



Financial Statements and Report of Independent
Certified Public Accountants

Department of Education, State of Hawaii

Year ended June 30, 2009

**Submitted by
The Auditor
State of Hawaii**



March 31, 2010

Ms. Marion Higa
Office of the Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education

Audit – Tax – Advisory

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Dear Ms. Higa and the Board of Education:

This is our report on the financial audit of the Department of Education, State of Hawaii (DOE), as of and for the year ended June 30, 2009. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Objectives of the Audit

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the DOE's financial statements as of and for the fiscal year ended June 30, 2009, and to comply with the requirements of OMB Circular A-133.

Scope of the Audit

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the DOE for the fiscal year ended June 30, 2009.

Organization of the Report

This report is presented in six parts as follows:

- Part I — The basic financial statements and related notes of the DOE as of and for the fiscal year ended June 30, 2009, and our opinion on the basic financial statements.
- Part II — Our report on internal control over financial reporting and on compliance and other matters.
- Part III — Our report on compliance with requirements applicable to each major program and on internal control over compliance.
- Part IV — The schedule of findings and questioned costs.

Ms. Marion Higa
Office of the Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education

March 31, 2010

- Part V — Corrective action plan as provided by the DOE.
- Part VI — The summary schedule of prior audit findings.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the officers and staff of the DOE.

Very truly yours,

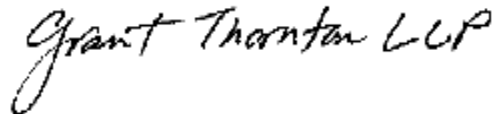


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PART I
FINANCIAL SECTION



Report of Independent Certified Public Accountants

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To the Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information as well as the budgetary comparison for the general and federal funds of the Department of Education, State of Hawaii (DOE), as of and for the year ended June 30, 2009, which collectively comprise the DOE's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the DOE's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DOE's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in note A, the financial statements of the DOE, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information as well as the budgetary comparison for the general and federal funds of the State of Hawaii that is attributable to the transactions of the DOE. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2009, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the

To the Auditor
State of Hawaii

aggregate remaining fund information of the DOE, as of June 30, 2009, and the respective changes in financial position thereof and the respective budgetary comparison for the general and federal funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2010, on our consideration of the DOE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DOE's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 9 through 20 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the DOE's 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 also not a required part of the basic financial statements of the DOE. 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
March 31, 2010

Department of Education
State of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

The following management's discussion and analysis provides an overview of the Department of Education's (Department or DOE) financial activities for the fiscal year ended June 30, 2009. Readers should also review the basic financial statements and notes to enhance their understanding of the Department's financial performance.

FINANCIAL HIGHLIGHTS

Key government-wide financial highlights for Fiscal Year (FY) 2008-09 compared to the prior FY 2007-08 are as follows:

- General revenues were \$2.324 billion in FY 2008-09, a slight decrease from the \$2.326 billion in FY 2007-08. Program revenues totaled \$323.5 million in FY 2008-09, an increase of 15% compared to \$281.7 million in FY 2007-08.
- Total FY 2008-09 expenses were \$2.433 billion, an increase of 4% over the prior fiscal year. Of the total FY 2008-09 expenses, 92% or \$2.246 billion, was spent for school-related expenditures, and 3% or \$69.3 million was spent on capital outlays. In FY 2007-08 expenses totaled \$2.333 billion, of which 92% or \$2.136 billion, was spent for school-related services and 2% or \$57.8 million was spent on capital outlays.
- Total assets exceeded liabilities as of June 30, 2009 by \$1.109 billion (net assets), compared to \$1.127 billion as of the prior fiscal year end, a decrease of 2%. The decrease in net assets was primarily due to a decrease in legislative appropriations.
- Capital assets comprised 97% of total net assets as of June 30, 2009, compared to 95% as of the prior fiscal year end.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of three sections: management's discussion and analysis (this section), basic financial statements and notes to the financial statements, and required supplementary information. These sections are described below.

The basic financial statements include government-wide and fund financial statements, which provide different views of the Department:

- *Government-wide financial statements* provide both *long-term* and *short-term* information about the Department's *overall* financial position and results of operations. The statements are presented on an accrual basis of accounting and consist of the Statement of Net Assets and the Statement of Activities.

Department of Education
State of Hawaii

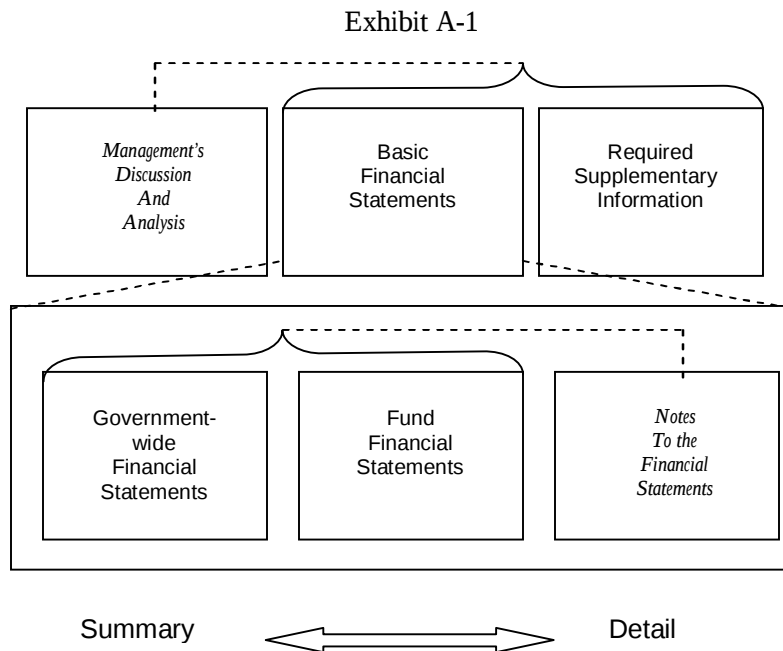
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2009

- *Fund financial statements focus on individual parts of the Department and report operations in more detail than the government-wide statements. Governmental funds statements include most of the Department's programs and services such as instruction, support services, operation and maintenance of facilities, student transportation, and extracurricular activities and are presented on a modified accrual basis of accounting. Fiduciary funds statement report on agency funds (or "local school funds" as the term is used in our schools), which are held in a custodial capacity for students' school activities that take place outside of the formal class period and are not requirements for class work or credit. Certain activities, such as depreciation expense, are included in the government-wide financial statements but not the fund financial statements. These activities are highlighted in the financial statement's *Reconciliation of the Change in Fund Balances of Governmental Funds to the Statement of Activities*.*

Notes are included in the financial statements to explain financial statement information and provide more detailed data. The basic financial statements are followed by a section of required supplementary information. This section further explains and supports the information in the financial statements.

Exhibit A-1 shows how the required parts of this annual report are arranged and related:



Department of Education
State of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2009

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following discussion highlights management's understanding of the key aspects of the Department's financial activities.

Net Assets. The Department's largest portion of net assets is capital assets (e.g., land, buildings, equipment), which are unavailable for future spending. The Department's unrestricted net assets are available for future use to provide program services.

