



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

Basic Financial Statements and Single Audit Reports

June 30, 2008

(With Independent Auditors' Report Thereon)

Submitted by

**THE AUDITOR
STATE OF HAWAII**

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

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STATE OF HAWAII**

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SECTION I

Introduction



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

March 15, 2010

The Auditor
State of Hawaii

The Director
Department of Labor and Industrial Relations,
State of Hawaii:

We have completed our audit of the basic financial statements of the Department of Labor and Industrial Relations, State of Hawaii (the Department) as of and for the year ended June 30, 2008. We have also audited the Department's compliance with requirements applicable to its major federal financial assistance programs. We submit herein our reports on compliance and on internal control over financial reporting and over federal awards, a schedule of expenditures of federal awards, and a schedule of findings and questioned costs.

The objectives and scope of our audit were as follows:

Audit Objectives

1. To provide opinions on the fair presentation of the Department's basic financial statements and the schedule of expenditures of federal awards as of and for the year ended June 30, 2008, in accordance with U.S. generally accepted accounting principles
2. To consider the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements
3. To perform tests of the Department's compliance with laws, regulations, contracts, and grants that could have a direct and material effect on the determination of financial statement amounts
4. To consider the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance
5. To provide an opinion on the Department's compliance with applicable laws, regulations, contracts, and grants that could have a direct and material effect on each major program

The Auditor
State of Hawaii

The Director
Department of Labor and Industrial Relations,
State of Hawaii
March 15, 2010
Page 2

Scope of Audit

We performed an audit of the Department's basic financial statements and schedule of expenditures of federal awards as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Organization of Report

Our report is organized into five sections as follows:

1. Section I, entitled "Introduction" describes the objectives and scope of our audit and the organization and contents of this report.
2. Section II, entitled "Basic Financial Statements" contains the Department's basic financial statements and notes for the year ended June 30, 2008, and our report thereon. It also contains management's discussion and analysis on the Department's financial activities for the year ended June 30, 2008.
3. Section III, entitled "Supplementary Information" contains the combining financial statements for the Department's nonmajor governmental funds.
4. Section IV, entitled "Compliance and Internal Control over Financial Reporting" contains our report on the Department's internal control over financial reporting and compliance and other matters based upon our audit of the Department's basic financial statements.
5. Section V, entitled "Compliance and Internal Control over Federal Awards" contains our report on the Department's compliance and internal control over federal awards in accordance with OMB Circular A-133, a schedule of expenditures of federal awards, and a schedule of findings and questioned costs.

We would like to take this opportunity to express our appreciation to the personnel of the Department of Labor and Industrial Relations, State of Hawaii for the cooperation and assistance extended to us during our audit. We will be pleased to discuss any questions that you or your associates may have regarding our recommendations.

Very truly yours,

KPMG LLP

SECTION II

Basic Financial Statements



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Labor and Industrial Relations, State of Hawaii (the Department) as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 opinions.

As discussed in note 1 to the basic financial statements, the financial statements of the Department are intended to present the financial position and the changes in financial position, and, where applicable, cash flows thereof of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that are attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2008, and the changes in its financial position, and, where applicable, its cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Labor and Industrial Relations, State of Hawaii as of June 30, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund and federal fund for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February __, 2010 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 11 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

March 15, 2010

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

Management's Discussion and Analysis

Year ended June 30, 2008

As management of the Department of Labor and Industrial Relations, State of Hawaii (the Department), we offer readers of the Department's basic financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the Department exceeded its liabilities at June 30, 2008 by \$563.3 million (net assets).
- Of the total net assets at June 30, 2008, the amount of \$553.5 million or 98.3% was unrestricted and may be used by the Department for its operations and activities in achieving its goal to ensure and increase the economic security, physical and economic well-being, and productivity of Hawaii's workers. Total net assets decreased \$51.1 million during the year ended June 30, 2008.
- At June 30, 2008, the Department reported governmental fund balances of \$20.8 million, a decrease of \$0.6 million or 2.8% from the prior fiscal year.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of three components: (1) department-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Department-Wide Financial Statements

The department-wide financial statements are designed to provide readers with a broad overview of the Department's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The statement of activities presents information showing how the Department's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected tax revenue and unused vacation leave).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Department can be divided into three categories: (1) governmental funds, (2) proprietary funds, and (3) fiduciary funds.

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

Management's Discussion and Analysis

Year ended June 30, 2008

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the department-wide financial statements. However, unlike the department-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Department's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the department-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the department-wide financial statements. By doing so, readers may better understand the long-term impact of the Department's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities in the department-wide financial statements. The department-wide statement of net assets and statement of activities can be found on pages 12 and 13 of this report, respectively.

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, federal fund, and the aggregate nonmajor governmental funds. The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances can be found on pages 14 and 16 of this report, respectively.

The Department adopts an annual appropriated budget for its general fund and federal fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget. The budgetary comparison statement for the general fund and federal fund can be found on page 18 of this report.

Proprietary Funds

Proprietary funds are used to show activities that operate more like those of commercial enterprises. They are known as enterprise funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the department-wide financial statements. The Department uses enterprise funds to account for the operations of the unemployment compensation fund and the disability compensation fund.

The proprietary funds financial statements provide the same type of information as the business-type activities in the department-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the unemployment compensation fund and disability compensation fund, both of which are considered to be major funds of the Department.

The proprietary funds financial statements can be found on pages 19 – 21 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the State of Hawaii. Fiduciary funds are not reflected in the department-wide financial statements because the resources of those funds are not available to support the Department's own programs. The accounting use for fiduciary funds is much like that used for proprietary funds.

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

Management's Discussion and Analysis

Year ended June 30, 2008

The fiduciary funds financial statements can be found on page 22 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the department-wide and fund financial statements.

Department-Wide Financial Analysis

The following is a financial analysis on the governmental and business-type activities of the Department. Net assets are a useful indicator of a government's financial position. For the Department, total assets exceeded liabilities by \$563.3 million, and decreased \$51.1 million or 8.3% over the course of this fiscal year's operations.

The following table was derived from the department-wide statement of net assets:

Summary Schedule of Net Assets

June 30, 2008 and 2007

Assets	2008			2007		
	Governmental activities	Business-type activities	Total	Governmental activities	Business-type activities	Total
Cash	\$ 24,629,306	534,859,220	559,488,526	22,932,139	567,586,264	590,518,403
Unemployment taxes receivable	—	11,197,900	11,197,900	—	28,244,020	28,244,020
Capital assets, net	9,324,011	453,596	9,777,607	8,211,055	286,188	8,497,243
Other assets	7,404,186	857,382	8,261,568	5,203,066	735,086	5,938,152
Total assets	41,357,503	547,368,098	588,725,601	36,346,260	596,851,558	633,197,818
Liabilities						
Vouchers payable	4,456,234	5,386,162	9,842,396	3,207,171	6,420,214	9,627,385
Accrued expenses and other	6,793,335	977,711	7,771,046	3,548,217	11,602	3,559,819
Long-term obligation – accrued vacation	5,545,838	—	5,545,838	5,614,715	—	5,614,715
Long-term obligation – postretirement liability	2,209,890	39,866	2,249,756	—	—	—
Total liabilities	19,005,297	6,403,739	25,409,036	12,370,103	6,431,816	18,801,919
Net Assets						
Invested in capital assets	9,324,011	453,596	9,777,607	8,211,055	286,188	8,497,243
Unrestricted	13,028,195	540,510,763	553,538,958	15,765,102	590,133,554	605,898,656
Total net assets	\$ 22,352,206	540,964,359	563,316,565	23,976,157	590,419,742	614,395,899

Analysis of Net Assets

Total assets decreased by \$44.5 million or 7.0% from the prior fiscal year, primarily due to a \$49.5 million or 8.3% decrease in total assets of the business-type activities. This is a result of a \$24.8 million or 44.9% decrease in cash held in Federal Treasury coupled with a \$17.0 million or 60.4% decrease in unemployment taxes receivable. The decrease in cash held in Federal Treasury is primarily attributable to an increase in the payment of unemployment benefits.

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

Management's Discussion and Analysis

Year ended June 30, 2008

Total liabilities increased by \$6.6 million or 35.2% from the prior fiscal year, primarily due to a \$4.2 million or 118.3% increase in accrued expenses and the recordation of the postretirement liability of \$2.2 million reported for the governmental and business-type activities as a result of adopting the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Department's unrestricted net assets decreased to \$553.5 million at June 30, 2008 from \$605.9 million at June 30, 2007, a decrease of \$52.4 million or 8.6%. Unrestricted net assets of the business-type activities decreased by \$49.6 million or 8.4%. A substantial portion of the unrestricted net assets consists of cash amounts held by the Department as business-type activities in the statement of net assets. Cash held in Federal Treasury, to be used for benefits to unemployed workers, and cash in State Treasury, to be used for workers injured on the job, aggregated to \$534.9 million and \$567.6 million at June 30, 2008 and 2007, respectively.

At June 30, 2008, the Department is able to report positive balances of net assets for governmental and business-type activities of \$22.4 million and \$541.0 million, respectively.

