	--	--	--	--	--	379,860	
Investments	--	67,421	--	--	--	--	67,421	
Fixed assets	--	--	1,891,000	--	--	--	1,891,000	
Amount to be provided for the retirement of general long-term debt	--	--	--	10,736,214	--	--	10,736,214	
<b>Total assets</b>	<u>\$1,183,243</u>	<u>\$9,595,027</u>	<u>\$346,614,309</u>	<u>\$10,736,214</u>	<u>\$5,946,075</u>	<u>\$5,946,075</u>	<u>\$374,074,868</u>	

The accompanying notes are an integral part of the combined financial statements.

**STATE OF HAWAII**  
**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

Combined balance sheet - all fund types and account groups  
June 30, 1993

	Governmental Fund Types			Fiduciary Fund Types		Account Groups			Total (Memorandum Only)
	General	Special Revenue	Trust and Agency	General Fixed Assets (Unaudited)	Long-Term Debt	General	Special	Trust and Agency	
<b>Liabilities, Fund Equity And Other Credit</b>									
<b>Liabilities:</b>									
Vouchers payable	\$ 214,239	\$4,446,099	\$ 7,324,940	\$ --	\$ --	\$ 11,985,278			
Accrued payroll and vacation payable	--	513,685	--	--	5,946,075	6,459,760			
Deferred revenues	--	--	487,000	--	--	487,000			
Due to State General Fund	10,100	26,000	--	--	--	36,100			
Due to individuals and others	--	--	2,584,650	--	--	2,584,650			
Total liabilities	224,339	4,985,784	10,396,590	--	5,946,075	21,552,788			
<b>Fund Equity and Other Credit:</b>									
Investment in general fixed assets	--	--	--	10,736,214	--	10,736,214			10,736,214
<b>Fund balances:</b>									
Reserved for encumbrances	158,904	--	--	--	--	158,904			
Reserved for receivable due from other	--	--	--	--	--	--			
State Special Revenue Funds	107,140	211,900	--	--	--	319,040			319,040
Reserved for inventory	--	--	--	--	--	--			
Reserved for prepaid unemployment insurance	379,860	940,973	--	--	--	1,320,833			1,320,833
Reserved for weatherization programs	--	--	--	--	--	--			
Reserved for unemployment compensation and other	--	--	336,217,719	--	--	336,217,719			336,217,719
Reserved for unemployment insurance administration	--	808,392	--	--	--	808,392			808,392
Reserved for employment and training	--	2,647,978	--	--	--	2,647,978			2,647,978
Unreserved	313,000	--	--	--	--	313,000			313,000
Total fund equity and other credit	958,904	4,609,243	336,217,719	10,736,214	--	352,522,080			352,522,080
Total liabilities, fund equity and other credit	\$1,183,243	\$9,595,027	\$346,614,309	\$10,736,214	\$5,946,075	\$374,074,868			\$374,074,868

The accompanying notes are an integral part of the combined financial statements.

**STATE OF HAWAII  
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

Combined statement of revenues, expenditures and changes in fund equity -  
all governmental fund types and expendable trust funds  
for the year ended June 30, 1993