**Exhibit A-2
Government-Wide
Statement of Net Assets
Fiscal Years 2009 and 2008
(Amounts in millions)**

	Governmental activities		2009 – 2008	
	2009	2008	Increase (decrease)	% Change
Assets				
Current	\$ 326.4	\$ 352.6	\$ (26.2)	(7)%
Non-current (capital assets, net of depreciation)	1,078.7	1,066.0	12.7	1
TOTAL ASSETS	\$1,405.1	\$1,418.6	\$ (13.5)	(1)%
Liabilities				
Current	\$ 216.7	\$ 219.5	\$ (2.8)	(1)%
Non-current	79.6	72.3	7.3	10
Total liabilities	296.3	291.8	4.5	(2)
Net Assets				
Investment in capital assets	1,078.7	1,066.0	12.7	1
Restricted	67.1	24.1	43.0	178
Unrestricted	(37.0)	36.7	(73.7)	(201)
Total net assets	1,108.8	1,126.8	(18.0)	(2)
TOTAL LIABILITIES AND NET ASSETS	\$1,405.1	\$1,418.6	\$ (13.5)	(1)%

Overall Financial Position. The DOE's overall financial position has declined as of June 30, 2009 compared to the prior fiscal year end. Net assets have decreased by \$18.0 million, primarily due to lower state allotted appropriations, as more fully explained in Exhibit A-3 below.

Department of Education
State of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2009

Changes in Net Assets. Total government-wide net assets decreased by \$18.0 million, primarily due to lower state allotted appropriations, partially offset by increased grant revenues and higher appropriated employee fringe benefits, causing higher school-related expenses, as noted in Exhibit A-3 below.

**Exhibit A-3
Government-Wide
Changes in Net Assets
Fiscal Years 2009 and 2008
(Amounts in millions)**

	Governmental activities		2009 Compared to 2008	
	2009	2008	Increase (decrease)	% Change
Revenues				
Program revenues:				
Charges for services	\$ 47.1	\$ 43.0	\$ 4.1	10%
Operating grants and contributions	276.3	238.7	37.6	16
General revenues:				
State allotted appropriations, net of lapses	1,854.0	1,916.2	(62.2)	(3)
Nonimposed employee fringe benefits	471.5	409.2	62.3	15
Unrestricted investment earnings	(1.6)	0.3	(1.9)	(633)
Total	<u>2,647.3</u>	<u>2,607.4</u>	<u>39.9</u>	<u>2</u>
Expenses				
School-related	2,245.9	2,135.8	110.1	5
State and complex area administration	75.5	89.7	(14.2)	(16)
Public libraries	42.6	49.5	(6.9)	(14)
Capital outlay	69.3	57.8	11.5	18
Total	<u>2,433.3</u>	<u>2,332.8</u>	<u>100.5</u>	<u>4</u>
Transfers, net	<u>(232.0)</u>	<u>(229.0)</u>	<u>(3.0)</u>	<u>1</u>
Change in net assets	<u>\$ (18.0)</u>	<u>\$ 45.6</u>	<u>\$ (63.6)</u>	<u>(139%)</u>

Overall Results of Operations. As shown above, the DOE's results of operations for FY 2008-09 have resulted in a decrease in net assets of \$18.0 million, representing a decline in the DOE's financial position. School-related expenditures increased by 5% compared to the prior year; however, those costs were well within the total revenue levels. Capital outlays were higher, with numerous capital projects completed or in progress during FY 2008-09. Please refer to the "Capital Asset and Debt Administration" section below for further details.

Individual Funds. Within the "Governmental Funds" financial statements, for the various fund sources (including general, federal, capital projects and other funds), FY 2008-09 has resulted in a net positive fund balance for the governmental funds as of June 30, 2009. Restrictions or commitments of fund balances are designated on the "Governmental Funds" balance sheet as "reserved for encumbrances" and "reserved for

Department of Education
State of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2009

continuing appropriations.” Please refer to *Note G – Fund Balance* for more information on those fund balances. The DOE does not expect these restrictions to significantly affect the availability of fund resources for future use.

Budget Results. Variations of “Final” compared to “Original” budgeted amounts as reported on the *Statements of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Fund* are primarily due legislative appropriations for collective bargaining increases. For the general fund, the DOE is allowed to carryover up to 5% of any appropriation at the end of the fiscal year. As of June 30, 2009, general funds carried over totaled to \$16 million, representing 1% of appropriations. For federal funds, since most grants stipulate a 27-month expenditure period, expenditures during a specific fiscal year may exceed revenues, due to the timing of expenditures compared to receipts. The DOE expended \$43.5 million less than it received in federal funds during FY 2008-09; this merely reflects the timing of expenditures versus grants that may have been received during the prior year.

EXPLANATION OF MAJOR DEPARTMENTAL PROGRAMS

The State Budget is organized by major program areas. The Department's major programs are:

<u>Program</u>	<u>Program Title</u>	<u>Program Description</u>
EDN 100	School-Based Budgeting	Instructional services, curriculum programs, at-risk programs.
EDN 150	Comprehensive Student Support Services	Special needs assessment, special education services, school-based behavioral health services, and other related services required for a free and appropriate public education, autism services, and professional development.
EDN 200	Instructional Support	Curriculum support, assessment, planning, information technology support, and school leadership training.
EDN 300	State and Complex Administration	Board of Education, Superintendent, Complex Area Superintendents, budget, communications, civil rights compliance, internal audit, business services, human resources, and information technology.
EDN 400	School Support	School food services, utilities, custodial services, repair and maintenance, and student transportation.
EDN 407	Hawaii State Public Library System	The Hawaii State Public Library System is included in the Department of Education's combined financial statements since both the Library System and the Department are administratively and legally supervised by the Hawaii State Board of Education.
EDN 500	Sch. Community Services	After school care and adult education.
EDN 600	Public Charter Schools	Public charter schools.
EDN 915	Debt Service Payments	Principal and interest payments on long-term debt.
EDN 941	Retirement Benefits	Retirement benefit payments.
EDN 943	Health Premiums	Health premium payments.

Department of Education
State of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2009

Exhibit A-4 summarizes the Department's revenue. Revenues are primarily from state general funds (taxpayer monies). Other revenues are from federal grants, special funds to support specific programs such as cafeteria collections for school food services, and donations.

