



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

Basic Financial Statements and Single Audit Reports

June 30, 2009

(With Independent Auditors' Reports Thereon)

Submitted by

**THE AUDITOR
STATE OF HAWAII**

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

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SECTION I

Introduction



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

February 21, 2013

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, 2009. 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, 2009, 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

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, 2009, 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



The Auditor
State of Hawaii

The Director
Department of Labor and Industrial Relations,
State of Hawaii
February 21, 2013
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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, 2009, and our report thereon. It also contains management’s discussion and analysis on the Department’s financial activities for the year ended June 30, 2009.
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, 2009, 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, 2009, 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, 2009, 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 21, 2013 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

February 21, 2013

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

Management's Discussion and Analysis

Year ended June 30, 2009

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, 2009.

Financial Highlights

- The assets of the Department exceeded its liabilities at June 30, 2009 by \$295.1 million (net assets).
- Of the total net assets at June 30, 2009, the amount of \$286.0 million or 97.0% 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 \$268.2 million during the year ended June 30, 2009.
- At June 30, 2009, the Department reported governmental fund balances of \$13.9 million, a decrease of \$6.9 million or 33.3% from the prior fiscal year.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements comprise 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, 2009

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 to 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, 2009

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 \$295.1 million, and decreased \$268.2 million or 47.6% 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, 2009 and 2008

Assets	2009			2008		
	Governmental activities	Business-type activities	Total	Governmental activities	Business-type activities	Total
Cash	\$ 18,222,707	287,476,624	305,699,331	24,629,306	534,859,220	559,488,526
Unemployment taxes receivable	—	8,591,416	8,591,416	—	11,197,900	11,197,900
Capital assets, net	8,769,461	370,992	9,140,453	9,324,011	453,596	9,777,607
Other assets	5,169,020	916,393	6,085,413	7,404,186	857,382	8,261,568
Total assets	32,161,188	297,355,425	329,516,613	41,357,503	547,368,098	588,725,601
Liabilities						
Vouchers payable	816,470	13,306,813	14,123,283	4,456,234	5,386,162	9,842,396
Accrued expenses and other	8,716,142	913,763	9,629,905	6,793,335	977,711	7,771,046
Long-term obligation – accrued vacation	5,720,133	—	5,720,133	5,545,838	—	5,545,838
Long-term obligation – postretirement liability	4,820,268	104,434	4,924,702	2,209,890	39,866	2,249,756
Total liabilities	20,073,013	14,325,010	34,398,023	19,005,297	6,403,739	25,409,036
Net Assets						
Invested in capital assets	8,769,461	370,992	9,140,453	9,324,011	453,596	9,777,607
Unrestricted	3,318,714	282,659,423	285,978,137	13,028,195	540,510,763	553,538,958
Total net assets	\$ 12,088,175	283,030,415	295,118,590	22,352,206	540,964,359	563,316,565

Analysis of Net Assets

Total assets decreased by \$259.2 million or 44.0% from the prior fiscal year, primarily due to a \$250.0 million or 45.7% decrease in total assets of the business-type activities. This is a result of a \$245.8 million or 46.6% decrease in amounts held in Federal Treasury coupled with a \$2.6 million or 23.3% decrease in unemployment taxes receivable. The decrease in amounts 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, 2009

Total liabilities increased by \$9.0 million or 35.4% from the prior fiscal year, primarily due to a \$4.3 million or 43.5% increase in vouchers payable, an increase in accrued expenses and other of \$1.9 million or 23.9% and an increase in postretirement liability of \$2.7 million or 118.9%. The increase in vouchers payable and accrued expenses is due to the timing of cost incurrence and payments. The increase in postretirement liability is due to the actuarially determined annual required contribution being higher than amount of contributions made during the year to the postretirement healthcare plan.

The Department's unrestricted net assets decreased to \$286.0 million at June 30, 2009 from \$553.5 million at June 30, 2008, a decrease of \$267.6 million or 48.3%. Unrestricted net assets of the business-type activities decreased by \$257.9 million or 47.7%. 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. Amounts 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 \$287.5 million and \$534.9 million at June 30, 2009 and 2008, respectively.

At June 30, 2009, the Department is able to report positive balances of net assets for governmental and business-type activities of \$12.1 million and \$283.0 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, 2009 and 2008

	2009			2008		
	Governmental activities	Business-type activities	Total	Governmental activities	Business-type activities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 2,650,722	200,458,457	203,109,179	3,428,505	105,808,607	109,237,112
Operating grants and contributions	44,926,690	—	44,926,690	37,773,978	—	37,773,978
General revenues:						
State appropriations, net	22,143,887	—	22,143,887	24,094,560	—	24,094,560
Interest income	372,617	6,366,712	6,739,329	568,109	27,573,545	28,141,654
Transfers, net	4,345,178	(3,279,841)	1,065,337	3,549,055	(3,566,423)	(17,368)
Total revenues	74,439,094	203,545,328	277,984,422	69,414,207	129,815,729	199,229,936
Expenses:						
Program support	8,242,119	—	8,242,119	8,649,834	—	8,649,834
Full opportunity to work	52,445,031	444,313,947	496,758,978	44,278,660	161,292,005	205,570,665
Enforcement of labor laws	20,518,069	17,165,325	37,683,394	15,248,325	17,979,107	33,227,432
Labor adjudication	3,497,906	—	3,497,906	2,861,339	—	2,861,339
Total expenses	84,703,125	461,479,272	546,182,397	71,038,158	179,271,112	250,309,270
Change in net assets	(10,264,031)	(257,933,944)	(268,197,975)	(1,623,951)	(49,455,383)	(51,079,334)
Net assets, beginning of year	22,352,206	540,964,359	563,316,565	23,976,157	590,419,742	614,395,899
Net assets, end of year	\$ 12,088,175	283,030,415	295,118,590	22,352,206	540,964,359	563,316,565

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

Management's Discussion and Analysis

Year ended June 30, 2009

Analysis of Changes in Net Assets

The Department's net assets decreased by \$268.2 million or 47.6% during the fiscal year ended June 30, 2009. Net assets of the governmental and business-type activities decreased by \$10.3 million and \$257.9 million, respectively. Revenues increased by \$78.8 million or 39.5% from the prior fiscal year. Revenues from business-type activities increased by \$73.7 million, primarily due to a \$94.6 million or 89.5% increase in charges for services as a result of the increased intergovernmental contributions. In fiscal year 2009, the labor force decreased by 1.0% and employment declined 3.6%. Approximately 73.1% of the Department's total revenues came from charges for services (as compared with 54.8% for 2008), while 16.2% resulted from operating grants and contributions (including federal aid). The largest expenses were for full opportunity to work.

