

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

**Financial and Compliance Audit
June 30, 2003**

June 11, 2004

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 (the "Department"), as of and for the year ended June 30, 2003, 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

1. To provide a basis for an opinion on the fair presentation of the Department's basic financial statements and the schedule of expenditures of federal awards for the year ended June 30, 2003.
2. To determine whether there has been compliance with laws and regulations affecting the expenditure of federal awards.
3. To report on the status of prior year findings and questioned costs.

Scope

We performed an audit of the basic financial statements and schedule of expenditures of federal awards for the year ended June 30, 2003, 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 enumerated in *Government Auditing Standards*, issued by the Comptroller General of the United States, and provisions of the Office of Management and Budget ("OMB") Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Organization of Report

This report has been organized into four sections as follows:

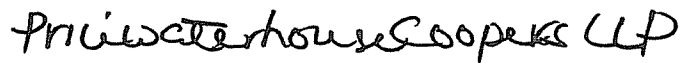
1. The basic financial statements and related notes, along with other financial information of the Department, as of and for the year ended June 30, 2003, and our opinion as to the fairness of the presentation of those statements.
2. Our report on compliance and internal control over financial reporting 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 March 4, 2004.

* * * * *

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,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

DMT/CJK:dhu

Attachments

Department of Labor and Industrial Relations
State of Hawaii
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June 30, 2003

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PART I

Financial Statements

Report of Independent Auditors

The Director
Department of Labor and Industrial Relations
State of Hawaii

In our opinion, 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"), which collectively comprise the Department's basic financial statements as listed in the table of contents, 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 at June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Department's management; our responsibility is to express opinions on these 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 opinions.

As discussed in Note 1 to the financial statements, the Department's financial statements 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 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, 2003, and the changes in its financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Department has restated its basic financial statements for the year ended June 30, 2003, for the reclassification of funds previously classified as expendable trust funds to enterprise and special revenue funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2004 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 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.

The Department 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 ("Schedule") 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*. This Schedule and the combining and individual nonmajor fund financial statements are 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.

PricewaterhouseCoopers LLP

Honolulu, Hawaii
March 4, 2004 except as to Note 2,
which is as of April 20, 2004

Department of Labor and Industrial Relations
State of Hawaii
Statement of Net Assets
June 30, 2003

	Governmental Activities	Business-Type Activities	Total
Assets			
Petty cash and imprest funds	\$ 48,425	\$ -	\$ 48,425
Cash in State Treasury	4,032,932	340,914	4,373,846
Cash in State Treasury Investment Pool	14,663,419	23,589,380	38,252,799
Cash held in Federal Treasury	-	318,103,933	318,103,933
Advances to subrecipients and others	1,000,578	-	1,000,578
Due from State General Fund	-	433,596	433,596
Due from Federal Government and other	2,681,368	-	2,681,368
Internal balances	187,639	(187,639)	-
Inventory	200,803	-	200,803
Prepaid expenses	50,445	1,041,222	1,091,667
Capital assets, net	10,496,424	-	10,496,424
Total assets	<u>33,362,033</u>	<u>343,321,406</u>	<u>376,683,439</u>
Liabilities			
Vouchers payable	3,623,032	4,685,393	8,308,425
Accrued payroll and benefits	1,987,666	-	1,987,666
Due to State General Fund	48,425	-	48,425
Due to individuals and others	2,501,027	708,516	3,209,543
Long-term obligation			
Due within one year	2,033,695	-	2,033,695
Due in more than one year	4,526,611	1,000,000	5,526,611
Total liabilities	<u>14,720,456</u>	<u>6,393,909</u>	<u>21,114,365</u>
Net assets			
Invested in capital assets	10,496,424	-	10,496,424
Unrestricted	8,145,153	336,927,497	345,072,650
Total net assets	<u>\$ 18,641,577</u>	<u>\$ 336,927,497</u>	<u>\$ 355,569,074</u>

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

Department of Labor and Industrial Relations
State of Hawaii
Statement of Activities
Year Ended June 30, 2003

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Operating Grants and Contributions	Charges for Services		Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities						
Overall program support	\$ 19,381,822	\$ 3,660,174	\$	(6,394,917)	-	\$ (6,394,917)
Full opportunity to work	40,449,686	-		(6,300,309)	-	(6,300,309)
Fair and just employment practices	3,092,230	-		(3,024,196)	-	(3,024,196)
Labor – management relations	600,757	-		(600,757)	-	(600,757)
Assistance in work related difficulties	20,544,015	562,235		(8,432,415)	-	(8,432,415)
Nonwork connected disability	53,821	1,161		(52,660)	-	(52,660)
Premium supplementation	79,962	-		(79,962)	-	(79,962)
Depreciation	943,360	-		(943,360)	-	(943,360)
Total governmental activities	85,145,653	4,223,570		(25,828,576)	-	(25,828,576)
Business-type activities						
Unemployment compensation	173,671,069	177,377,318		-	3,706,249	3,706,249
Disability compensation	19,596,688	21,365,944		-	1,769,256	1,769,256
Total business-type activities	193,267,757	198,743,262		-	5,475,505	5,475,505
	\$ 278,413,410	\$ 202,966,832		(25,828,576)	5,475,505	(20,353,071)
General revenues (expenses)						
State appropriations, net				19,967,116	-	19,967,116
Interest income				407,742	19,633,580	20,041,322
Loss on disposal of capital assets				(8,571)	-	(8,571)
Net general revenues				20,366,287	19,633,580	39,999,867
Change in net assets				(5,462,289)	25,109,085	19,646,796
Net assets						
Beginning of year				24,103,866	311,818,412	335,922,278
End of year				\$ 18,641,577	\$ 336,927,497	\$ 355,569,074

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

Department of Labor and Industrial Relations
State of Hawaii
Balance Sheet
Governmental Funds
June 30, 2003

