

**Department of Labor and
Industrial Relations
State of Hawaii**

Financial and Compliance Audit

June 30, 2002

April 18, 2003

Nelson B. Befitel, Director
Department of Labor and Industrial Relations
State of Hawaii
Keelikolani Building, Room 321
830 Punchbowl Street
Honolulu, Hawaii 96813

Dear Mr. Befitel:

We have completed our audit of the basic financial statements of the Department of Labor and Industrial Relations, State of Hawaii, as of and for the year ended June 30, 2002, as listed in the table of contents. We transmit herewith our reports containing our opinion on those financial statements and our reports on internal controls and compliance with applicable laws and regulations in accordance with the U.S. General Accounting Office's Government Auditing Standards, Single Audit Act of 1984, as amended, and the provisions of OMB Circular A-133.

Audit Objectives

The objectives of the audit were as follows:

1. To provide a basis for an opinion on the fair presentation of the Department's basic financial statements.
2. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the Department is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and, if applicable, the federal government.
3. To determine whether the Department's internal control is adequate in assuring that there is effective control over and proper accounting of revenues, expenditures, assets and liabilities.
4. To determine whether the Department has established sufficient internal controls to properly manage federal award programs to comply with the applicable laws and regulations.
5. To determine whether the Department has complied with the laws, regulations, contracts and grants that may have a material effect on the basic financial statements and on each major federal award program.

Organization of Report

This report is divided as follows:

1. The basic financial statements and related notes, along with other financial information of the Department, as of and for the year ended June 30, 2002, and our opinion as to the fairness of the presentation of those statements.
2. Our report on compliance and internal control over financial reporting in accordance with *Government Auditing Standards*.
3. Our report on compliance for each major program and internal control over compliance in accordance with OMB Circular A-133.
4. Schedule of findings and questioned costs.

We have included our comments related to immaterial instances of noncompliance and the Department's internal control over financial reporting and operations in a separate letter dated April 18, 2003.

* * * * *

We would like to take this opportunity to thank the staff of the Department for their courteous cooperation and assistance during our audit.

Very truly yours,

DMT/TKT:du

Attachments

Department of Labor and Industrial Relations State of Hawaii

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PART I

Financial Statements

Report of Independent Accountants

The Director
Department of Labor and Industrial Relations
State of Hawaii

In our opinion, the accompanying basic financial statements present fairly, in all material respects, the financial position and the changes in financial position of the Department of Labor and Industrial Relations, State of Hawaii as of and for the year ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the management of the Department of Labor and Industrial Relations, State of Hawaii. Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit of these statements 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, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements of the Department of Labor and Industrial Relations, State of Hawaii are intended to present the financial position and the changes in financial position, of only that portion of the governmental activities that is attributable to the transactions of the Department of Labor and Industrial Relations, State of Hawaii.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2003 on our consideration of the internal control of the Department of Labor and Industrial Relations, State of Hawaii over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 1 to the financial statements, the Department of Labor and Industrial Relations, State of Hawaii, has implemented a new financial reporting model effective July 1, 2001.

The Department of Labor and Industrial Relations, State of Hawaii has not presented management's discussion and analysis and required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Honolulu, Hawaii
April 18, 2003

**Department of Labor and Industrial Relations
State of Hawaii**

**Governmental Funds – Balance Sheet/Department-wide Statement of Net Assets
June 30, 2002**

Assets	Governmental Funds							Adjustment (Note 10)	Department- wide Statement of Net Assets
	Special Revenue Funds		Occupational Safety and Health Training and Assistance Fund	Employment and Training Fund	Boiler/Elevator Safety Fund	Special Unemployment Insurance Administration Fund	Total		
	General	Federal Funds							
Petty cash and imprest funds	\$ 10,100	\$ 28,825	\$ -	\$ -	\$ -	\$ -	\$ 38,925	\$ -	\$ 38,925
Cash in State Treasury	1,457,955	2,517,942	3,727,262	1,012,898	1,616,103	312,053	10,644,213	-	10,644,213
Advances to subrecipients and others	-	605,113	-	-	-	-	605,113	-	605,113
Due from Federal Government and other	67,393	6,462,109	-	-	-	-	6,529,502	-	6,529,502
Due from Fiduciary Fund	-	-	4,713	-	-	39,729	44,442	-	44,442
Inventory	-	532,193	-	-	-	-	532,193	-	532,193
Prepaid Expenses	13,937	51,220	-	-	-	-	65,157	-	65,157
Capital assets – net	-	-	-	-	-	-	-	11,230,645	11,230,645
Total assets	\$ 1,549,385	\$ 10,197,402	\$ 3,731,975	\$ 1,012,898	\$ 1,616,103	\$ 351,782	\$ 18,459,545	\$ 11,230,645	\$ 29,690,190

The accompanying notes are an integral part of the financial statements.

**Department of Labor and Industrial Relations
State of Hawaii**

**Governmental Funds – Balance Sheet/Department-wide Statement of Net Assets (continued)
June 30, 2002**

Liabilities and Fund Balances / Net Assets	Governmental Funds							Adjustment (Note 10)	Department-wide Statement of Net Assets
	General	Federal Funds	Employment and Training Fund	Occupational Safety and Health Training and Assistance Fund	Boiler/Elevator Safety Fund	Special Unemployment Insurance Administration Fund	Total		
Liabilities:									
Vouchers payable	\$ 150,486	\$ 3,853,136	\$ 16,659	\$ 9,166	\$ -	\$ -	\$ 4,029,447	\$ -	\$ 4,029,447
Accrued payroll and vacation payable	522,032	1,405,104	-	-	-	-	1,927,136	6,331,127	8,258,263
Due to State General Fund	10,100	28,825	-	-	-	-	38,925	-	38,925
Due to individuals and others	-	4,519,777	-	-	-	-	4,519,777	-	4,519,777
Total liabilities	\$ 682,618	\$ 9,806,842	\$ 16,659	\$ 9,166	\$ -	\$ -	\$ 10,515,285	\$ 6,331,127	\$ 16,846,412
Fund Balances / Net Assets:									
Fund balances –									
Unreserved	\$ (528,959)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (528,959)	\$ 528,959	\$ -
Reserved for encumbrances	1,395,726	-	-	-	-	-	1,395,726	(1,395,726)	-
Reserved for inventory	-	532,193	-	-	-	-	532,193	(532,193)	-
Reserved for weatherization programs	-	(141,633)	-	-	-	-	(141,633)	141,633	-
Reserved for unemployment insurance administration	-	-	-	-	-	351,782	351,782	(351,782)	-
Reserved for employment and training	-	-	3,715,316	-	-	-	3,715,316	(3,715,316)	-
Reserved for occupational safety and health training and assistance	-	-	-	1,003,732	-	-	1,003,732	(1,003,732)	-
Reserved for boiler/elevator safety	-	-	-	-	1,616,103	-	1,616,103	(1,616,103)	-
Total fund balances	866,767	390,560	3,715,316	1,003,732	1,616,103	351,782	7,944,260	(7,944,260)	-
Total liabilities and fund balances	\$ 1,549,385	\$ 10,197,402	\$ 3,731,975	\$ 1,012,898	\$ 1,616,103	\$ 351,782	\$ 18,459,545		
Net Assets:									
Invested in capital assets								11,230,645	11,230,645
Unrestricted								1,613,133	1,613,133
								\$ 12,843,778	\$ 12,843,778

The accompanying notes are an integral part of the financial statements.