Changes in Net Assets

The following financial information was derived from the department-wide statement of activities and reflects how the Department's net assets changed during the fiscal year:

Summary Schedule of Changes in Net Assets

Fiscal years ended June 30, 2008 and 2007

	2008			2007		
	Governmental activities	Business-type activities	Total	Governmental activities	Business-type activities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 3,428,505	105,808,607	109,237,112	3,738,478	148,310,263	152,048,741
Operating grants and contributions	37,773,978	—	37,773,978	37,669,121	—	37,669,121
General revenues:						
State appropriations, net	24,094,560	—	24,094,560	26,437,261	—	26,437,261
Interest income	568,109	27,573,545	28,141,654	508,773	25,983,919	26,492,692
Transfers, net	3,549,055	(3,566,423)	(17,368)	647,990	(625,823)	22,167
Total revenues	69,414,207	129,815,729	199,229,936	69,001,623	173,668,359	242,669,982
Expenses:						
Program support	8,649,834	—	8,649,834	12,152,197	—	12,152,197
Full opportunity to work	44,278,660	161,292,005	205,570,665	36,416,567	114,952,938	151,369,505
Enforcement of labor laws	15,248,325	17,979,107	33,227,432	16,222,091	18,674,238	34,896,329
Labor adjudication	2,861,339	—	2,861,339	1,697,830	—	1,697,830
Total expenses	71,038,158	179,271,112	250,309,270	66,488,685	133,627,176	200,115,861
Change in net assets	(1,623,951)	(49,455,383)	(51,079,334)	2,512,938	40,041,183	42,554,121
Net assets, beginning of year	23,976,157	590,419,742	614,395,899	21,463,219	550,378,559	571,841,778
Net assets, end of year	\$ 22,352,206	540,964,359	563,316,565	23,976,157	590,419,742	614,395,899

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

Management's Discussion and Analysis

Year ended June 30, 2008

Analysis of Changes in Net Assets

The Department's net assets decreased by \$51.1 million or 8.3% during the fiscal year ended June 30, 2008. Net assets of the governmental and business-type activities decreased by \$1.6 million and \$49.5 million, respectively. Revenues decreased by \$43.4 million or 17.9% from the prior fiscal year. Revenues from business-type activities decreased by \$43.9 million, primarily due to a \$42.5 million or 28.7% decrease in charges for services as a result of the decreased employer contributions. In fiscal year 2008, the labor force grew by 0.4%, while employment declined 0.2%. Approximately 54.8% of the Department's total revenues came from charges for services (as compared with 62.7% for 2007), while 19.0% resulted from operating grants and contributions (including federal aid). The largest expenses were for full opportunity to work.

Total expenses increased by \$50.2 million or 25.1% from the prior fiscal year. Total expenses of the business-type activities increased by \$45.6 million or 34.2%, due to an increase in full opportunity to work as a result of an increase of 7.7% in the average weekly unemployment benefit rate offset by a decrease of 3.6% in the average number of weeks of unemployment benefits paid.

Financial Analysis of the State's Individual Funds

As noted earlier, the Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Department's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Department's governmental funds reported combined ending fund balances of \$20.8 million, a decrease of \$0.6 million or 2.8% from the prior fiscal year.

The general fund and federal fund are the Department's primary operating funds. At the end of the current fiscal year, the fund balances of the Department's general fund and federal fund were \$3.2 million and \$1.2 million, respectively, which reflect a decrease of \$0.8 million in the general fund and an increase of \$0.3 million in the federal fund.

Proprietary Funds

The Department maintains enterprise funds for unemployment compensation and disability compensation benefits. As of the end of the current fiscal year, the Department's enterprise funds reported combined ending fund net assets of \$541.0 million, a decrease of \$49.5 million or 8.4% from the prior year.

At the end of the current fiscal year, the unemployment compensation fund net assets decreased by \$46.1 million or 8.0% from the prior year and the disability compensation fund net assets decreased by \$3.4 million or 23.2% over the prior fiscal year's fund balances.

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

Management's Discussion and Analysis

Year ended June 30, 2008

Fiduciary Funds

The Department maintains an agency fund for the funds held in bank accounts as security deposits for temporary disability insurance, unemployment compensation, and back wages due to employees.

General Fund Budgetary Highlights

Actual general fund revenues were more than the final budget of \$19.5 million by \$15,920, and actual general fund expenditures were greater than the final budget of \$19.5 million by \$15,920. The effect of the above resulted in no variance between the final budget and actual results on a budgetary basis in fiscal year 2008.

Federal Fund Budgetary Highlights

Actual federal fund revenues were more than the original and final budget of \$37.7 million by \$5.3 million, and actual federal fund expenditures were less than the original and final budget of \$42.9 million by \$2.7 million. These differences are primarily attributable to budgeted amounts being based on a higher anticipated unemployment rate of 3.2%. The effect of the above resulted in a favorable variance between the original and final budget and actual results on a budgetary basis of \$8.0 million in fiscal year 2008.

Capital Assets

The Department's investment in capital assets as of June 30, 2008 and 2007 for its governmental and business-type activities totaled \$9.8 million and \$8.5 million, respectively (net of accumulated depreciation of \$20.7 million and \$17.0 million at June 30, 2008 and 2007, respectively). This investment in capital assets includes buildings, furniture and equipment, and vehicles.

Additional information on the Department's capital assets can be found in note 5 to the basic financial statements.

Economic Factors and Next Year's Budget

In fiscal year 2008, both Hawaii's civilian labor force and employment increased over fiscal year 2007. The labor force grew by 0.4%, while employment declined by 0.2% and unemployment climbed by 28.3%. During fiscal year 2008, an average of 629,450 people were employed statewide, a decrease of 1,450 over fiscal year 2007. The unemployment rate in fiscal year 2008 was 3.1%, up from 2.4% in fiscal year 2007.

The number of seasonally adjusted wage and salary jobs was up 0.5% for fiscal year 2008 compared with fiscal year 2007. Jobs are up most notably in construction; educational and health services; and government, each with an increase of at least 1,000 jobs. The wage and salary jobs are expected to decrease for the next fiscal year.

Unemployment remains low with the statewide seasonally adjusted unemployment rate of 3.4% for the past six months. One year ago, Hawaii's seasonally adjusted unemployment rate was 2.5%, while the seasonally adjusted national unemployment rate was 4.6%. The statewide seasonally adjusted unemployment rate is expected to increase for the next fiscal year.

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

Management's Discussion and Analysis

Year ended June 30, 2008

In March 2009, the Council on Revenues estimated a decline of 5.0% in the State's general fund tax revenues in fiscal 2009 and an increase of 0.5% for fiscal 2010. The projected downturn of Hawaii's economic outlook has prompted the Governor to impose a 4.0% restriction in August 2008 and an additional 2.0% restriction in January 2009 on all General Fund discretionary expenditures for all Executive Branch departments and agencies for fiscal year 2009. Consultant and personal services contracts and equipment purchases greater than \$10,000 and the filling of vacant positions require the approval of the Governor. Other expenditure controls implemented in fiscal year 2009 continue to be in force.

Updates to revenue projections issued by the Council of Revenues will impact the Governor's policy on budget formulation and, accordingly, the Department's future budget.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Department of Labor and Industrial Relations, 830 Punchbowl Street, Room 321, Honolulu, Hawaii 96813. General information about the Department can be found at the State's Web site, <http://www.hawaii.gov/labor>.

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

Statement of Net Assets

June 30, 2008

Assets	Governmental activities	Business-type activities	Total
Petty cash and imprest funds	\$ 40,231	—	40,231
Amounts held in State Treasury	24,589,075	7,501,710	32,090,785
Cash held in Federal Treasury	—	527,357,510	527,357,510
Unemployment taxes receivable	—	11,197,900	11,197,900
Advances to subrecipients and others	1,448,803	—	1,448,803
Due from Federal Government and others	5,752,408	—	5,752,408
Internal balances	48,866	—	48,866
Inventory	60,282	—	60,282
Prepaid expenses	93,827	857,382	951,209
Capital assets, net	9,324,011	453,596	9,777,607
Total assets	<u>41,357,503</u>	<u>547,368,098</u>	<u>588,725,601</u>
Liabilities			
Liabilities:			
Vouchers payable	4,456,234	5,386,162	9,842,396
Accrued payroll and benefits	1,886,288	18,491	1,904,779
Due to State General Fund	2,295,433	959,220	3,254,653
Due to individuals and others	2,611,614	—	2,611,614
Accrued vacation:			
Due within one year	1,849,835	—	1,849,835
Due in more than one year	3,696,003	—	3,696,003
Postretirement liability:			
Due within one year	1,478,106	28,335	1,506,441
Due in more than one year	731,784	11,531	743,315
Total liabilities	<u>19,005,297</u>	<u>6,403,739</u>	<u>25,409,036</u>
Net Assets			
Invested in capital assets	9,324,011	453,596	9,777,607
Unrestricted	13,028,195	540,510,763	553,538,958
Total net assets	<u>\$ 22,352,206</u>	<u>540,964,359</u>	<u>563,316,565</u>

See accompanying notes to basic financial statements.