Total expenses increased by \$295.9 million or 118.2% from the prior fiscal year. Total expenses of the business-type activities increased by \$282.2 million or 157.4%, due to an increase in full opportunity to work as a result of an increase of 4.6% in the average weekly unemployment benefit rate and an increase of 24.8% 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 \$13.9 million, a decrease of \$6.9 million or 33.3% 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 in a deficit position \$(0.9) million and \$(0.5) million, respectively, which reflect a decrease of \$4.1 million in the general fund and a decrease of \$1.7 million in the federal fund. The decreases in the fund balances of the general fund and federal fund were primarily due to a decrease in State allotted appropriations of \$2.7 million and increases in full opportunity to work expenditures and enforcement of labor laws expenditures of \$11.1 million and \$5.2 million, respectively, offset by an increase in operating grants and contributions of \$7.2 million.

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 \$283.0 million, a decrease of \$257.9 million or 47.7% from the prior year.

At the end of the current fiscal year, the unemployment compensation fund net assets decreased by \$255.4 million or 48.2% from the prior year and the disability compensation fund net assets decreased by

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

Management's Discussion and Analysis

Year ended June 30, 2009

\$2.5 million or 22.5% over the prior fiscal year's fund balances. The decreases in the net assets of the enterprise funds are primarily due to an increase in full opportunity to work expenses of \$283.0 million and a decreases in employer contributions and interest income of \$15.8 million and \$21.2 million, respectively, offset by an increase in intergovernmental contributions of \$110.1 million.

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 \$16.9 million by \$178, and actual general fund expenditures were greater than the final budget of \$16.9 million by \$178. The effect of the above resulted in no variance between the final budget and actual results on a budgetary basis in fiscal year 2009.

Federal Fund Budgetary Highlights

Actual federal fund revenues were more than the original and final budget of \$43.6 million by \$8.6 million, and actual federal fund expenditures were less than the original and final budget of \$50.8 million by \$4.1 million. These differences are primarily attributable to budgeted amounts being based on a higher anticipated unemployment rate of 6.0%. The effect of the above resulted in a favorable variance between the original and final budget and actual results on a budgetary basis of \$12.7 million in fiscal year 2009.

Capital Assets

The Department's investment in capital assets as of June 30, 2009 and 2008 for its governmental and business-type activities totaled \$9.1 million and \$9.8 million, respectively (net of accumulated depreciation of \$21.5 million and \$20.7 million at June 30, 2009 and 2008, 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 2009, both Hawaii's civilian labor force and employment decreased over fiscal year 2008. The labor force decreased by 1.0%, employment declined by 3.6% and unemployment climbed by 83.2%. During fiscal year 2009, an average of 603,250 people were employed statewide, a decrease of 22,700 over fiscal year 2008. The unemployment rate in fiscal year 2009 was 5.7%, up from 3.1% in fiscal year 2008.

The number of seasonally adjusted wage and salary jobs was up 3.2% for fiscal year 2009 compared with fiscal year 2008. Each of the major industries was down at least 1,000 jobs, with the exception of educational, health services, and government. The wage and salary jobs decreased by 3.2% in fiscal year 2010.

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

Management's Discussion and Analysis

Year ended June 30, 2009

The statewide seasonally adjusted unemployment rate in fiscal year 2009 was 5.7%. One year ago, Hawaii's seasonally adjusted unemployment rate was 3.1%. In June 2009, the seasonally adjusted national unemployment rate was 9.5% as compared to 7.0% for Hawaii. The statewide seasonally adjusted unemployment rate increased to 7.0% in fiscal year 2010.

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 slow recovery 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, 2009

	Governmental activities	Business-type activities	Total
Assets:			
Petty cash and imprest funds	\$ 38,698	—	38,698
Amounts held in State Treasury	18,184,009	5,905,386	24,089,395
Amounts held in Federal Treasury	—	281,571,238	281,571,238
Unemployment taxes receivable	—	8,591,416	8,591,416
Advances to subrecipients and others	3,018	70,701	73,719
Due from federal government and others	4,886,277	—	4,886,277
Internal balances	28,790	—	28,790
Inventory	182,912	—	182,912
Prepaid expenses	68,023	845,692	913,715
Capital assets, net	<u>8,769,461</u>	<u>370,992</u>	<u>9,140,453</u>
Total assets	<u>32,161,188</u>	<u>297,355,425</u>	<u>329,516,613</u>
Liabilities:			
Vouchers payable	816,470	13,306,813	14,123,283
Accrued payroll and benefits	2,344,093	25,161	2,369,254
Due to State General Fund	2,301,670	888,602	3,190,272
Due to individuals and others	4,070,379	—	4,070,379
Accrued vacation:			
Due within one year	925,728	—	925,728
Due in more than one year	4,794,405	—	4,794,405
Postretirement liability:			
Due within one year	991,750	21,327	1,013,077
Due in more than one year	<u>3,828,518</u>	<u>83,107</u>	<u>3,911,625</u>
Total liabilities	<u>20,073,013</u>	<u>14,325,010</u>	<u>34,398,023</u>
Net assets:			
Invested in capital assets	8,769,461	370,992	9,140,453
Unrestricted	<u>3,318,714</u>	<u>282,659,423</u>	<u>285,978,137</u>
Total net assets	<u>\$ 12,088,175</u>	<u>283,030,415</u>	<u>295,118,590</u>

See accompanying notes to basic financial statements.