**Department of Labor and Industrial Relations
State of Hawaii**

**Governmental Funds – Statement of Revenues, Expenditures and Changes in Fund Balances / Net Assets
Department-wide Statement of Activities
For the Year Ended June 30, 2002**

	Governmental Funds							Adjustment (Note 10)	Department- wide Statement of Activities
	Special Revenue Funds						Total		
	General	Federal Funds	Employment and Training Fund	Occupational Safety and Health Training and Assistance Fund	Boiler/Elevator Safety Fund	Special Unemployment Insurance Administration Fund			
Expenditures/Expenses:									
Full Opportunity to Work Fair and Just Employment Practices	\$ 1,809,695	\$ 34,420,455	\$ 5,428,975	\$ 119,426	\$ 615,903	\$ -	\$ 42,394,454	\$ -	\$ 42,394,454
Labor – Management Relations Assistance in Work Related Difficulties	2,738,449	68,051	-	-	-	-	2,806,500	-	2,806,500
Overall Program Support	540,329	-	-	-	-	-	540,329	-	540,329
Depreciation	5,684,775	16,014,027	-	-	-	-	21,698,802	-	21,698,802
Total expenditures / expenses	9,099,796	12,017,916	-	-	-	-	21,117,712	-	21,117,712
	-	-	-	-	-	-	-	947,095	947,095
	<u>19,873,044</u>	<u>62,520,449</u>	<u>5,428,975</u>	<u>119,426</u>	<u>615,903</u>	<u>-</u>	<u>88,557,797</u>	<u>947,095</u>	<u>89,504,892</u>
Program Revenues:									
Operating grants and contributions	-	62,757,731	-	-	-	-	62,757,731	-	62,757,731
Employment and training assessments	-	-	2,692,545	-	-	-	2,692,545	-	2,692,545
Other assessments	-	-	-	440,392	929,524	17,362	1,387,278	-	1,387,278
Total program revenues	-	<u>62,757,731</u>	<u>2,692,545</u>	<u>440,392</u>	<u>929,524</u>	<u>17,362</u>	<u>66,837,554</u>	-	<u>66,837,554</u>
Net Program Revenues (Expenditures)	(19,873,044)	237,282	(2,736,430)	320,966	313,621	17,362	(21,720,243)	(947,095)	(22,667,338)
General Revenues:									
State appropriations and allotments	20,282,384	-	-	-	-	-	20,282,384	-	20,282,384
Non-imposed employee fringe benefits	<u>2,332,738</u>	-	-	-	-	-	<u>2,332,738</u>	-	<u>2,332,738</u>
Total general revenues	<u>\$ 22,615,122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,615,122</u>	<u>\$ -</u>	<u>\$ 22,615,122</u>

The accompanying notes are an integral part of the financial statements.

**Department of Labor and Industrial Relations
State of Hawaii**

**Governmental Funds – Statement of Revenues, Expenditures and Changes in Fund Balances / Net Assets (continued)
Department-wide Statement of Activities
For the Year Ended June 30, 2002**

	Governmental Funds							Adjustment (Notes 10 and 11)	Department- wide Statement of Activities
	Special Revenue Funds						Total		
	General	Federal Funds	Employment and Training Fund	Occupational Safety and Health Training and Assistance Fund	Boiler/Elevator Safety Fund	Special Unemployment Insurance Administration Fund			
Excess (Deficiency) of Revenues Over Expenditures	\$ 2,742,078	\$ 237,282	\$ (2,736,430)	\$ 320,966	\$ 313,621	\$ 17,362	\$ 894,879	\$ (947,095)	\$ (52,216)
Other Financing Sources (Uses):									
Operating transfers in	-	8,930,711	123,219	-	-	-	9,053,930	-	9,053,930
Operating transfers out	-	(8,930,711)	(123,219)	-	-	(474,692)	(9,528,622)	-	(9,528,622)
Lapsed appropriations	<u>(1,800,817)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,800,817)</u>	<u>-</u>	<u>(1,800,817)</u>
Total other financing uses	<u>(1,800,817)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(474,692)</u>	<u>(2,275,509)</u>	<u>-</u>	<u>(2,275,509)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	941,261	237,282	(2,736,430)	320,966	313,621	(457,330)	(1,380,630)	1,380,630	-
Change in Net Assets	-	-	-	-	-	-	-	(2,327,725)	(2,327,725)
Fund Balance / Net Assets, July 1, 2001	<u>(74,494)</u>	<u>153,278</u>	<u>6,451,746</u>	<u>682,766</u>	<u>1,302,482</u>	<u>809,112</u>	<u>9,324,890</u>	<u>5,846,613</u>	<u>15,171,503</u>
Fund Balance / Net Assets, June 30, 2002	<u>\$ 866,767</u>	<u>\$ 390,560</u>	<u>\$ 3,715,316</u>	<u>\$ 1,003,732</u>	<u>\$ 1,616,103</u>	<u>\$ 351,782</u>	<u>\$ 7,944,260</u>	<u>\$ 4,899,518</u>	<u>\$ 12,843,778</u>

The accompanying notes are an integral part of the financial statements.

**Department of Labor and Industrial Relations
State of Hawaii**

**Combined Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) –
General and Budgeted Special Revenue Fund Types
For the Year Ended June 30, 2002**

	<u>General Fund</u>			<u>Budgeted Special Revenue Funds</u>		
	<u>Actual (Budgetary Basis)</u>	<u>Budget</u>	<u>Variable Favorable (Unfavorable)</u>	<u>Actual (Budgetary Basis)</u>	<u>Budget</u>	<u>Variable Favorable (Unfavorable)</u>
Revenues:						
State appropriations	\$ 19,762,315	\$ 19,295,772	\$ 466,543	\$ -	\$ -	\$ -
Intergovernmental revenues	986,612	986,612	-	69,511,074	85,852,860	(16,341,786)
Special unemployment insurance assessments	-	-	-	12,206	619,954	(607,748)
Employment and training assessments	-	-	-	2,972,074	11,448,798	(8,476,724)
Occupational safety and health training and assistance	-	-	-	440,392	510,143	(69,751)
Other revenue	-	-	-	929,524	1,285,456	(355,932)
Total revenues	<u>20,748,927</u>	<u>20,282,384</u>	<u>466,543</u>	<u>73,865,270</u>	<u>99,717,211</u>	<u>(25,851,941)</u>
Expenditures:						
Full Opportunity to Work	1,559,555	1,578,330	18,775	49,681,248	68,162,368	18,481,120
Fair and Just Employment Practices	2,256,837	2,263,797	6,960	68,738	503,477	434,739
Labor – Management Relations	483,747	553,915	70,168	-	-	-
Assistance in Work Related Difficulties	5,587,683	7,241,574	1,653,891	15,288,332	18,757,972	3,469,640
Overall Program Support	<u>8,636,858</u>	<u>8,644,768</u>	<u>7,910</u>	<u>10,580,266</u>	<u>12,293,394</u>	<u>1,713,128</u>
Total expenditures	<u>18,524,680</u>	<u>20,282,384</u>	<u>1,757,704</u>	<u>75,618,584</u>	<u>99,717,211</u>	<u>24,098,627</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 2,224,247</u>	<u>\$ -</u>	<u>\$ 2,224,247</u>	<u>\$ (1,753,314)</u>	<u>\$ -</u>	<u>\$ (1,753,314)</u>

The accompanying notes are an integral part of the financial statements.