		<u>Special Revenue Funds</u>		
		<u>Federal</u>	<u>Other</u>	
	<u>General</u>	<u>Fund</u>	<u>Nonmajor</u>	<u>Total</u>
			<u>Governmental</u>	
			<u>Funds</u>	
Assets				
Petty cash and imprest funds	\$ 10,100	\$ 38,325	\$ -	\$ 48,425
Cash in State Treasury	532,361	3,486,299	14,272	4,032,932
Cash in State Treasury Investment Pool	-	-	14,663,419	14,663,419
Advances to subrecipients and others	-	1,000,578	-	1,000,578
Due from Federal Government and other	67,393	2,613,975	-	2,681,368
Due from Fiduciary Funds	-	-	187,639	187,639
Inventory	-	200,803	-	200,803
Prepaid expenses	-	50,445	-	50,445
Total assets	<u>\$ 609,854</u>	<u>\$ 7,390,425</u>	<u>\$ 14,865,330</u>	<u>\$ 22,865,609</u>
Liabilities and Fund Balances				
Liabilities				
Vouchers payable	\$ 81,580	\$ 3,509,497	\$ 31,955	\$ 3,623,032
Accrued payroll and benefits	573,165	1,414,501	-	1,987,666
Due to State General Fund	10,100	38,325	-	48,425
Due to individuals and others	-	2,501,027	-	2,501,027
Total liabilities	<u>664,845</u>	<u>7,463,350</u>	<u>31,955</u>	<u>8,160,150</u>
Fund balances				
Unreserved	(339,045)	-	-	(339,045)
Reserved for encumbrances	284,054	-	-	284,054
Reserved for inventory	-	200,803	-	200,803
Reserved for weatherization programs	-	(273,728)	-	(273,728)
Reserved for unemployment insurance administration	-	-	270,060	270,060
Reserved for employment and training	-	-	2,169,616	2,169,616
Reserved for occupational safety and health training and assistance	-	-	323,137	323,137
Reserved for boiler/elevator safety	-	-	535,354	535,354
Reserved for nonwork related disability	-	-	8,056,801	8,056,801
Reserved for health care insurance premium supplementation	-	-	3,478,407	3,478,407
Total fund balances	<u>(54,991)</u>	<u>(72,925)</u>	<u>14,833,375</u>	<u>14,705,459</u>
Total liabilities and fund balances	<u>\$ 609,854</u>	<u>\$ 7,390,425</u>	<u>\$ 14,865,330</u>	<u>\$ 22,865,609</u>

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

Department of Labor and Industrial Relations
State of Hawaii
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2003

		<u>Special Revenue Funds</u>		
			<u>Other</u>	
	<u>General</u>	<u>Federal</u>	<u>Nonmajor</u>	<u>Total</u>
		<u>Fund</u>	<u>Governmental</u>	
			<u>Funds</u>	
Revenues				
State appropriations				
Full opportunity to work	\$ 1,388,993	\$ -	\$ -	\$ 1,388,993
Fair and just employment practices	2,006,076	-	-	2,006,076
Labor – management relations	463,863	-	-	463,863
Assistance in work related difficulties	4,245,870	-	-	4,245,870
Overall program support	7,596,564	-	-	7,596,564
Total State appropriations	<u>15,701,366</u>	<u>-</u>	<u>-</u>	<u>15,701,366</u>
Non-imposed employee fringe benefits	3,581,784	-	-	3,581,784
Intergovernmental revenues	1,576,894	-	-	1,576,894
Total general revenues	<u>20,860,044</u>	<u>-</u>	<u>-</u>	<u>20,860,044</u>
Program revenues				
Operating grants and contributions	-	55,093,507	-	55,093,507
Employment and training assessments	-	-	1,977,124	1,977,124
Other assessments	-	-	2,246,446	2,246,446
Total program revenues	<u>-</u>	<u>55,093,507</u>	<u>4,223,570</u>	<u>59,317,077</u>
Interest income	-	-	407,742	407,742
Total revenues	<u>\$ 20,860,044</u>	<u>\$ 55,093,507</u>	<u>\$ 4,631,312</u>	<u>\$ 80,584,863</u>
Expenditures				
Full opportunity to work	\$ 1,939,234	\$ 31,454,006	\$ 6,946,176	\$ 40,339,416
Fair and just employment practices	3,004,084	79,716	-	3,083,800
Labor – management relations	599,120	-	-	599,120
Assistance in work related difficulties	6,311,642	13,532,411	777,740	20,621,793
Overall program support	8,962,587	10,366,398	-	19,328,985
Capital outlays	72,207	117,813	27,690	217,710
Total expenditures	<u>20,888,874</u>	<u>55,550,344</u>	<u>7,751,606</u>	<u>84,190,824</u>
Excess (deficiency) of revenues over (under) expenditures	(28,830)	(456,837)	(3,120,294)	(3,605,961)
Other financing sources (uses)				
Operating transfers in	-	4,670,849	251,550	4,922,399
Operating transfers out	-	(4,677,497)	(244,902)	(4,922,399)
Lapsed appropriations	(892,928)	-	-	(892,928)
Total other financing sources (uses)	<u>(892,928)</u>	<u>(6,648)</u>	<u>6,648</u>	<u>(892,928)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(921,758)	(463,485)	(3,113,646)	(4,498,889)
Fund balances				
Beginning of year	866,767	390,560	17,947,021	19,204,348
End of year	<u>\$ (54,991)</u>	<u>\$ (72,925)</u>	<u>\$ 14,833,375</u>	<u>\$ 14,705,459</u>

The accompanying notes are an integral part of the 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, 2003

Amounts reported for governmental activities in the statement of net assets
are different because

Fund balances – governmental funds	\$ 14,705,459
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	24,427,915
Accumulated depreciation	<u>(13,931,491)</u>
Total capital assets	10,496,424
Long-term liabilities are not due and payable in the current period and therefore not reported in the fund financial statements	<u>(6,560,306)</u>
Net assets of governmental activities	<u>\$ 18,641,577</u>

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

Department of Labor and Industrial Relations
State of Hawaii
Reconciliation of Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2003

Amounts reported for governmental activities in the statement of activities are different because

Net change in fund balances-total governmental funds	\$ (4,498,889)
Capital assets 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	217,710
Depreciation expense	<u>(943,360)</u>
Excess of depreciation expense over capital asset expenditures	(725,650)
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	(8,571)
The increase 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>(229,179)</u>
Change in net assets of governmental activities	<u>\$ (5,462,289)</u>

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

Department of Labor and Industrial Relations
State of Hawaii
Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
General Fund
Year Ended June 30, 2003

	Budget	Actual	Variance Positive (Negative)
Revenues			
State appropriations	\$ 16,102,685	\$ 17,498,410	\$ 1,395,725
Intergovernmental revenues	<u>1,576,894</u>	<u>1,576,894</u>	<u>-</u>
Total revenues	<u>17,679,579</u>	<u>19,075,304</u>	<u>1,395,725</u>
Expenditures			
Full opportunity to work	1,628,102	1,577,198	50,904
Fair and just employment practices	2,344,201	2,320,775	23,426
Labor – management relations	489,736	489,736	-
Assistance in work related difficulties	4,910,346	4,910,346	-
Overall program support	<u>8,307,194</u>	<u>7,969,217</u>	<u>337,977</u>
Total expenditures	<u>17,679,579</u>	<u>17,267,272</u>	<u>412,307</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ 1,808,032</u>	<u>\$ 1,808,032</u>

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

Department of Labor and Industrial Relations
State of Hawaii
Statement of Net Assets
Proprietary Funds
June 30, 2003