Exhibit A-4

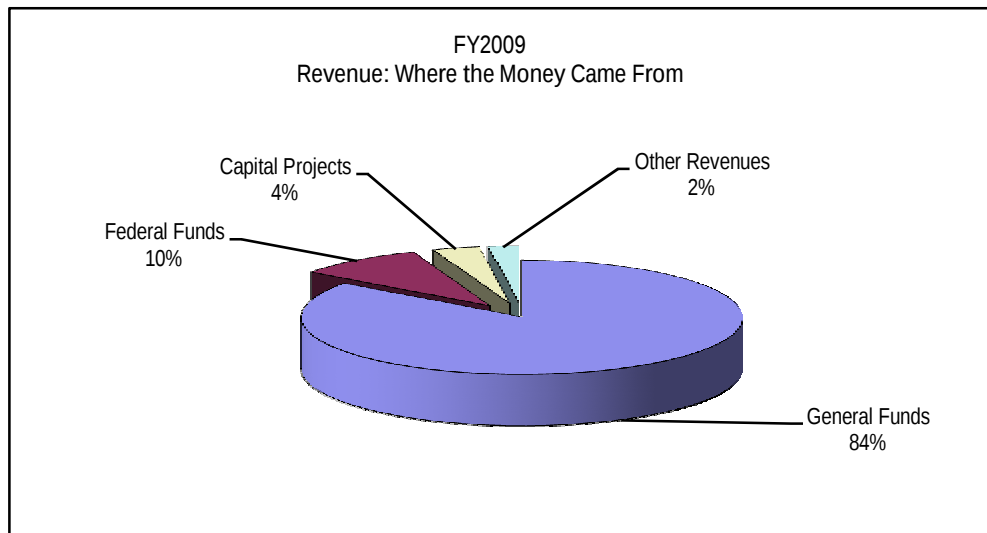
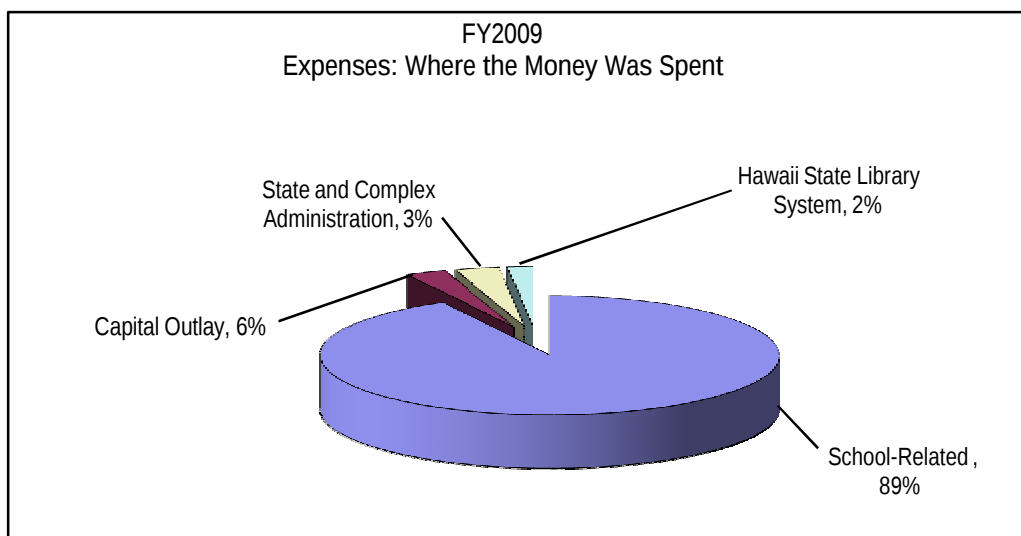


Exhibit A-5 summarizes the Department's expenses. A total of 92% of Department expenditures are for school-level instructional and related programs in EDN 100, 150, 400, 500, 600, 915, 941 and 943, while only 3% are for State and Complex Area Administration.

Exhibit A-5



Department of Education
State of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2009

GENERAL FUND BUDGETARY HIGHLIGHTS

The Department was appropriated general funds of \$2,234.3 million in FY2008-09.

State law permits the Department to "carryover" up to 5% of general fund appropriations from one fiscal year to the next. The Department carried over \$16.4 million in FY2008-09 general fund appropriations for expenditures in FY2009-10. Carryover funds enable schools to make long-range fiscal plans, save for major purchases for which single year funding may not be sufficient, and provide funds to start the next school year. Under the Department's single school calendar, schools start their school year in July statewide, within weeks of the beginning of the fiscal year.

AGENCY FUNDS

Agency funds, or "local school funds," are held for students in a custodial capacity and do not require deposit into the State Treasury. The fund contains monies collected and maintained by schools for students. Examples include yearbook, newspaper fund, student government dues, physical education uniform sales, and excursions. The funds are used for school activities that take place outside formal class periods and are not required for class work or credit.

Agency fund net assets were \$20.4 million in FY2008-09 representing a 7% increase from the prior fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Department's capital improvement program (CIP) strives to provide facilities that are well placed, sufficient in number, flexible, functional, and creatively designed to accommodate population changes, support educational programs, and promote health and safety of students, employees, and the public. The Departments of Accounting and General Services, Land and Natural Resources, and Budget & Finance assist the Department with various aspects of capital improvement.

Buildings, building improvements, and land improvements less than \$100,000 are not reported as capital assets. This year's capital improvements are summarized as follows:

Representative Highlights of Major CIP Projects Completed

Major Buildings

August Ahrens Elementary School, Special Education Renovation A/C Rooms 19A and 19B
Mililani High School, 10-Classroom Building
Kealahou Intermediate School, Admin/Library and Renovation of Existing Spaces

Portable Classrooms (quantity):

De Silva Elementary School (1)
Keoneula Elementary School (3)
Waimea Elementary School (2)
Webling Elementary School (2)

Department of Education
State of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2009

Representative Highlights of Major Repair and Maintenance Work Completed

Multi-Component Repair and Maintenance Projects:

Molokai High & Intermediate School, Disconnecting Cesspools
Moanalua Elementary School, Building C, Replace Both A/C Units

Electrical Upgrades:

Aiea High School, Electrical System Improvements
Keaau Middle School, Building A, Replace Electrical Conduits & Upgrade Panel

Reroofing:

Central Middle School, Reroof Building G
Farrington High School, Building A (Wing 9), Reroof and Replace Soffit
Kahala Elementary School, Reroof Building G and OCIS Annex Building 302
Wahiawa Middle School, Reroof Building A, C, and F
Waipahu Intermediate School, Reroof Building C
Webling Elementary School, Reroof Building D

Other Significant Work:

Kamehameha III Elementary School, Site Work for 2 Temporary Facilities
Konawaena High School, Campus Elevator, Extend Landing Improvements
Leilehua High School, Building X, Remove Diesel Tank

Repairs and Maintenance (R&M) funds were primarily used to fund projects that ranged from informally bid projects of less than \$100,000, to major renovation work that costs several million dollars. Statewide, \$18.5 million was expended in FY 2008-09 on R&M projects that were funded by CIP appropriations.

Whole School Classroom Renovations Statewide

A total of \$40 million in general fund appropriations for whole school classroom renovations was released by the Governor in FY 2007-08. As of June 30, 2009, \$35.9 million has been expended for consultant design services and construction, and \$3.4 million was encumbered but not yet expended. A total of \$100 million for whole school classroom renovations was appropriated by the 2008 legislature and released by the Governor as of November 2008. As of June 30, 2009, \$13.9 million has been expended for construction, and \$83.6 million was encumbered but not yet expended.