**Department of Labor and Industrial Relations
State of Hawaii**

**Statement of Fiduciary Net Assets
For the Year Ended June 30, 2002**

	<u>Expendable Trust Funds</u>				<u>Agency Funds</u>				<u>Total</u>
	<u>Unemployment Compensation</u>	<u>Disability Compensation</u>	<u>Nonwork Connected Disability</u>	<u>Premium Supple- mentation</u>	<u>Temporary Deposits</u>	<u>Temporary Disability Insurance</u>	<u>Unemployment Compensation</u>	<u>Wage Claim and Other</u>	
Assets									
Cash and Deposits:									
Cash in State Treasury	\$ 232,646	\$ 19,668,230	\$ 7,825,604	\$ 3,434,484	\$ 33,000	\$ 4,333	\$ 611,272	\$ 905,776	\$ 32,715,345
Cash in Federal Treasury	301,440,295	-	-	-	-	-	-	-	301,440,295
Investments	-	-	-	-	-	1,603,000	-	-	1,603,000
Prepaid Expense	-	1,068,517	-	-	-	-	-	-	1,068,517
Total assets	<u>301,672,941</u>	<u>20,736,747</u>	<u>7,825,604</u>	<u>3,434,484</u>	<u>33,000</u>	<u>1,607,333</u>	<u>611,272</u>	<u>905,776</u>	<u>336,827,157</u>
Liabilities And Net Assets									
Liabilities:									
Vouchers payable	7,509,914	196,664	-	-	-	-	-	-	7,706,578
Due to individuals and others	-	-	-	-	33,000	1,607,333	611,272	905,776	3,157,381
Due to Special Revenue Fund	44,442	-	-	-	-	-	-	-	44,442
Due to other State agencies	<u>2,840,256</u>	-	-	-	-	-	-	-	<u>2,840,256</u>
Total liabilities	<u>10,394,612</u>	<u>196,664</u>	<u>-</u>	<u>-</u>	<u>33,000</u>	<u>1,607,333</u>	<u>611,272</u>	<u>905,776</u>	<u>13,748,657</u>
Net Assets – Reserved for unemployment compensation and other	<u>\$ 291,278,329</u>	<u>\$ 20,540,083</u>	<u>\$ 7,825,604</u>	<u>\$ 3,434,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 323,078,500</u>

The accompanying notes are an integral part of the financial statements.

**Department of Labor and Industrial Relations
State of Hawaii**

**Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2002**

	Unemployment Compensation	Disability Compensation	Nonwork Connected Disability	Premium Supplemen- tation	Total
Additions:					
Intergovernmental revenues	\$ 56,986,756	\$ -	\$ -	\$ -	\$ 56,986,756
Employer contributions for unemployment insurance	110,062,734	-	-	-	110,062,734
Workers' compensation assessments	-	21,285,674	-	-	21,285,674
Interest	20,072,585	562,165	306,579	134,640	21,075,969
Fines and penalties	-	35,313	-	79	35,392
Other revenues	-	297,147	81	250	297,478
Total additions	187,122,075	22,180,299	306,660	134,969	209,744,003
Deductions – Assistance in Work Related Difficulties	<u>216,917,016</u>	<u>15,858,367</u>	<u>76,865</u>	<u>46,914</u>	<u>232,899,162</u>
Excess (deficiency) of revenues over expenditures	(29,794,941)	6,321,932	229,795	88,055	(23,155,159)
Other Financing Sources					
Operating transfers in	<u>474,693</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>474,693</u>
Excess (deficiency) of revenues over expenditures and other financing sources	(29,320,248)	6,321,932	229,795	88,055	(22,680,466)
Net Assets, July 1, 2001	<u>320,598,577</u>	<u>14,218,151</u>	<u>7,595,809</u>	<u>3,346,429</u>	<u>345,758,966</u>
Net Assets, June 30, 2002	<u>\$ 291,278,329</u>	<u>\$ 20,540,083</u>	<u>\$ 7,825,604</u>	<u>\$ 3,434,484</u>	<u>\$ 323,078,500</u>

The accompanying notes are an integral part of the financial statements.

Department of Labor and Industrial Relations State of Hawaii

Notes to the Financial Statements June 30, 2002

1. Summary of Significant Accounting Policies

The Department of Labor and Industrial Relations, State of Hawaii (Department) administers and oversees the operations of the State of Hawaii's (State) employment service program, 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 accounting policies of the Department conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Department's basic financial statements reflect only its activities. The State Comptroller maintains the central accounts for all State funds and publishes a comprehensive annual financial report for the State annually, which includes the Department's financial activities. The following is a summary of the significant accounting policies:

Financial Statement Presentation

Effective July 1, 2001, the Department adopted Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These Statements significantly change the financial reporting requirements for state and local governments. The implementation of these statements required the Department to retroactively and prospectively report all capital assets, net of accumulated depreciation, in the statement of net assets and report depreciation expense in the statement of activities. The Statements also required the Department to report accrued vacation payable on the accrual basis of accounting.

Department-wide Financial Statements

The department-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenditures 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 imposed by the provider have been met.

Governmental Funds Financial Statements

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon

Department of Labor and Industrial Relations

State of Hawaii

Notes to the Financial Statements

June 30, 2002

as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

A description of the funds administered by the Department and included in the basic financial statements follows:

- *General Fund* – The General Fund is the general operating fund of the Department. It is used to account for all financial resources except for those required to be accounted for in another fund. The General Fund presented is a part of the State's General Fund and is limited to only those appropriations and obligations of the Department.
- *Special Revenue Funds* – The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Expendable Trust Funds) that are legally restricted to expenditures for specified purposes.

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held by the Department in a trustee or agency capacity. These include Expendable Trust Funds, which account for cash collected and expended by the Department as trustee, and Agency Funds, which account for cash collected and expended by the Department in a custodial capacity.

Cash and Deposits

The Director of Finance is responsible for the safekeeping of all moneys paid into the State Treasury (cash pool). The Department's portion of this cash pool at June 30, 2002 is indicated on the statement of net assets as Cash in State Treasury. The credit risk is determined at the State level and not by the Department.