	Enterprise Funds		
	Unemployment Compensation Fund	Disability Compensation Fund	Total
Assets			
Cash and deposits			
Cash in State Treasury	\$ 274,177	\$ 66,737	\$ 340,914
Cash in State Treasury Investment Pool	-	23,589,380	23,589,380
Cash in Federal Treasury	318,103,933	-	318,103,933
	318,378,110	23,656,117	342,034,227
Due from State General Fund	-	433,596	433,596
Prepaid expense	-	1,041,222	1,041,222
Total assets	318,378,110	25,130,935	343,509,045
Liabilities			
Vouchers payable	3,608,478	1,076,915	4,685,393
Due to Special Revenue Fund	187,639	-	187,639
Due to other State agencies	708,516	-	708,516
Deposits	-	1,000,000	1,000,000
Total liabilities	4,504,633	2,076,915	6,581,548
Net assets			
Unrestricted	\$ 313,873,477	\$ 23,054,020	\$ 336,927,497

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

Department of Labor and Industrial Relations
State of Hawaii
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
Year Ended June 30, 2003

	Enterprise Funds		
	Unemployment Compensation Fund	Disability Compensation Fund	Total
Operating revenues			
Intergovernmental contributions	\$ 42,792,796	\$ -	\$ 42,792,796
Employer contributions	134,584,522	-	134,584,522
Workers' compensation assessments	-	21,255,128	21,255,128
Fines and penalties	-	57,903	57,903
Other	-	52,913	52,913
Total operating revenues	<u>177,377,318</u>	<u>21,365,944</u>	<u>198,743,262</u>
Operating expenses			
Assistance in work related difficulties	<u>173,671,069</u>	<u>19,596,688</u>	<u>193,267,757</u>
Total operating expenses	<u>173,671,069</u>	<u>19,596,688</u>	<u>193,267,757</u>
Operating income	<u>3,706,249</u>	<u>1,769,256</u>	<u>5,475,505</u>
Nonoperating revenues			
Interest income	<u>18,888,899</u>	<u>744,681</u>	<u>19,633,580</u>
Total nonoperating revenues	<u>18,888,899</u>	<u>744,681</u>	<u>19,633,580</u>
Change in net assets	<u>22,595,148</u>	<u>2,513,937</u>	<u>25,109,085</u>
Net assets			
Beginning of year	<u>291,278,329</u>	<u>20,540,083</u>	<u>311,818,412</u>
End of year	<u>\$ 313,873,477</u>	<u>\$ 23,054,020</u>	<u>\$ 336,927,497</u>

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

Department of Labor and Industrial Relations
State of Hawaii
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2003

	Enterprise Funds		
	Unemployment Compensation Fund	Disability Compensation Fund	Total
Cash flows from operating activities			
Cash received from contributions and assessments	\$ 177,377,318	\$ 21,932,348	\$ 199,309,666
Cash paid for work related difficulties	<u>(179,561,048)</u>	<u>(18,689,142)</u>	<u>(198,250,190)</u>
Net cash provided by (used in) operating activities	<u>(2,183,730)</u>	<u>3,243,206</u>	<u>1,059,476</u>
Cash flows from investing activities			
Interest from investments	<u>18,888,899</u>	<u>744,681</u>	<u>19,633,580</u>
Net cash provided by investing activities	<u>18,888,899</u>	<u>744,681</u>	<u>19,633,580</u>
Net increase in cash and deposits	<u>16,705,169</u>	<u>3,987,887</u>	<u>20,693,056</u>
Cash and deposits			
Beginning of year	<u>301,672,941</u>	<u>19,668,230</u>	<u>321,341,171</u>
End of year	<u><u>\$ 318,378,110</u></u>	<u><u>\$ 23,656,117</u></u>	<u><u>\$ 342,034,227</u></u>
Reconciliation of operating income to net cash provided by (used in) operating activities			
Operating income	\$ 3,706,249	\$ 1,769,256	\$ 5,475,505
Adjustments to reconcile operating income to net cash provided by (used in) operating activities			
Decrease (increase) in assets			
Receivables	-	(433,596)	(433,596)
Prepaid expense	-	27,295	27,295
Increase (decrease) in liabilities			
Vouchers and other payables	(5,889,979)	880,251	(5,009,728)
Deposits	<u>-</u>	<u>1,000,000</u>	<u>1,000,000</u>
Net cash provided by (used in) operating activities	<u><u>\$ (2,183,730)</u></u>	<u><u>\$ 3,243,206</u></u>	<u><u>\$ 1,059,476</u></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
Fiduciary Funds
June 30, 2003

	Agency Funds				
	Temporary Deposits	Temporary Disability Insurance	Unemployment Compensation	Wage Claim and Other	Total
Assets					
Cash in State Treasury	\$ 2,000	\$ 8,732	\$ 650,493	\$ 570,810	\$ 1,232,035
Investments	-	1,603,000	-	-	1,603,000
Total assets	<u>2,000</u>	<u>1,611,732</u>	<u>650,493</u>	<u>570,810</u>	<u>2,835,035</u>
Liabilities					
Due to individuals and others	<u>2,000</u>	<u>1,611,732</u>	<u>650,493</u>	<u>570,810</u>	<u>2,835,035</u>
Total liabilities	<u>\$ 2,000</u>	<u>\$ 1,611,732</u>	<u>\$ 650,493</u>	<u>\$ 570,810</u>	<u>\$ 2,835,035</u>

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

Department of Labor and Industrial Relations
State of Hawaii
Notes to Financial Statements
June 30, 2003

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

The Department of Labor and Industrial Relations, State of Hawaii (the "Department") administers and oversees the operations of the State of Hawaii's (the "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:

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 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 imposed by the provider have been met.

Fund 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 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. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The proprietary funds and fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the department-wide financial statements described above.

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.

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A description of the funds administered by the Department is as follows:

Governmental Funds (Governmental Activities):

- *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* – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Funds (Business-Type Activities):

- *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.

Fiduciary Funds:

- *Agency Funds* – Agency funds are used to 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, 2003 is reported in the statement of net assets as Cash in State Treasury. Credit risk is determined at the State level and not by the Department.

Cash Held in State Treasury Investment Pool

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. Total cash deposited in the State Treasury Investment Pool System at June 30, 2003 was approximately \$14,663,000 and \$23,589,000 for special revenue funds and proprietary funds, respectively.

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.

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June 30, 2003

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. Total unemployment contributions for the year ended June 30, 2003 was \$177,377,000.

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, 2003, 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 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 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.

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.

