



**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Basic Financial Statements and Single Audit Reports

June 30, 2004

(With Independent Auditors' Report Thereon)

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

June 30, 2004

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## **SECTION I**

### **Introduction**



**KPMG LLP**  
P.O. Box 4150  
Honolulu, HI 96812-4150

March 28, 2005

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, 2004. We have also audited the Department's compliance with requirements applicable to its major federal financial assistance programs. We submit herein our reports on the Department's basic financial statements and federal financial assistance programs.

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, 2004 in accordance with accounting principles generally accepted in the United States of America.
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.
6. To report on the status of prior year findings and questioned costs.

The Director  
Department of Labor and Industrial Relations  
State of Hawaii  
March 28, 2005

## **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, 2004, in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

## **ORGANIZATION OF REPORT**

Our report is organized into five sections as follows:

1. Section I, entitled "Introduction," describes the objectives and scope of our audit and the organization and contents of this report.
2. Section II, entitled "Basic Financial Statements," contains the Department's basic financial statements and footnotes for the year ended June 30, 2004, and our report thereon. It also contains management's discussion and analysis on the Department's financial activities for the year ended June 30, 2004.
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 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**  
P.O. Box 4150  
Honolulu, HI 96812-4150

## **Independent Auditors' Report**

The Director  
Department of Labor and Industrial Relations  
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, 2004, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, the financial statements of the Department are intended to present the financial position and the changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund and federal fund 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, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and federal fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2005 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 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 and individual 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*. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

March 28, 2005

## DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

### STATE OF HAWAII

#### Management's Discussion and Analysis

Year ended June 30, 2004

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, 2004.

#### **Financial Highlights**

- The assets of the Department exceeded its liabilities at June 30, 2004 by \$436.5 million (net assets).
- Of the total net assets, the amount of \$426.9 million, or 97.8% 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.
- The Department's liabilities reported in the statement of net assets decreased during the current fiscal year to \$15.7 million, a decrease of \$5.6 million or 26.4% from the prior year.
- At June 30, 2004, the Department reported governmental fund balances of \$15.2 million, an increase of \$458,000 or 3.1% from the prior fiscal year.

#### **Overview of the Basic Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of three components: (1) government-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.

#### **Government-Wide Financial Statements**

The government-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).

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Management's Discussion and Analysis

Year ended June 30, 2004

**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.

***Governmental Funds***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-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 government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-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 (deficit) provide a reconciliation to facilitate this comparison between governmental funds and governmental activities in the government-wide financial statements.

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit) for the general fund, federal fund, and the aggregate nonmajor governmental funds.

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 20 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 government-wide financial statements. The Department uses enterprise funds to account for the operations of the unemployment compensation fund and the disability compensation fund.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Management's Discussion and Analysis

Year ended June 30, 2004

The proprietary funds financial statements provide the same type of information as the business-type activities in the government-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 statement can be found on pages 21-23 of this report.

***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the State. Fiduciary funds are not reflected in the government-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.

The fiduciary funds financial statement can be found on page 24 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 government-wide and fund financial statements.

**Government-Wide Financial Analysis**

The following is a financial analysis on the governmental activities of the Department. Net assets are a useful indicator of a government's financial position. For the Department, total assets exceeded liabilities by \$436.5 million, and increased \$80.9 million or 22.8% over the course of this fiscal year's operations.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Management's Discussion and Analysis

Year ended June 30, 2004

The following table was derived from the government-wide statement of net assets.

**Net Assets**

June 30, 2004 and 2003

<b>Assets</b>	<b>FY 2004</b>	<b>FY 2003</b>
Petty cash and imprest funds	\$ 48,425	\$ 48,425
Cash in State Treasury	42,578,009	42,626,645
Cash held in Federal Treasury	362,900,464	318,103,933
Unemployment taxes receivable	33,187,327	—
Advances to subrecipients and others	1,185,449	1,000,578
Due from Federal Government and other	1,117,633	3,302,603
Inventory	423,436	200,803
Prepaid expenses	1,133,944	1,091,667
Capital assets, net	9,587,248	10,496,424
Total assets	<u>452,161,935</u>	<u>376,871,078</u>
<b>Liabilities</b>		
Vouchers payable	5,334,343	8,308,425
Accrued payroll and benefits	1,680,334	1,987,666
Due to State General Fund	48,425	48,425
Due to individuals and others	2,847,168	4,397,182
Long-term obligation – accrued vacation:		
Due within one year	1,954,962	2,033,695
Due in more than one year	3,819,911	4,526,611
Total liabilities	<u>15,685,143</u>	<u>21,302,004</u>
<b>Net Assets</b>		
Invested in capital assets	9,587,248	10,496,424
Unrestricted	426,889,574	345,072,650
Total net assets	<u>\$ 436,476,822</u>	<u>\$ 355,569,074</u>

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Management's Discussion and Analysis

Year ended June 30, 2004

*Analysis of Net Assets*

Total assets increased by \$75.3 million or 20.0% for the prior fiscal year, due primarily to a \$44.8 million or 14.1% increase in cash held in federal treasury and the recording of \$33.2 million in unemployment taxes receivable offset by a \$3.1 million or 22.4% decrease in net capital assets and due from Federal Government and other.

Total liabilities decreased by \$5.6 million or 26.4% from the prior fiscal year, due primarily to a \$3.0 million or 35.8% decrease in vouchers payable and a \$1.6 million or 35.3% decrease due to individuals and others.

The Department's unrestricted net assets increased to \$426.9 million at June 30, 2004 from \$345.1 million at June 30, 2003, an increase of \$81.8 million or 23.7%. A substantial portion of the unrestricted net assets consists of cash amounts held by the Department's enterprise funds and reported as business-type activities in the statement of net assets. Cash held in Federal Treasury, to be used for benefits to unemployed workers, and cash in State Treasury, to be used for workers injured on the job, aggregated to \$385.9 million and \$342.0 million at June 30, 2004 and 2003, respectively.

At June 30, 2004, the Department is able to report positive balances of net assets for governmental and business-type activities.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Management's Discussion and Analysis

Year ended June 30, 2004

***Changes in Net Assets***

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

**Changes in Net Assets**

For the fiscal years ended June 30, 2004 and 2003

	<u>FY 2004</u>	<u>FY 2003</u>
Revenues:		
Program revenues:		
Charges for services	\$ 237,807,385	\$ 202,966,832
Operating grants and contributions	48,712,765	55,093,507
General revenues (expenses):		
State appropriations	21,111,170	19,967,116
Interest income	21,529,791	20,041,322
Loss on disposal of capital assets	(13,985)	(8,571)
Total revenues	<u>329,147,126</u>	<u>298,060,206</u>
Expenses:		
Program support	18,484,534	19,581,041
Full opportunity to work	29,893,331	40,724,858
Fair and just employment practices	3,125,380	3,166,241
Labor-management relations	496,486	620,569
Assistance in work related difficulties	<u>196,239,647</u>	<u>214,320,701</u>
Total expenses	<u>248,239,378</u>	<u>278,413,410</u>
Change in net assets	80,907,748	19,646,796
Net assets, beginning of year	<u>355,569,074</u>	<u>335,922,278</u>
Net assets, end of year	<u>\$ 436,476,822</u>	<u>\$ 355,569,074</u>

***Analysis of Changes in Net Assets***

The Department's net assets increased by \$80.9 million or 22.8% during the fiscal year ended June 30, 2004. Revenues increased by \$31.1 million or 10.4% from the prior fiscal year, due primarily to a \$34.8 million or 17.2% increase in charges for services offset by a \$6.4 million or 11.6% decrease in operating grants and contributions. Approximately 72.2% of the Department's total revenues comes from charges for services (as compared to 68.1% for 2003), while 14.8% resulted from grants and contributions (including federal aid). The largest expenses were for assistance in work-related difficulties (unemployment and workers' compensation benefits).

