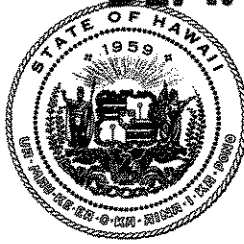


STATE OF HAWAII  
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MARION M. HIGA  
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December 26, 2007

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

Dear Madam President:

I transmit to you a copy of our report, *Financial Audit of the Department of Human Resources Development*.

The audit was conducted by the Office of the Auditor and the certified public accounting firm of Accuity LLP. Our audit revealed two material weaknesses. We found that accounting personnel and accurate financial reporting are not a priority of the department. The department lacks a formal internal financial reporting process, does not produce annual financial statements, and is not subject to annual financial audits, all of which have collectively contributed to certain account balances being misstated. We also found that the department has not taken functional ownership of the Workers' Compensation Program. The department does not recognize the \$29 million liability related to the workers' compensation claims it manages, and the department has not established formal policies over processing related claims.

We hope that the report will assist you in reviewing the issues examined. We will place the report on our website, [www.state.hi.us/auditor](http://www.state.hi.us/auditor), and release it to the public and press, on Thursday, December 27, 2007.

Sincerely,

Marion M. Higa  
State Auditor

Enclosure

c:/Carol Taniguchi, Senate Clerk