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

Statement of Activities

Year ended June 30, 2008

	<u>Program expenses</u>	<u>Program revenues</u>		<u>Net (expense) revenue and changes in net assets</u>		
		<u>Operating grants and contributions</u>	<u>Charges for services</u>	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Functions/programs:						
Governmental activities:						
Program support	\$ 8,649,834	4,407,140	—	(4,242,694)	—	(4,242,694)
Full opportunity to work	44,278,660	32,044,696	3,353,260	(8,880,704)	—	(8,880,704)
Enforcement of labor laws	15,248,325	1,101,785	68,679	(14,077,861)	—	(14,077,861)
Labor adjudication	2,198,549	220,357	—	(1,978,192)	—	(1,978,192)
Nonwork connected disability	330,098	—	6,566	(323,532)	—	(323,532)
Premium supplementation	332,692	—	—	(332,692)	—	(332,692)
Total governmental activities	<u>71,038,158</u>	<u>37,773,978</u>	<u>3,428,505</u>	<u>(29,835,675)</u>	<u>—</u>	<u>(29,835,675)</u>
Business-type activities:						
Unemployment compensation	161,292,005	—	91,829,918	—	(69,462,087)	(69,462,087)
Disability compensation	17,979,107	—	13,978,689	—	(4,000,418)	(4,000,418)
Total business-type activities	<u>179,271,112</u>	<u>—</u>	<u>105,808,607</u>	<u>—</u>	<u>(73,462,505)</u>	<u>(73,462,505)</u>
	<u>\$ 250,309,270</u>	<u>37,773,978</u>	<u>109,237,112</u>	<u>(29,835,675)</u>	<u>(73,462,505)</u>	<u>(103,298,180)</u>
General revenues:						
State appropriations, net				24,094,560	—	24,094,560
Interest income				568,109	27,573,545	28,141,654
Transfers in (out)				3,549,055	(3,566,423)	(17,368)
Net general revenues				<u>28,211,724</u>	<u>24,007,122</u>	<u>52,218,846</u>
Change in net assets				(1,623,951)	(49,455,383)	(51,079,334)
Net assets:						
Beginning of year				<u>23,976,157</u>	<u>590,419,742</u>	<u>614,395,899</u>
End of year				<u>\$ 22,352,206</u>	<u>540,964,359</u>	<u>563,316,565</u>

See accompanying notes to basic financial statements.

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

Balance Sheet – Governmental Funds

June 30, 2008

Assets	General Fund	Federal Fund	Nonmajor Governmental Funds	Total
Petty cash and imprest funds	\$ 3,918	36,313	—	40,231
Cash in State Treasury	4,684,839	4,086,600	15,817,636	24,589,075
Advances to subrecipients and others	—	898,803	550,000	1,448,803
Due from Federal Government and others	67,393	5,685,015	—	5,752,408
Due from enterprise funds	—	—	48,866	48,866
Inventory	—	60,282	—	60,282
Prepaid expenses	13,563	80,264	—	93,827
Total assets	\$ 4,769,713	10,847,277	16,416,502	32,033,492
Liabilities and Fund Balances				
Liabilities:				
Vouchers payable	\$ 821,367	3,631,181	3,686	4,456,234
Accrued payroll and benefits	722,166	1,154,046	10,076	1,886,288
Due to State General Fund	9,317	2,286,116	—	2,295,433
Due to individuals and others	—	2,611,614	—	2,611,614
Total liabilities	1,552,850	9,682,957	13,762	11,249,569
Fund balances:				
Unreserved	2,923,406	1,153,166	—	4,076,572
Reserved for encumbrances	293,457	—	—	293,457
Reserved for inventory	—	11,154	—	11,154
Reserved for unemployment insurance administration	—	—	2,351,366	2,351,366
Reserved for employment and training	—	—	1,816,457	1,816,457
Reserved for hoisting machine operator certification	—	—	318,985	318,985
Reserved for nonwork-related disability	—	—	9,016,733	9,016,733
Reserved for healthcare insurance premium supplementation	—	—	2,899,199	2,899,199
Total fund balances	3,216,863	1,164,320	16,402,740	20,783,923
Total liabilities and fund balances	\$ 4,769,713	10,847,277	16,416,502	32,033,492

See accompanying notes to basic financial statements.

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

Reconciliation of Governmental Funds Balance Sheet to the
Statement of Net Assets

June 30, 2008

Total fund balances – governmental funds	\$ 20,783,923
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements: These assets consist of:	
Capital assets	29,868,002
Accumulated depreciation	<u>(20,543,991)</u>
Total capital assets	9,324,011
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund financial statements	<u>(7,755,728)</u>
Net assets of governmental activities	<u><u>\$ 22,352,206</u></u>

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year ended June 30, 2008

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues:				
State allotted appropriations:				
Full opportunity to work	\$ 5,513,744	—	—	5,513,744
Enforcement of labor laws	10,886,130	—	—	10,886,130
Labor adjudication	1,268,018	—	—	1,268,018
Overall program support	1,896,548	—	—	1,896,548
Total State allotted appropriations	19,564,440	—	—	19,564,440
Nonimposed employee fringe benefits	4,977,797	—	—	4,977,797
Total general revenues	24,542,237	—	—	24,542,237
Program revenues:				
Operating grants and contributions	—	37,773,978	—	37,773,978
Employment and training assessments	—	—	2,848,332	2,848,332
Other assessments	—	—	580,173	580,173
Total program revenues	—	37,773,978	3,428,505	41,202,483
Interest income	—	—	568,109	568,109
Total revenues	24,542,237	37,773,978	3,996,614	66,312,829
Expenditures:				
Full opportunity to work	7,020,146	29,094,742	3,433,067	39,547,955
Enforcement of labor laws	13,479,655	1,344,236	719,204	15,543,095
Labor adjudication	1,749,709	404,892	—	2,154,601
Overall program support	2,568,194	5,439,386	—	8,007,580
Capital outlays	63,204	4,693,666	—	4,756,870
Total expenditures	24,880,908	40,976,922	4,152,271	70,010,101
Deficiency of revenues under expenditures	(338,671)	(3,202,944)	(155,657)	(3,697,272)
Other financing sources (uses):				
Lapsed appropriations related to previous years	(447,677)	—	—	(447,677)
Transfers in, net	—	3,549,055	—	3,549,055
Net change in fund balances	(786,348)	346,111	(155,657)	(595,894)
Fund balances:				
Beginning of year	4,003,211	818,209	16,558,397	21,379,817
End of year	\$ 3,216,863	1,164,320	16,402,740	20,783,923

See accompanying notes to basic financial statements.

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

Reconciliation of Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to the Statement of Activities

Year ended June 30, 2008

Total net change in fund balances of governmental funds	\$ (595,894)
Capital outlays are reported as expenditures in governmental funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these expenses are:	
Capital asset expenditures	4,756,870
Depreciation expense	<u>(3,643,914)</u>
Excess of depreciation expense over capital asset expenditures	1,112,956
The increase in long-term liabilities is reported in the statement of activities but does not require the use of current financial resources and is, therefore, not reported as an expenditure in governmental funds	<u>(2,141,013)</u>
Change in net assets of governmental activities	<u><u>\$ (1,623,951)</u></u>

See accompanying notes to basic financial statements.

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

Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Fund and Federal Fund

Year ended June 30, 2008

	General Fund				Federal Fund		
	Original budget	Final budget	Actual (budgetary basis)	Variance favorable (unfavorable)	Original and final budget	Actual (budgetary basis)	Variance favorable (unfavorable)
Revenues:							
State allotted appropriations	\$ 19,906,509	19,548,520	19,564,440	15,920	—	—	—
Operating grants and contributions	—	—	—	—	37,665,749	43,003,080	5,337,331
Total revenues	<u>19,906,509</u>	<u>19,548,520</u>	<u>19,564,440</u>	<u>15,920</u>	<u>37,665,749</u>	<u>43,003,080</u>	<u>5,337,331</u>
Expenditures:							
Full opportunity to work	6,290,100	5,497,826	5,513,744	(15,918)	33,984,028	33,547,912	436,116
Enforcement of labor laws	10,550,870	10,886,130	10,886,130	—	4,126,832	2,004,643	2,122,189
Labor adjudication	1,228,985	1,268,017	1,268,018	(1)	428,840	404,892	23,948
Overall program support	<u>1,836,554</u>	<u>1,896,547</u>	<u>1,896,548</u>	<u>(1)</u>	<u>4,375,414</u>	<u>4,248,971</u>	<u>126,443</u>
Total expenditures	<u>19,906,509</u>	<u>19,548,520</u>	<u>19,564,440</u>	<u>(15,920)</u>	<u>42,915,114</u>	<u>40,206,418</u>	<u>2,708,696</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(5,249,365)</u>	<u>2,796,662</u>	<u>8,046,027</u>

See accompanying notes to basic financial statements.