Total expenses decreased by \$30.2 million or 10.8% from the prior fiscal year, due primarily to a \$18.1 million or 8.4% decrease in assistance in work related difficulties and a \$10.8 million or 26.6% decrease in full opportunity to work.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Management's Discussion and Analysis

Year ended June 30, 2004

**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 \$15.2 million, an increase of \$0.5 million or 3.1% 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 was \$0.4 million and \$0.2 million, respectively, which reflects an increase over the prior fiscal year's deficit balances.

***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 balances of \$417.5 million, an increase of \$80.6 million or 23.9% from the prior year.

At the end of the current fiscal year, the unemployment compensation fund balance increased by \$80.1 million or 25.5% from the prior year and the disability compensation fund balance increased by \$0.5 million or 2.2% over prior fiscal year's fund balances.

***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 less than the original and final budget of \$17,545,999 by \$90,000, and actual general fund expenditures were less than the original and final budget of \$17,545,999 by \$91,569. The effect of the above resulted in a favorable variance between the original and final budget and actual results on a budgetary basis of \$1,569 in fiscal year 2004.



**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Management's Discussion and Analysis

Year ended June 30, 2004

**Federal Fund Budgetary Highlights**

Actual federal fund revenues exceeded the original and final budget of \$50,658,000 by \$3,218,988, and actual federal fund expenditures were less than the original and final budget of \$77,805,940 by \$25,297,977. The effect of the above resulted in a favorable variance between the original and final budget and actual results on a budgetary basis of \$28,516,965 in fiscal year 2004.

**Capital Assets**

The Department's investment in capital assets as of June 30, 2004 amounted to \$9,587,248 (net of accumulated depreciation of \$14,684,231). 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 of the notes to basic financial statements.

**Economic Factors and Next Year's Budget**

In fiscal year 2004, both Hawaii's civilian labor force and employment increased over fiscal year 2003. The labor force grew by 0.7% while employment rose by 0.9%. During fiscal year 2004, an average of 591,350 people were employed statewide, an increase of 5,050 over fiscal year 2003. The unemployment rate in fiscal year 2004 was 3.7%, down slightly from 3.8% in fiscal year 2003.

The number of wage and salary jobs was up 1.9% for fiscal year 2004 compared to fiscal year 2003. Jobs are up most notably in food service and drinking places (2,100); health care and social assistance (1,600); retail trade (1,450); natural resources, mining, and construction (1,300); and professional and business services (1,150).

Unemployment remains low with the statewide seasonally adjusted unemployment rate staying below 3.7% for the past six months. One year ago, Hawaii's seasonally adjusted unemployment rate stood at 3.9%, while the seasonally adjusted national unemployment rate was 5.8%.

In March 2005, the Council on Revenues estimated that the State's general fund tax growth rate would be 10.0% in fiscal year 2005, 5.0% in fiscal year 2006, and 4.9% in fiscal year 2007. While the current condition of Hawaii's economy is good, the projected growth in tax revenues remains a concern. Based on this concern and increasing fixed costs, the Governor has imposed a 1% across-the-board restriction on all general fund discretionary expenditures of all Executive Branch departments and agencies for fiscal year 2005. Consultant and personal services contracts greater than \$25,000 and the filling of nonessential positions continue to require the approval of the Governor and other expenditure controls implemented in fiscal year 2004 continue to be in force.

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

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Management's Discussion and Analysis

Year ended June 30, 2004

**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 website, <http://www.hawaii.gov/labor>.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Statement of Net Assets

June 30, 2004

<b>Assets</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Petty cash and imprest funds	\$ 48,425	\$ —	\$ 48,425
Cash in State Treasury	19,532,361	23,045,648	42,578,009
Cash held in Federal Treasury	—	362,900,464	362,900,464
Unemployment taxes receivable	—	33,187,327	33,187,327
Advances to subrecipients and others	1,185,449	—	1,185,449
Due from Federal Government and other	1,117,633	—	1,117,633
Internal balances	18,758	(18,758)	—
Inventory	423,436	—	423,436
Prepaid expenses	94,403	1,039,541	1,133,944
Capital assets, net	9,587,248	—	9,587,248
<b>Total assets</b>	<b>32,007,713</b>	<b>420,154,222</b>	<b>452,161,935</b>
<b>Liabilities</b>			
Liabilities:			
Vouchers payable	3,213,241	2,121,072	5,334,313
Accrued payroll and benefits	1,680,334	—	1,680,334
Due to State General Fund	48,425	—	48,425
Due to individuals and others	2,315,245	531,923	2,847,168
Long-term obligation – accrued vacation:			
Due within one year	1,954,962	—	1,954,962
Due in more than one year	3,819,911	—	3,819,911
<b>Total liabilities</b>	<b>13,032,118</b>	<b>2,652,995</b>	<b>15,685,113</b>
<b>Net Assets</b>			
Invested in capital assets	9,587,248	—	9,587,248
Unrestricted	9,388,347	417,501,227	426,889,574
<b>Total net assets</b>	<b>\$ 18,975,595</b>	<b>\$ 417,501,227</b>	<b>\$ 436,476,822</b>

See accompanying notes to basic financial statements.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Statement of Activities

Year ended June 30, 2004

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Program Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Charges for Services</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Functions/programs:						
Governmental activities:						
Program support	\$ 18,484,534	\$ 9,925,202	\$ —	\$ (8,559,332)	\$ —	\$ (8,559,332)
Full opportunity to work	29,893,331	25,115,603	1,847,355	(2,930,373)	—	(2,930,373)
Fair and just employment practices	3,125,380	234,064	—	(2,891,316)	—	(2,891,316)
Labor – management relations	496,486	—	—	(496,486)	—	(496,486)
Assistance in work related difficulties	20,738,433	13,437,896	1,292,409	(6,008,128)	—	(6,008,128)
Nonwork connected disability	86,084	—	7,265	(78,819)	—	(78,819)
Premium supplementation	86,864	—	745	(86,119)	—	(86,119)
Total governmental activities	<u>72,911,112</u>	<u>48,712,765</u>	<u>3,147,774</u>	<u>(21,050,573)</u>	<u>—</u>	<u>(21,050,573)</u>
Business-type activities:						
Unemployment compensation	156,343,962	—	215,733,841	—	59,389,879	59,389,879
Disability compensation	18,984,304	—	18,925,770	—	(58,534)	(58,534)
Total business-type activities	<u>175,328,266</u>	<u>—</u>	<u>234,659,611</u>	<u>—</u>	<u>59,331,345</u>	<u>59,331,345</u>
	<u>\$ 248,239,378</u>	<u>\$ 48,712,765</u>	<u>\$ 237,807,385</u>	<u>(21,050,573)</u>	<u>59,331,345</u>	<u>38,280,772</u>
General revenues (expenses):						
State appropriations, net				21,111,170	—	21,111,170
Interest income				287,406	21,242,385	21,529,791
Loss on disposal of capital assets				(13,985)	—	(13,985)
Net general revenues				<u>21,384,591</u>	<u>21,242,385</u>	<u>42,626,976</u>
Change in net assets				334,018	80,573,730	80,907,748
Net assets:						
Beginning of year				<u>18,641,577</u>	<u>336,927,497</u>	<u>355,569,074</u>
End of year				<u>\$ 18,975,595</u>	<u>\$ 417,501,227</u>	<u>\$ 436,476,822</u>