Department of Labor and Industrial Relations
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2. Revisions to Basic Financial Statements

In its previously issued basic financial statements for the year ended June 30, 2003, the Department classified the Unemployment Compensation Fund, Disability Compensation Fund, Nonwork Connected Disability Fund and Premium Supplementation Fund as expendable trust funds in the Fiduciary Funds financial statements of fiduciary net assets and changes in fiduciary net assets. The Department has determined that the Unemployment Compensation Fund and Disability Compensation Fund should have been classified as enterprise funds and the Nonwork Connected Disability Fund and Premium Supplementation Fund should have been classified as special revenue funds. Accordingly, the Department has restated its previously issued basic financial statements for the year ended June 30, 2003 to reflect the Unemployment Compensation Fund and Disability Compensation Fund as enterprise funds in the Proprietary Funds financial statements of net assets, changes in net assets and cash flows, and to reflect the Nonwork Connected Disability Fund and Premium Supplementation Fund as special revenue funds in the Governmental Funds balance sheet and statement of revenues, expenditures and changes in fund balances.

The reclassifications had no impact on the amounts previously reported in the individual fund financial statements of the Unemployment Compensation Fund, Disability Compensation Fund, Nonwork Connected Disability Fund and Premium Supplementation Fund.

The effect of the reclassifications on the Department's statements of net assets and activities for the year ended June 30, 2003 is as follows:

	Governmental Activities	Business-Type Activities	Total
Net assets at June 30, 2003, as previously reported	\$ 7,106,369	\$ -	\$ 7,106,369
Reclassification of Unemployment Compensation Fund to enterprise fund	-	313,873,477	313,873,477
Reclassification of Disability Compensation Fund to enterprise fund	-	23,054,020	23,054,020
Reclassification of Nonwork Connected Disability Fund to special revenue fund	8,056,801	-	8,056,801
Reclassification of Premium Supplementation Fund to special revenue fund	3,478,407	-	3,478,407
Net assets at June 30, 2003, as restated	<u>\$ 18,641,577</u>	<u>\$ 336,927,497</u>	<u>\$ 355,569,074</u>
Change in net assets for the year ended June 30, 2003, as previously reported	\$ (5,737,409)	\$ -	\$ (5,737,409)
Reclassification of Unemployment Compensation Fund to enterprise fund	-	22,595,148	22,595,148
Reclassification of Disability Compensation Fund to enterprise fund	-	2,513,937	2,513,937
Reclassification of Nonwork Connected Disability Fund to special revenue fund	231,197	-	231,197
Reclassification of Premium Supplementation Fund to special revenue fund	43,923	-	43,923
Change in net assets for the year ended June 30, 2003, as restated	<u>\$ (5,462,289)</u>	<u>\$ 25,109,085</u>	<u>\$ 19,646,796</u>

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The effect of the reclassifications on the Governmental Funds, Proprietary Funds, and Fiduciary Funds respective financial statements for the year ended June 30, 2003 is as follows:

	Governmental Funds	Proprietary Funds	Fiduciary Funds
Fund balances / net assets at June 30, 2003, as previously reported	\$ 3,170,251	\$ -	\$ 348,462,705
Reclassification of Unemployment Compensation Fund to enterprise fund	-	313,873,477	(313,873,477)
Reclassification of Disability Compensation Fund to enterprise fund	-	23,054,020	(23,054,020)
Reclassification of Nonwork Connected Disability Fund to special revenue fund	8,056,801	-	(8,056,801)
Reclassification of Premium Supplementation Fund to special revenue fund	<u>3,478,407</u>	<u>-</u>	<u>(3,478,407)</u>
Fund balances / net assets at June 30, 2003, as restated	<u>\$ 14,705,459</u>	<u>\$ 336,927,497</u>	<u>\$ -</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses / change in net assets for the year ended June 30, 2003, as previously reported	\$ (4,774,009)	\$ -	\$ 25,384,205
Reclassification of Unemployment Compensation Fund to enterprise fund	-	22,595,148	(22,595,148)
Reclassification of Disability Compensation Fund to enterprise fund	-	2,513,937	(2,513,937)
Reclassification of Nonwork Connected Disability Fund to special revenue fund	231,197	-	(231,197)
Reclassification of Premium Supplementation Fund to special revenue fund	<u>43,923</u>	<u>-</u>	<u>(43,923)</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses / change in net assets for the year ended June 30, 2003, as restated	<u>\$ (4,498,889)</u>	<u>\$ 25,109,085</u>	<u>\$ -</u>

In addition, the reclassification of the Unemployment Compensation Fund and Disability Compensation Fund to enterprise funds resulted in the presentation of the Proprietary Funds statement of cash flows for the year ended June 30, 2003.

3. 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;

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June 30, 2003

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 Fund of the Department and are prepared on the basis of cash receipts and amounts disbursed, a basis of accounting other than generally accepted accounting principles (“GAAP”). For purposes of comparison, the actual GAAP basis results of operations for the General Fund have been presented on the basis of cash receipts and amounts disbursed in the statement of revenues and expenses – budget and actual (budgetary basis).

The major difference between the budgetary and GAAP basis are that: (1) the budget is prepared on the basis of cash receipts and amounts disbursed; and (2) encumbrances are recorded as the equivalent of expenditures under the budgetary basis.

The difference between the budgetary excess of revenues over expenditures and GAAP basis excess of expenses over revenues for the fiscal year ended June 30, 2003 is as follows:

	General Fund
Excess of revenues over expenditures – actual (budgetary basis)	\$ 1,808,032
Accrued revenues and expenditures not recognized for budgetary purposes – net of prior year accruals	<u>(2,729,790)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses – actual (GAAP basis)	<u>\$ (921,758)</u>

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4. State Appropriations

Funds for the Department were appropriated from the State's general revenues for the fiscal year ended June 30, 2003, and were authorized as follows:

Act 259, Session Laws of Hawaii 2001, for the operating budget of the Department

Full Opportunity to Work	\$ 1,433,276
Fair and Just Employment Practices	2,029,502
Labor – Management Relations	463,863
Assistance in Work Related Difficulties	4,245,870
Overall Program Support	7,930,174
	<u>16,102,685</u>
Less restrictions	(401,319)
Total State appropriations	<u>\$ 15,701,366</u>

Act 260, Session Laws of Hawaii 2001, for collective bargaining cost items and adjustments for the compensation of officers and employees excluded from collective bargaining

Full Opportunity to Work	\$ 194,826
Fair and Just Employment Practices	314,699
Labor – Management Relations	25,873
Assistance in Work Related Difficulties	664,476
Overall Program Support	377,020
Total intergovernmental revenues	<u>\$ 1,576,894</u>

5. Capital Assets

The following is a summary of changes in capital assets:

	Balance, June 30, 2002	Additions	Retirements	Balance, June 30, 2003
Buildings	\$ 20,614,785	\$ -	\$ -	\$ 20,614,785
Furniture and equipment	3,715,949	217,710	(144,929)	3,788,730
Vehicles	24,400	-	-	24,400
Total capital assets	<u>24,355,134</u>	<u>217,710</u>	<u>(144,929)</u>	<u>24,427,915</u>
Less accumulated depreciation	<u>(13,124,489)</u>	<u>(943,360)</u>	<u>136,358</u>	<u>(13,931,491)</u>
Capital assets – net	<u>\$ 11,230,645</u>	<u>\$ (725,650)</u>	<u>\$ (8,571)</u>	<u>\$ 10,496,424</u>

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June 30, 2003

6. Long-Term Obligation – Governmental Activities

The changes to the accrued vacation liability as of June 30, 2003 are as follows:

Balance at July 1, 2002	\$ 6,331,127
Increase	2,262,874
Decrease	<u>(2,033,695)</u>
Balance at June 30, 2003	<u>\$ 6,560,306</u>

7. 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 approximately \$3,582,000 for the fiscal year ended June 30, 2003, 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.

8. 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 Hawaii Revised Statutes ("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. 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 a closed period ending June 30, 2029.

Department of Labor and Industrial Relations
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June 30, 2003

The Department's general fund share of the retirement system expense for the year ended June 30, 2003, 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
201 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, 2003 (most recent available):

Number of employers as of March 31, 2002 was:

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

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, 2003 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, 2003 approximated \$24,018,000.

Department of Labor and Industrial Relations
State of Hawaii
Notes to Financial Statements
June 30, 2003

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.

9. Commitments

Operating Leases

The Department leases various office facilities under lease agreements expiring through fiscal year 2007. The following is a schedule of minimum future rentals on noncancelable operating leases with lease terms over a year at June 30, 2003:

Fiscal Years Ending June 30

2004	\$ 191,000
2005	261,000
2006	167,000
2007	114,000
	<u>\$ 733,000</u>

Rent expenditures for the fiscal year ended June 30, 2003 approximated \$248,000.

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, 2003, 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, 2003 was approximately \$16,400.

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 Financial Statements
June 30, 2003

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, 2003 is included in revenues of the Special Revenue Funds and approximated \$1,518,000.

11. Special Compensation Fund – Workers' Compensation

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, 2003 were approximately \$17,632,000.

12. Deficit Balances in Funds

At June 30, 2003, the General Fund had an unreserved deficit balance of \$339,045 and the Special Revenue Funds had a deficit balance reserved for weatherization programs of \$273,728. The Department intends to take corrective action to eliminate these deficit balances.

SUPPLEMENTARY INFORMATION

Department of Labor and Industrial Relations
State of Hawaii
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003

	Special Revenues Funds						Total Nonmajor Governmental Funds
	Employment and Training Fund	Occupational Safety and Health Training and Assistance Fund	Boiler/ Elevator Safety Fund	Special Unemployment Insurance Administration Fund	Nonwork Connected Disability Fund	Premium Supple- mentation Fund	
Assets							
Petty cash and imprest funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash in State Treasury	1,163	13,109	-	-	-	-	14,272
Cash in State Treasury Investment Pool	2,080,582	323,138	535,354	185,688	8,056,801	3,481,856	14,663,419
Advances to subrecipients and others Due from Federal Government and other	-	-	-	-	-	-	-
Due from Fiduciary Funds	103,267	-	-	84,372	-	-	187,639
Inventory	-	-	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-	-
Total assets	\$ 2,185,012	\$ 336,247	\$ 535,354	\$ 270,060	\$ 8,056,801	\$ 3,481,856	\$ 14,865,330

Department of Labor and Industrial Relations
State of Hawaii
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003

	Special Revenues Funds						Total Nonmajor Governmental Funds
	Employment and Training Fund	Occupational Safety and Health Training and Assistance Fund	Boiler/ Elevator Safety Fund	Special Unemployment Insurance Administration Fund	Nonwork Connected Disability Fund	Premium Supple- mentation Fund	
Liabilities and Fund Balances							
Liabilities							
Vouchers payable	\$ 15,396	\$ 13,110	\$ -	\$ -	\$ -	\$ 3,449	\$ 31,955
Accrued payroll and benefits	-	-	-	-	-	-	-
Due to State General Fund	-	-	-	-	-	-	-
Due to individuals and others	-	-	-	-	-	-	-
Total liabilities	15,396	13,110	-	-	-	3,449	31,955
Fund balances							
Unreserved	-	-	-	-	-	-	-
Reserved for encumbrances	-	-	-	-	-	-	-
Reserved for inventory	-	-	-	-	-	-	-
Reserved for weatherization programs	-	-	-	-	-	-	-
Reserved for unemployment insurance administration	-	-	-	270,060	-	-	270,060
Reserved for employment and training	2,169,616	-	-	-	-	-	2,169,616
Reserved for occupational safety and health training assistance	-	323,137	-	-	-	-	323,137
Reserved for boiler/elevator safety	-	-	535,354	-	-	-	535,354
Reserved for nonwork related disability	-	-	-	-	8,056,801	-	8,056,801
Reserved for health care insurance premium supplementation	-	-	-	-	-	3,478,407	3,478,407
Total fund balances	2,169,616	323,137	535,354	270,060	8,056,801	3,478,407	14,833,375
Total liabilities and fund balances	\$ 2,185,012	\$ 336,247	\$ 535,354	\$ 270,060	\$ 8,056,801	\$ 3,481,856	\$ 14,865,330

See accompanying report of independent auditors.

**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, 2003**

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Employment and Training Fund	Occupational Safety and Health Training and Assistance Fund	Boiler/ Elevator Safety Fund	Special Unemployment Insurance Administration Fund	Nonwork Connected Disability Fund	Premium Supple- mentation Fund	
Revenues							
State appropriations							
Full opportunity to work	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fair and just employment practices	-	-	-	-	-	-	-
Labor - management relations	-	-	-	-	-	-	-
Assistance in work related difficulties	-	-	-	-	-	-	-
Overall program support	-	-	-	-	-	-	-
Total State appropriations	-	-	-	-	-	-	-
Non-imposed employee fringe benefits	-	-	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	-	-	-
Total general revenues	-	-	-	-	-	-	-
Program revenues							
Operating grants and contributions	-	-	-	-	-	-	-
Employment and training assessments	1,977,124	-	-	-	-	-	1,977,124
Other assessments	-	745,959	937,091	562,235	1,161	-	2,246,446
Total program revenues	1,977,124	745,959	937,091	562,235	1,161	-	4,223,570
Interest income	-	-	-	-	283,857	123,885	407,742
Total revenues	\$ 1,977,124	\$ 745,959	\$ 937,091	\$ 562,235	\$ 285,018	\$ 123,885	\$ 4,631,312

See accompanying report of independent auditors.