The Department participates in the State Treasury Investment Pool System. The investment pool system centralizes all phases of the investment process under the direction of the Director of Finance, thereby pooling the State's cash resources to maximize investment returns. State departments and agencies are eligible to invest all funds of qualifying appropriation accounts, eliminating their responsibility for the investment of appropriated funds, as well as the associated monitoring and cash forecasting burden. The State Treasury allocates investment (interest) earnings monthly, based on the average weighted cash balance of each account. Cash deposited in the State Treasury Investment Pool System at June 30, 2002 was approximately \$36,442,000, and is reflected on the statement of net assets as Cash in State 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 trust fund, pursuant to Section 904 of the Social Security Act, as amended.

Department of Labor and Industrial Relations

State of Hawaii

Notes to the Financial Statements

June 30, 2002

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.

Investments

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 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, 2002, 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.

Reserved for Encumbrances

Encumbrance accounting, under which purchase orders and contractual commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as reservations of fund balances because the commitments will be honored when the goods or services are received. Encumbrances do not constitute expenditures or liabilities.

Capital Assets

Capital assets, which include buildings, furniture and equipment, are reported in the department-wide financial statements. Such assets are recorded at historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the time received. Depreciation expense is recorded in the department-wide financial statements using the straight-line method over the estimated useful lives of the assets.

Accrued Payroll and Vacation Payable

Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarters working days for each month of service up to 720 hours at calendar year-end, and is convertible to pay upon termination of employment.

Inventory

Inventory is valued at the lower of cost (first-in, first-out) 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 (consumption method) rather than when purchased.

Department of Labor and Industrial Relations

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Notes to the Financial Statements June 30, 2002

Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them are recorded as operating transfers in the basic financial statements.

2. Biennial Budget

The Department follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- *The Budget* – Not less than 20 days before the State Legislature convenes in every odd-numbered year, the Governor submits to the State Legislature, and to each member thereof, a budget which contains the program and budget recommendations of the Governor for the succeeding biennium. The budget in general contains: The State program structure; statements of statewide objectives; financial requirements for the next biennium to carry out the recommended programs; a summary of State receipts and revenues in the last completed fiscal year; a revised estimate for the fiscal year in progress, and an estimate for the succeeding biennium.
- *Legislative Review* – The State Legislature considers the Governor’s proposed program and financial plan and budget, evaluates alternatives to the Governor’s recommendations, adopts programs and determines the State budget. It may, from time to time, request the Department of Budget and Finance and any agency to conduct such analysis of programs and finances as will assist in determining the State’s program and financial plan and budget.
- *Program Execution* – Except as limited by policy decisions of the Governor, appropriations by the State Legislature, and other provisions of law, the agencies responsible for the programs administer the programs and are responsible for their proper management. The appropriations by the State Legislature for a biennium are allocated between the two fiscal years of the biennium in the manner provided in the budget or appropriations act and as further prescribed by the Director of Finance. No appropriation transfers or changes between programs or agencies can be made without legislative authorization. Authorized transfers or changes, when made, should be reported to the State Legislature.

Budgetary control is maintained at the appropriation line item level established in the appropriations acts.

Budgets are adopted for the General and Special Revenue Funds of the Department and are prepared on a basis other than generally accepted accounting principles (GAAP). The actual results of operations are presented on the budgetary basis in the combined statement of revenues and expenditures – budget and actual to provide a meaningful comparison of actual results to the budget.

**Department of Labor and Industrial Relations
State of Hawaii**

**Notes to the Financial Statements
June 30, 2002**

The major differences between the budgetary and GAAP basis are that: (1) encumbrances are recorded as the equivalent of expenditures under the budgetary basis; and (2) federal grant revenue is recognized when received under the budgetary basis.

The difference between the budgetary and GAAP basis for the fiscal year ended June 30, 2002 is as follows:

	General Fund	Special Revenue Fund
Excess (deficiency) of revenues over expenditures – actual (budgetary basis)	\$ 2,224,247	\$ (1,753,314)
Encumbrances	1,395,725	-
Accrued revenues and expenditures not recognized for budgetary purposes – net of prior year accruals	(454,465)	(568,576)
Expenditures for liquidation of prior year encumbrances	(423,429)	-
Prior year appropriations lapsed in the current year	<u>(1,800,817)</u>	<u>-</u>
 Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses – actual (GAAP basis)	 <u>\$ 941,261</u>	 <u>\$ (2,321,890)</u>

Department of Labor and Industrial Relations State of Hawaii

Notes to the Financial Statements June 30, 2002

3. State Revenues

Funds for the Department were appropriated from the State's general revenues for the fiscal year ended June 30, 2002, and were authorized as follows:

Act 281, Session Laws of Hawaii 2000, for the operating budget of the Department:	
Full Opportunity to Work	\$ 1,463,435
Fair and Just Employment Practices	2,071,609
Labor – Management Relations	509,667
Assistance in Work Related Difficulties	4,297,493
Overall Program Support	<u>8,393,568</u>
	<u>16,735,772</u>
Act 60, Session Laws of Hawaii 1999, for retroactive collective bargaining cost items:	
Full Opportunity to Work	114,895
Fair and Just Employment Practices	192,188
Labor – Management Relations	44,248
Assistance in Work Related Difficulties	384,081
Overall Program Support	<u>251,200</u>
	<u>986,612</u>
Act 006, Session Laws of Hawaii 2001, Temporary Health Insurance for Unemployed Persons Program	
Assistance in Work Related Difficulties	2,000,000
Act 007, Session Laws of Hawaii 2001, Temporary Program to Extend Unemployment Insurance Benefits	
Assistance in Work Related Difficulties	<u>560,000</u>
	<u>560,000</u>
Budget total	<u>\$ 20,282,384</u>

**Department of Labor and Industrial Relations
State of Hawaii**

**Notes to the Financial Statements
June 30, 2002**

4. Capital Assets

The following is a summary of changes in capital assets:

	Balance, June 30, 2001	Additions	Retirements	Balance, June 30, 2002
Buildings	\$ 20,614,785	\$ -	\$ -	\$ 20,614,785
Furniture and equipment	3,498,227	217,722	-	3,715,949
Vehicles	<u>24,400</u>	<u>-</u>	<u>-</u>	<u>24,400</u>
Total capital assets	24,137,412	217,722	-	24,355,134
Less accumulated depreciation	<u>(12,177,394)</u>	<u>(947,095)</u>	<u>-</u>	<u>(13,124,489)</u>
Capital assets – net	<u>\$ 11,960,018</u>	<u>\$ (729,373)</u>	<u>\$ -</u>	<u>\$ 11,230,645</u>

5. Non-Imposed Employee Fringe Benefits

Non-imposed employee fringe benefits related to General Fund salaries are assumed by the State and are not charged to the Department. These costs, totaling \$2,333,000 for the fiscal year ended June 30, 2002, have been reported as revenues and expenditures of 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 Special Revenue Funds.

6. Employee Benefits

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 HRS Chapter 88 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.

Department of Labor and Industrial Relations State of Hawaii

Notes to the Financial Statements June 30, 2002

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.

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 the remaining period of 18 years from July 1, 1998.

The Department's general fund share of the retirement system expense for the year ended June 30, 2002, was included in the Supplemental Appropriations Act as an item to be expended by the Department of Budget and Finance and is not reflected in the Department's general fund financial statements. No contributions were required by the Department's special revenue funds.