See accompanying notes to basic financial statements.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Balance Sheet – Governmental Funds

June 30, 2004

<b>Assets</b>	<b>General</b>	<b>Federal Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
Petty cash and imprest funds	\$ 10,100	\$ 38,325	\$ —	\$ 48,425
Cash in State Treasury	993,236	3,962,188	14,576,937	19,532,361
Advances to subrecipients and others	—	1,185,449	—	1,185,449
Due from Federal Government and other	67,394	1,050,239	—	1,117,633
Due from enterprise funds	—	—	18,758	18,758
Inventory	—	423,436	—	423,436
Prepaid expenses	—	94,403	—	94,403
<b>Total assets</b>	<b>\$ 1,070,730</b>	<b>\$ 6,754,040</b>	<b>\$ 14,595,695</b>	<b>\$ 22,420,465</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Vouchers payable	\$ 115,443	\$ 3,083,559	\$ 14,239	\$ 3,213,241
Accrued payroll and benefits	589,276	1,091,058	—	1,680,334
Due to State General Fund	10,100	38,325	—	48,425
Due to individuals and others	—	2,315,245	—	2,315,245
<b>Total liabilities</b>	<b>714,819</b>	<b>6,528,187</b>	<b>14,239</b>	<b>7,257,245</b>
<b>Fund balances:</b>				
Unreserved	264,569	(287,010)	—	(22,441)
Reserved for encumbrances	91,342	89,427	—	180,769
Reserved for inventory	—	423,436	—	423,436
Reserved for unemployment insurance administration	—	—	918,512	918,512
Reserved for employment and training	—	—	2,000,727	2,000,727
Reserved for occupational safety and health training and assistance	—	—	1,942	1,942
Reserved for boiler/elevator safety	—	—	2,599	2,599
Reserved for nonwork related disability	—	—	8,179,059	8,179,059
Reserved for health care insurance premium supplementation	—	—	3,478,617	3,478,617
<b>Total fund balances</b>	<b>355,911</b>	<b>225,853</b>	<b>14,581,456</b>	<b>15,163,220</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,070,730</b>	<b>\$ 6,754,040</b>	<b>\$ 14,595,695</b>	<b>\$ 22,420,465</b>

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

Year ended June 30, 2004

Total fund balances – governmental funds		\$	15,163,220
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	\$	24,271,479	
Accumulated depreciation		<u>(14,684,231)</u>	
Total capital assets			9,587,248
Long-term liabilities are not due and payable in the current period and therefore not reported in the fund financial statements			<u>(5,774,873)</u>
Net assets of governmental activities		\$	<u><u>18,975,595</u></u>

See accompanying notes to basic financial statements.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

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

Year ended June 30, 2004

	<u>General</u>	<u>Federal Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues:				
State appropriations:				
Full opportunity to work	\$ 2,613,227	\$ —	\$ —	\$ 2,613,227
Fair and just employment practices	2,316,610	—	—	2,316,610
Labor – management relations	459,538	—	—	459,538
Assistance in work related difficulties	4,868,853	—	—	4,868,853
Overall program support	7,197,771	—	—	7,197,771
Total State appropriations	17,455,999	—	—	17,455,999
Non-imposed employee fringe benefits	3,715,733	—	—	3,715,733
Total general revenues	21,171,732	—	—	21,171,732
Program revenues:				
Operating grants and contributions	—	48,712,765	—	48,712,765
Employment and training assessments	—	—	1,847,355	1,847,355
Other assessments	—	—	1,300,419	1,300,419
Total program revenues	—	48,712,765	3,147,774	51,860,539
Interest income	—	—	287,406	287,406
Total revenues	21,171,732	48,712,765	3,435,180	73,319,677
Expenditures:				
Full opportunity to work	2,916,830	23,995,205	2,870,194	29,782,229
Fair and just employment practices	2,846,396	340,375	—	3,186,771
Labor – management relations	500,740	—	—	500,740
Assistance in work related difficulties	6,288,573	13,723,034	816,905	20,828,512
Overall program support	8,129,041	10,349,834	—	18,478,875
Capital outlays	18,688	5,539	—	24,227
Total expenditures	20,700,268	48,413,987	3,687,099	72,801,354
Excess (deficiency) of revenues over (under) expenditures	471,464	298,778	(251,919)	518,323
Other financing uses:				
Lapsed appropriations related to previous years	(60,562)	—	—	(60,562)
Net change in fund balances	410,902	298,778	(251,919)	457,761
Fund balances (deficit):				
Beginning of year	(54,991)	(72,925)	14,833,375	14,705,459
End of year	\$ 355,911	\$ 225,853	\$ 14,581,456	\$ 15,163,220

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 (Deficit) to the Statement of Activities

Year ended June 30, 2004

Total net change in fund balances of governmental funds		\$	457,761
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		\$	24,227
Depreciation expense			<u>(919,418)</u>
Excess of depreciation expense over capital asset expenditures			(895,191)
Losses on the disposal of capital assets are reported as an expense in the statement of activities; however, are not reported as an expenditure in governmental funds			
			(13,985)
The decrease in accrued vacation is reported in the statement of activities but does not require the use of current financial resources and is therefore not reported as an expenditure in governmental funds			
			<u>785,433</u>
Change in net assets of governmental activities		\$	<u><u>334,018</u></u>

See accompanying notes to basic financial statements.



**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

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

Year ended June 30, 2004

	General Fund			Federal Fund		
	Original and Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)	Original and Final Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues:						
State appropriations	\$ 17,545,999	\$ 17,455,999	\$ (90,000)	\$ —	\$ —	\$ —
Operating grants and contributions	—	—	—	50,658,000	53,876,988	3,218,988
Total revenues	<u>17,545,999</u>	<u>17,455,999</u>	<u>(90,000)</u>	<u>50,658,000</u>	<u>53,876,988</u>	<u>3,218,988</u>
Expenditures:						
Full opportunity to work	2,613,227	2,611,672	1,555	51,436,682	30,886,747	20,549,935
Fair and just employment practices	2,316,610	2,316,610	—	467,646	335,681	131,965
Labor – management relations	459,538	459,538	—	—	—	—
Assistance in work related difficulties	4,868,853	4,868,853	—	14,663,088	13,656,699	1,006,389
Overall program support	7,287,771	7,197,757	90,014	11,238,524	7,628,836	3,609,688
Total expenditures	<u>17,545,999</u>	<u>17,454,430</u>	<u>91,569</u>	<u>77,805,940</u>	<u>52,507,963</u>	<u>25,297,977</u>
Excess of revenues over expenditures	\$ <u>—</u>	\$ <u>1,569</u>	\$ <u>1,569</u>	\$ <u>(27,147,940)</u>	\$ <u>1,369,025</u>	\$ <u>28,516,965</u>

See accompanying notes to basic financial statements.