Status of final phase of whole school classroom renovations for 96 schools as of June 30, 2009:

20	Schools Completed from FY 2007 through FY 2009
23	Under Construction
14	Bidding Completed, Pending Award or Notice to Proceed
2	Design Completed, Pending Bid Phase
30	Design Completed, Additional Appropriation Required for Construction
7	Deferred Due to Closure or Change in School Status
96	Total Schools

Department of Education
State of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2009

The following whole school classroom renovation projects were completed during FY 2008-09:

Linapuni Elementary School
Puuhale Elementary School
Iliahi Elementary School
Makalapa Elementary School
Solomon Elementary School
Webling Elementary School
Hookena Elementary School
Konawaena Middle School
Waiakeawaena Elementary School
Waimea Elementary School
Kihei Elementary School
Lahaina Intermediate School
Keaukaha Elementary School
Enchanted Lakes Elementary School

The Department's long-term debt is managed by the Department of Budget and Finance; however, general fund appropriations for interest payment and debt retirement are included in the Department's budget. Interest payments and debt retired were \$236.9 million in FY2008-09, representing a 5% increase from the prior fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The State of Hawaii has been adversely affected by the economic recession that has occurred nationally and globally. The International Monetary Fund (IMF), in its October 2009 World Economic Outlook, expects world output to shrink by 1.1 percent in 2009, making 2009 the worst year for the global economy since the end of World War II. The United States officially entered a recession in 2007 that has continued through 2009, and national economic forecasts indicate a "bottoming out" of the recession during 2010.

Forecasts for Hawaii's economy depend significantly on growth in the U.S. economy, and in key international economies, especially in Japan. In the opinion of several local Hawaii economists, they expect 2010 to be a year of "stabilization," and in their view, it will likely be 2011 before sustained Hawaii economic recovery sets in, despite an improving picture at the U.S. national level, and tenuous recovery in Japan.

The statewide seasonally adjusted unemployment rate for Hawaii was 7.4% for the month of September 2009, compared to the seasonally adjusted national unemployment rate of 9.8% for the same period. One year ago, the State's seasonally adjusted unemployment rate stood at 4.6%, while the seasonally adjusted national unemployment rate was 6.2%.

Cumulative Hawaii tax collections for the first four months of fiscal year 2009-10 exceeded \$1.6 billion, but were \$182.3 million less than the corresponding period last year. General excise and use taxes, which are the largest source of revenue and a good measure of economic growth, decreased 13.2% in the same period.

Department of Education
State of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2009

The Hawaii Council on Revenues in September 2009 estimated that the State general fund growth rate would be minus 9.5% in fiscal year 2008-09, and minus 1.5% for fiscal year 2009-10. Actual State general fund tax collections declined by 10.0% in the first four months of fiscal year 2009-10 over the corresponding 2008-09 period. Lower general excise and use tax collections were the primary factors underlying this weak performance.

Tourist arrivals for the first four months of the fiscal year increased by 2.0% to 2.0 million visitors to the state. This trend is expected to continue for the rest of the year; however, visitor expenditures were 9.1% lower than the prior year activity.

Governor Linda Lingle and the State Legislature have reduced State budget appropriations, and are attempting to address the further declines in state revenues and their impact on State budgets. For FY 2008-09, the Legislature reduced the Department's general fund budget by \$10 million. In addition, the Governor imposed budgetary restrictions during FY 2008-09, amounting to an additional \$38 million.

Due to State projections of budget shortfalls approaching \$1 billion over the next two years, the State has implemented layoffs of personnel, and the Hawaii Board of Education and Hawaii Department of Education have negotiated with certain unions to implement "furloughs," approved by the Governor for FY 2009-10, representing temporary stoppages of work days, without pay for personnel. These furloughs have caused significant public concern over the closures of public schools during those days. The Governor, Hawaii Board of Education, Hawaii Department of Education, and unions are in discussions to attempt to resolve this situation.

FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE DEPARTMENT

In anticipation of future budgetary constraints, the Department of Education has reviewed options for budget adjustments, and has presented alternatives to the Board of Education for consideration. The debate over how to overcome the State's budget crisis has extended into the State Legislature's 2010 session.

The Department continues its implementation of the weighted student formula, giving schools increased budgetary decision-making flexibility, authority, and accountability. The Committee on Weights, established by statute, reviews the weighted student formula annually, and makes recommendations to the Board of Education as to improvements or changes to the formula.

In accordance with the No Child Left Behind Act, the Hawaii DOE has made substantial progress in reading and mathematics proficiencies, at levels consistent with the State's plan to meet full proficiencies by the year 2013-14.

The Department's financial reporting goal is to provide its financial information to school-level personnel and the public in a transparent manner. There is a critical need for more financial reports that are easily understood by non-fiscal personnel, and more easily used for financial management. Accordingly, the Department has developed detailed specifications required to replace its aging financial systems, and has presented this information to the State Legislature for review and to explore funding options.

Department of Education
State of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2009

On February 17, 2009, President Barack Obama signed the American Recovery and Reinvestment Act (ARRA) of 2009. The Department has received approximately \$78 million in grant awards, as additional funding for existing federal grants, i.e. for Title I Educational Opportunities for the Disadvantaged; educational technology; and the Individuals with Disabilities Education Act (IDEA), Education for the Homeless; Special Education Preschool; and Child Nutrition. The Department is expending these funds in accordance with the requirements of ARRA.

Governor Linda Lingle has received additional funding for the State Fiscal Stabilization Fund (SFSF) portion of ARRA, Part A, Education Stabilization, totaling to \$110 million. The Governor's plan is to allocate \$52 million of Part A for the DOE. These funds are being used to offset general fund payroll expenses, as pay periods are incurred. The Department is transmitting its pay-period-by-pay-period information to the State Department of Budget and Finance to obtain reimbursement. The Governor has received Stabilization Funds Part B, Government Services, in the amount of \$35 million. There has been no information from the Governor's Office as to whether any of these Part B funds will be allocated to the DOE.

The ARRA also provides the U.S. Department of Education with \$4.35 billion to be used for a competitive grant program, called "Race To The Top." More information is available at the U.S. Department of Education website: www.ed.gov. This program is designed to encourage and reward states that are creating the conditions for education innovation and reform; achieving significant improvement in student outcomes, including making substantial gains in student achievement; closing achievement gaps; improving high school graduation rates, and ensuring student preparation for success in college and careers; and implementing ambitious plans in four (4) core education reform areas:

- Adopting standards and assessments that prepare students to succeed in college and the workplace and to compete in the global economy;
- Building data systems that measure student growth and success, and inform teachers and principals about how they can improve instruction;
- Recruiting, developing, rewarding and retaining effective teachers and principals, especially where they are needed the most; and
- Turning around our lowest-achieving schools.

Many states across the country submitted applications for this important competitive grant. The process for application is separated in two phases: Phase 1 applications are due on January 19, 2010, with state awards to be announced in April 2010. Phase 2 applications are due on June 1, 2010, with state awards to be announced in September 2010. In addition, President Barack Obama has proposed a third round of funding for "Race To The Top" in the 2011 Congressional budget.