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, 2003

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Employment and Training Fund	Occupational Safety and Health Training and Assistance Fund	Boiler/ Elevator Safety Fund	Special Unemployment Insurance Administration Fund	Nonwork Connected Disability Fund	Premium Supple- mentation Fund	
Expenditures							
Full opportunity to work	\$ 3,522,824	\$ 1,433,202	\$ 1,990,150	\$ -	\$ -	\$ -	\$ 6,946,176
Fair and just employment practices	-	-	-	-	-	-	-
Labor - management relations	-	-	-	-	-	-	-
Assistance in work related difficulties	-	-	-	643,957	53,821	79,962	777,740
Overall program support	-	-	-	-	-	-	-
Capital outlays	-	-	27,690	-	-	-	27,690
Total expenditures	3,522,824	1,433,202	2,017,840	643,957	53,821	79,962	7,751,606
Excess (deficiency) of revenues over (under) expenditures	(1,545,700)	(687,243)	(1,080,749)	(81,722)	231,197	43,923	(3,120,294)
Other financing sources (uses)							
Operating transfers in	244,902	6,648	-	-	-	-	251,550
Operating transfers out	(244,902)	-	-	-	-	-	(244,902)
Lapsed appropriations	-	-	-	-	-	-	-
Total other financing sources (uses)	-	6,648	-	-	-	-	6,648
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,545,700)	(680,595)	(1,080,749)	(81,722)	231,197	43,923	(3,113,646)
Fund balances							
Beginning of year	3,715,316	1,003,732	1,616,103	351,782	7,825,604	3,434,484	17,947,021
End of year	\$ 2,169,616	\$ 323,137	\$ 535,354	\$ 270,060	\$ 8,056,801	\$ 3,478,407	\$ 14,833,375

See accompanying report of independent auditors.

**Schedule of
Expenditures of Federal Awards**

**Department of Labor and Industrial Relations
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures June 30, 2003
Department of Agriculture			
Direct Programs			
Temporary Emergency Food Assistance	7HI810HI8	\$ 176,402	\$ 96,245
Temporary Storage and Distribution CCC Emergency Assistance	7HI810HI8	168,485	77,584
Total Federal CFDA No. 10.568			173,829
Passed through from the State Department of Human Services			
State Administrative Matching Grants for the			
Food Stamp Program	01-BESSD-9134	137,704	(2,754)
Employment and Training Program	01-BESSD-9134	152,668	156,307
Employment and Training Program	01-BESSD-9133	45,867	(762)
Employment and Training Program	01-BESSD-9133	53,949	47,325
Total Federal CFDA No. 10.561			200,115
Seniors Farmers' Market Nutrition Pilot Program	8HI810082	378,000	253,028
	8HI810082	575,246	73,604
Total Federal CFDA No. 10.576			326,632
Total Department of Agriculture			700,576
Department of Housing and Urban Development			
Direct Programs			
Civil Rights Commission	FF209K969004	92,400	13,217
Total Federal CFDA No. 14.401			13,217
Total Department of Housing and Urban Development			13,217

**Department of Labor and Industrial Relations
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures June 30, 2003
Department of Labor			
Direct Programs			
LMI Cooperative Agreement CES	W9J28015	144,133	53,906
LMI Cooperative Agreement CES	W9J38015	145,147	100,700
LMI Cooperative Agreement ES-202	W9J28015	25,000	25,000
LMI Cooperative Agreement ES-202	W9J28015	230,687	52,391
LMI Cooperative Agreement ES-202	W9J38015	230,733	150,051
LMI Cooperative Agreement LAUS	W9J28015	76,910	24,642
LMI Cooperative Agreement LAUS	W9J38015	80,500	58,124
LMI Cooperative Agreement MLS	W9J28015	47,000	14,525
LMI Cooperative Agreement MLS	W9J38015	44,776	27,175
LMI Cooperative Agreement MLS AAMC	W9J18015	10,000	756
LMI Cooperative Agreement OES	W9J28015	161,102	51,209
LMI Cooperative Agreement OES	W9J38015	147,512	106,197
Total Federal CFDA No. 17.002			664,675
Occupational Safety And Health			
OSHA BLS	W9J281150	92,000	34,359
OSHA BLS	W9J381150	92,000	61,293
Total Federal CFDA No. 17.005			95,652
Alien Labor Certification			
Alien Labor Certification	ES-11525-01-55	86,547	9,569
Alien Labor Certification	ES-12127-02-55	60,000	61,303
Hon 1-Stop Certification Program	AGREEMENT	-	431
Total Federal CFDA No. 17.203			71,304
Employment Service			
Employment Service Grant	ES-11525-01-55	3,076,423	2,142,718
Employment Service Grant	ES-11525-01-55	144,129	29,087
Employment Service Grant	ES-12127-02-55	3,115,883	1,243,476
Employment Service One-Stop - WDD	X-5685-6-00-80-60	3,738,383	214,522
Employment Service One-Stop - LMI	ES-11525-01-55	375,913	222,448

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
Year Ended June 30, 2003**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures June 30, 2003
Employment Service One-Stop – LMI	ES-12127-02-55	376,048	188,726
Reemployment Services	ES-11525-01-58	307,688	124,037
Reemployment Services	ES-11525-01-58	290,627	273,877
Workforce Opportunities Tax Credit	ES-10668-00-55	64,000	48,960
Workforce Opportunities Tax Credit	ES-11525-01-55	80,561	65,395
Various 1-Stop ES Grants	AGREEMENT	-	569
Various 1-Stop ES Grants	AGREEMENT	-	155,842
Various 1-Stop ES Grants	AGREEMENT	-	37,553
Total Federal CFDA No. 17.207			4,747,210
Unemployment Insurance			
Unemployment Insurance Grants	P.L.97-300	17,002,239	2,145
Unemployment Insurance Grants	P.L.97-300	15,114,648	34,905
Unemployment Insurance Grants	UI-11815-02-55	13,622,787	5,032,439
Unemployment Insurance Grants	UI-12634-03-55	13,496,203	9,384,420
Unemployment Insurance Disaster Assistance	P.L.97-300	1,665,224	(349)
Unemployment Insurance – Hilo Flood Disaster Relief	P.L.93-288	100,000	267
Unemployment Insurance – P&I and E&T	AGREEMENT	643,957	235,243
Unemployment Insurance – SAB	P.L.97-300	-	38,019
Unemployment Insurance – TEUC	UI-11815-02-55	548,857	215,442
Unemployment Insurance – TEUC	UI-12634-03-55	329,296	415,393
Total Federal CFDA No. 17.225			15,357,924
Senior Community Service Employment Program			
Senior Community Service Employment Program Grants	AD-12297-02-55	1,894,813	1,885,363
Total Federal CFDA No. 17.235			1,885,363
Trade Adjustment Assistance			
Trade Training	TAA-15-232-4	15,762	4,117
Trade Training	TAA-15-232-4	11,541	2,586
Total Federal CFDA No. 17.245			6,703