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

Statement of Net Assets – Proprietary Funds

June 30, 2004

<b>Assets</b>	<b>Enterprise Funds</b>		<b>Total</b>
	<b>Unemployment Compensation Fund</b>	<b>Disability Compensation Fund</b>	
Cash and deposits:			
Cash in State Treasury	\$ 202,930	\$ 22,842,718	\$ 23,045,648
Cash in Federal Treasury	362,900,464	—	362,900,464
	363,103,394	22,842,718	385,946,112
Unemployment taxes receivable	33,187,327	—	33,187,327
Prepaid expense	—	1,039,541	1,039,541
Total assets	396,290,721	23,882,259	420,172,980
<b>Liabilities and Net Assets</b>			
Liabilities:			
Vouchers payable	1,804,226	316,846	2,121,072
Due to special revenue funds	18,758	—	18,758
Due to other State agencies	531,923	—	531,923
Total liabilities	2,354,907	316,846	2,671,753
Net assets – unrestricted	\$ 393,935,814	\$ 23,565,413	\$ 417,501,227

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, 2004

	<b>Enterprise Funds</b>		<b>Total</b>
	<b>Unemployment Compensation Fund</b>	<b>Disability Compensation Fund</b>	
Operating revenues:			
Intergovernmental contributions	\$ 26,017,546	\$ —	\$ 26,017,546
Employer contributions	189,716,295	—	189,716,295
Workers' compensation assessments	—	18,663,218	18,663,218
Fines and penalties	—	33,688	33,688
Other	—	228,864	228,864
Total operating revenues	<u>215,733,841</u>	<u>18,925,770</u>	<u>234,659,611</u>
Operating expenses:			
Assistance in work related difficulties	<u>156,343,962</u>	<u>18,984,304</u>	<u>175,328,266</u>
Operating income (loss)	59,389,879	(58,534)	59,331,345
Nonoperating revenues:			
Interest income	<u>20,672,458</u>	<u>569,927</u>	<u>21,242,385</u>
Change in net assets	80,062,337	511,393	80,573,730
Net assets:			
Beginning of year	<u>313,873,477</u>	<u>23,054,020</u>	<u>336,927,497</u>
End of year	<u>\$ 393,935,814</u>	<u>\$ 23,565,413</u>	<u>\$ 417,501,227</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, 2004

	<u>Enterprise Funds</u>		
	<u>Unemployment Compensation Fund</u>	<u>Disability Compensation Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from contributions and assessments	\$ 182,546,514	\$ 18,345,319	\$ 200,891,833
Cash paid for work related difficulties	<u>(158,493,688)</u>	<u>(19,728,645)</u>	<u>(178,222,333)</u>
Net cash provided by (used in) operating activities	24,052,826	(1,383,326)	22,669,500
Cash flows provided by investing activities:			
Interest from investments	<u>20,672,458</u>	<u>569,927</u>	<u>21,242,385</u>
Net increase (decrease) in cash and deposits	44,725,284	(813,399)	43,911,885
Cash and deposits:			
Beginning of year	<u>318,378,110</u>	<u>23,656,117</u>	<u>342,034,227</u>
End of year	<u>\$ 363,103,394</u>	<u>\$ 22,842,718</u>	<u>\$ 385,946,112</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 59,389,879	\$ (58,534)	\$ 59,331,345
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Decrease (increase) in assets:			
Receivables	(33,187,327)	433,596	(32,753,731)
Prepaid expense	—	1,681	1,681
Decrease in liabilities:			
Vouchers and other payables	(2,149,726)	(760,069)	(2,909,795)
Deposits	<u>—</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>
Net cash provided by (used in) operating activities	<u>\$ 24,052,826</u>	<u>\$ (1,383,326)</u>	<u>\$ 22,669,500</u>

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, 2004

	<b>Agency Funds</b>				
<b>Assets</b>	<b>Temporary Deposits</b>	<b>Temporary Disability Insurance</b>	<b>Unemployment Compensation</b>	<b>Wage Claim and Other</b>	<b>Total</b>
Cash in State Treasury	\$ 2,000	\$ 6,105	\$ 753,255	\$ 1,972,656	\$ 2,734,016
Investments	—	1,603,000	—	—	1,603,000
Total assets	\$ 2,000	\$ 1,609,105	\$ 753,255	\$ 1,972,656	\$ 4,337,016
<b>Liabilities</b>					
Due to individuals and others	\$ 2,000	\$ 1,609,105	\$ 753,255	\$ 1,972,656	\$ 4,337,016
Total liabilities	\$ 2,000	\$ 1,609,105	\$ 753,255	\$ 1,972,656	\$ 4,337,016

See accompanying notes to basic financial statements.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2004

**(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 health care 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 accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financed reporting principles.

The following is a summary of the significant accounting policies:

**(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.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2004

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

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

**Governmental Fund Types**

The Department reports the following major governmental funds:

**General Fund**

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

**Federal Fund**

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

The nonmajor governmental funds are comprised of the following:

**Special Revenue Funds**

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

**Proprietary Fund Type**

**Enterprise Funds**

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

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2004

**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.

**Disability Compensation Fund**

This fund was created to enhance the employability of persons with pre-existing injuries, to reduce discrimination against persons with dependants, 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**

These funds account 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 on 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.



**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2004

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.

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.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2004

**(b) Cash in State Treasury**

The Hawaii Revised Statutes authorize the Director of Finance to invest in obligations of or guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions. Cash and deposits with financial institutions are collateralized in accordance with State statutes.

**(c) Cash held in Federal Treasury**

Unemployment compensation contributions received by the State Treasury are deposited with the Secretary of the Treasury of the United States to the credit of the State in the unemployment compensation fund, pursuant to Section 904 of the Social Security Act, as amended. Cash held in federal treasury amounted to \$362,900,464 at June 30, 2004. Total unemployment contributions for the year ended June 30, 2004 were approximately \$182,547,000.

**(d) Investments – Fiduciary Funds**

Employers, except the State, any county or political subdivision of the State, or other public entity within the State, are required by Hawaii Revised Statutes (HRS) Section 386-121 to secure compensation to their employees in regards to temporary disability, in several ways including depositing and maintaining with the Director of Finance security satisfactory to the Director of Labor and Industrial Relations. Such securities, held at the State Treasury (stated at cost which approximates fair value) totaled \$1,603,000 on June 30, 2004, and are accounted for in the Department's fiduciary funds. Such investments consist of U.S. Government obligations, obligations of the State, federally insured savings accounts, and time certificates of deposits.

**(e) 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.

**(f) Capital Assets**

Capital assets are not capitalized in the 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.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2004

**(g) *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. 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.

**(h) *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.

**(i) *Intrafund Transactions***

Transfers of financial resources within the same fund are eliminated.

**(j) *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.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2004

**(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 2003 (Act 200, Session Laws of Hawaii (SLH) 2003) and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2003-2005 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, 2004, there were no expenditures in excess of appropriations at the legal level of budgetary control.

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

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2004

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.