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

Statement of Activities

Year ended June 30, 2009

	Program expenses	Program revenues		Net (expense) revenue and changes in net assets		
		Operating grants and contributions	Charges for services	Governmental activities	Business-type activities	Total
Functions/programs:						
Governmental activities:						
Program support	\$ 8,242,119	3,717,812	—	(4,524,307)	—	(4,524,307)
Full opportunity to work	52,445,031	37,738,920	2,580,478	(12,125,633)	—	(12,125,633)
Enforcement of labor laws	20,518,069	2,974,250	68,872	(17,474,947)	—	(17,474,947)
Labor adjudication	2,455,949	495,708	—	(1,960,241)	—	(1,960,241)
Nonwork connected disability	519,745	—	425	(519,320)	—	(519,320)
Premium supplementation	522,212	—	947	(521,265)	—	(521,265)
Total governmental activities	<u>84,703,125</u>	<u>44,926,690</u>	<u>2,650,722</u>	<u>(37,125,713)</u>	<u>—</u>	<u>(37,125,713)</u>
Business-type activities:						
Unemployment compensation	444,313,947	—	186,072,581	—	(258,241,366)	(258,241,366)
Disability compensation	17,165,325	—	14,385,876	—	(2,779,449)	(2,779,449)
Total business-type activities	<u>461,479,272</u>	<u>—</u>	<u>200,458,457</u>	<u>—</u>	<u>(261,020,815)</u>	<u>(261,020,815)</u>
	<u>\$ 546,182,397</u>	<u>44,926,690</u>	<u>203,109,179</u>	<u>(37,125,713)</u>	<u>(261,020,815)</u>	<u>(298,146,528)</u>
General revenues:						
State appropriations, net				22,143,887	—	22,143,887
Interest income				372,617	6,366,712	6,739,329
Transfers in (out)				4,345,178	(3,279,841)	1,065,337
Net general revenues				<u>26,861,682</u>	<u>3,086,871</u>	<u>29,948,553</u>
Change in net assets				<u>(10,264,031)</u>	<u>(257,933,944)</u>	<u>(268,197,975)</u>
Net assets:						
Beginning of year				<u>22,352,206</u>	<u>540,964,359</u>	<u>563,316,565</u>
End of year				<u>\$ 12,088,175</u>	<u>283,030,415</u>	<u>295,118,590</u>

See accompanying notes to basic financial statements.

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

Balance Sheet – Governmental Funds

June 30, 2009

Assets	General fund	Federal fund	Nonmajor governmental funds	Total
Petty cash and imprest funds	\$ 13,461	25,237	—	38,698
Cash in State Treasury	3,500	3,053,342	15,127,167	18,184,009
Advances to subrecipients and others	—	—	3,018	3,018
Due from federal government and others	53,932	4,684,520	147,825	4,886,277
Due from enterprise funds	—	—	28,790	28,790
Inventory	—	182,912	—	182,912
Prepaid expenses	13,563	54,460	—	68,023
Total assets	\$ 84,456	8,000,471	15,306,800	23,391,727
Liabilities and Fund Balances				
Liabilities:				
Vouchers payable	\$ 113,759	702,114	597	816,470
Accrued payroll and benefits	766,140	1,577,953	—	2,344,093
Due to State General Fund	9,317	2,292,353	—	2,301,670
Due to individuals and others	120,458	3,949,921	—	4,070,379
Total liabilities	1,009,674	8,522,341	597	9,532,612
Fund balances:				
Unreserved	(928,718)	(669,064)	—	(1,597,782)
Reserved for encumbrances	3,500	—	—	3,500
Reserved for inventory	—	147,194	—	147,194
Reserved for unemployment insurance administration	—	—	2,753,563	2,753,563
Reserved for employment and training	—	—	1,070,000	1,070,000
Reserved for hoisting machine operator certification	—	—	266,989	266,989
Reserved for nonwork-related disability	—	—	8,757,623	8,757,623
Reserved for healthcare insurance premium supplementation	—	—	2,458,028	2,458,028
Total fund balances	(925,218)	(521,870)	15,306,203	13,859,115
Total liabilities and fund balances	\$ 84,456	8,000,471	15,306,800	23,391,727

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, 2009

Total fund balances – governmental funds	\$ 13,859,115
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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	27,714,170
Accumulated depreciation	(18,944,709)
Total capital assets	8,769,461

Long-term liabilities are not due and payable in the current period and, therefore,
are not reported in the fund financial statements

Net assets of governmental activities	<u>(10,540,401)</u>
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\$ 12,088,175

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, 2009

	General fund	Federal fund	Nonmajor governmental funds	Total
Revenues:				
State allotted appropriations:				
Full opportunity to work	\$ 3,543,248	—	—	3,543,248
Enforcement of labor laws	10,205,439	—	—	10,205,439
Labor adjudication	1,317,607	—	—	1,317,607
Overall program support	1,792,568	—	—	1,792,568
Total State allotted appropriations	16,858,862	—	—	16,858,862
Nonimposed employee fringe benefits	5,285,025	—	—	5,285,025
Total general revenues	22,143,887	—	—	22,143,887
Program revenues:				
Operating grants and contributions	—	44,926,690	—	44,926,690
Employment and training assessments	—	—	2,171,680	2,171,680
Other assessments	56,078	—	465,665	521,743
Total program revenues	56,078	44,926,690	2,637,345	47,620,113
Interest income	—	—	372,617	372,617
Total revenues	22,199,965	44,926,690	3,009,962	70,136,617
Expenditures:				
Full opportunity to work	4,661,967	42,206,178	2,943,674	49,811,819
Enforcement of labor laws	16,572,057	3,360,838	1,152,825	21,085,720
Labor adjudication	1,831,109	566,619	—	2,397,728
Overall program support	3,234,212	4,370,023	—	7,604,235
Capital outlays	—	464,400	—	464,400
Total expenditures	26,299,345	50,968,058	4,096,499	81,363,902
Deficiency of revenues under expenditures	(4,099,380)	(6,041,368)	(1,086,537)	(11,227,285)
Other financing sources (uses):				
Lapsed appropriations related to previous years	(42,701)	—	—	(42,701)
Transfers in	—	9,135,163	—	9,135,163
Transfers out	—	(4,779,985)	(10,000)	(4,789,985)
Net change in fund balances	(4,142,081)	(1,686,190)	(1,096,537)	(6,924,808)
Fund balances:				
Beginning of year	3,216,863	1,164,320	16,402,740	20,783,923
End of year	\$ (925,218)	(521,870)	15,306,203	13,859,115