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

Statement of Net Assets – Proprietary Funds

June 30, 2008

Assets	Enterprise Funds		Total
	Unemployment Compensation Fund	Disability Compensation Fund	
Cash and deposits:			
Cash in State Treasury	\$ (2,583,486)	10,085,196	7,501,710
Cash in Federal Treasury	527,357,510	—	527,357,510
	<u>524,774,024</u>	<u>10,085,196</u>	<u>534,859,220</u>
Unemployment taxes receivable	11,197,900	—	11,197,900
Prepaid expense	—	857,382	857,382
Capital assets	173,600	279,996	453,596
Total assets	<u>536,145,524</u>	<u>11,222,574</u>	<u>547,368,098</u>
Liabilities and Net Assets			
Liabilities:			
Vouchers payable	5,368,981	17,181	5,386,162
Due to State agencies	959,220	—	959,220
Accrued payroll	—	18,491	18,491
Postretirement liability	—	39,866	39,866
Total liabilities	<u>6,328,201</u>	<u>75,538</u>	<u>6,403,739</u>
Net assets	<u>\$ 529,817,323</u>	<u>11,147,036</u>	<u>540,964,359</u>

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds

Year ended June 30, 2008

	Enterprise Funds		Total
	Unemployment Compensation Fund	Disability Compensation Fund	
Operating revenues:			
Employer contributions	\$ 86,074,685	—	86,074,685
Workers' compensation assessments	—	13,484,750	13,484,750
Intergovernmental contributions	5,755,233	—	5,755,233
Fines and penalties	—	56,721	56,721
Other	—	437,218	437,218
Total operating revenues	<u>91,829,918</u>	<u>13,978,689</u>	<u>105,808,607</u>
Operating expenses:			
Full opportunity to work	161,292,005	—	161,292,005
Enforcement of labor laws	—	17,979,107	17,979,107
Total operating expenses	<u>161,292,005</u>	<u>17,979,107</u>	<u>179,271,112</u>
Operating loss	(69,462,087)	(4,000,418)	(73,462,505)
Nonoperating revenues (expenses):			
Interest income	26,939,966	633,579	27,573,545
Other financing uses:			
Transfers out	(3,566,423)	—	(3,566,423)
Change in net assets	(46,088,544)	(3,366,839)	(49,455,383)
Net assets:			
Beginning of year	<u>575,905,867</u>	<u>14,513,875</u>	<u>590,419,742</u>
End of year	<u>\$ 529,817,323</u>	<u>11,147,036</u>	<u>540,964,359</u>

See accompanying notes to basic financial statements.

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

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2008

	Enterprise Fund		Total
	Unemployment Compensation Fund	Disability Compensation Fund	
Cash flows from operating activities:			
Cash received from contributions and assessments	\$ 108,876,038	13,978,689	122,854,727
Cash paid for work-related difficulties	(159,317,743)	(19,979,105)	(179,296,848)
Net cash used in operating activities	(50,441,705)	(6,000,416)	(56,442,121)
Cash flows from capital and related financing activities:			
Purchase of capital assets	(260,400)	(31,645)	(292,045)
Cash flows from noncapital financing activities:			
Transfers out	(3,566,423)	—	(3,566,423)
Cash flows from investing activities:			
Interest from investments	26,939,966	633,579	27,573,545
Net decrease in cash and deposits	(27,328,562)	(5,398,482)	(32,727,044)
Cash and deposits:			
Beginning of year	552,102,586	15,483,678	567,586,264
End of year	\$ 524,774,024	10,085,196	534,859,220
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (69,462,087)	(4,000,418)	(73,462,505)
Depreciation	86,800	37,837	124,637
Adjustments to reconcile operating loss to net cash used in operating activities:			
Decrease in assets:			
Receivables	17,083,304	—	17,083,304
Prepaid expense	—	19,050	19,050
Increase (decrease) in liabilities:			
Vouchers and other payables	1,069,588	(2,096,751)	(1,027,163)
Due to special revenue funds	(178,530)	—	(178,530)
Due to other State agencies	959,220	—	959,220
Postretirement liability	—	39,866	39,866
Net cash used in operating activities	\$ (50,441,705)	(6,000,416)	(56,442,121)

See accompanying notes to basic financial statements.

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

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2008

Agency Fund					
Assets	Temporary Deposits	Temporary Disability Insurance	Unemployment compensation	Wage claim and other	Total
Cash in State Treasury	\$ 2,000	1,528	884,774	1,430,641	2,318,943
Investments	—	1,603,000	—	—	1,603,000
Total assets	\$ 2,000	1,604,528	884,774	1,430,641	3,921,943
Liabilities					
Due to individuals and others	\$ 2,000	1,604,528	884,774	1,430,641	3,921,943
Total liabilities	\$ 2,000	1,604,528	884,774	1,430,641	3,921,943

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

June 30, 2008

(1) Organization and Financial Statement Presentation

(a) *Financial Reporting Entity*

The Department of Labor and Industrial Relations (the Department) is a department of the State of Hawaii (the State). The Department administers and oversees the operations of the State's employment service programs, unemployment insurance program, occupational safety and health program, workers' compensation program, temporary disability compensation program, and prepaid healthcare program. The Department also oversees employment and training services provided through federal and special funds.

The Director of Labor and Industrial Relations is responsible for the direction of the Department's activities. The Director is a cabinet-level official appointed by the Governor with the consent of the Senate.

The Department's basic financial statements present the financial position and changes in financial position and cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that are attributable to the transactions of the Department. The State Comptroller maintains the central accounts for all State funds and publishes comprehensive financial statements for the State annually, which include the Department's financial activities.

The accounting policies of the Department conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financed reporting principles.

(b) *Department-Wide and Fund Financial Statements*

The department-wide financial statements, which are the statement of net assets and the statement of activities, report information of all of the nonfiduciary activities of the Department. For the most part, the effect of interfund activity has been removed from these department-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include operating grants and contributions that are restricted to meeting the operational requirements of a particular function. State appropriations and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

The financial activities of the Department are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Department uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance

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

Notes to Basic Financial Statements

June 30, 2008

and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. However, the fiduciary funds are not included in the department-wide financial statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

The financial activities of the Department that are reported in the accompanying fund financial statements have been classified into the following major and nonmajor governmental and proprietary funds. In addition, a description of the Department's fiduciary fund is as follows:

Governmental Fund Types

The Department reports the following major governmental funds:

General Fund

This fund is the Department's primary operating fund. It accounts for all financial activities of the Department, except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.

Federal Fund

This fund accounts for all programs related to employment and training services provided through federal funds.

The nonmajor governmental funds are comprised of the following:

Special Revenue Funds

These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.

Proprietary Fund Type

Enterprise Funds

These funds are used to account for the contributions and assessments collected and benefits paid to qualified recipients for unemployment and disability compensation.

Unemployment Compensation Fund

This fund was created to provide temporary income to unemployed individuals as required by the federal Social Security and National Employment Acts. The fund's operations are financed through State unemployment insurance premiums (payroll taxes) assessed on employers and interest earnings.

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

Notes to Basic Financial Statements

June 30, 2008

Disability Compensation Fund

This fund was created to enhance the employability of persons with preexisting injuries, to reduce discrimination against persons with disabilities, and require employers to pay compensation for employees' losses sustained while in their employment. The fund's operations are financed through levies on workers' compensation carriers and self-insured employers, interest earnings, reimbursements from defaulting employers, unpaid benefits in certain cases, and fines for noncompliance with workers' compensation law.

Fiduciary Fund Type

Agency Fund

This fund accounts for assets held by the Department in an agency capacity.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting and Measurement Focus

Department-Wide Financial Statements

The department-wide statement of net assets and statement of activities are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Funds Financial Statements

The governmental funds financial statements are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included in the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified-accrual basis of accounting is used by the governmental fund types. Under the modified-accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at year-end).

Measurable means that the amount of the transaction can be determined. Available means that the amount is collected in the current fiscal year or soon enough after year-end to liquidate liabilities existing at the end of the fiscal year. The Department considers receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current year.

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

Notes to Basic Financial Statements

June 30, 2008

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available, which is generally within 12 months of the end of the current fiscal year, and entitlement occurs. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred and funds are available.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgment are recorded only when payment is due.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will generally be honored during the subsequent fiscal year.

Proprietary and Fiduciary Funds Financial Statements

The financial statements of the proprietary and fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the department-wide financial statements described above.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Department has elected not to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(b) Investments

Investments consist primarily of certificates of deposit and repurchase agreements with a maturity of more than three months and less than one year when purchased. The carrying amounts approximate fair value because of the short maturity of the investments.

(c) Inventory

Inventory is valued at the lower of cost or market and consists of food commodities from the U.S. Department of Agriculture, Food and Nutrition Service Agency, under The Emergency Food Distribution Program. The cost is recorded as an expenditure when items are distributed rather than when purchased.

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

Notes to Basic Financial Statements

June 30, 2008

(d) Capital Assets

Capital assets are not capitalized in the governmental funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the department-wide statement of net assets. Capital assets acquired by purchase are recorded at cost. Donated capital assets are valued at the estimated fair market value on the date received. Maintenance, repairs, minor replacements, renewals, and betterments are charged to operations as incurred. Major replacements, renewals, and betterments are capitalized. Capital assets are defined as assets with an initial individual cost of \$5,000 or more and are depreciated on the straight-line method over the estimated useful lives of the respective assets (buildings – 30 years, furniture and equipment – 7 years, and vehicles – 5 years). Depreciation is recorded on capital assets on the department-wide statement of activities.

(e) Accrued Vacation and Sick Leave

Employees hired on or before July 1, 2001 earn vacation at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001 earn vacation at rates ranging between 1 and 2 working days for each month of service, depending upon the employees' years of service and job classifications. Effective July 1, 2004, all employees earn vacation at the rate of one and three-quarters working days for each month of service. Each employee is allowed to accumulate a maximum of 90 days of vacation as of the end of the calendar year. All vacation pay is accrued when incurred in the department-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Sick leave is not convertible to pay upon termination of employment and is recorded as an expenditure when taken.

(f) Net Assets and Fund Balances

In the department-wide and proprietary funds financial statements, net assets are reported in two categories: net assets invested in capital assets and unrestricted net assets.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(g) Intrafund Transactions

Transfers of financial resources within the same fund are eliminated.

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

Notes to Basic Financial Statements

June 30, 2008

(h) Transfers

During the fiscal year ended June 30, 2007, the Reed Act (the Act) was passed into law. The Act appropriates funds for services of the unemployment insurance and workforce development divisions. The Act allocates funding to the local workforce investment boards for employer outreach and services, labor force pool expansion, and capacity building. During the fiscal year ended June 30, 2008, \$3,566,423 of Reed Act funds held in the unemployment compensation trust fund was transferred to the federal fund for various projects.