	<u>General Fund</u>		<u>Federal Fund</u>
Excess of revenues over expenditures – actual (budgetary basis)	\$ 1,569	\$	1,369,025
Reserve for encumbrances at fiscal year-end	91,342		89,427
Expenditures for liquidation of prior fiscal year encumbrances	(447,586)		(168,284)
Accrued revenues and expenditures not recognized for budgetary purposes – net of prior year accruals	<u>765,577</u>		<u>(991,390)</u>
Net change in fund balances – actual (GAAP basis)	<u>\$ 410,902</u>	\$	<u>298,778</u>

**(4) Cash in State Treasury**

The State Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The State Director of Finance pools and invests any monies 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 cash 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. 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.

Information regarding the carrying amount and corresponding bank balances of the cash (which includes the Department’s cash in State Treasury) and collateralization of the cash balances is included in the comprehensive annual financial report of the State.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2004

The carrying value of the Department's cash in bank of \$48,425 equals the bank balance and was uncollateralized at June 30, 2004.

**(5) Capital Assets**

The following is a summary of changes in capital assets:

	<b>Balance, June 30, 2003</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance, June 30, 2004</b>
Buildings	\$ 20,614,785	\$ —	\$ —	\$ 20,614,785
Furniture and equipment	3,788,730	24,227	(180,663)	3,632,294
Vehicles	24,400	—	—	24,400
<b>Total capital assets</b>	<b>24,427,915</b>	<b>24,227</b>	<b>(180,663)</b>	<b>24,271,479</b>
Less accumulated depreciation for:				
Buildings	(11,035,216)	(668,609)	—	(11,703,825)
Furniture and equipment	(2,884,075)	(245,929)	166,678	(2,963,326)
Vehicles	(12,200)	(4,880)	—	(17,080)
<b>Total accumulated     depreciation</b>	<b>13,931,491</b>	<b>(919,418)</b>	<b>166,678</b>	<b>(14,684,231)</b>
Capital assets – net	\$ <u>10,496,424</u>	\$ <u>(895,191)</u>	\$ <u>(13,985)</u>	\$ <u>9,587,248</u>

During the fiscal year ended June 30, 2004, depreciation expense was charged to functions of the Department as follows:

Program support	\$ 194,163
Full opportunity to work	268,188
Fair and just employment practices	72,133
Labor – management relations	19,309
Assistance in work related difficulties	365,625
<b>Total depreciation expense</b>	\$ <u>919,418</u>

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2004

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

The changes to the accrued vacation liability during the fiscal year ended June 30, 2004 are as follows:

Balance at July 1, 2003	\$ 6,560,306
Vacation earned	3,885,900
Vacation utilized	<u>(4,671,333)</u>
Balance at June 30, 2004	5,774,873
Less current portion	<u>(1,954,962)</u>
	<u><u>\$ 3,819,911</u></u>

**(7) Non-Imposed 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 \$3,715,733 for the fiscal year ended June 30, 2004, 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 benefits as well as death and disability benefits. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action. Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively. Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2004

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over a closed period ending June 30, 2029.

Measurement of assets and actuarial valuations are made for the entire ERS and are not separately computed for individual participating employers such as the Department. For the years ended June 30, 2004 and 2003, the Department was required to make contributions amounting to approximately \$1,283,000 and \$1,285,000, respectively. No contributions were required and made by the Department for the fiscal year ended June 30, 2002.

ERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information which may be obtained from the following address:

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

**(b) *Post-Retirement Health Care and Life Insurance Benefits***

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

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

There are currently approximately 23,300 state retirees receiving such benefits. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis. For the fiscal year ended June 30, 2004, the Department's contribution for post-retirement health care and life insurance benefits was approximately \$991,000.



**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2004

Effective July 1, 2003, the Hawaii Employer-Union Health Benefit Trust Fund (EUTF) replaced the Hawaii Public Employees Health Fund under Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county employees, retirees, and their dependents.

**(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 vacation 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. Sick leave credits may accumulate without limit, but may be taken only in the event of illness and is 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, 2004, accumulated sick leave approximated \$23,107,000 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 2009. The following is a schedule of minimum future rentals on noncancelable operating leases with lease terms over a year at June 30, 2004:

Fiscal year ending June 30:	
2005	\$ 368,000
2006	315,000
2007	277,000
2008	278,000
2009	255,000
	<hr/>
	\$ 1,493,000
	<hr/>

Rent expenditures for the fiscal year ended June 30, 2004 approximated \$1,242,000.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2004

**(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, 2004, 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, are either 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 Food Distribution Program. The Department's Office of Community Services distributes the food to community action agencies responsible for distributing The Emergency Food Assistance 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, 2004 is included in revenues of the Federal Fund and approximated \$1,827,000.

**(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, 2004 were approximately \$16,986,000.

## **SECTION III**

### **Supplementary Information**

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

Combining Balance Sheet – Nonmajor Governmental Funds

June 30, 2004

	<b>Special Revenues Funds</b>						
	<b>Employment and Training Fund</b>	<b>Occupational Safety and Health Training and Assistance Fund</b>	<b>Boiler/ Elevator Safety Fund</b>	<b>Special Unemployment Insurance Administration Fund</b>	<b>Nonwork Connected Disability Fund</b>	<b>Premium Supplementation Fund</b>	<b>Total Nonmajor Governmental Funds</b>
Cash in State Treasury	\$ 1,997,783	\$ 15,052	\$ 2,599	\$ 903,827	\$ 8,179,059	\$ 3,478,617	\$ 14,576,937
Due from enterprise funds	4,073	—	—	14,685	—	—	18,758
Total assets	<u>\$ 2,001,856</u>	<u>\$ 15,052</u>	<u>\$ 2,599</u>	<u>\$ 918,512</u>	<u>\$ 8,179,059</u>	<u>\$ 3,478,617</u>	<u>\$ 14,595,695</u>
<b>Liability and Fund Balances</b>							
Liability:							
Vouchers payable	\$ 1,129	\$ 13,110	\$ —	\$ —	\$ —	\$ —	\$ 14,239
Fund balances:							
Reserved for unemployment insurance administration	—	—	—	918,512	—	—	918,512
Reserved for employment and training	2,000,727	—	—	—	—	—	2,000,727
Reserved for occupational safety and health training and assistance	—	1,942	—	—	—	—	1,942
Reserved for boiler/elevator safety	—	—	2,599	—	—	—	2,599
Reserved for nonwork related disability	—	—	—	—	8,179,059	—	8,179,059
Reserved for health care insurance premium supplementation	—	—	—	—	—	3,478,617	3,478,617
Total fund balances	<u>2,000,727</u>	<u>1,942</u>	<u>2,599</u>	<u>918,512</u>	<u>8,179,059</u>	<u>3,478,617</u>	<u>14,581,456</u>
Total liability and fund balances	<u>\$ 2,001,856</u>	<u>\$ 15,052</u>	<u>\$ 2,599</u>	<u>\$ 918,512</u>	<u>\$ 8,179,059</u>	<u>\$ 3,478,617</u>	<u>\$ 14,595,695</u>