The DOE submitted its Phase 1 application. On March 4, 2010, U.S. Secretary of Education Arne Duncan announced that fifteen (15) states and the District of Columbia had been chosen as finalists out of 41 state applicants in Phase 1. Unfortunately, Hawaii was not one of those states named as finalists. Secretary Duncan stated that "very few" of the fifteen state finalists would be named as winners in April. At least half of the \$4 billion will be reserved for Phase 2 of the competition. The DOE plans to submit an application

Department of Education
State of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2009

for Phase 2. Over the next few months, the DOE will work closely with educators, legislators, policy makers, and community partners to strengthen and improve our Phase 2 Race To The Top application.

CONTACTING THE DEPARTMENT'S FINANCIAL MANAGEMENT

The financial report is designed to provide the public with a general overview of the Department's finances and demonstrate the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Office of the Fiscal Services, Department of Education, P.O. Box 2360, Honolulu, Hawaii 96804. For general information about the Department, please refer to the Department's website at doe.k12.hi.us.

Department of Education
State of Hawaii

STATEMENT OF NET ASSETS

June 30, 2009

ASSETS	Governmental Activities
CURRENT ASSETS	
Cash	\$ 288,552,496
Receivables	
Due from federal government	34,809,403
Due from other agencies	2,072,739
Accounts receivable	1,006,147
Total current assets	326,440,785
CAPITAL ASSETS, net of accumulated depreciation	1,078,722,039
TOTAL ASSETS	<u>\$ 1,405,162,824</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Vouchers and contracts payable	\$ 52,722,692
Accrued wages and employee benefits	128,179,839
Accrued compensated absences	14,922,646
Workers' compensation claims reserve	9,728,654
Deferred revenues	5,728,683
Due to State of Hawaii General Fund	5,066,779
Due to other funds	395,547
Total current liabilities	216,744,840
ACCRUED COMPENSATED ABSENCES, less current portion	41,191,660
WORKERS' COMPENSATION CLAIMS RESERVE, less current portion	38,383,960
Total liabilities	<u>296,320,460</u>
NET ASSETS	
Investment in capital assets	1,078,722,039
Restricted	67,146,468
Unrestricted	(37,026,143)
Total net assets	<u>1,108,842,364</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,405,162,824</u>

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

Department of Education
State of Hawaii

STATEMENT OF ACTIVITIES

Fiscal year ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		Net revenue (expenses) and change in net assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities				
School-related	\$ 2,245,915,884	\$ 43,621,476	\$ 275,140,878	\$ (1,927,153,530)
State and complex area administration	75,554,709	822,290	9,678	(74,722,741)
Public libraries	42,561,048	2,679,818	1,175,924	(38,705,306)
Capital outlay	69,283,651	-	-	(69,283,651)
Total governmental activities	<u>\$ 2,433,315,292</u>	<u>\$ 47,123,584</u>	<u>\$ 276,326,480</u>	(2,109,865,228)
General revenues				
State allotted appropriations, net of lapses				1,853,963,060
Nonimposed employee fringe benefits				471,460,241
Unrestricted investment losses				<u>(1,584,281)</u>
Total general revenues				2,323,839,020
Other financing sources (uses)				
Transfers in				5,099,056
Transfers out				<u>(237,058,211)</u>
Net transfers				<u>(231,959,155)</u>
Change in net assets				(17,985,363)
Net assets at July 1, 2008				<u>1,126,827,727</u>
Net assets at June 30, 2009				<u><u>\$ 1,108,842,364</u></u>

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

Department of Education
State of Hawaii

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2009

ASSETS	General	Federal	Capital Projects	Other	Total
Cash	\$ 134,695,131	\$ 52,065,561	\$ 46,150,443	\$ 55,641,361	\$ 288,552,496
Receivables					
Due from federal government	-	34,809,403	-	-	34,809,403
Due from other agencies	-	-	-	2,072,739	2,072,739
Accounts receivable	-	-	-	1,006,147	1,006,147
TOTAL ASSETS	<u>\$ 134,695,131</u>	<u>\$ 86,874,964</u>	<u>\$ 46,150,443</u>	<u>\$ 58,720,247</u>	<u>\$ 326,440,785</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Vouchers and contracts payable	\$ 20,027,848	\$ 6,807,635	\$ 23,972,131	\$ 1,915,078	\$ 52,722,692
Accrued wages and employee benefits payable	119,746,625	6,796,631	278,024	1,358,559	128,179,839
Deferred revenues	-	5,728,683	-	-	5,728,683
Due to State of Hawaii General Fund	5,066,779	-	-	-	5,066,779
Due to other funds	-	395,547	-	-	395,547
Total liabilities	<u>144,841,252</u>	<u>19,728,496</u>	<u>24,250,155</u>	<u>3,273,637</u>	<u>192,093,540</u>
Fund balances					
Reserved for encumbrances	90,905,210	20,011,382	237,308,150	4,151,320	352,376,062
Reserved for continuing appropriations	14,245,854	-	-	-	14,245,854
Unreserved	<u>(115,297,185)</u>	<u>47,135,086</u>	<u>(215,407,862)</u>	<u>51,295,290</u>	<u>(232,274,671)</u>
Total fund balances	<u>(10,146,121)</u>	<u>67,146,468</u>	<u>21,900,288</u>	<u>55,446,610</u>	<u>134,347,245</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 134,695,131</u>	<u>\$ 86,874,964</u>	<u>\$ 46,150,443</u>	<u>\$ 58,720,247</u>	<u>\$ 326,440,785</u>

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

Department of Education
State of Hawaii

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2009

Total fund balances- governmental funds \$ 134,347,245

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Capital assets	\$ 2,175,113,301	
Less accumulated depreciation	<u>(1,096,391,262)</u>	1,078,722,039

Accrued compensated absences liability is not due in
the current period and therefore is not reported in
the funds. (56,114,306)

Accrued workers' compensation liability is not due in
the current period and therefore is not reported in
the funds. (48,112,614)

Net assets of governmental activities \$ 1,108,842,364

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

Department of Education
State of Hawaii

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Fiscal year ended June 30, 2009

	<u>General</u>	<u>Federal</u>	<u>Capital Projects</u>	<u>Other</u>	<u>Total</u>
Revenues					
State allotments, net	\$ 2,236,075,177	\$ -	\$ 89,348,124	\$ -	\$ 2,325,423,301
Intergovernmental revenues	-	264,306,511	-	-	264,306,511
Other revenues	-	-	-	56,659,677	56,659,677
	<u>2,236,075,177</u>	<u>264,306,511</u>	<u>89,348,124</u>	<u>56,659,677</u>	<u>2,646,389,489</u>
			(835,452)		
Expenditures			146,703,477		
School-related	1,906,667,112	220,053,980	-	47,761,546	2,174,482,638
State and complex area administration	74,046,526	13,684	-	593,598	74,653,808
Public libraries	37,535,340	1,171,772	-	2,704,932	41,412,044
Capital outlay	-	-	147,538,929	-	147,538,929
	<u>2,018,248,978</u>	<u>221,239,436</u>	<u>147,538,929</u>	<u>51,060,076</u>	<u>2,438,087,419</u>
Excess (deficiency) of revenues over expenditures	<u>217,826,199</u>	<u>43,067,075</u>	<u>(58,190,805)</u>	<u>5,599,601</u>	<u>208,302,070</u>
Other financing sources (uses)					
Transfers in	-	-	5,099,056	-	5,099,056
Transfers out	<u>(236,896,511)</u>	<u>-</u>	<u>(161,700)</u>	<u>-</u>	<u>(237,058,211)</u>
Net transfers	<u>(236,896,511)</u>	<u>-</u>	<u>4,937,356</u>	<u>-</u>	<u>(231,959,155)</u>
Net changes in fund balances	(19,070,312)	43,067,075	(53,253,449)	5,599,601	(23,657,085)
Fund balances at July 1, 2008	<u>8,924,191</u>	<u>24,079,393</u>	<u>75,153,737</u>	<u>49,847,009</u>	<u>158,004,330</u>
Fund balances at June 30, 2009	<u>\$ (10,146,121)</u>	<u>\$ 67,146,468</u>	<u>\$ 21,900,288</u>	<u>\$ 55,446,610</u>	<u>\$ 134,347,245</u>