(i) Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues, expenditures, and other financing sources and uses during the reporting period. Actual results could differ from those estimates.

(j) Recently Adopted Governmental Accounting Pronouncements

Effective July 1, 2007, the Department prospectively adopted GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement addresses how state and local governments should account for and report their costs and obligations related to postemployment benefit, healthcare, and other nonpension benefits (note 8(b)).

(3) 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 State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures – budget and actual (budgetary basis) – general and federal funds are those estimates as compiled by the Department. Budgeted expenditures are derived primarily from the General Appropriations Act of 2007 (Act 213, Session Laws of Hawaii (SLH) 2007), and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes (HRS), and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2007 – 2013 biennial budget. The general and special revenue funds have legally appropriated annual budgets. The final legally adopted budgets in the accompanying statement of revenues and expenditures – budget and actual (budgetary basis) – general and federal funds represent the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however,

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
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June 30, 2008

transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department. During the fiscal year ended June 30, 2008, there were no expenditures in excess of appropriations at the legal level of budgetary control.

To the extent not expended or encumbered, the general and federal funds' appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies, which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the general and federal funds are presented in the accompanying statement of revenues and expenditures – budget and actual (budgetary basis) – general and federal funds. The Department's annual budget is prepared on the modified-accrual basis of accounting with several differences from the preparation of the statement of revenues, expenditures, and changes in fund balances (deficit), principally related to encumbrance of purchase orders and contract obligations and accrued revenues and expenditures, which represent departures from GAAP.

	General fund	Federal fund
Excess of expenditures over revenues – actual (budgetary basis)	\$ —	2,796,662
Reserve for encumbrances at fiscal year-end	293,457	—
Expenditures for liquidation of prior fiscal year encumbrances	(5,021,727)	(3,132,165)
Accrued revenues and expenditures not recognized for budgetary purposes – net of prior-year accruals	3,941,922	681,614
Net change in fund balances – actual (GAAP basis)	\$ (786,348)	346,111

(4) Cash and Investments

(a) Amounts Held in State Treasury

The State Director of Finance is responsible for the safekeeping of all moneys paid into the State Treasury. The State Director of Finance pools and invests any moneys of the State, which in the Director's judgment, are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of, or guaranteed by, the U.S. government, obligations of the State, federally insured savings and checking accounts, time certificates of deposits, and repurchase agreements with federally insured financial institutions.

The State established a policy whereby all unrestricted and certain restricted cash is invested in the State's investment pool. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account. The Department records the pooled assets as amounts held in State Treasury.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
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For demand or checking accounts and time certificates of deposits, the State requires that the depository banks pledge collateral based on daily available bank balances. The use of daily available bank balances to determine collateral requirements results in the available balances being undercollateralized at times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk

The State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating.

Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms, which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

Concentration of Credit Risk

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
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The carrying value of the Department's amounts held in State Treasury at June 30, 2008 was \$34,409,728 (\$24,589,075 for the governmental funds, \$7,501,710 for the proprietary funds, and \$2,318,943 for the fiduciary funds). Information relating to the amounts held in State Treasury is determined on a statewide basis and not for individual departments or divisions. Information regarding the carrying amount and corresponding bank balances of the cash (which includes the Department's amounts held in State Treasury) and collateralization of the cash balances is included in the comprehensive annual financial report of the State. The Department's share of the amounts held in State Treasury at June 30, 2008, as summarized in the table below, was 2%.

	<u>Fair value</u>	<u>Maturity (in years)</u>		
		<u>Less than 1</u>	<u>1 – 5</u>	<u>30</u>
(Amounts expressed in thousands)				
Investments – Primary				
Government:				
Student loan auction rate securities	\$ 610,052	—	—	610,052
Certificates of deposit	94,897	94,897	—	—
U.S. government securities	637,164	152,920	484,244	—
Repurchase agreements	13,557	13,150	407	—
	<u>\$ 1,355,670</u>	<u>260,967</u>	<u>484,651</u>	<u>610,052</u>
Investments – Fiduciary Funds:				
Student loan auction rate securities	\$ 28,925	—	—	28,925
Certificates of deposit	4,499	4,499	—	—
U.S. government securities	40,110	9,626	30,484	—
Repurchase agreements	643	623	20	—
	<u>\$ 74,177</u>	<u>14,748</u>	<u>30,504</u>	<u>28,925</u>

(b) Cash in Bank

The carrying value of the Department's cash in bank balance of \$40,231 for the governmental funds equals the bank balance and was uncollateralized at June 30, 2008.

(c) Cash Held in Federal Treasury

Unemployment compensation contributions received by the State Treasury are deposited with the Secretary of the Treasury of the United States to the credit of the State in the unemployment compensation fund, pursuant to Section 904 of the Social Security Act, as amended. Cash held in federal treasury amounted to \$527,357,510 at June 30, 2008.

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

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June 30, 2008

(d) Investments

Investments in the fiduciary funds amounted to \$1,603,000 at June 30, 2008. Investment securities are held by the State and represent amounts deposited by self-insured employers in lieu of workers' compensation insurance, temporary disability insurance, and prepaid healthcare plan insurance.

At June 30, 2008, investments consist of the following:

U.S. Treasury note, maturing January 15, 2011	\$	1,600,000
Certificate of deposit		3,000
	\$	1,603,000

(5) Capital Assets

The following is a summary of changes in capital assets:

	Balance, June 30, 2007	Additions	Retirements	Balance, June 30, 2008
Governmental activities:				
Buildings	\$ 20,712,117	8,707	—	20,720,824
Furniture and equipment	4,475,385	4,748,163	(100,770)	9,122,778
Vehicles	24,400	—	—	24,400
Total capital assets	25,211,902	4,756,870	(100,770)	29,868,002
Less accumulated depreciation for:				
Buildings	(13,701,541)	(672,400)	—	(14,373,941)
Furniture and equipment	(3,274,906)	(2,971,514)	100,770	(6,145,650)
Vehicles	(24,400)	—	—	(24,400)
Total accumulated depreciation	(17,000,847)	(3,643,914)	100,770	(20,543,991)
Governmental activities capital assets – net	\$ 8,211,055	1,112,956	—	9,324,011
Business-type activities:				
Furniture and equipment	\$ 286,188	292,045	—	578,233
Less accumulated depreciation for:				
Furniture and equipment	—	(124,637)	—	(124,637)
Business-type activities capital assets – net	\$ 286,188	167,408	—	453,596

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

Notes to Basic Financial Statements

June 30, 2008

During the fiscal year ended June 30, 2008, depreciation expense of the governmental activities was charged to functions of the Department as follows:

Program support	\$	285,092
Full opportunity to work		3,061,592
Enforcement of labor laws		250,527
Labor adjudication		<u>46,703</u>
Total depreciation expense	\$	<u><u>3,643,914</u></u>

(6) Long-Term Obligation – Governmental Activities – Accrued Vacation

The changes to the accrued vacation liability during the fiscal year ended June 30, 2008 are as follows:

Balance at June 30, 2007	\$	5,614,715
Vacation earned		583,883
Vacation utilized		<u>(652,760)</u>
Balance at June 30, 2008		5,545,838
Less current portion		<u>(1,849,835)</u>
	\$	<u><u>3,696,003</u></u>

(7) Nonimposed Employee Fringe Benefits

Payroll fringe benefit costs of employees of the Department funded by state appropriations (general fund) are assumed by the State and are not charged to the Department's operating funds. These costs, totaling \$4,977,797 for the fiscal year ended June 30, 2008, have been reported as revenues and expenditures within the Department's general fund.

Payroll fringe benefit costs related to federally funded salaries are not assumed by the State and are recorded as expenditures in the federal fund and nonmajor governmental funds.

(8) Employee Benefits

(a) 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, survivor, and disability benefits with multiple benefit structures known as the contributory, hybrid, and noncontributory plans. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to join

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
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the noncontributory plan. Qualified employees in the contributory and noncontributory plan were given the option of joining the hybrid plan effective July 1, 2006, or remaining in their existing plan. Starting July 1, 2006, all new employees covered by Social Security are required to join the hybrid plan.

The three plans provide a monthly retirement allowance equal to the benefit multiplier percentage (1.25% or 2.00%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation.

For postretirement increases, every retiree's original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5% the second year, 7.5% the third year, etc.).

The following summarizes the three plan provisions relevant to the general employees of the respective plan:

Contributory Plan

Employees in the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving five years of credited service. The Department may also make contributions for these members. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.0% for employees covered by Social Security.

Hybrid Plan

Employees in the hybrid plan are required to contribute 6.0% of their salary and are fully vested for benefits upon receiving five years of credited service. The Department may also make contributions for these members. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2.0%.

Noncontributory Plan

Employees in the noncontributory plan are fully vested upon receiving 10 years of credited service. The Department is required to make all contributions for these members. Employees may retire with full benefits at age 62 and 10 years of credited service or age 55 and 30 years of credited service or age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
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June 30, 2008

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability. Employers contribute 19.70% for police officers and firefighters, and 15.00% for all other employees. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

The pension contribution by the Department for the year ended June 30, 2008 was \$4,311,000, which was equal to the required contribution for the year. Measurement of the asset and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Department.