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, 2004

	<b>Special Revenues Funds</b>						
	<b>Employment and Training Fund</b>	<b>Occupational Safety and Health Training and Assistance Fund</b>	<b>Boiler/ Elevator Safety Fund</b>	<b>Special Unemployment Insurance Administration Fund</b>	<b>Nonwork Connected Disability Fund</b>	<b>Premium Supplementation Fund</b>	<b>Total Nonmajor Governmental Funds</b>
Revenues:							
Program revenues:							
Employment and training assessments	\$ 1,847,355	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,847,355
Other assessments	—	—	—	1,292,409	7,265	745	1,300,419
Total program revenues	<u>1,847,355</u>	<u>—</u>	<u>—</u>	<u>1,292,409</u>	<u>7,265</u>	<u>745</u>	<u>3,147,774</u>
Interest income	—	—	—	—	201,077	86,329	287,406
Total revenues	<u>1,847,355</u>	<u>—</u>	<u>—</u>	<u>1,292,409</u>	<u>208,342</u>	<u>87,074</u>	<u>3,435,180</u>
Expenditures:							
Full opportunity to work	2,016,244	321,195	532,755	—	—	—	2,870,194
Assistance in work related difficulties	—	—	—	643,957	86,084	86,864	816,905
Total expenditures	<u>2,016,244</u>	<u>321,195</u>	<u>532,755</u>	<u>643,957</u>	<u>86,084</u>	<u>86,864</u>	<u>3,687,099</u>
Excess (deficiency) of revenues over (under) expenditures	(168,889)	(321,195)	(532,755)	648,452	122,258	210	(251,919)
Fund balances:							
Beginning of year	<u>2,169,616</u>	<u>323,137</u>	<u>535,354</u>	<u>270,060</u>	<u>8,056,801</u>	<u>3,478,407</u>	<u>14,833,375</u>
End of year	\$ <u>2,000,727</u>	\$ <u>1,942</u>	\$ <u>2,599</u>	\$ <u>918,512</u>	\$ <u>8,179,059</u>	\$ <u>3,478,617</u>	\$ <u>14,581,456</u>

See accompanying independent auditors' report.

## **SECTION IV**

### **Compliance and Internal Control over Financial Reporting**



**KPMG LLP**  
P.O. 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 Director  
Department of Labor and Industrial Relations  
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, 2004, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Department in a separate letter dated March 28, 2005.

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

KPMG LLP

March 28, 2005



## **SECTION V**

### **Compliance and Internal Control over Federal Awards**



**KPMG LLP**  
P.O. 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 Director  
Department of Labor and Industrial Relations  
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* that are applicable to each of its major federal programs for the year ended June 30, 2004. 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 on the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. 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 is described in the accompanying schedule of findings and questioned costs as Findings 04-01 through 04-04.

## **Internal Control over Compliance**

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

**KPMG LLP**

March 28, 2005

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Agriculture:</b>			
Emergency Food Assistance Cluster:	10.568		
Emergency Food Assistance Program – Administrative Costs		7HI810HI8	\$ 174,081 *
Food Stamp Program		7HI400HI2	33,713 *
Subtotal CFDA No. 10.568			<u>207,794 *</u>
Emergency Food Assistance Program – Food Commodities	10.569	7HI810HI8	<u>1,605,655 *</u>
Subtotal Emergency Food Assistance Program Cluster			<u>1,813,449 *</u>
Passed through from the State Department of Human Services:			
State Administrative Matching Grants for the Food Stamp Program: Employment and Training Program	10.561	AGREEMENT	<u>120,807</u>
Seniors Farmers' Market Nutrition Pilot Program	10.576	8HI810082	<u>580,379</u>
Total U.S. Department of Agriculture			<u>2,514,635</u>
<b>U.S. Department of Housing and Urban Development:</b>			
Civil Rights Commission	14.401	FF209K969004	(2,913)
Civil Rights Commission	14.401	FF209K979004	85,000
Civil Rights Commission	14.401	FF209K989004	<u>58,662</u>
Total U.S. Department of Housing and Urban Development			<u>140,749</u>
<b>U.S. Department of Labor:</b>			
LMI Cooperative Agreement CES	17.002	W9J38015	\$ 41,482
LMI Cooperative Agreement CES	17.002	W9J48015	100,791
LMI Cooperative Agreement ES-202	17.002	W9J38015	67,469
LMI Cooperative Agreement ES-202	17.002	W9J48015	170,960
LMI Cooperative Agreement LAUS	17.002	W9J38015	16,627
LMI Cooperative Agreement LAUS	17.002	W9J48015	60,137
LMI Cooperative Agreement MLS	17.002	W9J38015	14,430

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>CFDA Number</b>	<b>Grant Number</b>	<b>Federal Expenditures</b>
LMI Cooperative Agreement MLS	17.002	W9J48015	26,951
LMI Cooperative Agreement OES	17.002	W9J38015	42,230
LMI Cooperative Agreement OES	17.002	W9J48015	105,716
Subtotal CFDA No. 17.002			<u>646,793</u>
Occupational Safety and Health:	17.005		
OSHA BLS		W9J38115	26,281
OSHA BLS		W9J48115	69,731
Subtotal CFDA No. 17.005			<u>96,012</u>
Alien Labor Certification:	17.203		
Alien Labor Certification		ES-12127-02-55	8,584
Alien Labor Certification		ES-13050-03-55	5,384
Subtotal CFDA No. 17.203			<u>13,968</u>
Employment Service:	17.207		
Employment Service Grant		ES-12127-02-55	\$ 1,679,012
Employment Service Grant		ES-13050-03-55	2,130,486
Employment Service One-Stop – LMI		ES-12127-02-55	187,327
Employment Service One-Stop – LMI		ES-13050-03-55	179,243
Reemployment Services		ES-11525-01-58	(1,319)
Reemployment Services		ES-13050-03-58	262,988
Workforce Opportunities Tax Credit		ES-11525-01-55	15,166
Workforce Opportunities Tax Credit		ES-12127-02-55	77,206
Workforce Opportunities Tax Credit		ES-13050-03-55	24,551
Work Incentive Grant		WI-13249-03-60	59,753
Subtotal CFDA No. 17.207			<u>4,614,413</u>
Unemployment Insurance Grants:	17.225		

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>CFDA Number</b>	<b>Grant Number</b>	<b>Federal Expenditures</b>
Unemployment Insurance Grants		P.L.97-300	45,635
Unemployment Insurance Grants		UI-11815-02-55	30,213
Unemployment Insurance Grants		UI-12634-03-55	4,438,787
Unemployment Insurance Grants		UI-13543-04-55	10,569,142
Unemployment Insurance Disaster Assistance		P.L.97-300	(160)
Unemployment Insurance – TEUC		UI-11815-02-55	(168,997)
Unemployment Insurance – TEUC		UI-12634-03-55	325,586
Unemployment Insurance – Parent Locator		AGREEMENT	67
Unemployment Insurance – Trade Benefits		UI-13543-04-55	105,942
Subtotal CFDA No. 17.225			<u>15,346,215</u>
Senior Community Service Employment Program Grants	17.235	AD-13149-03-55	<u>1,899,738</u> *
Trade Adjustment Assistance:	17.245		
Trade Training		TAA-15-232-4	\$ (2,639)
Trade Training		TA-1114-01-60	2,678
Trade Training		TA-13490-04-55	17,793
Subtotal CFDA No. 17.245			<u>17,832</u>
Welfare-to-Work Program	17.253	Y-7757-9-00-81-50	<u>(92,030)</u>
Workforce Investment Act Cluster:			
Adult Program	17.258	AA-12921-03-50	1,498,806 *
Adult Program	17.258	AA-12007-02-50	1,580,604 *
Subtotal CFDA No. 17.258			<u>3,079,410</u> *
Youth Program	17.259	AA-12921-03-50	1,347,888 *
Youth Program	17.259	AA-12007-02-50	2,145,238 *
Subtotal CFDA No. 17.259			<u>3,493,126</u> *
Dislocated Workers Program	17.260	AA-12921-03-50	1,285,499 *
Dislocated Workers Program	17.260	AA-12007-02-50	1,568,869 *

