

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

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

### Summary

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

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

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

### Recommendations and Response

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

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

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

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

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