The ERS issues a comprehensive annual financial report that includes financial statements and required supplementary information that may be obtained from the following address:

Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813

(b) *Postretirement Healthcare and Life Insurance Benefits*

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, is a participating employer in a cost-sharing, multiple-employer defined benefit plan providing certain healthcare and life insurance benefits to all qualified employees and retirees. The Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer medical, prescription, drug, dental, vision, chiropractic, dual-coverage medical and prescription, and group life benefits.

For employees hired before July 1, 1996, the State pays the entire monthly healthcare premium for employees retiring with 10 or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than 10 years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire healthcare premium.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
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June 30, 2008

For employees hired after June 30, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium based on the self plan. For employees hired after June 30, 2001, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium, for those retiring with over 25 years of service, the State pays the entire healthcare premium.

For active employees, the employees' contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees are not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the State as a whole and are not separately computed for the individual State departments and agencies such as the Department. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Department's contribution for the year ended June 30, 2008 was \$1,342,560, which represented 37% of the Department's share of the ARC for postemployment and life insurance benefits of \$3,592,316.

The following is a summary of the changes in the Department's allocated share of the State's postemployment liability during the fiscal year ended June 30, 2008:

Balance at June 30, 2007	\$	—
Annual required contribution		3,592,316
Contributions made		<u>(1,342,560)</u>
Balance at June 30, 2008		2,249,756
Less current portion		<u>1,506,441</u>
	\$	<u><u>743,315</u></u>

The EUTF issues a financial report that includes the financial statements and required supplementary information, which may be obtained from the following address:

Hawaii Employer – Union Health Benefits Trust Fund
P.O. Box 2121
Honolulu, Hawaii 96805-2121

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

Notes to Basic Financial Statements

June 30, 2008

(c) *Accumulated Sick Leave*

Employees hired on or before July 1, 2001, earn sick leave credits at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001 earn sick leave credits at the rate of one and one-quarter or one and three-quarters working days for each month of service depending upon the employees' years of service and job classification. Effective July 1, 2004, all employees earn sick leave credits at the rate of one and three-quarters working days for each month of service. Sick leave credits may accumulate without limit, but may be taken only in the event of illness and are not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2008, accumulated sick leave approximated \$23,819,000 for the Department.

(d) *Deferred Compensation Plan*

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.

(9) Commitments

(a) *Operating Leases*

The Department leases various office facilities under lease agreements expiring through fiscal year 2011. The following is a schedule of minimum future rentals on noncancelable operating leases with lease terms over a year at June 30, 2008:

Fiscal year ending June 30:	
2009	\$ 1,098,600
2010	322,000
2011	37,800
2012	11,200
2013	7,500
	<hr/>
	\$ 1,477,100
	<hr/> <hr/>

Rent expenditures for the fiscal year ended June 30, 2008 approximated \$1,269,600.

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

Notes to Basic Financial Statements

June 30, 2008

(b) 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. The State records a liability for risk financing and insurance-related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2008, the State recorded an estimated loss for workers' compensation, automobile, and general liability claims as long-term debt as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's general fund and not by the Department.

(c) 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, either are covered by insurance or will be paid from legislative appropriations of the State's general fund and not by the Department.

(10) Food Distribution Program

The Department receives food commodities from the U.S. Department of Agriculture, Food and Nutrition Service Agency, under The Emergency Food Distribution Program. The Department's Office of Community Services distributes the food to community action agencies responsible for distributing The Emergency Food Distribution Program commodities to needy households or other charitable organizations. The value of food commodities received by the Department during the fiscal year ended June 30, 2008 is included in revenues of the federal fund and approximated \$537,000.

(11) Special Compensation Fund – Workers' Compensation

HRS Section 386-151 established the Special Compensation Fund. This fund is authorized to levy and collect assessments from insurers and employers for current and projected obligations for workers' compensation payments. The State Director of Finance is the custodian of the fund, and disbursements are made by the State Director of Finance upon orders from the Director of Labor and Industrial Relations.

HRS Section 386-56 states that the Director of Labor and Industrial Relations shall pay the full amount of all compensation awards and benefits from the Special Compensation Fund to an employee or dependent who fails to receive prompt and proper workers' compensation. The defaulting employer shall then reimburse the fund for the amounts paid to the employee. Total expenditures for the fiscal year ended June 30, 2008 were approximately \$17,081,000.

SECTION III

Supplementary Information

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

Combining Balance Sheet – Nonmajor Governmental Funds

June 30, 2008

	Special Revenue Funds					
	Employment and Training Fund	Hoisting Machine Operator Certification Revolving Fund	Special Unemployment Insurance Administration Fund	Nonwork Connected Disability Fund	Premium Supplementation Fund	Total Nonmajor Governmental Funds
Cash in State Treasury	\$ 1,273,777	322,589	2,305,260	9,016,811	2,899,199	15,817,636
Advances to subrecipients and others	550,000	—	—	—	—	550,000
Due from enterprise funds	2,760	—	46,106	—	—	48,866
Total assets	\$ 1,826,537	322,589	2,351,366	9,016,811	2,899,199	16,416,502
Liabilities and Fund Balances						
Liabilities:						
Vouchers payable	\$ 4	3,604	—	78	—	3,686
Accrued payroll	10,076	—	—	—	—	10,076
Total liabilities	10,080	3,604	—	78	—	13,762
Fund balances:						
Reserved for unemployment insurance administration	—	—	2,351,366	—	—	2,351,366
Reserved for employment and training	1,816,457	—	—	—	—	1,816,457
Reserved for hoisting machine operator certification	—	318,985	—	—	—	318,985
Reserved for nonwork-related disability	—	—	—	9,016,733	—	9,016,733
Reserved for healthcare insurance premium supplementation	—	—	—	—	2,899,199	2,899,199
Total fund balances	1,816,457	318,985	2,351,366	9,016,733	2,899,199	16,402,740
Total liabilities and fund balances	\$ 1,826,537	322,589	2,351,366	9,016,811	2,899,199	16,416,502

See accompanying independent auditors' report.

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

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year ended June 30, 2008

	<u>Special Revenue Funds</u>					<u>Total Nonmajor Governmental Funds</u>
	<u>Employment and Training Fund</u>	<u>Hoisting Machine Operator Certification Revolving Fund</u>	<u>Special Unemployment Insurance Administration Fund</u>	<u>Nonwork Connected Disability Fund</u>	<u>Premium Supplementation Fund</u>	
Revenues:						
Program revenues:						
Employment and training assessments	\$ 2,848,332	—	—	—	—	2,848,332
Other assessments	2,688	68,679	502,240	6,566	—	580,173
Total program revenues	2,851,020	68,679	502,240	6,566	—	3,428,505
Interest income	—	—	—	423,924	144,185	568,109
Total revenues	2,851,020	68,679	502,240	430,490	144,185	3,996,614
Expenditures:						
Enforcement of labor laws	—	56,414	—	330,098	332,692	719,204
Full opportunity to work	3,375,617	—	57,450	—	—	3,433,067
Total expenditures	3,375,617	56,414	57,450	330,098	332,692	4,152,271
Net change in fund balances	(524,597)	12,265	444,790	100,392	(188,507)	(155,657)
Fund balances:						
Beginning of year	2,341,054	306,720	1,906,576	8,916,341	3,087,706	16,558,397
End of year	\$ 1,816,457	318,985	2,351,366	9,016,733	2,899,199	16,402,740

See accompanying independent auditors' report.

SECTION IV

Compliance and Internal Control over Financial Reporting



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Auditor
State of Hawaii:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Labor and Industrial Relations, State of Hawaii (the Department) as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the Department's internal control over financial reporting described in the accompanying schedule of findings and questioned costs as Finding 08-01 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and are described in the accompanying schedule of findings and questioned costs as Findings 08-02 and 08-03.

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Department's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor, State of Hawaii, the Department's management, the U.S. Department of Labor, and other federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 15, 2010

SECTION V

Compliance and Internal Control over Federal Awards



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Auditor
State of Hawaii:

Compliance

We have audited the compliance of the Department of Labor and Industrial Relations, State of Hawaii (the Department), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* (Compliance Supplement) that are applicable to each of its major federal programs for the year ended June 30, 2008. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements described in the Compliance Supplement that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 08-02 and 08-03.