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>	
Dislocated Workers Program	17.260	EM-13419-03-60	16,460	*
Subtotal CFDA No. 17.260			<u>2,870,828</u>	*
Local admin	17.000	AA-12921-03-50	46,955	*
Statewide rapid response	17.000	AA-12921-03-50	40,602	*
Statewide activities	17.000	AA-12921-03-50	731,662	*
Local admin	17.000	AA-12921-03-50	383,654	*
Statewide activities	17.000	AA-12007-02-50	919,427	*
Local admin	17.000	AA-12007-02-50	773,375	*
Statewide activities	17.000	AA-11247-01-50	1,109,016	*
Subtotal CFDA No. 17.000			<u>4,004,691</u>	*
Subtotal Workforce Investment Act Cluster			<u>13,448,055</u>	*
Employment and Training Programs for Individuals of Samoan Ancestry, Asian Immigrants, and Pacific Islanders	17.261	AF-12860-03-60	\$ 3,031,951	*
Occupational Safety and Health Administration:	17.503			
OSHA 23G		60F3-0992	398,841	*
OSHA 23G		60F4-00	1,094,618	*
Subtotal CFDA No. 17.503			<u>1,493,459</u>	*
OSHA 21(d)	17.504	E9F3-0992	148,306	
OSHA 21(d)	17.504	E9F4-0992	363,728	
OSHA 7(c)1 Survey	17.504	E9F3-3792	669	
OSHA 7(c)1 Survey	17.504	E9F4-3792	239	
Subtotal CFDA No. 17.504			<u>512,942</u>	
Disabled Veterans' Outreach Program:	17.801			
Disabled Veterans' Outreach Program		E-9-5-3-5086	103,231	
Disabled Veterans' Outreach Program		E-9-5-4-5086	223,814	
Subtotal CFDA No. 17.801			<u>327,045</u>	

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>CFDA Number</b>	<b>Grant Number</b>	<b>Federal Expenditures</b>
Veterans' Employment Program:	17.802		
Veterans' Workforce Investment Program		E-9-5-2-0019	22,229
Veterans' Workforce Investment Program		E-9-5-3-0019	216,380
Subtotal CFDA No. 17.802			<u>238,609</u>
Local Veterans' Employment Representative Program:	17.804		
Local Veterans' Employment Representative Program		E-9-5-3-5086	133,060
Local Veterans' Employment Representative Program		E-9-5-4-5086	239,367
Subtotal CFDA No. 17.804			<u>372,427</u>
Total U.S. Department of Labor			<u>41,967,429</u>
<b>Equal Employment Opportunity Commission:</b>			
Equal Employment Opportunity Commission	30.002	6/5010/0074	\$ (866)
Equal Employment Opportunity Commission	30.002	9/5010/0074	(1,634)
Equal Employment Opportunity Commission	30.002	9/5010/0074	103,029
Equal Employment Opportunity Commission	30.002	2/CFPMD/0074	91,785
Total Equal Employment Opportunity Commission			<u>192,314</u>
<b>U.S. Department of Energy:</b>			
Weatherization Assistance for Low-Income Persons	81.042	FG51-03R021429	211,774
Total U.S. Department of Energy			<u>211,774</u>
<b>U.S. Department of Education:</b>			
Career Resource Network Grant	84.346	V346A000054-02B	43,798
Career Resource Network Grant	84.346	V346A000054-03	51,774
Total U.S. Department of Education			<u>95,572</u>
<b>U.S. Department of Health and Human Services:</b>			
Refugee and Entrant Assistance – State Administered Programs:	93.566		



**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>CFDA Number</b>	<b>Grant Number</b>	<b>Federal Expenditures</b>
Cash, Medical, and Administration		G03AAHI9100	33,913
Cash, Medical, and Administration		G04AAHI9100	30,104
Social Services		G03AAHI9110	63,446
Social Services		G04AAHI9110	7,034
Subtotal CFDA No. 93.566			<u>134,497</u>

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**STATE OF HAWAII**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>CFDA Number</b>	<b>Grant Number</b>	<b>Federal Expenditures</b>
Community Services Block Grant	93.569	G03B1HICOSR	\$ 1,393,879
Community Services Block Grant	93.569	G04B1HICOSR	1,663,791
Subtotal CFDA No. 93.569			<u>3,057,670</u>
Community Food and Nutrition Program	93.571	G03B2HICOSR	6,675
Community Food and Nutrition Program	93.571	G03B3HICOSR	8,263
Subtotal CFDA No. 93.571			<u>14,938</u>
Passed through from the State Department of Human Services: First-to-Work	93.558	02-BESSD-1072	982,131
Total U.S. Department of Health and Human Services			<u>4,189,236</u>
Total Expenditures of Federal Awards			<u><u>\$ 49,311,709</u></u>

\* Denotes major program as defined by OMB Circular A-133

N/A = CFDA Number not available

See accompanying independent auditors' report.

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

Notes to Schedule of Expenditures of Federal Awards  
June 30, 2004

**(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 cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**(2) Subrecipients**

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

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
U.S. Department of Agriculture:		
Emergency Food Assistance Cluster	10.569	\$ 1,605,655
Seniors Farmers' Market Nutrition Pilot Program	10.576	580,379
Total U.S. Department of Agriculture		<u>2,186,034</u>
U.S. Department of Labor:		
Senior Community Service Employment Program Grants	17.235	1,660,482
Workforce Investment Act Cluster:		
Adult Programs	17.258	3,112,410
Youth Programs	17.259	3,493,126
Dislocated Workers Programs	17.260	2,854,368
Statewide Activities	17.000	189,046
Local Admin	17.000	1,170,984
		<u>10,819,934</u>
Employment and Training Programs for Individuals of Samoan Ancestry, Asian Immigrants, and Pacific Islanders	17.261	2,806,860
Total U.S. Department of Labor		<u>15,287,276</u>
U.S. Department of Energy:		
Weatherization Assistance for Low-Income Persons	81.042	201,185
U.S. Department of Health and Human Services:		
Refugee and Entrant Assistance – State Administered Programs:		
Cash, Medical, and Administration	93.566	60,816
Social Services	93.566	70,480
		<u>131,296</u>
Community Services Block Grants	93.569	2,904,787
Community Food and Nutrition Programs	93.571	14,938
		<u>2,919,725</u>
Total U.S. Department of Health and Human Services		<u>3,051,021</u>
Total provided to subrecipients		<u>\$ 20,725,516</u>

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

Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

**(1) Summary of Auditors' Results**

- (a) The type of report issued on the basic financial statements: **Unqualified opinion**
- (b) Reportable conditions in internal control were disclosed by the audit of the basic financial statements: **None reported**  
  
Material weaknesses: **None noted**
- (c) Noncompliance which is material to the financial statements: **None noted**
- (d) Reportable conditions in internal control over major programs: **None reported**  
  
Material weaknesses: **None noted**
- (e) The type of report issued on compliance for major programs: **Unqualified opinion**
- (f) Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes, see Findings 04-01 through 04-04**
- (g) Major programs:

**U.S. Department of Agriculture**

**Emergency Food Assistance Cluster – CFDA Nos. 10.568 and 10.569**

**U.S. Department of Labor:**

**Workforce Investment Act Cluster – CFDA Nos. 17.000, 17.258-260**

**Senior Community Service Employment Program Grants – CFDA No. 17.235**

**Employment and Training Programs for Individuals of Samoan Ancestry, Asian Immigrants, and Pacific Islanders – CFDA No. 17.261**

**Occupational Safety and Health Administration – OSHA 23G – CFDA No. 17.503**

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,479,351**
- (i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **Yes**

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

**None noted**

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

Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

**(3) Findings and Questioned Costs Relating to Federal Awards**

<b>Findings/Noncompliance</b>	<b>Questioned costs</b>
<b>Finding 04-01 – Subrecipient Monitoring</b>	\$ <u>          —</u>
<p><b>Federal Agency:</b> U.S. Department of Agriculture  <b>CFDA Number and Title:</b> 10.569 – Emergency Food Assistance Program – Food Commodities  <b>Award Number:</b> 7HI810HI8  <b>Award Year:</b> October 1, 2002 – September 30, 2004</p>	

Pursuant to the U.S. Department of Agriculture regulations codified at 7 CFR section 251.10(e), the Department is required to make on-site reviews of Eligible Recipient Agencies (ERAs) under its oversight and of distribution sites operated by such ERAs, in accordance with its distribution plan. At a minimum, the Department’s annual review coverage must include 25% of the ERAs that operate the Emergency Food Assistance Program (TEFAP) as a subrecipient of the Department, and one-tenth or 20 (whichever is less) of the ERAs that operate TEFAP as subrecipients of other ERAs in the State. To the maximum extent practicable, review scheduling should enable State agency staff to observe TEFAP commodity issuance and prepared meal service operations.

We noted that although the Department conducted formal, documented on-site monitoring activities of 25% of the ERAs that operate the TEFAP program as a subrecipient of the Department, on-site monitoring activities of one-tenth of the ERAs which operate TEFAP as subrecipients of other ERAs in the State of Hawaii were informal in nature, and were not formally documented.

**Recommendation**

We recommend that the Department extend its formal, documented on-site monitoring activities to include one-tenth of the ERAs which operate TEFAP as subrecipients of other ERAs in the State of Hawaii, as required by U.S. Department of Agriculture regulations. These reports should be maintained for a period of three years from the date of submission of the program’s final expenditure report in accordance with federal record retention requirements.

**Views of Responsible Officials and Planned Corrective Actions**

The Department concurs with the finding and recommendation. The Department will complete the required monitoring before June 30, 2005.

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

Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

<b>Findings/Noncompliance</b>	<b>Questioned costs</b>
<b>Finding 04-02 – Eligibility</b>	\$ <u>          —</u>

**Federal Agency:** U.S. Department of Agriculture  
**CFDA Number and Title:** 10.569 – Emergency Food Assistance  
Program – Food Commodities  
**Award Number:** 7HI810HI8  
**Award Year:** October 1, 2002 – September 30, 2004

Pursuant to the Office of Management and Budget’s March 2004 A-133 Compliance Supplement, the Department is required to enter into formal, written agreements with its subrecipients which bind these organizations to perform the duties of an ERA under the TEFAP program.

We noted that the Department did not execute formal, written agreements with organizations receiving food commodities under the TEFAP program.

**Recommendation**

We recommend that the Department execute formal, written agreements with organizations receiving food commodities under the TEFAP program as required by U.S. Department of Agriculture regulations.

**Views of Responsible Officials and Planned Corrective Actions**

The Department concurs with the finding and recommendation. In the future, the Department will execute formal, written agreements to ensure compliance with U.S. Department of Agriculture regulations.

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

Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

<b>Findings/Noncompliance</b>	<b>Questioned costs</b>
<b>Finding 04-03 – Subrecipient Monitoring</b>	\$ <u>          —</u>
<p><b>Federal Agency:</b> U.S. Department of Labor</p> <p><b>CFDA Number and Title:</b> 17.261 – Employment and Training Programs for Individuals of Samoan Ancestry, Asian Immigrants, and Pacific Islanders</p> <p><b>Award Number:</b> AF-12860-03-60</p> <p><b>Award Year:</b> March 24, 2003 – June 30, 2004</p>	

The Department has a subrecipient grant agreement with the Job Help Store (JHS) in connection with the Employment and Training Programs for Individuals of Samoan Ancestry, Asian Immigrants, and Pacific Islanders grant agreement, wherein JHS is to provide the Department with program progress reports within 15 calendar days after the end of each calendar quarter.

We noted that these performance reports were not submitted to the Department. Additionally, we noted that no corrective actions have been planned to ensure that the program progress reports are provided to the Department in a timely manner.

Monitoring a subrecipient’s use of federal awards through review of performance reports augments the subrecipient monitoring function by providing reasonable assurance that the subrecipient administers federal awards in compliance with applicable laws, regulations, and the provisions of the grant agreement, and ensures that performance goals are measured and achieved.

**Recommendation**

We recommend that the Department obtain the required performance reports and implement procedures to ensure the timely submission of all required reports by its subrecipients. These reports should be maintained for a period of three years from the date of submission of the program’s final expenditure report, in accordance with federal record retention requirements.

**Views of Responsible Officials and Planned Corrective Actions**

The Department concurs with the finding and recommendation. In the future, the Department will ensure that all program performance reports are submitted on a timely basis. The JobHelp Store program was terminated in its entirety as of June 30, 2004.

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

Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

<b>Findings/Noncompliance</b>	<b>Questioned costs</b>
<b>Finding 04-04 – Reporting</b>	\$ <u>          —</u>
<b>Federal Agency:</b> U.S. Department of Labor	
<b>CFDA Number and Title:</b> 17.261 – Employment and Training Programs for Individuals of Samoan Ancestry, Asian Immigrants, and Pacific Islanders	
<b>Award Number:</b> AF-12860-03-60	
<b>Award Year:</b> March 24, 2003 – June 30, 2004	

Pursuant to the Employment and Training Programs for Individuals of Samoan Ancestry, Asian Immigrants, and Pacific Islanders grant agreement, the Department was required to submit quarterly financial and performance reports no later than 30 days after the end of each calendar quarter. Additionally, the Department was required to submit final financial and performance reports no later than 90 days after the end of the grant period.

We noted that the Department submitted its quarterly financial reports in a timely manner. However, the final financial report was not submitted by the established deadline. Additionally, we noted that the quarterly and final performance reports were not submitted.

**Recommendation**

We recommend that the Department submit the required financial and performance reports and implement procedures to ensure the timely submission of all required reports. These records should be maintained for a period of three years from the date of submission of the program’s final expenditure report, in accordance with federal record retention requirements.

**Views of Responsible Officials and Planned Corrective Actions**

The Department concurs with the finding and recommendation. The Department has established formal procedures to ensure the timely submission of financial reports – the DLIR Financial Management Manual, Part III, Chapter 4, Federal Administrative Grant Requirements and Cost Principles. The Department will attempt to be more diligent in its efforts to adhere to these documented procedures. In this specific case, the Samoan Employment and Training Program was terminated in its entirety as of June 30, 2004. Two of the Department’s subrecipients were experiencing “close-out” issues that delayed their ability to submit their final financial reports in a timely manner.