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

Department of Education
State of Hawaii

RECONCILIATION OF THE CHANGE IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Fiscal year ended June 30, 2009

Net change in fund balances - total governmental funds \$ (23,657,085)

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

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets are depreciated over their estimated useful lives.

Capital assets recorded in the current period	\$ 82,482,366	
Loss on disposal of capital assets	(3,280,856)	
Less current fiscal year depreciation	<u>(66,483,022)</u>	12,718,488

Change in long-term compensated absences reported in the
statement of activities do not require the use of current
financial resources and therefore are not reported as
expenditures in governmental funds. (5,749,290)

Change in workers' compensation liability reported in the
statement of activities do not require the use of current
financial resources and therefore are not reported as
expenditures in governmental funds. (1,297,476)

Change in net assets of governmental activities \$ (17,985,363)

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

Department of Education
State of Hawaii

STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND

Fiscal year ended June 30, 2009

	Budgeted Amounts		Actual on	Variance
	Original	Final	budgetary	favorable
			basis	(unfavorable)
Revenues				
State allotments	<u>\$ 2,190,284,778</u>	<u>\$ 2,234,296,784</u>	<u>\$ 2,236,075,177</u>	<u>\$ 1,778,393</u>
Expenditures:				
School-related	2,146,110,818	2,178,454,481	2,166,219,660	12,234,821
State and complex area administration	55,862,159	67,528,002	65,158,288	2,369,714
Public libraries	<u>29,291,368</u>	<u>29,293,868</u>	<u>29,290,019</u>	<u>3,849</u>
	<u>2,231,264,345</u>	<u>2,275,276,351</u>	<u>2,260,667,967</u>	<u>14,608,384</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (40,979,567)</u>	<u>\$ (40,979,567)</u>	<u>\$ (24,592,790)</u>	<u>\$ 16,386,777</u>

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

Department of Education
State of Hawaii

STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (BUDGETARY BASIS) - FEDERAL FUND

Fiscal year ended June 30, 2009

	Budgeted Amounts		Actual on	Variance
	Original	Final	budgetary	favorable
			basis	(unfavorable)
Revenues				
Federal grants	\$263,212,546	\$356,598,336	\$254,866,788	\$(101,731,548)
Expenditures:				
School-related	261,757,302	354,094,722	210,050,485	144,044,237
State and complex area				
administration	90,000	1,138,370	7,589	1,130,781
Public libraries	1,365,244	1,365,244	1,283,086	82,158
	<u>263,212,546</u>	<u>356,598,336</u>	<u>211,341,160</u>	<u>145,257,176</u>
Excess (deficiency)				
of revenues over				
expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,525,628</u>	<u>\$ 43,525,628</u>

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

Department of Education
State of Hawaii

STATEMENT OF ASSETS AND LIABILITIES - AGENCY FUNDS

June 30, 2009

ASSETS

Cash and cash equivalents	<u>\$20,443,762</u>
TOTAL ASSETS	<u><u>\$20,443,762</u></u>

LIABILITIES

Due to student group and others	<u>\$20,443,762</u>
TOTAL LIABILITIES	<u><u>\$20,443,762</u></u>

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

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A – FINANCIAL REPORTING ENTITY

1. Introduction

The Department of Education of the State of Hawaii (DOE), administers the statewide system of public schools and public libraries. Additionally, the DOE is responsible for administering state laws regarding regulation of private school operations through a program of inspection and licensing and the professional certification of all teachers for every academic and non-college type of school. Federal grants received to support public school and public library programs are administered by the DOE on a statewide basis.

The DOE is a part of the executive branch of the State of Hawaii (State). The financial statements of the DOE are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the DOE. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2009, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State annually which includes the DOE's financial activities.

2. Reporting Entity

The DOE has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the DOE are such that exclusion would cause the DOE's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. The DOE has determined, based on the GASB criteria, that it has no component units.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the DOE have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB.

1. Government-Wide and Fund Financial Statements

The government-wide financial statements report all assets, liabilities, and activities of the DOE as a whole. The fiduciary funds are excluded from the government-wide financial statements because the DOE cannot use those assets to finance its operations. Governmental activities are primarily supported by State allotments and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Government-Wide and Fund Financial Statements (continued)

function. State allotments are reported as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the DOE's policy to use restricted resources first, then unrestricted as they are needed.

Separate financial statements are provided for governmental funds and fiduciary funds. However, the fiduciary funds are not included in the government-wide statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Non-major funds are summarized into a single column.

2. Measurement Focus, Basis of Accounting and Financial Statement Presentation

a. Government-Wide Financial Statements

The government-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 the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

b. Governmental Fund Financial Statements

The governmental fund 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. For this purpose, the DOE considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end.

Principal revenue sources considered susceptible to accrual include federal grants. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with generally accepted accounting principles since they have been earned and are expected to be collected within sixty days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the DOE.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation and

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

b. Governmental Fund Financial Statements (continued)

workers' compensation claims which are recorded as an expenditure when utilized or paid. The amount of accumulated vacation and reserve for workers' compensation claims at June 30, 2009, has been reported only in the government-wide financial statements.

c. Fiduciary Funds

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

3. Fund Accounting

The financial transactions of the DOE are recorded in individual funds that are reported in the fund financial statements and are described in the following sections. Each fund is considered a separate accounting entity. The operations of each are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The fund financial statements focus on major funds rather than reporting funds by type. Each major fund is reported in separate columns and non-major funds are combined in one column. Major funds are funds which have total assets, liabilities, revenues or expenditures of the fund that are at least ten percent of the same element for all funds of its fund type or at least five percent of the same element for all governmental funds combined.

a. Governmental Funds

General Fund- The general fund is the general operating fund of the DOE. It is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.

Special Revenue Funds- Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts) that are legally restricted to expenditures for specified purposes. Special revenue funds include the federal fund which accounts for grants received from the federal government, directly or indirectly.

Capital Projects Funds- The capital projects fund, which includes amounts related to the capital improvement program, is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Fund Accounting (continued)

b. Fiduciary Fund Type

Agency Funds- Agency funds are used to account for assets held by the DOE on behalf of outside parties, or on behalf of individuals. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations.