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
210 Merchant Street, Suite 1400
Honolulu, Hawaii 96813

The following data was obtained from the disclosures contained in the CAFR for the year ended June 30, 2002 (most recent available):

Number of employers as of March 31, 2002 was:

State	1
Counties	<u>4</u>
Total employers	<u><u>5</u></u>

Basis of Accounting – The financial statements of the ERS are prepared using the accrual basis of accounting. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Department of Labor and Industrial Relations State of Hawaii

Notes to the Financial Statements June 30, 2002

Method Used to Value Investments – Plan investments are reported at fair value. Where appropriate, the fair value includes disposition costs. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments and real estate owned are based on independent appraisals and estimated values.

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired state employees. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. The Department's general fund share of the expense for post-retirement health care and life insurance benefits expenses for the year ended June 30, 2002 has not been separately computed and is not reflected in the Department's general fund financial statements.

Accumulated Sick Leave

Sick leave can accumulate at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accumulated sick leave as of June 30, 2002 approximated \$22,820,000.

Deferred Compensation Plan

The State established a deferred compensation plan (Plan) in accordance with Section 457 of the Internal Revenue Code, which enables State employees to defer a portion of their compensation. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the Plan, as well as property and rights purchased with those amounts and income attributable to these amounts, are held in trust by third party agents for the exclusive benefit of participants and their beneficiaries. The assets and liabilities of the Plan are not reflected in the State of Hawaii or Department financial statements.

Department of Labor and Industrial Relations State of Hawaii

Notes to the Financial Statements June 30, 2002

7. Commitments

Operating Leases

The Department leases various office facilities under lease agreements expiring through fiscal year 2006. The following is a schedule of minimum future rentals on noncancelable operating leases with lease terms over a year at June 30, 2002:

Fiscal Year Ending June 30:	
2003	\$ 236,000
2004	171,000
2005	138,000
2006	<u>43,000</u>
	<u>\$ 588,000</u>

Rent expenditure for the fiscal year ended June 30, 2002 was approximately \$541,000.

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, 2002, 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. The Department's portion of the State's workers' compensation expense for the year ended June 30, 2002 was approximately \$1,300.

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.

Department of Labor and Industrial Relations State of Hawaii

Notes to the Financial Statements June 30, 2002

8. 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, 2002 is included in revenues of the Special Revenue Funds and approximated \$1,555,000.

9. Special Compensation Fund – Workers' Compensation

Hawaii Revised Statutes (HRS) Section 386-151 establishes 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 Director of Finance is the custodian of the fund and disbursements are made by the 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, 2002 were approximately \$17,000,000.

10. Reconciliation of Department-wide and Governmental Funds Financial Statements

The following schedule reconciles the government fund balance to net assets at June 30, 2002:

Total Fund Balance – Governmental Funds	\$ 7,944,260
Amounts reported for governmental activities in the statement of net assets are different because:	
Net capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	11,230,645
Long-term liabilities not due and payable in the current period and therefore not reported in the funds	<u>(6,331,127)</u>
Total Net Assets – Department-wide	<u>\$ 12,843,778</u>

Department of Labor and Industrial Relations State of Hawaii

Notes to the Financial Statements June 30, 2002

The following schedule reconciles the change in fund balance to change in net assets for the year ended June 30, 2002:

Net Change in Fund Balances – Governmental Funds	\$ (1,380,630)
Amount reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	<u>(947,095)</u>
Change in Net Assets – Department-wide	<u>\$ (2,327,725)</u>

11. Restatements of Fund Balances / Net Assets

The following schedule reconciles the June 30, 2001 fund balances / net assets, as previously reported, to the fund balances / net assets, as restated, to include the adoption of the new pronouncements as described in Note 1:

Fund balances / net assets as of June 30, 2001:	
As previously reported	\$ 9,324,890
Prior period adjustments:	
Capitalization of capital assets - net	11,768,915
Long-term liabilities – accrued vacation	<u>(5,922,302)</u>
As restated	<u>\$ 15,171,503</u>

12. Deficit Balance

At June 30, 2002, the General Fund had an unreserved deficit balance of \$528,959 and the Special Revenue Fund had a deficit balance reserved for weatherization programs of \$141,633. The Department intends to take corrective action to eliminate these deficit balances.

**Schedule of
Expenditures of Federal Awards**

**Department of Labor and Industrial Relations
State of Hawaii**

**Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2002**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Period	Grant Award	Federal Expenditures June 30, 2002
Department of Agriculture				
Direct Programs:				
Temporary Emergency Food Assistance:				
Temporary Storage and Distribution CCC Emergency Assistance	7HI810HI8	10/01/00 – 09/30/01	\$ 182,560	\$ 110,384
Temporary Storage and Distribution CCC Emergency Assistance	7HI810HI8	10/01/01 - 09/30/02	176,402	<u>80,025</u>
Total Federal CFDA No. 10.568				190,409
Passed through from the State Department of Human Services:				
State Administrative Matching Grants for the Food Stamp Program:				
Employment and Training Program	01-BESSD-9134	07/01/00 – 06/30/01	137,704	(11)
Employment and Training Program	01-BESSD-9134	07/01/01 – 06/30/02	147,100	66,702
Employment and Training Program	01-BESSD-9133	07/01/01 – 06/30/02	48,878	<u>21,208</u>
Total Federal CFDA No. 10.561				87,899
Passed through from the University of Hawaii:				
Cooperative State Research, Education and Extension Service, USDA	00-34167-9712	03/07/01 - 03/06/02	50,000	<u>34,939</u>
Total Federal CFDA No. 10.200				34,939
Seniors Farmers' Market Nutrition Pilot Program				
	8HI700082	02/01/01 - 12/31/01	536,000	365,196
	8HI810082	05/01/02-11/30/02	378,000	<u>124,972</u>
Total Federal CFDA No. 10.576				490,168
Total Department of Agriculture				<u>803,415</u>
Department of Housing and Urban Development				
Direct Programs:				
Civil Rights Commission	FF209K969004	10/01/96 – 09/30/02	92,400	<u>3,218</u>
Total Federal CFDA No. 14.401				3,218
Total Department of Housing and Urban Development				3,218

The accompanying notes are an integral part of this schedule.