**Department of Labor and Industrial Relations
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures June 30, 2003
Job Training Partnership Act Cluster Employment and Training Assistance for Dislocated Workers Women in Technology Toll-Free Help Line Implementation Grant Total Federal CFDA No. 17.246	AGREEMENT AN-10067-00-60	47,037 60,408	3,473 26,163 <u>29,636</u>
Job Training Partnership Act America's Workforce Network -- National Toll-Free Help Line Total Federal CFDA No. 17.247	AN-10067-00-60	58,851	36,988 <u>36,988</u>
Job Training Partnership Act Pili Paa Pono (Firmly United) Grant Total Federal CFDA No. 17.249 Total Job Training Partnership Act Cluster	AF-10230-00-60	500,000	(9,322) <u>(9,322)</u> 57,303
Welfare-to-Work Program Welfare-to-Work Welfare-to-Work Total Federal CFDA No. 17.253	Y-7757-9-00-81-50 Y-6450-8-00-81-50	4,718,609 5,085,523	1,792,883 9,389 <u>1,802,272</u>
Workforce Investment Act Cluster Adult Program Total Federal CFDA No. 17.258	AA-12007-02-50 AA-12007-02-50 AA-11247-01-50 AA-11247-01-50	3,648,834 1,227,675 4,080,786 1,364,083	1,226,579 939,174 1,306,400 <u>140,934</u> 3,613,087
Youth Program Total Federal CFDA No. 17.259	AA-12007-02-50 AA-11247-01-50	5,519,083 6,131,624	2,070,428 <u>2,567,910</u> 4,638,338

**Department of Labor and Industrial Relations
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures June 30, 2003
Dislocated Worker Program	AA-12007-02-50	2,900,522	652,344
	AA-12007-02-50	1,339,467	1,024,693
	AA-11247-01-50	4,318,313	1,780,936
	AA-11247-01-50	929,410	7,579
	AA-10589-00-50	8,631,948	32,312
	Total Federal CFDA No. 17.260		3,497,864
Local Admin	AA-12007-02-50	-	98,721
Statewide Activities	AA-12007-02-50	-	850,518
Local Admin	AA-12007-02-50	-	334,691
Statewide Activities	AA-11247-01-50	-	222,641
Local Admin	AA-11247-01-50	-	382,702
Statewide Activities	AA-11247-01-50	-	623,930
Local Admin	AA-11247-01-50	-	313,506
Statewide Activities	AA-10589-00-50	-	1,858,787
Rapid Response Program	AA-10589-00-50	-	62,836
Statewide Activities	AA-10589-00-50	-	628,777
	CFDA No. 17.000		5,377,109
	Total Workforce Investment Act Cluster *		17,126,398
Section 171 – SETP	AF-12860-03-60	3,500,000	197,456
Section 171 – SETP	AF-11925-02-60	3,200,000	2,019,013
	Total Federal CFDA No. 17.261		2,216,469

**Department of Labor and Industrial Relations
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures June 30, 2003
Occupational Safety and Health OSHA 23G OSHA 23G Total Federal CFDA No. 17.503	60F2-00 E9F3-0992 E9F2-0992 E9F3-0992 W9F2-3792 E9F3-3792	1,588,000 1,631,000 444,000 458,000 6,808 5,750	550,195 1,122,093 178,735 325,115 4,358 5,081
OSHA 21(d) OSHA 21(d) OSHA 7(c)1 Survey OSHA 7(c)1 Survey Total Federal CFDA No. 17.504			513,289
Disabled Veterans' Outreach Program Disabled Veterans' Outreach Program Disabled Veterans' Outreach Program Total Federal CFDA No. 17.801	E-9-5-2-5086 E-9-5-3-5086 E-9-5-0-0055 E-9-5-2-0055	303,000 248,000 320,650 250,675	112,242 189,769 44,953 219,748
Veterans' Employment Program Veterans' Workforce Investment Program Veterans' Workforce Investment Program Total Federal CFDA No. 17.802			264,701
Local Veterans' Employment Representative Program Local Veterans' Employment Representative Program Local Veterans' Employment Representative Program Local Veterans' Employment Representative Program Total Federal CFDA No. 17.804 Total Department of Labor	E-9-5-8-5086 E-9-5-2-5086 E-9-5-3-5086 	330,000 356,000 330,000 	1,417 124,646 324,699 450,762 47,234,324

**Department of Labor and Industrial Relations
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures June 30, 2003
Equal Employment Opportunity Commission			
Direct Programs			
Equal Employment Opportunity Commission	6/5010/0074	150,000	18,681
Equal Employment Opportunity Commission	9/5010/0074	157,050	54,021
Total Federal CFDA No. 30.002			54,021
Total Equal Employment Opportunity Commission			54,021
Department of Energy			
Direct Programs			
Weatherization Assistance for Low-Income Persons			
Weatherization Assistance for Low-Income Persons	FG51-00R021141	184,093	184,073
Weatherization Assistance for Low-Income Persons	FG51-03R021429	252,630	1,341
Total Federal CFDA No. 81.042			185,414
Total Department of Energy			185,414
Department of Education			
Direct Programs			
Career Resource Network Grant	V346A000054-01	109,555	12,171
Career Resource Network Grant	V346A000054-01	109,555	109,555
Career Resource Network Grant	V346A000054-02B	125,880	82,082
Total Federal CFDA No. 84.346			203,808
Total Department of Education			203,808

**Department of Labor and Industrial Relations
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title; Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures June 30, 2003
Department of Health and Human Services			
Direct Programs			
Refugee and Entrant Assistance -- State Administered Programs			
Cash, Medical and Administration	G02AAHI9100	82,500	15,918
Cash, Medical and Administration	G03AAHI9100	27,625	712
Social Services	G01AAHI9110	84,961	10,309
Social Services	G02AAHI9110	85,000	85,000
Social Services	G03AAHI9110	56,250	16,554
Total Federal CFDA No. 93.566			128,493
Community Services Block Grant	G02BIHICOSR	3,420,085	1,753,583
Community Services Block Grant	G03BIHICOSR	2,550,176	1,858,944
Total Federal CFDA No. 93.569 *			3,612,527
Community Food and Nutrition Program	G02B3HICOSR	15,000	8,325
Total Federal CFDA No. 93.571			8,325
Passed through from the State Department of Human Services			
First-To-Work	02-BESSD-1072	604,798	(8,108)
First-To-Work	02-BESSD-1072	604,798	322
First-To-Work	02-BESSD-1072	920,491	109,950
Total Federal CFDA No. 93.558			102,164
Child Support Intercept	REIMBURSEMENT	26,923	9,203
Total Federal CFDA No. 93.563			9,203
Total Department of Health and Human Services			3,860,712
Total Expenditures of Federal Awards			\$ 52,252,072

* denotes major program as defined by OMB Circular A-133
N.A. = CFDA No. not available

The accompanying notes are an integral part of this schedule.