4. Cash

Cash and cash equivalents include certificates of deposit with original maturities of three months or less. It also includes amounts held in the State Treasury. The Director is responsible for safekeeping of all moneys paid into the State Treasury (cash pool). The Director may invest any monies of the State, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or participates in the State Treasury Investment Pool system. Cash accounts that participate in the investment pool accrue interest based on the weighted average cash balances of each account.

The State's investment pool as of June 30, 2009 included auction rates securities collateralized by student loans. During 2008, a number of the auctions failed and companies without the ability to hold such securities until maturity have taken significant losses. As of June 30, 2009, the State recorded an adjustment for the decrease in fair value of these investments. The DOE's allocated share of the adjustment was approximately \$2,205,000. This amount was recorded in the government-wide financial statements as a reduction in cash in the statement of net assets and unrestricted investment earnings in the statement of activities. In the governmental funds this amount was recorded as a reduction in cash in the balance sheet and other revenues in the statement of revenues, expenditures and changes in fund balances – other funds.

Information relating to custodial credit risk of cash deposits and interest rate risk, credit risk, custodial risk, and concentration of credit risk of investments in the State Treasury is available on a statewide basis and not for individual departments or agencies.

5. Capital Assets

Capital assets include land, improvements to land, buildings, building improvements, vehicles, machinery, equipment, and all other tangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

Capital assets are valued at cost where historical records are available and at estimated historical cost where no records exist. Donated capital assets are valued at their estimated fair value on the date received.

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Capital Assets (continued)

Improvements to capital assets that materially add to the value or extend the life of the assets are capitalized. Other repairs and normal maintenance are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation expense is recorded in the government-wide financial statements. The DOE utilizes the straight-line method over the assets' estimated useful life. No depreciation is recorded for land and certain land improvements. The DOE has adopted the following capitalization policy:

<u>Asset type</u>	<u>Minimum capitalization amount</u>	<u>Estimated useful life</u>
Land	All	Not applicable
Land improvements	\$100,000	15 years
Buildings and improvements	\$100,000	30 years
Furniture and equipment	\$5,000	7 years
Motor vehicles	\$5,000	5 years
Public library materials	All	5 years

6. Deferred Revenues

Deferred revenues at the fund level and government-wide level arise when the DOE receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the DOE has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized. Deferred revenues consist primarily of federal grant funds.

7. Accumulated Vacation

Employees are credited with vacation at the rate of 96 to 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net assets.

8. Appropriations

Appropriations represent the authorizations granted by the State Legislature that permit a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are generally allotted annually. General fund allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year, unless the DOE receives permission to carryover such funds. The law permits the DOE to carryover up to five percent of general fund appropriations, for school level instruction and comprehensive school support services, from one fiscal year to the next.

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Program Revenues

Program revenues are derived directly from the programs of the DOE or from parties outside of the DOE and are categorized as charges for services, operating grants and contributions, or capital grants and contributions.

Charges for services – Charges for services include revenues based on exchange or exchange-like transactions. These revenues arise from charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided. Revenues in this category include fees charged for meals served, educational classes, use of facilities, transportation services, and use of library materials.

Operating grants and contributions – Program-specific operating and capital grants and contributions include revenues arising from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program. Governmental grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred.

10. 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 have been recorded as operating transfers in the basic financial statements.

11. Risk Management

The DOE is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

12. Use of Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE C – BUDGETING AND BUDGETARY CONTROL

Revenue estimates are provided to the State Legislature at the time of budget consideration, and revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues and budgeted expenditures in the budgetary comparison schedules of the general and federal funds are derived primarily from acts of the State Legislature and from other authorizations contained in other specific appropriation acts in various Session Laws of Hawaii. To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations such as those related to the federal funds.

However, Section 37-41.5 of the Hawaii Revised Statutes allows the DOE to carryover up to five percent each of any appropriation at the end of the fiscal year except for appropriations to fund certain financing agreements. These carryover funds, to the extent not expended or encumbered, lapse at June 30 of the first fiscal year of the next fiscal biennium. As of June 30, 2009, general funds carried over amounted to approximately \$16,387,000, representing less than 1% of appropriations.

For purposes of budgeting, the DOE's budgetary fund structure and accounting principles differ from those utilized to present the fund financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). The DOE's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to (1) the encumbrances of purchase orders and contract obligations, (2) the recognition of certain receivables, and (3) special revenue funds operating grants accruals and deferrals. These differences represent a departure from GAAP.

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the fiscal year ended June 30, 2009.

	General	Federal
Excess (deficiency) of revenues over expenditures – actual on a budgetary basis	\$ (24,592,790)	\$ 43,525,628
Reserved for encumbrances at fiscal year end	90,905,210	20,011,382
Expenditures for liquidation of prior fiscal year encumbrances	(100,161,465)	(21,496,967)
Net accrued revenues and expenditures	14,778,733	1,027,032
Budgeted transfers out (in)	236,896,511	–
Excess (deficiency) of revenues over (under) expenditures – GAAP basis	<u>\$ 217,826,199</u>	<u>\$ 43,067,075</u>

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE D – CASH AND CASH EQUIVALENTS

1. Custodial Credit Risk

Cash and deposits with financial institutions are collateralized in accordance with State statutes. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

The DOE also maintains cash in banks which is held separately from cash in the State Treasury. As of June 30, 2009, the carrying amount of total bank deposits was approximately \$6,529,000 and the corresponding bank balances were approximately \$2,768,000. Of this amount, the entire balance is insured by the Federal Deposit Insurance Corporation and collateralized with securities held by the DOE's agent.

2. Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

3. Credit Risk

The State's investment policy limits investments in State and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating.

4. Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping, certain types of securities to collateralized repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

5. Concentration of Credit Risk

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE E – CAPITAL ASSETS

The changes in capital assets were as follows:

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
Governmental activities				
Capital asset, not being depreciated				
Land	\$ 84,201,746	\$ 46,663	\$ —	\$ 84,248,409
Land improvements	6,014,060	—	—	6,014,060
Construction in progress	64,051,790	60,311,822	57,325,316	67,038,296
Total capital assets not being depreciated	154,267,596	60,358,485	57,325,316	157,300,765
Capital assets, being depreciated				
Land improvements	117,461,537	32,726,989	—	150,188,526
Buildings and improvements	1,685,412,039	30,665,389	—	1,716,077,428
Furniture and equipment	78,626,104	11,186,211	7,665,494	82,146,821
Public library materials	69,701,203	4,870,608	5,172,050	69,399,761
Total capital assets being depreciated	1,951,200,883	79,449,197	12,837,544	2,017,812,536
Less accumulated depreciation for:				
Land improvements	62,372,644	6,315,832	—	68,688,476
Buildings and improvements	866,473,109	47,758,228	—	914,231,337
Furniture and equipment	57,926,861	5,583,161	4,537,292	58,972,730
Public library materials	52,692,314	6,825,801	5,019,396	54,498,719
Total accumulated depreciation	1,039,464,928	66,483,022	9,556,688	1,096,391,262
Governmental activities, net	<u>\$1,066,003,551</u>	<u>\$ 73,324,660</u>	<u>\$ 60,606,172</u>	<u>\$1,078,722,039</u>

Depreciation expense was charged to functions as follows:

	Governmental activities
School-related	\$57,779,794
State and complex area administration	785,916
Public libraries	7,917,312
Total additions to accumulated depreciation	<u>\$66,483,022</u>

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE F – LONG-TERM LIABILITIES

The change in the long-term liabilities during the fiscal year ended June 30, 2009 was as follows:

	Accrued compensated absences	Workers' compensation claims
Balance at June 30, 2008	\$50,365,016	\$46,815,138
Additions	26,433,459	10,763,772
Reductions	20,684,169	9,466,296
Balance at June 30, 2009	<u>\$56,114,306</u>	<u>\$48,112,614</u>
Due within one year	<u>\$14,922,646</u>	<u>\$ 9,728,654</u>

The compensated absences and workers' compensation liabilities have been paid primarily by the general fund in the past.