**Department of Labor and Industrial Relations
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**Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2002**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Period	Grant Award	Federal Expenditures June 30, 2002
Department of Labor				
Direct Programs:				
LMI Cooperative Agreement CES	W9J18015	10/01/00 – 09/30/01	\$ 144,920	\$ 51,816
LMI Cooperative Agreement CES	W9J28015	10/01/01 – 09/30/02	144,133	88,207
LMI Cooperative Agreement ES-202	W9J98015	10/01/00 – 09/30/01	232,115	64,108
LMI Cooperative Agreement ES-202	W9J98015	10/01/01 – 09/30/02	230,687	172,440
LMI Cooperative Agreement LAUS	W9J18015	10/01/00 – 09/30/01	80,500	28,776
LMI Cooperative Agreement LAUS	W9J28015	10/01/01 – 09/30/02	80,500	42,799
LMI Cooperative Agreement LAUS AAMC	W9J18015	10/01/00 – 09/30/01	1,000	1,000
LMI Cooperative Agreement MLS	W9J18015	10/01/00 – 09/30/01	62,314	22,240
LMI Cooperative Agreement MLS	W9J28015	10/01/01 – 09/30/02	47,000	29,955
LMI Cooperative Agreement MLS AAMC	W9J18015	10/01/99 – 09/30/01	10,000	9,170
LMI Cooperative Agreement OES	W9J18015	10/01/00 – 09/30/01	84,188	31,875
LMI Cooperative Agreement OES	W9J28015	10/01/01 – 09/30/02	147,512	108,014
LMI Cooperative Agreement OES AAMC	W9J18015	10/01/00 – 09/30/01	3,510	3,510
Total Federal CFDA No. 17.002				653,910
Occupational Safety And Health:				
OSHA BLS	W9J181150	10/01/00 – 09/30/01	85,500	28,511
OSHA BLS	W9J281150	10/01/01 – 09/30/02	92,000	57,641
Total Federal CFDA No. 17.005				86,152
Alien Labor Certification:				
Alien Labor Certification	15-164-02	10/01/00 – 09/30/01	60,000	(41)
Alien Labor Certification	ES-1152501-55	10/01/01 – 09/30/02	75,571	76,548
Total Federal CFDA No. 17.203				76,507
Employment Service:				
Employment Service Grant	P.L.97-300	07/01/00 – 09/30/03	3,289,242	1,903,784
Employment Service Grant	ES-12127-02-55	07/01/01 – 09/30/05	3,200,552	890,508
Employment Service One-Stop – WDD	5685-6-00-80-60	01/06/96 – 10/31/01	3,738,383	541,968
Employment Service One-Stop – SO	5685-6-00-80-60	01/06/96 – 10/31/01	387,529	58,091
Employment Service One-Stop – LMI	15-215-00	08/28/00 - 06/30/02	268,306	108,454
Employment Service One-Stop – LMI	ES-12127-02-55	07/01/01 - 6/30/04	375,913	153,465
Employment Service One-Stop – LMI OES	15-216-00	08/21/00 - 10/31/01	81,729	20,383
Reemployment Services	ES-11525-01-58	07/01/01-09/30/02	307,688	149,011
Workforce Opportunities Tax Credit	15-175-9	10/01/98 – 09/30/01	64,000	23,018

The accompanying notes are an integral part of this schedule.

**Department of Labor and Industrial Relations
State of Hawaii**

**Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2002**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Period	Grant Award	Federal Expenditures June 30, 2002
Workforce Opportunities Tax Credit	15-175-02	10/01/99 – 09/30/01	\$ 64,167	\$ 64,167
Workforce Opportunities Tax Credit	15-175-02	10/01/00 – 09/30/01	64,000	<u>15,040</u>
Total Federal CFDA No. 17.207				3,927,889 *
Unemployment Insurance:				
Unemployment Insurance Grants	P.L.97-300	10/01/97 – 09/30/01	17,008,239	1,268,025
Unemployment Insurance Grants	P.L.97-300	10/01/98 – 09/30/01	15,114,648	515,412
Unemployment Insurance Grants	P.L.97-300	10/01/99 – 09/30/01	12,736,202	160,484
Unemployment Insurance Grants	UI-10931-00-55	10/01/00 – 09/30/01	12,656,247	6,702,945
Unemployment Insurance Grants	UI-10931-00-55	10/01/01 – 09/30/02	13,552,625	8,374,275
Unemployment Insurance Disaster Assistance	P.L.97-300	10/01/92 – 09/30/93	1,665,224	(1,177)
Unemployment Insurance – Hilo Flood Disaster Relief	UI-10931-00-55	11/01/00 – 06/30/01	150,000	(267)
Unemployment Insurance – P&I and E&T	AGREEMENT	07/01/99 - 06/30/00	938,974	(8,176)
Unemployment Insurance – P&I and E&T	AGREEMENT	07/01/00 - 06/30/01	938,974	(23,798)
Unemployment Insurance – P&I and E&T	AGREEMENT	07/01/01 - 06/30/02	2,963,227	196,002
Unemployment Insurance – SAB	P.L.97-300	11/04/01 - 06/30/02	-	146,001
Unemployment Insurance – TEUC	UI-11815-02-55	11/04/01 - 06/30/02	263,366	<u>502,413</u>
Total Federal CFDA No. 17.225				17,832,139 *
Senior Community Service Employment Program:				
Senior Community Service Employment Program Grants	AD-11674-01-55	07/01/01 - 08/31/02	1,874,086	<u>1,781,799</u>
Total Federal CFDA No. 17.235				1,781,799
Trade Adjustment Assistance:				
NAFTA Trade Training	TAA-15-232-4	10/01/00 - 09/30/01	15,762	<u>5,348</u>
Total Federal CFDA No. 17.245				5,348
Job Training Partnership Act Cluster:				
Employment and Training Assistance for Dislocated Workers:				
Women in Technology	AGREEMENT	04/01/00 - 03/31/01	100,000	746
Toll-Free Help Line Implementation Grant	AN-10067-00-60	02/17/00 - 12/31/01	60,408	<u>43,551</u>
Total Federal CFDA No. 17.246				44,297

The accompanying notes are an integral part of this schedule.

**Department of Labor and Industrial Relations
State of Hawaii**

**Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2002**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Period	Grant Award	Federal Expenditures June 30, 2002
Job Training Partnership Act: Pili Paa Pono (Firmly United) Grant	AF-10230-00-60	03/31/00 - 09/30/01	\$ 500,000	\$ <u>287,958</u>
Total Federal CFDA No. 17.249				287,958
Total Job Training Partnership Act Cluster				332,255
Welfare-to-Work Program: Welfare-to-Work	Y-7757-9-00-81-50	09/29/99 - 09/30/02	4,718,609	1,280,943
Welfare-to-Work	Y-6450-8-00-81-50	03/11/98 - 02/28/03	5,085,523	<u>559,361</u>
Total Federal CFDA No. 17.253				1,840,304
One-Stop Career Center Initiative: America's Workforce Network - National Toll-Free Help Line	AN-10067-00-60	01/01/01 - 12/31/01	58,851	<u>21,667</u>
Total Federal CFDA No. 17.257				21,667
Workforce Investment Act Cluster: Administrative	AGREEMENT	07/01/99 - 06/30/02	1,125,467	<u>482,033</u>
Total Federal CFDA No. 17.250				482,033
Adult Program	AA-11247-01-50	10/03/01 - 06/30/03	5,444,869	3,789,065
	AA-10589-00-50	10/02/00 - 06/30/03	6,049,854	3,275,650
	AGREEMENT	07/01/00 - 06/30/01	2,596,050	(140,168)
	AGREEMENT	07/01/01 - 06/30/02	1,822,278	<u>1,994,196</u>
Total Federal CFDA No. 17.258				8,918,743
Youth Program	AA-11247-01-50	04/01/01 - 06/30/03	6,131,624	2,115,388
	AA-10589-00-50	07/01/00 - 06/30/03	6,045,743	2,016,466
	AGREEMENT	07/01/00 - 06/30/01	2,093,375	100,726
	AGREEMENT	07/01/01 - 06/30/02	1,654,644	<u>1,112,024</u>
Total Federal CFDA No. 17.259				5,344,604
Dislocated Worker Program	AA-11247-01-50	10/03/01 - 06/30/03	4,318,313	1,433,592
	AA-11247-01-50	07/01/01 - 06/30/03	929,410	538,489
	AA-10589-00-50	10/02/00 - 06/30/03	8,631,948	5,203,829
	AA-10589-00-50	07/01/00 - 06/30/03	4,289,749	554,710

The accompanying notes are an integral part of this schedule.