	Governmental Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Expendable Trust	
<b>Revenues:</b>				
Intergovernmental revenues	\$ 764,154	\$47,401,284	\$ 60,329,894	\$108,495,332
Employer contributions for unemployment insurance	--	--	63,085,529	63,085,529
Interest	--	--	27,779,487	27,779,487
State appropriations	26,151,814	--	--	26,151,814
Workers' compensation assessments	--	--	13,541,728	13,541,728
Non-imposed employee fringe benefits	3,110,359	--	--	3,110,359
Employment and training assessments	--	4,265,213	--	4,265,213
Special unemployment insurance assessments	--	104,187	--	104,187
Fines and penalties	--	--	98,457	98,457
Other revenues	--	--	188,643	188,643
<b>Total revenues</b>	<u>30,026,327</u>	<u>51,770,684</u>	<u>165,023,738</u>	<u>246,820,749</u>
<b>Expenditures:</b>				
Full Opportunity to Work	5,548,285	28,565,266	--	34,113,551
Fair and Just Employment Practices	2,908,828	39,582	--	2,948,410
Labor - Management Relations	615,081	--	--	615,081
Assistance in Work Related Difficulties	10,048,383	11,244,646	240,004,090	261,297,119
Overall Program Support	12,163,036	8,571,337	--	20,734,373
<b>Total expenditures</b>	<u>31,283,613</u>	<u>48,420,831</u>	<u>240,004,090</u>	<u>319,708,534</u>
<b>Excess (deficiency) of revenues over expenditures</b>	(1,257,286)	3,349,853	(74,980,352)	(72,887,785)
<b>Other Financing Sources (Uses):</b>				
Operating transfers in	562,925	3,287,431	--	3,850,356
Operating transfers out	--	(5,141,668)	--	(5,141,668)
Lapsed appropriations	(36,442)	--	--	(36,442)
Other	--	--	--	--
<b>Total other financing sources (uses)</b>	<u>526,483</u>	<u>(1,854,237)</u>	<u>--</u>	<u>(1,327,754)</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	(730,803)	1,495,616	(74,980,352)	(74,215,539)
<b>Fund equity, July 1, 1992</b>	<u>1,689,707</u>	<u>3,113,627</u>	<u>411,198,071</u>	<u>416,001,405</u>
<b>Fund equity, June 30, 1993</b>	<u>\$ 958,904</u>	<u>\$ 4,609,243</u>	<u>\$336,217,719</u>	<u>\$341,785,866</u>

*The accompanying notes are an integral part of the combined financial statements.*

**STATE OF HAWAII**  
**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

Combined statement of revenues and expenditures - budget and actual (budgetary basis) -  
 general and budgeted special revenue fund types  
 for the year ended June 30, 1993

	General Fund			Budgeted Special Revenue Funds		
	Actual (Budgetary Basis)	Budget	Variance Favorable (Unfavorable)	Actual (Budgetary Basis)	Budget	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
State appropriations	\$26,151,814	\$26,151,814	\$ --	\$ --	\$ --	\$ --
Intergovernmental revenues	764,154	764,154	--	47,745,387	59,785,304	(12,039,917)
Special unemployment insurance assessments	--	--	--	104,186	535,675	(431,489)
Employment and training assessments	--	--	--	4,265,213	4,945,030	(679,817)
<b>Total revenues</b>	<b>26,915,968</b>	<b>26,915,968</b>	<b>--</b>	<b>52,114,786</b>	<b>65,266,009</b>	<b>(13,151,223)</b>
<b>Expenditures:</b>						
Full Opportunity to Work	4,537,626	4,562,348	24,722	30,723,287	41,994,623	11,271,336
Fair and Just Employment Practices	2,340,968	2,340,970	2	39,582	227,839	188,257
Labor - Management Relations	510,236	510,238	2	--	--	--
Assistance in Work Related Difficulties	8,271,774	8,271,774	--	11,797,203	13,611,511	1,814,308
Overall Program Support	11,228,885	11,230,638	1,753	7,826,094	9,432,036	1,605,942
<b>Total expenditures</b>	<b>26,889,489</b>	<b>26,915,968</b>	<b>26,479</b>	<b>50,386,166</b>	<b>65,266,009</b>	<b>14,879,843</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ 26,479</b>	<b>\$ --</b>	<b>\$26,479</b>	<b>\$ 1,728,620</b>	<b>\$ --</b>	<b>\$ 1,728,620</b>

*The accompanying notes are an integral part of the combined financial statements.*

STATE OF HAWAII  
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Combining balance sheet - all special revenue funds  
June 30, 1993