Internal Control over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over

compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Department's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Office of the Auditor, State of Hawaii, the Department's management, the U.S. Department of Labor, and other federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 15, 2010

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

<u>Federal grantor/pass-through grantor/program or cluster title</u>	<u>CFDA number</u>	<u>Grant number</u>	<u>Federal expenditures</u>
U.S. Department of Agriculture:			
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program – Administrative Costs:			
Commodity Assistance Program	10.568	2007IY810547	\$ 75,319
Commodity Assistance Program		2008IY810547	<u>37,517</u>
Subtotal CFDA 10.568			<u>112,836</u>
Emergency Food Assistance Program – Food Commodities	10.569	2007IY810547	<u>367,983</u>
Passed through from the State Department of Human Services:			
State Administrative Matching Grants for the Food Stamp Program:			
DHS Food Stamps – Hawaii	10.561	N/A	150,055
DHS Food Stamps – Kauai		N/A	<u>63,403</u>
Subtotal CFDA No. 10.561			213,458
Senior Farmers’ Market Nutrition Pilot Program	10.576	8HI810082	<u>219,948</u>
Total U.S. Department of Agriculture			<u>914,225</u>
U.S. Department of Housing and Urban Development:			
Civil Rights Commissions – HUD	14.401	FF209K989004	<u>282,734</u>
Total U.S. Department of Housing and Urban Development			<u>282,734</u>

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Federal grantor/pass-through grantor/program or cluster title	CFDA number	Grant number	Federal expenditures
U.S. Department of Labor:			
BLS Current Employment Statistics	17.002	W9J78015	\$ 41,404
BLS Local Area Unemployment Statistics		W9J78015	28,878
BLS Occupational Employment Statistics		W9J78015	41,858
BLS Employment and Wages Report		W9J78015	64,948
BLS Mass Layoff Statistics		W9J68015	8,974
BLS Current Employment Statistics		W9J88015	76,641
BLS Local Area Unemployment Statistics		W9J88015	52,478
BLS Occupational Employment Statistics		W9J88015	92,469
BLS Employment and Wages Report		W9J88015	150,523
BLS Mass Layoff Statistics		W9J88015	23,460
Subtotal CFDA No. 17.002			581,633
Occupational Safety and Health:			
OSHA BLS	17.005	W9J78115	25,801
OSHA BLS		W9J88115	66,992
Subtotal CFDA No. 17.005			92,793
Alien Labor Certification:			
Alien Labor Certification	17.273	ES-15691	(8,760)
Alien Labor Certification		ES-16261	60,341
Subtotal CFDA No. 17.273			51,581

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Federal grantor/pass-through grantor/program or cluster title	CFDA number	Grant number	Federal expenditures
Employment Service Cluster:			
Employment Service:			
Employment Service Grant	17.207	ES-15691	\$ (328,713)
Employment Service Grant		ES-16261	2,812,338
Reemployment Services		ES-14860-05-55	48,055
Workforce Opportunities Tax Credit		ES-14860-05-55	(8,205)
Workforce Opportunities Tax Credit		ES-15691	52,424
Employment Services One-Stop – LMI		ES-14860-05-55	758
Employment Services One-Stop – Workforce Info Grants		ES-15691-06-55	166,137
Employment Services One-Stop – Workforce Info Grants		ES-16261-07-55	240,180
Reed Act		N/A	2,780,432
Subtotal CFDA No. 17.207			<u>5,763,406</u>
Disabled Veterans' Outreach Program:			
Disabled Veterans' Outreach Program	17.801	E-9-5-6-5086	(499)
Disabled Veterans' Outreach Program		E-9-5-7-5086	155,299
Disabled Veterans' Outreach Program		E-9-5-8-5086	182,593
Subtotal CFDA No. 17.801			<u>337,393</u>
Local Veterans' Employment Representative Program:			
Local Veterans' Employment Representative Program	17.804	E-9-5-6-5086	(9,758)
Local Veterans' Employment Representative Program		E-9-5-7-5086	203,742
Local Veterans' Employment Representative Program		E-9-5-8-5086	374,891
Subtotal CFDA No. 17.804			<u>568,875</u>
Subtotal Employment Service Cluster			<u>6,669,674</u>

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Federal grantor/pass-through grantor/program or cluster title	CFDA number	Grant number	Federal expenditures
Unemployment Insurance:			
Unemployment Insurance Grants	17.225	UI-13543-04-55	\$ 68,973
Unemployment Insurance Grants		UI-14430-05-55	415,183
Unemployment Insurance Grants		UI-15117-06-55	197,364
Unemployment Insurance Grants		UI-15794-07-55	4,070,552
Unemployment Insurance Grants		UI-16742-08-55	10,370,220
Unemployment Insurance – Temporary Emergency Unemployment Compensation		UI-13543-04-55	(6)
Unemployment Insurance – Trade Benefits		UI-15117-06-55	406
Unemployment Insurance – Trade Benefits		UI-15794-07-55	158,296
Unemployment Insurance – Trade Benefits		UI-16742-08-55	768,210
Unemployment Insurance – Disaster Unemployment Assistance Benefits		UI-15794-07-55	4,400
Unemployment Insurance – Emergency Unemployment Compensation Benefits		N/A	(1,929)
Unemployment Insurance – Temporary Emergency Compensation Benefits		N/A	(14,531)
Unemployment Insurance – Unemployment Compensation for Federal Employees Benefits		N/A	2,361,105
Unemployment Insurance – Unemployment Compensation for Ex-Service Members Benefits		N/A	3,735,798
Unemployment Insurance – State Funded Benefits		N/A	153,347,978
Reed Act		N/A	1,140,319
Subtotal CFDA No. 17.225			<u>176,622,338</u>
Senior Community Services Employment Program (SCSEP)	17.235	AD-16129-07-60	<u>1,969,730</u>
Trade Adjustment Assistance – Training			
Trade Adjustment Assistance	17.245	TA-14749	59,071
Trade Adjustment Assistance		TA-15944	100,145
Subtotal CFDA No. 17.245			<u>159,216</u>

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Federal grantor/pass-through grantor/program or cluster title	CFDA number	Grant number	Federal expenditures
Workforce Investment Act Cluster:			
Adult Program	17.258	AA-14671-05-55	\$ 45,627
Adult Program		AA-15475-06-55	846,270
Adult Program		AA-16024-07-55	1,822,955
Personal Re-Employment Account		PR156790660	55,236
Subtotal CFDA No. 17.258			<u>2,770,088</u>
Youth Program	17.259	AA-15475-06-55	615,267
Youth Program		AA-16024-07-55	1,756,263
Subtotal CFDA No. 17.259			<u>2,371,530</u>
Dislocated Workers Program	17.260	AA-14671-05-55	26,043
Dislocated Workers Program		AA-15475-06-55	454,456
Dislocated Workers Program		AA-16024-07-55	1,220,107
Rapid Response		AA-15475-06-55	18
Rapid Response		AA-16024-07-55	33,906
National Emergency Grant		EM-15989-07-60	331,893
National Emergency Grant		EM-17465-08-60	16,891
National Emergency Grant		EM-15547-06-60	(8,967)
Subtotal CFDA No. 17.260			<u>2,074,347</u>
Earmark Program	17.261	EA-15351-06-60	693,969
Workforce Investment Grant	17.266	WI-15559-06-60	384,864
Dislocated Worker National Reserve – Demonstration Projects Reimbursement	17.999	CA-16717-07-60-A-15	283,156
Subtotal Workforce Investment Act Cluster			<u>8,577,954</u>
National Farm Workers Job Program	17.264	AC-15051-05-60	61,655

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Federal grantor/pass-through grantor/program or cluster title	CFDA number	Grant number	Federal expenditures
Occupational Safety and Health Administration:			
OSHA 23G	17.503	60F7-0092	\$ 397,071
OSHA 23G		60F8-0092	1,065,740
Subtotal CFDA No. 17.503			<u>1,462,811</u>
OSHA 21D	17.504	E9F7-0992	90,425
OSHA BLS Survey		E9F7-3792	1,182
OSHA 21D		E9F8-0992	273,423
OSHA BLS Survey		E9F8-3792	3,990
Subtotal CFDA No. 17.504			<u>369,020</u>
Total U.S. Department of Labor			<u>196,618,405</u>
Equal Employment Opportunity Commission:			
Equal Employment Opportunity Commission	30.002	5FPSLP0164	10,077
Total Equal Employment Opportunity Commission			<u>10,077</u>
U.S. Department of Energy:			
Weatherization Assistance for Low-Income Persons	81.042	FG26-07R021679	237,050
Total U.S. Department of Energy			<u>237,050</u>
U.S. Department of Education:			
Career Resource Network Grant	84.346A	V346A000054-06	14,564
Total U.S. Department of Education			<u>14,564</u>
U.S. Department of Health and Human Services:			
Passed through from the State Department of Human Services:			
First-to-Work	93.558	N/A	965,311

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Federal grantor/pass-through grantor/program or cluster title	CFDA number	Grant number	Federal expenditures
Refugee and Entrant Assistance – State Administered Programs:			
Cash, Medical, and Administration	93.566	G07AAHI9100	\$ 7,073
Cash, Medical, and Administration		G08AAHI9100	42,983
Social Services		G06AAHI9110	9,930
Social Services		G07AAHI9110	<u>50,029</u>
Subtotal CFDA No. 93.566			<u>110,015</u>
Community Services Block Grant:			
Community Services Block Grant Program	93.569	G07B1HICOSR	469,113
Community Services Block Grant Program		G08B1HICOSR	<u>2,522,509</u>
Subtotal CFDA No. 93.569			<u>2,991,622</u>
Hawaii Family Support:			
Hawaii Family Support	93.631	90DN0203/03	28,265
Hawaii Family Support		90DN0203/04	<u>176,119</u>
Subtotal CFDA No. 93.631			<u>204,384</u>
Total U.S. Department of Health and Human Services			<u>4,271,332</u>
Total Expenditures of Federal Awards			<u>\$ 202,348,387</u>

See accompanying independent auditors' report.