**Department of Labor and Industrial Relations
State of Hawaii**

**Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2002**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Period	Grant Award	Federal Expenditures June 30, 2002
	AGREEMENT	07/01/00 - 06/30/01	\$ 4,020,087	\$ (91,539)
	AGREEMENT	07/01/01 - 06/30/02	1,973,609	<u>2,430,314</u>
Total Federal CFDA No. 17.260				<u>10,069,395</u>
Total Work Investment Act Cluster				24,814,775
Statewide Activities	AA-11247-01-50	10/03/01 - 06/30/03	2,687,721	1,685,221
Rapid Response Program	AA-11247-01-50	10/03/01 - 06/30/03	90,000	149,489
Local Admin	AA-11247-01-50	10/03/01 - 06/30/03	1,514,040	<u>1,531,768</u>
CFDA No. N.A.				3,366,478
Section 171 – SETP	AF-10974-00-60	10/01/00 - 09/30/01	2,781,000	791,005
Section 171 – SETP	AF-11925-02-60	12/27/01 - 02/28/03	3,200,000	<u>1,288,896</u>
Total Federal CFDA No. 17.261				<u>2,079,901</u>
Total Workforce Investment Act Cluster				29,779,121
Occupational Safety and Health:				
OSHA 23G	50F1-0	10/01/00 – 09/30/01	1,588,000	414,938
OSHA 23G	60F2-00	10/01/01 – 09/30/02	1,588,000	<u>1,035,293</u>
Total Federal CFDA No. 17.503				<u>1,450,231</u>
OSHA 21(d)	E9F1-0992	10/01/00 – 09/30/01	435,000	183,243
OSHA 21(d)	E9F2-0992	10/01/01 – 09/30/02	435,000	258,626
OSHA 7(c)1 Survey	E9F1-3792	10/01/00 – 09/30/01	5,750	3,763
OSHA 7(c)1 Survey	E9F2-3792	10/01/01 – 09/30/02	6,808	<u>2,450</u>
Total Federal CFDA No. 17.504				448,082
Disabled Veterans' Outreach Program:				
Disabled Veterans' Outreach Program	E-9-5-8-5086	10/01/00 – 09/30/01	319,000	96,208
Disabled Veterans' Outreach Program	E-9-5-2-5086	10/01/01 – 09/30/02	303,000	<u>163,137</u>
Total Federal CFDA No. 17.801				<u>259,345</u>
Veterans' Employment Program:				
Veterans' Workforce Investment Program	E-9-5-0-0055	07/01/00 - 06/30/02	320,650	36,072
Veterans' Workforce Investment Program	E-9-5-0-0055	07/01/01 - 06/30/02	320,650	<u>192,256</u>

The accompanying notes are an integral part of this schedule.

**Department of Labor and Industrial Relations
State of Hawaii**

**Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2002**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Period	Grant Award	Federal Expenditures June 30, 2002
Total Federal CFDA No. 17.802				228,328
Local Veterans' Employment Representative Program:				
Local Veterans' Employment Representative Program	E-9-5-8-5086	10/01/00 – 09/30/01	\$ 330,000	\$ 132,285
Local Veterans' Employment Representative Program	E-9-5-2-5086	10/01/01 – 09/30/02	356,000	<u>222,758</u>
Total Federal CFDA No. 17.804				<u>355,043</u>
Total Department of Labor				59,560,153
Equal Employment Opportunity Commission				
Direct Programs:				
Equal Employment Opportunity Commission	6/5010/0074	10/01/99 – 09/30/02	340,584	<u>54,761</u>
Total Federal CFDA No. 30.002				<u>54,761</u>
Total Equal Employment Opportunity Commission				54,761
Department of Energy				
Direct Programs:				
Weatherization Assistance for Low-Income Persons:				
Weatherization Assistance for Low-Income Persons	FG51-00R021141	04/01/01 - 03/31/02	175,593	142,501
Weatherization Assistance for Low-Income Persons	FG51-00R021141	04/01/02 - 03/31/03	235,140	20
Exxon	FG51-00R021141	04/01/01 - 03/31/02	1,407	<u>1,407</u>
Total Federal CFDA No. 81.042				<u>143,928</u>
Total Department of Energy				143,928
Department of Education				
Direct Programs:				
Career Resource Network Grant	V346A000054-01	07/21/00 - 07/20/01	109,555	<u>107,088</u>
Total Federal CFDA No. 84.346				<u>107,088</u>
Total Department of Education				107,088

The accompanying notes are an integral part of this schedule.

**Department of Labor and Industrial Relations
State of Hawaii**

**Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2002**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Period	Grant Award	Federal Expenditures June 30, 2002
Department of Health and Human Services				
Direct Programs:				
Refugee and Entrant Assistance – State Administered Programs:				
Cash, Medical and Administration	G01AAHI9100	10/01/00 - 09/30/02	\$ 60,480	\$ 36,521
Cash, Medical and Administration	G02AAHI9100	10/01/01 - 09/30/03	50,000	8,290
Social Services	G01AAHI9110	10/01/00 - 09/30/03	84,961	<u>66,050</u>
Total Federal CFDA No. 93.566				<u>110,861</u>
Community Services Block Grant	G00B1HICOSR	10/01/99 - 09/30/01	2,815,479	343,858
Community Services Block Grant	G01B1HICOSR	10/01/00 - 09/30/02	3,201,621	1,259,880
Community Services Block Grant	G02B1HICOSR	10/01/01 - 09/30/03	3,420,085	<u>1,666,502</u>
Total Federal CFDA No. 93.569				<u>3,270,240</u>
Community Food and Nutrition Program	G00B3HICOSR	05/01/99 - 04/30/02	13,796	9,406
Community Food and Nutrition Program	G01B3HICOSR	05/01/01 - 04/30/03	13,040	<u>6,305</u>
Total Federal CFDA No. 93.571				<u>15,711</u>
Passed through from the State Department of Human Services:				
First-To-Work	00-BESSD-8453	07/01/99 - 06/30/00	600,556	(143,072)
First-To-Work	00-BESSD-8453	07/01/00 - 06/30/01	604,798	942
First-To-Work	02-BESSD-1072	07/01/01 - 06/30/02	604,798	<u>215,545</u>
Total Federal CFDA No. 93.558				<u>73,415</u>
Child Support Intercept	AGREEMENT	07/01/99 - 06/30/01	6,872	<u>17,054</u>
Total Federal CFDA No. 93.563				<u>17,054</u>
Total Department of Health and Human Services				<u>3,487,281</u>
Corporation for National and Community Service				
Administrative Funds	01SCSHI011	01/01/01 - 12/31/03	119,946	<u>90,616</u>
Total Federal CFDA No. 94.003				<u>90,616</u>
Learn and Serve America	00LCSHI012	09/01/00-08/31/03	320,000	<u>158,418</u>
Total Federal CFDA No. 94.004				<u>158,418</u>

The accompanying notes are an integral part of this schedule.