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, 2009

Total net change in fund balances of governmental funds	\$ (6,924,808)
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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	464,400
Depreciation expense	<u>(1,018,950)</u>
	(554,550)

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

Change in net assets of governmental activities	<u>(2,784,673)</u>
	<u>\$ (10,264,031)</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, 2009

	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	\$ 17,230,169	16,858,684	16,858,862	—	43,597,813	52,199,891	—
Operating grants and contributions	—	—	—	178	43,597,813	52,199,891	8,602,078
Total revenues	17,230,169	16,858,684	16,858,862	178	43,597,813	52,199,891	8,602,078
Expenditures:							
Full opportunity to work	4,467,201	3,543,246	3,543,248	(2)	42,989,074	39,349,774	3,639,300
Enforcement of labor laws	10,401,667	10,205,263	10,205,439	(176)	2,779,140	2,656,485	122,655
Labor adjudication	1,293,985	1,317,607	1,317,607	—	635,667	575,537	60,130
Overall program support	1,067,316	1,792,568	1,792,568	—	4,353,197	4,055,156	298,041
Total expenditures	17,230,169	16,858,684	16,858,862	(178)	50,757,078	46,636,952	4,120,126
Excess (deficiency) of revenues over (under) expenditures	\$ —	—	—	—	(7,159,265)	5,562,939	12,722,204

See accompanying notes to basic financial statements.

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

Statement of Net Assets – Proprietary Funds

June 30, 2009

	Enterprise funds		
	Unemployment compensation fund	Disability compensation fund	Total
Assets			
Cash and deposits:			
Amounts held in State Treasury	\$ (3,336,076)	9,241,462	5,905,386
Amounts held in Federal Treasury	<u>281,571,238</u>	<u>—</u>	<u>281,571,238</u>
	278,235,162	9,241,462	287,476,624
Unemployment taxes receivable	8,591,416	—	8,591,416
Due from State agencies	—	70,701	70,701
Prepaid expense	—	845,692	845,692
Capital assets	136,400	234,592	370,992
Total assets	<u>286,962,978</u>	<u>10,392,447</u>	<u>297,355,425</u>
Liabilities and Net Assets			
Liabilities:			
Vouchers payable	11,683,827	1,622,986	13,306,813
Due to State agencies	888,602	—	888,602
Accrued payroll	—	25,161	25,161
Postretirement liability	—	104,434	104,434
Total liabilities	<u>12,572,429</u>	<u>1,752,581</u>	<u>14,325,010</u>
Net assets	<u>\$ 274,390,549</u>	<u>8,639,866</u>	<u>283,030,415</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, 2009

	Enterprise funds		
	Unemployment compensation fund	Disability compensation fund	Total
Operating revenues:			
Employer contributions	\$ 70,226,225	—	70,226,225
Workers' compensation assessments	—	14,060,451	14,060,451
Intergovernmental contributions	115,846,356	—	115,846,356
Fines and penalties	—	129,579	129,579
Other	—	195,846	195,846
Total operating revenues	<u>186,072,581</u>	<u>14,385,876</u>	<u>200,458,457</u>
Operating expenses:			
Full opportunity to work	444,313,947	—	444,313,947
Enforcement of labor laws	—	17,165,325	17,165,325
Total operating expenses	<u>444,313,947</u>	<u>17,165,325</u>	<u>461,479,272</u>
Operating loss	(258,241,366)	(2,779,449)	(261,020,815)
Nonoperating revenues (expenses):			
Interest income	6,094,433	272,279	6,366,712
Other financing uses:			
Transfers out	(3,279,841)	—	(3,279,841)
Change in net assets	(255,426,774)	(2,507,170)	(257,933,944)
Net assets:			
Beginning of year	<u>529,817,323</u>	<u>11,147,036</u>	<u>540,964,359</u>
End of year	<u>\$ 274,390,549</u>	<u>8,639,866</u>	<u>283,030,415</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, 2009

	Enterprise fund		
	Unemployment compensation fund	Disability compensation fund	Total
Cash flows from operating activities:			
Cash received from contributions and assessments	\$ 188,679,065	14,385,876	203,064,941
Cash paid for work-related difficulties	(438,032,519)	(15,501,889)	(453,534,408)
Net cash used in operating activities	(249,353,454)	(1,116,013)	(250,469,467)
Cash flows from noncapital financing activity:			
Transfers out	(3,279,841)	—	(3,279,841)
Cash flows from investing activity:			
Interest from investments	6,094,433	272,279	6,366,712
Net decrease in cash and deposits	(246,538,862)	(843,734)	(247,382,596)
Cash and deposits:			
Beginning of year	524,774,024	10,085,196	534,859,220
End of year	\$ 278,235,162	9,241,462	287,476,624
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (258,241,366)	(2,779,449)	(261,020,815)
Depreciation	37,200	45,404	82,604
Adjustments to reconcile operating loss to net cash used in operating activities:			
Decrease (increase) in assets:			
Receivables	2,606,484	—	2,606,484
Prepaid expense	—	11,690	11,690
Due from State agencies	—	(70,701)	(70,701)
Increase (decrease) in liabilities:			
Vouchers and other payables	6,314,846	1,605,805	7,920,651
Due to other State agencies	(70,618)	—	(70,618)
Accrued payroll	—	6,670	6,670
Postretirement liability	—	64,568	64,568
Net cash used in operating activities	\$ (249,353,454)	(1,116,013)	(250,469,467)

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, 2009

Assets	Agency funds
Amounts held in State Treasury	\$ 5,322,316
Investments	<u>1,603,000</u>
Total assets	<u><u>\$ 6,925,316</u></u>
Liabilities	
Due to individuals and others	\$ 6,925,316
Total liabilities	<u><u>\$ 6,925,316</u></u>

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

June 30, 2009

(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 financial 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, 2009

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 comprise 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, 2009

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, 2009

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. Investments in U.S. government securities and time certificates of deposit are carried at fair value based on quoted market prices. Investments in repurchase agreements are carried at cost.

