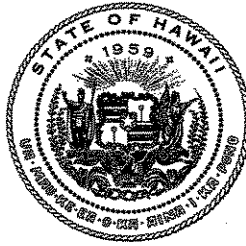


STATE OF HAWAII
OFFICE OF THE AUDITOR
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Honolulu, Hawaii'i 96813-2917



MARION M. HIGA
State Auditor

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DEPT. COMM. NO. 22

March 14, 2007

The Honorable Colleen Hanabusa
President of the Senate
State Capitol, Room 409
Honolulu, Hawaii'i 96813

Dear Madam President:

I transmit to you a copy of our *2006 Annual Report*.

This Annual Report highlights the work and activities of the Office of the Auditor in 2006. The report, comprised of the audits and special projects undertaken last year, reflects some of the pressing challenges facing state government.

The audits conducted in 2006 revealed that there are areas in need of improvement in the management of our natural and cultural resources, in educational systems and in law enforcement among others. There was, however, good news in the way of noteworthy progress made in response to our recommendations in the 2005 audits. Positive changes were reported by the auditees in the management of internal controls, procurement, and strategic planning.

Our 2006 Annual Report commentary also recalled achievements of the past, including the pioneering work of first State Auditor Clinton T. Tanimura and statesman Mataio Kekuanoa'a.

In the coming year, my office will remain committed to its principles of objectivity, thoroughness, and fairness, in carrying out our audits and other work.

We hope that the report will assist you in reviewing the issues examined. We will place the report on our website, www.state.hi.us/auditor, and release it to the public and press, on Thursday, March 15, 2007.

Sincerely,

Marion M. Higa
State Auditor

Enclosure

c: ✓Carol Taniguchi, Senate Clerk