**Department of Labor and Industrial Relations
State of Hawaii**

**Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2002**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Period	Grant Award	Federal Expenditures June 30, 2002
AmeriCorps Program Funds (Competitive)	00ASCHI012	09/01/00 - 08/31/03	\$ 1,585,072	\$ 568,364
AmeriCorps Program Funds (Formula)	00ASFHI012	09/01/00 - 08/31/03	1,021,371	<u>192,187</u>
Total Federal CFDA No. 94.006				<u>760,551</u>
Promise Fellows	99APSHI012	09/01/99 - 08/31/01	98,719	<u>21,667</u>
Total Federal CFDA No. 94.007				<u>21,667</u>
Program Development Assistance and Training	95PDSHI011	11/1/95 - 12/31/01	591,643	<u>103,920</u>
Total Federal CFDA No. 94.009				<u>103,920</u>
Total Corporation for National and Community Services				<u>1,135,172</u>
Total Expenditures of Federal Awards				<u><u>\$ 65,295,016</u></u>

* denotes major program as defined by OMB Circular A-133

N.A. = CFDA No. not available

**Department of Labor and Industrial Relations
State of Hawaii**

**Notes to the Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2002**

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 (the Department) and is presented on the modified accrual 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.

1. Subrecipients

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

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Department of Agriculture		
Seniors Farmers' Market Nutrition Pilot Program	10.576	\$ 490,168
Department of Labor		
Senior Community Service Employment Program	17.235	1,592,411
Welfare-to-Work	17.253	473,973
Workforce Investment Act:		
Adult Programs	17.258	6,519,659
Youth Programs	17.259	3,006,174
Dislocated Worker Programs	17.260	6,472,698
Section 171 – SETP and JHS	17.262	890,264
Statewide Activities	N/A	191,735
Local Admin	N/A	1,798,637
		<u>18,879,167</u>

**Department of Labor and Industrial Relations
State of Hawaii**

**Notes to the Schedule of Expenditures for Federal Awards (Continued)
Fiscal Year Ended June 30, 2002**

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Department of Energy		
Weatherization Assistance for Low-Income Persons	81.042	\$ 134,361
Exxon	81.042	1,407
Department of Health and Human Services		
Refugee and Entrant Assistance – State Administered Programs:		
Cash, Medical and Administration	93.566	25,863
Social Services	93.566	66,050
		<u>91,913</u>
Community Services Block Grant	93.569	3,180,793
Community Food and Nutrition Program	93.571	15,710
Corporation for National and Community Service		
Learn and Serve America	94.004	158,418
AmeriCorps Program Funds	94.006	760,551
Promise Fellows	94.007	21,667
		<u>25,800,539</u>
Total provided to subrecipients		<u>\$ 25,800,539</u>

N/A = Federal CFDA No. Not Available

3. Unemployment Insurance Expenditures

Unemployment Insurance (CFDA 17.225) expenditures reported on the Schedule of Expenditures for Federal Awards totaled \$17,832,139. Of that amount, Federal and State funded portions of the expenditures were \$17,522,110 and \$310,029, respectively.

PART II

Report on Compliance and Internal Control Over Financial Reporting

Government Auditing Standards

**Report of Independent Accountants on Compliance
And on Internal Control Over Financial Reporting
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 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, 2002, and have issued our report thereon dated April 18, 2003. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

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 opinion on the financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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. However,

we noted other matters involving the internal control over financial reporting that we have reported to management of the Department in a separate letter dated April 18, 2003.

This report is intended solely for the information of the Department's management, U.S. Department of Labor, 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.

Honolulu, Hawaii
April 18, 2003

PART III

**Report on Compliance and Internal
Control Over Compliance**

OMB Circular A-133

**Report of Independent Accountants on Compliance
With Requirements Applicable to Each Major Program
and 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, 2002. The Department's major federal programs are identified in the summary of auditor's result 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, 2002.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with 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 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 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 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. However, we noted other matters involving the internal control over compliance and its operation that we have reported to management of the Department in a separate letter dated April 18, 2003.

This report is intended solely for the information of the Department's management, U.S. Department of Labor, 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.

Honolulu, Hawaii
April 18, 2003

PART IV

Schedule of Findings and Questioned Costs

**Department of Labor and Industrial Relations ¹
State of Hawaii**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2002**

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of Major Programs:

CFDA Number	Federal Program
	Department of Labor:
17.207	Employment Service
17.225	Unemployment Insurance

Dollar threshold used to distinguish between Type A and Type B programs \$ 1,958,850

Auditee qualified as low-risk auditee? Yes

¹ The Department’s entity federal identification number is 99-0266120.

**Department of Labor and Industrial Relations
State of Hawaii**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2002**

Section II – Financial Statement Findings

There were no findings related to the financial statements. However, we noted other immaterial matters involving compliance and internal control over financial reporting that we have reported to management of the Department in a separate letter dated April 18, 2003.

**Department of Labor and Industrial Relations
State of Hawaii**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2002**

Section III – Federal Award Findings and Questioned Costs

There were no current year findings related to the federal awards.

**Department of Labor and Industrial Relations
State of Hawaii**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2002**

Section IV – Prior Year Audit Findings

		Questioned Costs
Finding No. 01-1:	Subrecipients' Suspension and Debarment Certifications	<u>\$ _____</u>
Federal Agency:	Department of Labor	
CFDA Number and Title:	17.225 – Unemployment Insurance	
Award Number:	P.L. 97-300	
Award Year:	October 1, 1996 – December 31, 2001	

We noted that the Department is not in compliance with the Federal suspension and debarment certification requirements for the Unemployment Insurance program, as one of the subcontractor contracts selected for testing did not have the required certification. The Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, part 3-I states:

“Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000 and all nonprocurement transactions (e.g., subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.”

We understand that the Department currently relies on statements within the contract informing the subgrantee of its obligation to comply with applicable Federal Statutes, Regulations and Guidelines.

Action Taken/ Response:

The Department concurred with the finding and updated contract templates to ensure compliance and obtained the Boiler Plate “Certification Regarding Debarment, Suspension, and Other Responsibility Matters Primary Covered Transactions” for current applicable contracts.

Status:

Resolved. No exceptions in current year. We also noted that the contract identified in our prior year testing received the Boiler Plate “Certification Regarding Debarment Suspension, and Other Responsibility Matters Primary Covered Transactions.”