(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, 2009

(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, 2009

(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, 2009, \$3,279,841 of the 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.

(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 years 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, 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, 2009, there were no expenditures in excess of appropriations at the legal level of budgetary control.

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

Notes to Basic Financial Statements

June 30, 2009

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)	\$ —	5,562,939
Reserve for encumbrances at fiscal year-end	3,500	—
Expenditures for liquidation of prior fiscal year encumbrances	(4,114,146)	(4,968,894)
Accrued revenues and expenditures not recognized for budgetary purposes – net of prior-year accruals	(31,435)	(2,280,235)
Net change in fund balances – actual (GAAP basis)	\$ (4,142,081)	(1,686,190)

(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.

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.

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

Notes to Basic Financial Statements

June 30, 2009

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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Notes to Basic Financial Statements

June 30, 2009

The carrying value of the Department's amounts held in State Treasury at June 30, 2009 was \$29,411,711 (\$18,184,009 for the governmental funds, \$5,905,386 for the proprietary funds, and \$5,322,316 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, 2009, as summarized in the table below, was 3%.

	Fair value (Amounts expressed in thousands)	Maturity (in years)		
		Less than 1	1 – 5	> 5
Investments – primary government:				
Student loan auction rate securities	\$ 509,467	—	—	509,467
Certificates of deposit	32,869	31,883	986	—
U.S. government securities	262,951	—	205,102	57,849
Repurchase agreements	16,434	8,217	8,217	—
	\$ 821,721	40,100	214,305	567,316
Investments – Fiduciary funds:				
Student loan auction rate securities	\$ 58,599	—	—	58,599
Certificates of deposit	3,781	3,667	114	—
U.S. government securities	30,244	—	23,590	6,654
Repurchase agreements	1,890	945	945	—
	\$ 94,514	4,612	24,649	65,253

(b) Cash in Bank

The carrying value of the Department's cash in bank balance of \$38,698 for the governmental funds equals the bank balance and was uncollateralized at June 30, 2009.

(c) Amounts 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. Amounts held in federal treasury amounted to \$281,571,238 at June 30, 2009.

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

Notes to Basic Financial Statements

June 30, 2009

(d) Investments

Investments in the fiduciary funds amounted to \$1,603,000 at June 30, 2009. 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, 2009, investments consist of the following:

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

(5) Capital Assets

The following is a summary of changes in capital assets:

	<u>Balance, June 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance, June 30, 2009</u>
Governmental activities:				
Buildings	\$ 20,720,824	—	—	20,720,824
Furniture and equipment	9,122,778	464,400	(250,699)	9,336,479
Vehicles	<u>24,400</u>	<u>—</u>	<u>—</u>	<u>24,400</u>
Total capital assets	<u>29,868,002</u>	<u>464,400</u>	<u>(250,699)</u>	<u>30,081,703</u>
Less accumulated depreciation for:				
Buildings	(14,373,941)	(672,369)	—	(15,046,310)
Furniture and equipment	(6,145,650)	(346,581)	250,699	(6,241,532)
Vehicles	<u>(24,400)</u>	<u>—</u>	<u>—</u>	<u>(24,400)</u>
Total accumulated depreciation	<u>(20,543,991)</u>	<u>(1,018,950)</u>	<u>250,699</u>	<u>(21,312,242)</u>
Governmental activities capital assets – net	<u><u>\$ 9,324,011</u></u>	<u><u>(554,550)</u></u>	<u><u>—</u></u>	<u><u>8,769,461</u></u>
Business-type activities:				
Furniture and equipment	\$ 578,233	—	—	578,233
Less accumulated depreciation for:				
Furniture and equipment	<u>(124,637)</u>	<u>(82,604)</u>	<u>—</u>	<u>(207,241)</u>
Business-type activities capital assets – net	<u><u>\$ 453,596</u></u>	<u><u>(82,604)</u></u>	<u><u>—</u></u>	<u><u>370,992</u></u>

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

Notes to Basic Financial Statements

June 30, 2009

During the fiscal year ended June 30, 2009, depreciation expense of the governmental activities was charged to functions of the Department as follows:

Program support	\$ 175,893
Full opportunity to work	545,220
Enforcement of labor laws	246,414
Labor adjudication	51,423
	<hr/>
Total depreciation expense	\$ <u>1,018,950</u>

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

The changes to the accrued vacation liability during the fiscal year ended June 30, 2009 are as follows:

Balance at June 30, 2008	\$ 5,545,838
Vacation earned	1,278,768
Vacation utilized	<u>(1,104,473)</u>
	<hr/>
Balance at June 30, 2009	5,720,133
Less current portion	<u>(925,728)</u>
	<hr/>
	\$ <u>4,794,405</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 \$5,285,025 for the fiscal year ended June 30, 2009, 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
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2009

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, 2009

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, 2009 was \$4,483,000, 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
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2009

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, 2009 was \$1,509,709, which represented 36% of the Department's share of the ARC for postemployment and life insurance benefits of \$4,184,655.

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, 2009:

Balance at June 30, 2008	\$ 2,249,756
Annual required contribution	4,184,655
Contributions made	<u>(1,509,709)</u>
Balance at June 30, 2009	4,924,702
Less current portion	<u>(1,013,077)</u>
	<u>\$ 3,911,625</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, 2009

(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, 2009, accumulated sick leave approximated \$24,470,000 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, 2009:

Fiscal year ending June 30:	
2010	\$ 1,209,100
2011	701,300
2012	115,500
2013	111,800
2014	86,800
Thereafter	125,400
	\$ 2,349,900

Rent expenditures for the fiscal year ended June 30, 2009 approximated \$1,334,600.

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

Notes to Basic Financial Statements

June 30, 2009

(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, 2009, 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, 2009 is included in revenues of the federal fund and approximated \$1,712,000.

(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, 2009 were approximately \$13,055,000.