Department of Labor and Industrial Relations
State of Hawaii
Notes to Schedule of Expenditures for Federal Awards
Year Ended June 30, 2003

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") 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:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Department of Agriculture		
Seniors Farmers' Market Nutrition Pilot Program	10.576	\$ 326,632
Department of Labor		
Senior Community Service Employment Program	17.235	1,597,033
Welfare-to-Work	17.253	1,237,852
Workforce Investment Act		
Adult Programs	17.258	3,613,087
Youth Programs	17.259	4,638,338
Dislocated Worker Programs	17.260	3,497,864
Section 171 – SETP and JHS	17.262	1,238,943
Statewide Activities	N/A	99,111
Local Admin	N/A	1,129,620
		<u>14,216,963</u>
Department of Energy		
Weatherization Assistance for Low-Income Persons	81.042	176,118
Department of Health and Human Services		
Refugee and Entrant Assistance – State Administered Programs		
Cash, Medical and Administration	93.566	8,182
Social Services	93.566	111,863
		<u>120,045</u>
Community Services Block Grant	93.569	3,455,599
Community Food and Nutrition Program	93.571	8,325
		<u>8,325</u>
Total provided to subrecipients		<u>\$ 18,303,682</u>

N/A = Federal CFDA No. Not Available

Department of Labor and Industrial Relations
State of Hawaii
Notes to Schedule of Expenditures for Federal Awards
Year Ended June 30, 2003

3. Unemployment Insurance Expenditures

Unemployment Insurance (CFDA 17.225) expenditures reported on the Schedule of Expenditures of Federal Awards totaled \$15,357,924. Of that amount, Federal and State funded portions of the expenditures were \$15,084,663 and \$273,261, respectively.

PART II

Report on Compliance and Internal Control Over Financial Reporting

Government Auditing Standards

**Report of Independent Auditors 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 financial statements of the Department of Labor and Industrial Relations, State of Hawaii, (the "Department") as of and for the year ended June 30, 2003, and have issued our report thereon dated March 4, 2004, except as to Note 2 to the financial statements which is dated April 20, 2004. 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. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 03-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the Department in a separate letter dated March 4, 2004.

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.

PricewaterhouseCoopers LLP

Honolulu, Hawaii
April 20, 2004

PART III

Report on Compliance and Internal Control Over Compliance

OMB Circular A-133

**Report of Independent Auditors 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, 2003. 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, 2003. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that 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 item 03-2.

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 March 4, 2004.

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.

Aniwaat house cooper CP

Honolulu, Hawaii
March 4, 2004

PART IV

Schedule of Findings and Questioned Costs

Department of Labor and Industrial Relations ¹
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	Unqualified
Internal control over financial reporting	
Material weaknesses identified?	Yes
Reportable conditions identified that are not considered to be material weaknesses?	No
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)?	Yes

Identification of Major Programs

CFDA

Number	Federal Program
	Department of Labor
17.253-261	Workforce Investment Act
93.569	Community Services Block Grant

Dollar threshold used to distinguish between Type A and Type B programs	\$ 1,567,562
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
Year Ended June 30, 2003**

Section II – Financial Statement Findings

Material Weakness

Internal Control over Financial Reporting

Finding No. 03-1: Misclassification of Funds

Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, as amended, discontinued the use and reporting of expendable trust funds in the Fiduciary Funds financial statements of fiduciary net assets and changes in fiduciary net assets.

The Department misclassified the Unemployment Compensation Fund, Disability Compensation Fund, Nonwork Connected Disability Fund and Premium Supplementation Fund as expendable trust funds in the Fiduciary Funds financial statements of fiduciary net assets and changes in fiduciary net assets for the year ended June 30, 2003. The Unemployment Compensation Fund and Disability Compensation Fund should have been classified as enterprise funds and the Nonwork Connected Disability Fund and Premium Supplementation Fund should have been classified as special revenue funds.

The misclassifications had no impact on amounts previously reported in the individual fund financial statements of the Unemployment Compensation Fund, Disability Compensation Fund, Nonwork Connected Disability Fund and Premium Supplementation Fund. However, the misclassifications resulted in misstatements of total governmental activities and business-type activities reported in the department-wide financial statements of net assets and activities, totals reported in the Governmental Funds balance sheet and statement of revenues, expenditures and changes in fund balances, and totals reported in the Proprietary Funds financial statements of net assets, changes in net assets and cash flows. There were no questioned costs pertaining to federal funds as a result of the misclassification.

Recommendation –

We recommended that, and the Department has already, restated its basic financial statements for the year ended June 30, 2003 to properly classify the Unemployment Compensation Fund, Disability Compensation Fund, Nonwork Connected Disability Fund and Premium Supplementation Fund to conform to the provisions of GASB Statement No. 34. Accordingly, no further action is required.

**Department of Labor and Industrial Relations
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003**

Section III – Federal Award Findings and Questioned Costs

		Questioned Costs
Finding No. 03-2:	Subrecipient Monitoring	\$ <u> — </u>
Federal Agency:	Department of Labor	
CFDA Number and Title:	17.000, 17.258:260 – Workforce Investment Act Cluster	
Award Number:	AA-10589-00-50; AA-11247-01-50; AA-12007-02-50	
Award Year:	July 1, 2000 - June 30, 2005	

We noted that the Department is not performing formal on-site subrecipient monitoring at all local area programs on an annual basis. Currently, the Work Force Development Division (“WDD”) performs formal subrecipient monitoring activities on a biennial basis.

The Office of Management and Budget Circular A-133 March 2003 Compliance Supplement for the Workforce Investment Act (“WIA”) Cluster states that, “each state must have a monitoring system which provides for annual on-site monitoring reviews of local area’s compliance with DOL uniform administrative requirements, as required by WIA section 184(a)(4).”

Recommendation –

We recommend that the Department ensure that formal subrecipient monitoring activities are performed at local programs on an annual basis in accordance with federal regulations.

**Department of Labor and Industrial Relations
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003**

Section IV – Prior Year Audit Findings

There were no prior year findings.