Assets	Federal Funds	Special Unemployment Insurance Administration Fund	Employment and Training Fund	Total
Cash and deposits:				
Petty cash and imprest funds	\$ 26,000	--	--	\$ 26,000
Cash in State Treasury	2,855,805	808,392	2,658,415	6,322,612
Receivables:				
Advances to subrecipients and others	446,782	--	--	446,782
Due from Federal Government	2,520,312	--	--	2,520,312
Inventory	211,900	--	--	211,900
Prepaid expenses	<u>67,421</u>	--	--	<u>67,421</u>
Total assets	<u>\$6,128,220</u>	<u>\$808,392</u>	<u>\$2,658,415</u>	<u>\$9,595,027</u>
Liabilities:				
Vouchers payable	\$4,435,662	\$ --	\$ 10,437	\$4,446,099
Accrued payroll and vacation payable	513,685	--	--	513,685
Due to State General Fund	<u>26,000</u>	--	--	<u>26,000</u>
Total liabilities	4,975,347	--	10,437	4,985,784
Fund Equity:				
Reserved for inventory	211,900	--	--	211,900
Reserved for weatherization programs	940,973	--	--	940,973
Reserved for unemployment insurance administration	--	808,392	--	808,392
Reserved for employment and training	--	--	<u>2,647,978</u>	<u>2,647,978</u>
Total fund equity	<u>1,152,873</u>	<u>808,392</u>	<u>2,647,978</u>	<u>4,609,243</u>
Total liabilities and fund equity	<u>\$6,128,220</u>	<u>\$808,392</u>	<u>\$2,658,415</u>	<u>\$9,595,027</u>

STATE OF HAWAII  
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Combining statement of revenues, expenditures and changes in fund equity - all special revenue funds  
for the year ended June 30, 1993

	Federal Funds	Special Unemployment Insurance Administration Fund	Employment and Training Fund	Total
<b>Revenues:</b>				
Intergovernmental revenues	\$47,395,904	\$ 2,116	\$ 3,264	\$47,401,284
Employment and training assessments	--	--	4,265,213	4,265,213
Special unemployment insurance assessments	--	<u>104,187</u>	--	<u>104,187</u>
Total revenues	<u>47,395,904</u>	106,303	<u>4,268,477</u>	51,770,684
<b>Expenditures:</b>				
Full Opportunity to Work	26,301,166	--	2,264,100	28,565,266
Fair and Just Employment Practices	39,582	--	--	39,582
Assistance in Work Related Difficulties	11,196,764	47,882	--	11,244,646
Overall Program Support	<u>8,571,337</u>	--	--	<u>8,571,337</u>
Total expenditures	<u>46,108,849</u>	<u>47,882</u>	<u>2,264,100</u>	<u>48,420,831</u>
Excess of revenues over expenditures	1,287,055	58,421	2,004,377	3,349,853
<b>Other Financing Sources (Uses):</b>				
Operating transfers in	3,287,431	--	--	3,287,431
Operating transfers out	<u>(5,136,288)</u>	<u>(2,116)</u>	<u>(3,264)</u>	<u>(5,141,668)</u>
Total other financing sources (uses)	<u>(1,848,857)</u>	<u>(2,116)</u>	<u>(3,264)</u>	<u>(1,854,237)</u>
Excess (deficiency) of revenues and sources over expenditures and other financing uses	(561,802)	56,305	2,001,113	1,495,616
Fund equity, July 1, 1992	<u>1,714,675</u>	<u>752,087</u>	<u>646,865</u>	<u>3,113,627</u>
Fund equity, June 30, 1993	<u>\$1,152,873</u>	<u>\$808,392</u>	<u>\$2,647,978</u>	<u>\$4,609,243</u>

STATE OF HAWAII  
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Combining statement of revenues and expenditures - budget and actual (budgetary basis) - budgeted special revenue funds  
for the year ended June 30, 1993