SECTION III

Supplementary Information

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

Combining Balance Sheet – Nonmajor Governmental Funds

June 30, 2009

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
Assets						
Amounts held in State Treasury	\$ 1,058,117	267,586	2,701,325	8,667,755	2,432,384	15,127,167
Advances to subrecipients and others	3,018	—	—	—	—	3,018
Due from federal government and others	8,865	—	23,448	89,868	25,644	147,825
Due from enterprise funds	—	—	28,790	—	—	28,790
Total assets	\$ 1,070,000	267,586	2,753,563	8,757,623	2,458,028	15,306,800
Liabilities and Fund Balances						
Liabilities:						
Vouchers payable	\$ —	597	—	—	—	597
Accrued payroll	—	—	—	—	—	—
Total liabilities	—	597	—	—	—	597
Fund balances:						
Reserved for unemployment insurance administration	—	—	2,753,563	—	—	2,753,563
Reserved for employment and training	1,070,000	—	—	—	—	1,070,000
Reserved for hoisting machine operator certification	—	266,989	—	—	—	266,989
Reserved for nonwork-related disability	—	—	—	8,757,623	—	8,757,623
Reserved for healthcare insurance premium supplementation	—	—	—	—	2,458,028	2,458,028
Total fund balances	1,070,000	266,989	2,753,563	8,757,623	2,458,028	15,306,203
Total liabilities and fund balances	\$ 1,070,000	267,586	2,753,563	8,757,623	2,458,028	15,306,800

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, 2009

	Special revenue funds					Total nonmajor governmental funds
	Employment and Training Fund	Hoisting Machine Operator Certification Revolving Fund	Special Unemployment Insurance Administration Fund	Nonwork Connected Disability Fund	Premium Supplementation Fund	
Revenues:						
Program revenues:						
Employment and training assessments	\$ 2,171,680	—	395,421	—	—	2,171,680
Other assessments	—	68,872	—	425	947	465,665
Total program revenues	2,171,680	68,872	395,421	425	947	2,637,345
Interest income	8,865	—	23,448	260,210	80,094	372,617
Total revenues	2,180,545	68,872	418,869	260,635	81,041	3,009,962
Expenditures:						
Enforcement of labor laws	—	110,868	—	519,745	522,212	1,152,825
Full opportunity to work	2,927,002	—	16,672	—	—	2,943,674
Total expenditures	2,927,002	110,868	16,672	519,745	522,212	4,096,499
Deficiency of revenues under expenditures	(746,457)	(41,996)	402,197	(259,110)	(441,171)	(1,086,537)
Other financing uses:						
Transfers out	—	(10,000)	—	—	—	(10,000)
Net change in fund balances	(746,457)	(51,996)	402,197	(259,110)	(441,171)	(1,096,537)
Fund balances:						
Beginning of year	1,816,457	318,985	2,351,366	9,016,733	2,899,199	16,402,740
End of year	\$ 1,070,000	266,989	2,753,563	8,757,623	2,458,028	15,306,203

See accompanying independent auditors' report.

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

Combining Statement of Fiduciary Net Assets – Fiduciary Funds – Agency Funds

June 30, 2009

	Agency fund				Total
	Temporary deposits	Temporary disability insurance	Unemployment compensation	Wage claim and other	
Assets					
Amounts held in State Treasury \$	2,000	1,001	886,215	4,433,100	5,322,316
Investments	<u>—</u>	<u>1,603,000</u>	<u>—</u>	<u>—</u>	1,603,000
Total assets	<u>\$ 2,000</u>	<u>1,604,001</u>	<u>886,215</u>	<u>4,433,100</u>	<u>6,925,316</u>
Liabilities					
Due to individuals and others	\$ 2,000	1,604,001	886,215	4,433,100	6,925,316
Total liabilities	<u>\$ 2,000</u>	<u>1,604,001</u>	<u>886,215</u>	<u>4,433,100</u>	<u>6,925,316</u>

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, 2009, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated February 21, 2013. 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

Management of the Department is responsible for establishing and maintaining effective 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 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 a combination of deficiencies, in internal control, 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 described in item 2009-01 in the accompanying schedule of findings and questioned costs 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 which are described in the accompanying schedule of findings and questioned costs as items 2009-02 and 2009-03.

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

February 21, 2013

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* (the Compliance Supplement) that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 referred to above 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 of Labor and Industrial Relations, State of Hawaii 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, 2009. 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 items 2009-02 and 2009-03.

Internal Control over Compliance

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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

February 21, 2013

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Federal grantor/pass-through grantor/program or cluster title	CFDA number	Grant number	Federal expenditures
U.S. Department of Agriculture:			
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program – Administrative Costs:			
Commodity Assistance Program	10.568	2008IY810547	\$ 4,600
Commodity Assistance Program		2009IY810547	85,513
Commodity Assistance Program		2008CY810547	447
Subtotal CFDA 10.568			<u>90,560</u>
Emergency Food Assistance Program – Food Commodities	10.569	2009IY810547	<u>1,558,358</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	150,467
DHS Food Stamps – Kauai		N/A	67,420
Subtotal CFDA No. 10.561			<u>217,887</u>
Senior Farmers' Market Nutrition Program	10.576	2008IY830347	<u>413,590</u>
Total U.S. Department of Agriculture			<u>2,280,395</u>
U.S. Department of Housing and Urban Development:			
Civil Rights Commissions – HUD			
Civil Rights Commissions – HUD	14.401	FF209K049004	(57,818)
Civil Rights Commissions – HUD		FF209K059004	111,018
Civil Rights Commissions – HUD		FF209K069004	211,832
Civil Rights Commissions – HUD		FF209K079004	149,607
Subtotal CFDA No. 14.401			<u>414,639</u>
Total U.S. Department of Housing and Urban Development			<u>414,639</u>

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

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	W9J88015	\$ 32,418
BLS Local Area Unemployment Statistics		W9J88015	37,256
BLS Occupational Employment Statistics		W9J88015	49,645
BLS Employment and Wages Report		W9J88015	85,906
BLS Mass Layoff Statistics		W9J88015	10,266
BLS Current Employment Statistics		W9J98015	97,391
BLS Local Area Unemployment Statistics		W9J98015	53,592
BLS Occupational Employment Statistics		W9J98015	115,920
BLS Employment and Wages Report		W9J98015	128,965
BLS Mass Layoff Statistics		W9J98015	25,054
Subtotal CFDA No. 17.002			<u>636,413</u>
Occupational Safety and Health:			
OSHA BLS	17.005	W9J88115	25,699
OSHA BLS		OS-17929-09-75-J-15	<u>71,415</u>
Subtotal CFDA No. 17.005			<u>97,114</u>
Alien Labor Certification:			
Alien Labor Certification	17.273	ES-16261-07-55-A-15	(6,039)
Alien Labor Certification		ES-17556-08-55-A-15	<u>6,841</u>
Subtotal CFDA No. 17.273			<u>802</u>