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

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Department of Labor and Industrial Relations, State of Hawaii (the Department), and is presented on the modified-accrual basis of accounting, which is described in note 2 to the Department's basic financial statements. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(2) Subrecipients

Of the federal expenditures presented in the schedule, the Department provided federal awards to subrecipients as follows:

<u>Program title</u>	<u>CFDA number</u>	<u>Amount provided to subrecipients</u>
U.S. Department of Agriculture: Seniors Farmers' Market Nutrition Pilot Program	10.576	\$ <u>214,278</u>
U.S. Department of Labor: Reed Act	17.207	2,749,996
Senior Community Services Employment Program	17.235	1,829,128
Workforce Investment Act Cluster:		
Adult Programs	17.258	2,433,428
Youth Programs	17.259	1,871,434
Dislocated Workers Programs	17.260	1,496,709
National Emergency Grant	17.260	198,805
Earmark Program	17.261	652,680
Dislocated Workers National Reserve	17.999	<u>100,741</u>
		<u>6,753,797</u>
Total U.S. Department of Labor		<u>11,332,921</u>
U.S. Department of Energy: Weatherization Assistance for Low-Income Persons	81.042	<u>230,266</u>

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

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

<u>Program title</u>	<u>CFDA number</u>	<u>Amount provided to subrecipients</u>
U.S. Department of Health and Human Services:		
Refugee and Entrant Assistance – State Administered		
Programs:		
Cash, Medical, and Administration	93.566	\$ 50,056
Social Services	93.566	<u>59,959</u>
		110,015
Community Services Block Grant Program	93.569	<u>2,991,622</u>
Total U.S. Department of Health and Human Services		<u>3,101,637</u>
Total provided to subrecipients		<u>\$ 14,879,102</u>

(3) Unemployment Insurance

State unemployment tax revenues and government contributions are used to pay benefits under federally approved State unemployment law. Of the \$176,622,338 reported as expenditures for the Unemployment Insurance program (CFDA 17.225), \$153,347,978 represented expenditures of State funds.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

(1) Summary of Auditors' Results

- (a) The type of report issued on the basic financial statements: **Unqualified opinions for the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Labor and Industrial Relations, State of Hawaii (the Department), which collectively comprise the Department's basic financial statements**
- (b) Internal control over financial reporting:
- Material weaknesses: **Yes. See Finding 08-01**
 - Significant deficiency identified not considered to be a material weakness: **None noted**
- (c) Noncompliance which is material to the financial statements: **None noted**
- (d) Significant deficiencies in internal control over major programs: **None reported**
- Material weaknesses: **None noted**
- (e) The type of report issued on compliance for major programs: **Unqualified opinion**
- (f) Any audit findings which are required to be reported under Section 0.510(a) of OMB Circular A-133: **Yes. See Findings 08-02 and 08-03**
- (g) Major programs:
- U.S. Department of Labor:**
- Unemployment Insurance – CFDA No. 17.225**
- Workforce Investment Act Cluster – CFDA Nos. 17.258, 17.259, and 17.260**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A-133: **No**

(2) Findings Relating to the Basic Financial Statements which are required to be Reported in Accordance with *Government Auditing Standards*

Finding 08-01 – Financial Reporting

Specific Requirements/Criteria

In accordance with the Statement of Auditing Standards No. 112, *Communicating Internal Control Related Matters in an Audit*, a significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

The Department is responsible for the drafting and overseeing of the financial statements and the related notes, as well as the schedule of expenditures of federal awards. The Department's inability to properly perform these functions could potentially result in a significant deficiency or a material weakness.

Condition

During our audit, we identified and recorded numerous adjusting and reclassification journal entries to the Department's governmental, proprietary, and fiduciary fund financial statements, as well as the department-wide financial statements. Further, we identified material federal expenditures that were incorrectly excluded from the schedule of expenditures of federal awards. These conditions arose due to the absence of an appropriate process in place for the preparation of the financial statements and the schedule of expenditures of federal awards, specifically controls over the recording and reporting of financial transactions and over the completeness and accuracy of the Department's federal expenditures, respectively.

Effect

The Department is responsible for the drafting and overseeing of the financial statements and the schedule of expenditures of federal awards, which includes the recordation of all required adjustments for presentation within the financial statements and ensuring that the schedule of expenditures of federal awards is a complete listing of all the Department's current year federal expenditures. The current design of controls related to the recording and reporting of financial transactions may lead to certain instances of financial information that do not conform to U.S. generally accepted accounting principles. Further, the controls in place may not ensure the completeness and accuracy of the schedule of expenditures of federal awards.

Questioned Costs

N/A.

Systemic or Isolated

Systemic.

Recommendation

We recommend that management of the Department evaluate the current process in place for the preparation of the financial statements and the schedule of expenditures of federal awards, including consideration of the following:

- Skill sets of accounting personnel, with a focus on an understanding of U.S. generally accepted accounting principles applicable to governmental entities

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

- Need for additional training
- Time availability of accounting personnel

Further, management should also consider additional levels of accountability for the timely and accurate preparation of the financial statements and the schedule of expenditures of federal awards.

By taking these various items into account, the Department should be able to formulate a process to ensure that the appropriate adjusting and reclassification journal entries are recorded to present the Department's financial statements in accordance with U.S. generally accepted accounting principles and that the schedule of expenditures of federal awards is complete and accurate.

Views of Responsible Officials and Planned Corrective Action

The Department consulted with a third-party contractor to evaluate the current process in place for the preparation of the financial statements and as a result, an action plan was developed to address the issues identified. Under this action plan, the Department's accounting personnel were assigned additional responsibilities, which primarily relate to the recordation of the appropriate adjusting and reclassification journal entries. In addition, a timetable was established to ensure the timely completion of these new responsibilities.

Further, the Department will evaluate their controls over the completeness and accuracy of the schedule of expenditures of federal awards to ensure that all federal expenditures are properly reflected.

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 08-02 – Reporting-Late Submission of Reports

Information on the Federal Programs

U.S. Department of Labor, Unemployment Insurance – CFDA 17.225; Federal Award Nos. UI-13543-04-55, UI-14430-05-55, UI-15117-06-55, UI-15794-07-55, UI-16742-08-55; Award years: October 1, 2003 to September 30, 2006, October 1, 2004 to September 30, 2007, October 1, 2005 to December 31, 2008, October 1, 2006 to December 31, 2009, and October 1, 2007 to December 31, 2010, respectively.

Specific Requirements/Criteria

Per the *U.S. Department of Labor ET Handbook No. 336*, 18th Edition, the Quarterly Unemployment Insurance Contingency Reports (UI-3) are due within 30 days after the end of the reporting quarter.

Per 29 CFR Section 97.50, the Department must submit all financial, performance, and other reports within 90 days after the expiration or termination of the grant.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Condition

During our testwork over the reporting requirements, we noted that the Department did not submit its UI-3 report for the quarter ended June 30, 2008 and its final ETA 9130 report for the 2004 grant award (UI-13543-04-55) within the prescribed deadlines. The UI-3 report, which was due by July 30, 2008, was submitted on August 4, 2008, while the ETA 9130 report, which was due by December 29, 2007, was submitted on March 25, 2008. This condition arose due to the lack of adequate staffing at the time of the submission, as well as a change in the submission procedures from the prior year.

Effect

The potential effect of this condition is that failure to adhere to the federal reporting requirements could result in noncompliance with the grant agreement and may be a basis for withholding financial assistance payments, suspension, or termination of funding.

Questioned Costs

N/A.

Systemic or Isolated

Systemic.

Recommendation

We recommend that the Department be more cognizant of the reporting deadlines to ensure the timely submission of all required reports. In addition, it should be clearly communicated who is responsible for the completion and submission of these reports and internal controls should be in place to support the timely completion of the required reporting requirements.

Views of Responsible Officials and Planned Corrective Action

The Department continues to strive to be more diligent in meeting its reporting requirements, including ensuring the timely submission of the various reports.

Finding 08-03 – Reporting-Errors in Reporting

Information on Federal Programs

U.S. Department of Labor, Unemployment Insurance – CFDA 17.225; Federal Award Nos. UI-13543-04-55, UI-14430-05-55, UI-15117-06-55, UI-15794-07-55, UI-16742-08-55; Award years: October 1, 2003 to September 30, 2006, October 1, 2004 to September 30, 2007, October 1, 2005 to December 31, 2008, October 1, 2006 to December 31, 2009, and October 1, 2007 to December 31, 2010, respectively.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Specific Requirements/Criteria

Per the U.S. Department of Labor ET Handbook No. 336, 18th Edition, the ETA 2112, UI Financial Transaction Summary (ETA 2112) report is filed on a monthly basis. The ETA 2112 report includes the monthly summary of transactions, which account for all funds received in, passed through, or paid out of the State unemployment fund.

Condition

During our testwork over the reporting requirements, we noted that the Reed Act withdrawals were incorrectly excluded from the ETA 2112 reports for all of the monthly reports submitted during the year ended June 30, 2008. This condition arose as the Department's understanding was that the information on the ETA 2112 report was limited to what was recorded on the State's records; however, the Reed Act withdrawals were also required to be included, even though they are not initially reflected on the State's records.

Effect

The potential effect of this condition is that failure to adhere to the federal reporting requirements could result in noncompliance with the grant agreements and may be a basis for withholding financial assistance payments, suspension, or termination of funding.

Questioned Costs

N/A.

Systemic or Isolated

Systemic.

Recommendation

We recommend that the Department include the Reed Act withdrawals, as well as the other appropriate information, on the ETA 2112 reports going forward to ensure that all of the transactions are appropriately recorded in the cost accounting system and that the resulting amounts reported to the U.S. Department of Labor properly reflect the underlying activity.

Views of Responsible Officials and Planned Corrective Action

During the 2009 fiscal year, the Department made the change to include the Reed Act withdrawals in the ETA 2112 reports, ensuring that the information on the ETA 2112 reports is complete and accurate.