	Federal Funds			Special Unemployment Insurance Administration Fund			Total
	Actual (Budgetary Basis)	Budget	Variance Favorable (Unfavorable)	Actual (Budgetary Basis)	Budget	Variance Favorable (Unfavorable)	
<b>Revenues:</b>							
Intergovernmental revenues	\$47,745,387	\$59,785,304	\$(12,039,917)	\$ --	\$ --	\$ --	\$59,785,304
Special unemployment insurance assessments	--	--	--	104,186	535,675	(431,489)	535,675
Employment and training assessment	4,265,213	4,945,030	(679,817)	--	--	--	4,945,030
Total revenues	52,010,600	64,730,334	(12,719,734)	104,186	535,675	(431,489)	65,266,009
<b>Expenditures:</b>							
Full Opportunity to Work Fair and Just Employment Practices	30,723,287	41,994,623	11,271,336	--	--	--	41,994,623
Assistance in Work Related Difficulties	39,582	227,839	188,257	--	--	--	227,839
Overall Program Support	11,749,322	13,075,836	1,326,514	47,881	535,675	487,794	13,611,511
Total expenditures	7,826,094	9,432,036	1,605,942	--	--	--	9,432,036
	50,338,285	64,730,334	14,392,049	47,881	535,675	487,794	65,266,009
Deficiency of revenues over expenditures	\$ 1,672,315	\$ --	\$ 1,672,315	\$ 56,305	\$ --	\$ 56,305	\$ 1,728,620

STATE OF HAWAII  
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Combining balance sheet - fiduciary fund types  
June 30, 1993

	Expendable Trust Funds				Agency Funds				Total
	Unemployment Compensation	Disability Compensation	Non-Work Connected Disability	Premium Supple- mentation	Temporary Deposits	Temporary Disability Insurance	Unemployment Compensation	Wage Claim and Other	
<b>Assets</b>									
Cash and deposits:									
Cash in bank	\$ 709,398	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 709,398
Cash in State Treasury	--	6,127,923	5,471,008	2,436,010	33,500	12,186	545,583	102,381	14,728,591
Cash in Federal Treasury	329,285,320	--	--	--	--	--	--	--	329,285,320
Investments	--	--	--	--	--	1,891,000	--	--	1,891,000
<b>Total assets</b>	<b>\$329,994,718</b>	<b>\$6,127,923</b>	<b>\$5,471,008</b>	<b>\$2,436,010</b>	<b>\$33,500</b>	<b>\$1,903,186</b>	<b>\$545,583</b>	<b>\$102,381</b>	<b>\$346,614,309</b>
<b>Liabilities And Fund Equity</b>									
<b>Liabilities:</b>									
Vouchers payable	\$ 7,324,940	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 7,324,940
Deferred revenues	487,000	--	--	--	--	--	--	--	487,000
Due to individuals and others	--	--	--	--	--	1,903,186	545,583	102,381	2,584,650
<b>Total liabilities</b>	<b>7,811,940</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>33,500</b>	<b>1,903,186</b>	<b>545,583</b>	<b>102,381</b>	<b>10,396,590</b>
<b>Fund equity - reserved for unemployment compensation and other</b>	<b>322,182,778</b>	<b>6,127,923</b>	<b>5,471,008</b>	<b>2,436,010</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>336,217,719</b>
<b>Total liabilities and fund equity</b>	<b>\$329,994,718</b>	<b>\$6,127,923</b>	<b>\$5,471,008</b>	<b>\$2,436,010</b>	<b>\$33,500</b>	<b>\$1,903,186</b>	<b>\$545,583</b>	<b>\$102,381</b>	<b>\$346,614,309</b>

**STATE OF HAWAII  
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

Combining statement of revenues, expenditures and changes in fund equity - expendable trust funds  
for the year ended June 30, 1993