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

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-16261-07-55-A-15	\$ (161,237)
Employment Service Grant		ES-17556-08-55-A-15	2,365,497
Reemployment Services		ES-14860-05-55	8,851
Reemployment Services – ARRA		ES-17556-08-55-A-15	48,242
Workforce Opportunities Tax Credit		ES-15691-06-55	11,576
Workforce Opportunities Tax Credit		ES-16261-07-55-A-15	66,000
Workforce Opportunities Tax Credit		ES-17556-08-55-A-15	66,863
Employment Services One-Stop – Workforce Info Grants		ES-16261-07-55-A-15	80,306
Employment Services One-Stop – Workforce Info Grants		ES-17556-08-55-A-15	249,400
Reed Act		N/A	4,208,373
Subtotal CFDA No. 17.207			<u>6,943,871</u>
Disabled Veterans' Outreach Program:			
Disabled Veterans' Outreach Program	17.801	E-9-5-8-5086	122,407
Disabled Veterans' Outreach Program		E-9-5-9-5086	211,583
Subtotal CFDA No. 17.801			<u>333,990</u>
Local Veterans' Employment Representative Program:			
Local Veterans' Employment Representative Program	17.804	E-9-5-8-5086	148,109
Local Veterans' Employment Representative Program		E-9-5-9-5086	181,059
Subtotal CFDA No. 17.804			<u>329,168</u>
Subtotal Employment Service Cluster			<u>7,607,029</u>

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Federal grantor/pass-through grantor/program or cluster title	CFDA number	Grant number	Federal expenditures
Unemployment Insurance:			
Unemployment Insurance Grants	17.225	UI-14430-05-55	\$ 516,676
Unemployment Insurance Grants		UI-15117-06-55	157,220
Unemployment Insurance Grants		UI-15794-07-55	26,999
Unemployment Insurance Grants		UI-16742-08-55	5,038,936
Unemployment Insurance Grants		UI-18016-09-55-A-15	13,753,488
Unemployment Insurance – Trade Benefits		UI-16742-08-55	54,263
Unemployment Insurance – Trade Benefits		UI-18016-09-55	130,833
Unemployment Insurance – Emergency Compensation		UI-16742-08-55	256,150
Unemployment Insurance – Emergency Compensation		UI-18016-09-55-A-15	55,918
Unemployment Insurance – Unemployment Compensation for Federal Employees Benefits		N/A	2,135,750
Unemployment Insurance – Unemployment Compensation for Ex-Service Members Benefits		N/A	4,633,763
Unemployment Insurance – Federal Additional Compensation		N/A	10,884,330
Unemployment Insurance – Emergency Unemployment Compensation 2008		N/A	86,103,530
Unemployment Insurance – Other		N/A	(14,422)
Unemployment Insurance – State Funded Benefits		N/A	334,013,634
Reed Act		N/A	4,208,373
Subtotal CFDA No. 17.225			<u>461,955,441</u>
Senior Community Services Employment Program (SCSEP)			
Senior Community Services Employment Program	17.235	AD-16129-07-60	2,079,265
Senior Community Services Employment Program – ARRA		AD-18363-09-60	<u>29,410</u>
Subtotal CFDA No. 17.235			<u>2,108,675</u>
Trade Adjustment Assistance – Training			
Trade Adjustment Assistance	17.245	TA-15781	58,089
Trade Adjustment Assistance		TA-15944	<u>63,514</u>
Subtotal CFDA No. 17.245			<u>121,603</u>

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Federal grantor/pass-through grantor/program or cluster title	CFDA number	Grant number	Federal expenditures
Workforce Investment Act Cluster:			
Adult Program	17.258	AA-15475-06-55	\$ 19,211
Adult Program		AA-16024-07-55	684,937
Adult Program		AA-17117-08-55	1,400,819
Adult Program – ARRA		AA-17117-08-55	58,347
Personal Re-Employment Account		PR-15679-06-60	76,332
Subtotal CFDA No. 17.258			<u>2,239,646</u>
Youth Program	17.259	AA-16024-07-55	865,530
Youth Program		AA-17117-08-55	1,425,999
Youth Program – ARRA		AA-17117-08-55	239,741
Subtotal CFDA No. 17.259			<u>2,531,270</u>
Dislocated Workers Program	17.260	AA-15475-06-55	9,500
Dislocated Workers Program		AA-16024-07-55	521,539
Dislocated Workers Program		AA-17117-08-55	1,201,558
Dislocated Workers Program – ARRA		AA-17117-08-55	103,995
Rapid Response		AA-16024-07-55	8,009
Rapid Response		AA-17117-08-55	45,000
Rapid Response -ARRA		AA-17117-08-55	32,968
National Emergency Grant		EM-15989-07-60	63,198
National Emergency Grant		EM-17465-08-60	1,688,679
National Emergency Grant – Molokai Ranch		EM-17481-08-60-A-15	145,496
Subtotal CFDA No. 17.260			<u>3,819,942</u>
Earmark Program	17.261	EA-15351-06-60	338,273
Workforce Investment Grant	17.266	WI-15559-06-60	161,012
Dislocated Worker National Reserve – Demonstration Projects Reimbursement	17.999	CA-16717-07-60-A-15	<u>1,057,712</u>
Subtotal Workforce Investment Act Cluster			<u>10,147,855</u>

