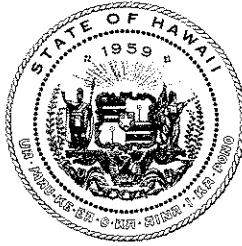


STATE OF HAWAII
OFFICE OF THE AUDITOR
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DEPT. COMM. NO. 2

June 30, 2006

The Honorable Robert Bunda
President of the Senate
State Capitol, Room 003
Honolulu, Hawaii 96813

Dear Mr. President:

I transmit to you a copy of our report, *Financial Audit of the Department of Land and Natural Resources*.

The audit was conducted by the Office of the Auditor and the certified public accounting firm of KMH LLP. We found that the department lacks a comprehensive system to properly manage its federal grant programs, preventing us from applying auditing procedures necessary to satisfy ourselves regarding the amounts reported as "Due to State Treasury," and resulting in the finding of a material weakness. A second material weakness resulted from the department's inadequate accounting and financial reporting process, which led to misstatements and the omission of required disclosures in its June 30, 2005 financial statements. We also found that the operation and management of the Division of Boating and Ocean Recreation needs improvement and that there is no department-wide, comprehensive cash management policy. Finally, we found that the department's Bureau of Conveyances does not effectively manage its staff resources.

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 Monday, July 3, 2006.

Sincerely,

Marion M. Higa
State Auditor

Enclosure

c: ✓ Paul Kawaguchi, Senate Clerk