	Unemployment Compensation	Disability Compensation	Non-Work Connected Disability	Premium Supplementation	Total
<b>Revenues:</b>					
Intergovernmental revenues	\$ 60,329,894	\$ --	\$ --	\$ --	\$ 60,329,894
Employer contributions for unemployment insurance	63,085,529	--	--	--	63,085,529
Interest	27,278,785	192,211	208,848	99,643	27,779,487
Workers' compensation assessments	--	13,541,728	--	--	13,541,728
Fines and penalties	--	91,011	576	6,870	98,457
Other revenues	<u>150,694,208</u>	<u>186,669</u>	<u>1,948</u>	<u>26</u>	<u>188,643</u>
Total revenues	150,694,208	14,011,619	211,372	106,539	165,023,738
<b>Expenditures - Assistance in Work Related Difficulties</b>					
	<u>224,195,827</u>	<u>15,756,901</u>	<u>44,509</u>	<u>6,853</u>	<u>240,004,090</u>
Excess (deficiency) of revenues over expenditures	(73,501,619)	(1,745,282)	166,863	99,686	(74,980,352)
Fund equity, July 1, 1992	<u>395,684,397</u>	<u>7,873,205</u>	<u>5,304,145</u>	<u>2,336,324</u>	<u>411,198,071</u>
Fund equity, June 30, 1993	<u>\$322,182,778</u>	<u>\$ 6,127,923</u>	<u>\$5,471,008</u>	<u>\$2,436,010</u>	<u>\$336,217,719</u>

STATE OF HAWAII  
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Combining statement of changes in assets and liabilities - agency funds  
for the year ended June 30, 1993

	Balance July 1, 1992	Additions	Deductions	Balance June 30, 1993
<b>Assets</b>				
Cash:				
Temporary deposits fund	\$ 33,000	\$ 500	\$ --	\$ 33,500
Temporary disability insurance fund	11,484	5,743	5,041	12,186
Unemployment compensation fund	541,369	4,214	--	545,583
Wage claim fund and other	53,189	167,911	118,719	102,381
Investments	<u>1,893,000</u>	<u>1,300,000</u>	<u>1,302,000</u>	<u>1,891,000</u>
Total Assets	<u>\$2,532,042</u>	<u>\$1,478,368</u>	<u>\$1,425,760</u>	<u>\$2,584,650</u>
<b>Liabilities</b>				
Due to individuals and others:				
Temporary deposits fund	\$ 33,000	\$ 500	\$ --	\$ 33,500
Temporary disability insurance fund	1,904,484	1,305,743	1,307,041	1,903,186
Unemployment compensation fund	541,369	4,214	--	545,583
Wage claim fund and other	<u>53,189</u>	<u>167,911</u>	<u>118,719</u>	<u>102,381</u>
Total Liabilities	<u>\$2,532,042</u>	<u>\$1,478,368</u>	<u>\$1,425,760</u>	<u>\$2,584,650</u>

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## Response of the Affected Agency

### Comments on Agency Response

We transmitted a draft of this report to the Department of Labor and Industrial Relations on November 16, 1993. A copy of the transmittal letter to the department is included as Attachment 1. The department's response is included as Attachment 2.

The department is in general agreement with all of our findings and recommendations. It is prepared to abide by any future changes in statutes affecting the Special Fund for Disability Benefits and the Special Premium Supplementation Fund. The department states it will inform and work with DCCA on ensuring timely deposits of disability compensation assessments. The department will also formalize a policy whereby all estimates for fund transfers from the Unemployment Compensation Trust Fund will be reviewed and approved prior to processing by an appropriate supervisor. The department also states it is now generating Treasury Deposit Receipts (TDR) for each deposit from the Unemployment Compensation Trust Fund rather than a summary TDR each month. The department's Research and Statistics Office is working to institute a new estimating methodology to be used in projecting quarterly unemployment compensation benefit payments to former state employees. In addition, the DLIR Disability Compensation Division will, within available resources, conduct random audits of insurance companies and authorized self-insured employers to ensure they are actually paying adjustments for which reimbursements are made.

ATTACHMENT 1

STATE OF HAWAII  
OFFICE OF THE AUDITOR  
465 S. King Street, Room 500  
Honolulu, Hawaii 96813-2917



MARION M. HIGA  
State Auditor

(808) 587-0800  
FAX: (808) 587-0830

November 16, 1993

*COPY*

The Honorable Dayton M. Nakanelua, Director  
Department of Labor and Industrial Relations  
830 Punchbowl Street  
Honolulu, Hawaii 96813

Dear Mr. Nakanelua:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Financial Audit of the Department of Labor and Industrial Relations*. We ask that you telephone us by Thursday, November 18, 1993, on whether you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Tuesday, November 30, 1993.