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Federal grantor/pass-through grantor/program or cluster title	CFDA number	Grant number	Federal expenditures
Occupational Safety and Health Administration:			
OSHA 23G	17.503	60F6-0092	\$ (11,658)
OSHA 23G		60F7-0092	(3,986)
OSHA 23G		60F8-0092	591,160
OSHA 23G		SP-17736-09-75-F-15	<u>1,053,655</u>
Subtotal CFDA No. 17.503			<u>1,629,171</u>
OSHA 21D	17.504	E9F8-0992	178,577
OSHA 21D		CS-17691-09-75-F-15	331,870
OSHA BLS Survey		E9F8-3792	1,747
OSHA BLS Survey		DC-18093-09-75-F-15	<u>3,383</u>
Subtotal CFDA No. 17.504			<u>515,577</u>
Total U.S. Department of Labor			<u>484,819,680</u>
Equal Employment Opportunity Commission:			
Equal Employment Opportunity Commission	30.002	5FPSLP0164	<u>20,023</u>
Total Equal Employment Opportunity Commission			<u>20,023</u>
U.S. Department of Energy:			
Weatherization Assistance for Low-Income Persons			
Weatherization Assistance	81.042	FG26-08R021679	<u>188,084</u>
Total U.S. Department of Energy			<u>188,084</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	1,081,781

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

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	G08AAHI9100	\$ 7,951
Cash, Medical, and Administration		G09AAHI9100	13,593
Social Services		G08AAHI9100	28,096
Social Services		G09AAHI9100	50,430
Subtotal CFDA No. 93.566			<u>100,070</u>
Community Services Block Grant:			
Community Services Block Grant Program	93.569	G07B1HICOSR	136,953
Community Services Block Grant Program		G08B1HICOSR	916,691
Community Services Block Grant Program		G09B1HICOSR	2,052,399
Subtotal CFDA No. 93.569			<u>3,106,043</u>
Hawaii Family Support:			
Hawaii Family Support	93.631	90DN0203/03	53,636
Hawaii Family Support		90DN0203/04	97,152
Subtotal CFDA No. 93.631			<u>150,788</u>
Total U.S. Department of Health and Human Services			<u>4,438,682</u>
Total expenditures of federal awards			<u>\$ 492,161,503</u>

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

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

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

(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:

Program title	CFDA number	Amount provided to subrecipients
U.S. Department of Agriculture: Seniors Farmers' Market Nutrition Pilot Program	10.576	\$ 412,400
U.S. Department of Labor: Reed Act	17.207	4,164,828
Senior Community Services Employment Program	17.235	2,000,524
Workforce Investment Act Cluster: Adult Programs	17.258	1,601,369
Youth Programs	17.259	2,144,779
Dislocated Workers Programs	17.260	1,464,514
National Emergency Grant	17.260	1,741,123
Earmark Program	17.261	308,071
Dislocated Workers National Reserve	17.999	<u>1,046,336</u>
		<u>8,306,192</u>
Total U.S. Department of Labor		<u>14,471,544</u>
U.S. Department of Energy: Weatherization Assistance for Low-Income Persons	81.042	151,683

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

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Program title	CFDA number	Amount provided to subrecipients
U.S. Department of Health and Human Services: Refugee and Entrant Assistance – State Administered Programs:		
Cash, Medical, and Administration	93.566	\$ 20,861
Social Services	93.566	<u> 77,378</u>
		98,239
Community Services Block Grant Program	93.569	<u> 2,844,282</u>
Total U.S. Department of Health and Human Services		<u> 2,942,521</u>
Total provided to subrecipients		<u> \$ 17,978,148</u>

(3) Unemployment Insurance

State unemployment tax revenues and government contributions are used to pay benefits under federally approved State unemployment law. Of the \$461,955,441 reported as expenditures for the Unemployment Insurance program (CFDA 17.225), \$334,013,634 represented expenditures of State funds.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

(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 2009-01**
 - 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 that are required to be reported under Section 0.510(a) of OMB Circular A-133: **Yes. See Findings 2009-02 and 2009-03**
- (g) Major programs:

U.S. Department of Labor:

Employment Service Cluster – CFDA No. 17.207

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 2009-01 – 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

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

than a remote likelihood that a misstatement of the entity's financial statements that is more than 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, 2009

- 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

Effective with the fiscal year 2010 audit, the Department's financial statements will be consolidated on a Statewide basis by the Department of Accounting and General Services.

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2009-02 – Subrecipient Monitoring

Information on the Federal Programs

U.S. Department of Labor, Employment Service Cluster – CFDA 17.207; Federal Award Nos. ES-14860-05-55, ES-15691-06-55, ES-16261-07-55-A-15, and ES-17556-08-55-A-15; Award years: July 1, 2005 to September 30, 2008, July 1, 2006 to September 30, 2009, July 1, 2007 to September 30, 2010, and July 1, 2008 to September 31, 2011, respectively.

Specific Requirements/Criteria

Per the *U.S. Department of Labor ET Handbook No. 401*, 4th Edition, Summary of Financial Transactions Form ETA 8403 is to be submitted no later than the first day of the second month following the month for which the activity is reported.

Condition

During our testwork over the subrecipient monitoring requirements, we noted that the Department did not submit its Form ETA 8403 for the following months: July 2008, August 2008, October 2008, November 2008, and January 2009. Additionally, the form was not submitted timely for March 2009.

Further, all required activities, including appropriations enacted and funds obligated, were not reported on the February 2009 report.

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.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Questioned Costs

None

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

There were Reed Act transactions from July 2008 through February 2009 which were reported on a quarterly basis, instead of monthly, as prescribed by the instructions to complete the Form ETA 8403.

A separate fund ledger to record Reed Act transactions was established on the Federal Cost Accounting System in March, 2009. Effective March 2009, transactions were reported on the Form ETA 8403 and submitted on a monthly basis.

Effective March 2009, Reed Act transactions were reported on a monthly basis, and the information on the Form ETA 8403 is reviewed to ensure for completeness and accuracy.

Finding 09-03 – Reporting

Information on Federal Programs

U.S. Department of Labor, Unemployment Insurance – CFDA 17.225; Federal Award Nos. UI-14430-05-55, UI-15117-06-55, UI-15794-07-55, UI-16742-08-55, and UI-18016-09-55-A-15; Award years: 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, and October 1, 2008 to December 31, 2011, respectively.

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.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Condition

During our testwork over the reporting requirements, we noted that the Reed Act withdrawals were incorrectly excluded from the ETA 2112 reports for the following months: July 2008 through March 2009 and May 2009. 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

None

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

Effective September 30, 2011, 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.