The Governor and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marion M. Higa".

Marion M. Higa  
State Auditor

Enclosures

JOHN WAIHEE  
GOVERNOR



DAYTON M. NAKANELUA  
DIRECTOR  
ALFRED C. LARDIZABAL  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS  
830 PUNCHBOWL STREET  
HONOLULU, HAWAII 96813

November 29, 1993

RECEIVED

Honorable Marion M. Higa  
State Auditor  
Office of the Auditor  
465 S. King Street, Room 500  
Honolulu, HI 96813-2917

DEC 1 11 36 AM '93  
OFC. OF THE AUDITOR  
STATE OF HAWAII

Dear Ms. Higa:

Thank you for the opportunity to review and comment on the draft Financial Audit of the Department of Labor and Industrial Relations.

We are in general agreement with all of your findings and recommendations. We offer the following additional comments:

- (1) Finding: Excess funds held in special funds should be transferred to the general fund

Recommendation: Legislature should consider:

- (a) amending §392-62, HRS, to transfer excess funds from the Special Fund for Disability Benefits to the general fund, and
- (b) repealing the Special Premium Supplementation Fund.

DLIR Comment:

As you are aware, there were a number of bills before the 1993 Legislature proposing to amend existing statutes to address the same issues for these two funds, as well as for other special funds throughout the State. By session-end, bills that were passed did not amend the status of these two funds. We are prepared to abide by any future changes in statutes affecting these two funds.

We should note, however, with President Clinton's Health Plan initiative, we are studying the possibility of relaxing employer eligibility and accessibility to the Premium Supplementation Fund. It may, therefore, be premature to transfer these funds to the State General Fund at this time.

- (2) Finding: Disability Compensation assessments are not deposited in a timely manner.

Recommendation: Department of Commerce and Consumer Affairs (DCCA) should process and deposit disability compensation assessment payments received on a daily basis.

Comment: We will inform and work with DCCA on this matter.

- (3) Finding: DLIR should improve controls over fund transfers from the Federal government to the State.

Recommendation: DLIR should develop a policy whereby all estimates for fund transfers from the Unemployment Compensation Trust Fund are reviewed and approved prior to processing by an appropriate supervisor and a Treasury Deposit Receipt (TDR) should be prepared for each deposit into the State Treasury.

Comment: We will formalize a policy as recommended. As of our November 16, 1993, drawdown request, we are now generating TDRs for each deposit from the Unemployment Compensation Trust Fund rather than a summary TDR each month.

- (4) Finding: Estimates of unemployment compensation benefits for former State employees are inaccurate, thereby resulting in prepayment shortfalls to the Unemployment Compensation Trust Fund.

Recommendation: DLIR Research and Statistics Office should reevaluate its methodology used to project quarterly unemployment compensation benefit payments to former State employees.

Comment: Our DLIR Research and Statistics Office is working with your staff and will institute the new estimating methodology as proposed by your office. We should have the new methodology in place before prepayment is due for the fourth quarter of this fiscal year.

Honorable Marion M. Higa  
November 29, 1993  
Page 3

- (5) Finding: Workers' Compensation benefit adjustment payments are not verified.

Recommendation: The DLIR should perform random audits of insurance companies and authorized self-insured employers to ensure they are actually paying adjustments for which reimbursements are made.

Comment: The DLIR Disability Compensation Division will, within available resources, conduct random audits as recommended.

If you have any questions regarding our comments, please do not hesitate to call me or have your staff contact Gordon Ing, our Business Management Officer, at 586-8888. Thank you again for the opportunity to provide comments.

Sincerely,



Dayton M. Nakanelua  
Director of Labor and  
Industrial Relations