NOTE G – FUND BALANCE

1. Reserved for Encumbrances

Reserved for encumbrances represent the portion of the fund balance that is segregated for expenditure on vendor performance.

2. Reserved for Continuing Appropriations

Reserved for continuing appropriations represent unencumbered allotment balances that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE H– LEASE COMMITMENTS

The DOE leases equipment from third party lessors under various operating leases expiring through 2019. Future minimum lease rentals under non-cancelable operating leases with terms of one year or more at June 30, 2009, were as follows:

Year ending June 30,	Amount
2010	\$ 6,096,000
2011	6,278,000
2012	3,955,000
2013	2,366,000
2014	1,096,000
2015-2019	1,795,000
	<u>\$21,586,000</u>

Total rent expense related to the above leases for the year ended June 30, 2009, amounted to approximately \$10,260,000.

NOTE I – RETIREMENT BENEFITS

1. Employees' Retirement System

Substantially all eligible employees of the DOE are required by Chapter 88, Hawaii Revised Statutes (HRS), to become 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. The ERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the ERS at City Financial Tower, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new non-contributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and person employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan 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 plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans 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.

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE I – RETIREMENT BENEFITS (continued)

1. Employees' Retirement System (continued)

On July 1, 2007, a new hybrid contributory plan became effective pursuant to Act 170, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 after 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. All members of the noncontributory plan and certain members of the contributory plan are eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, are required to join the hybrid plan.

Members of the ERS belong to either a contributory or noncontributory option. Only employees of the DOE hired on or before June 30, 1984 are eligible to participate in the contributory option. Members are required by State statute to contribute 7.8% of their salary to the contributory option and the DOE is required to contribute to both options at an actuarially determined rate. The portion of the contributions related to the DOE's general and special revenue funds are recorded as an expenditure of the respective funds in the financial statements. Contributions by the DOE for the fiscal year ended June 30, 2009, 2008, and 2007 were approximately \$187,907,000, \$166,507,000, and \$156,527,000, respectively. The contribution rates for the fiscal year ended June 30, 2009 was 15%, and for the fiscal years ended June 30, 2008, and 2007 was 13.75%.

2. Post-Retirement Health Care and Life Insurance Benefits

The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii public Employees Health Fund effective July 1, 2003, pursuant to Act 88, SLH 2001. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The State also contributes to the Hawaii State Teachers Association (HSTA) Voluntary Employees Beneficiary Association (VEBA) Trust that was established effective March 1, 2006. HSTA VEBA provides health benefits only to HSTA members, retirees, and their dependents. The eligibility requirements for retiree health benefits are the same for both plans as follows:

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE I – RETIREMENT BENEFITS (continued)

2. Post-Retirement Health Care and Life Insurance Benefits (continued)

For employees hired on or after July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

State Policy:

The actuarial valuation of the EUTF does not provide other postemployment benefits (OPEB) information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of the State's Annual Required Contribution (ARC), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in the State's Comprehensive Annual Financial Report (CAFR) or in stand-alone departmental financial statements. The basis for the allocation is the proportionate share or contributions made by each component unit and proprietary fund for retiree health benefits.

The DOE's general fund and special federal fund share of the expense for post-retirement health care and life insurance benefits for the fiscal year ended June 30, 2009 were approximately \$70,842,000 and \$3,695,000, respectively. The total expense of approximately \$74,537,000 is included in the basic financial statements.

The DOE's share of the expense for post-retirement health care and life insurance benefits for the fiscal years ended June 30, 2008 and 2007 were approximately \$107,291,000 and \$96,990,000, respectively.

State's CAFR includes Required Information:

The State's CAFR includes financial disclosure and required supplementary information on the State's pension and non-pension retirement benefits.

3. Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE I – RETIREMENT BENEFITS (continued)

3. Deferred Compensation Plan (continued)

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's or the DOE's basic financial statements.

NOTE J – RISK MANAGEMENT

The DOE is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally is at risk for the first \$250,000 per occurrence of property losses and the first \$4 million with respect to the general liability claims. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$100 million (\$40 million for earthquake and flood) and the annual aggregate for general liability losses per occurrence is \$10 million. The State also has an insurance policy to cover medical malpractice risk in the amount of \$20 million per occurrence with no annual aggregate limit. The State is generally self-insured for automobile claims.

The DOE is self-insured for workers' compensation and automobile claims. The DOE's estimated reserve losses and loss adjustment costs include the accumulation of estimates for losses and claims reported prior to fiscal year end, estimates (based on projections of historical developments) of claims incurred but not reported, and estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The DOE believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves are adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonable estimable.

NOTE K – COMMITMENTS AND CONTINGENCIES

1. Construction Contracts

The DOE is committed under contracts awarded and orders placed for construction, repairs and maintenance, expenses, supplies, etc. These commitments amounted to approximately \$250,245,000 as of June 30, 2009.

2. Litigation

The DOE is a party to various legal proceedings. Although the DOE and its counsel are unable to express opinions as to the outcome of the litigation, it is their opinion that any potential liability arising therefrom will not have a material adverse effect on the financial position of the DOE because any judgments against the DOE are judgments against the State and would be paid by the legislative appropriation of the State General Fund and not by the DOE.

Department of Education
State of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE L – FOOD DISTRIBUTION PROGRAM

U.S. Department of Agriculture (USDA), Food and Nutrition Service (FNS), has delegated to the Office of Hawaii Child Nutrition Programs (OHCNP) the administrative responsibility of the Food Distribution Program. OHCNP is the State Agency that distributes USDA foods to schools (public, private and charter), institutions and organizations that participate in the National School Lunch Program (NSLP) and Summer Food Service Program (SFSP). Hawaii's entitlement is determined in part by the number of lunches served under the NSLP and meals in SFSP of each year. The amount charged to the DOE entitlement is based upon the FNS estimated cost to purchase the commodities. The estimated commodity prices can be found by referring to:

<http://www.fns.usda.gov/fdd/pcims/Nov15CommodityFiles.htm> – FNS November 15 Commodity File Report for the SY 2009 Prices. Bonus commodities are USDA foods which are additional to Hawaii's entitlement balance.

The following is a summary of the value of USDA food received by the State during the fiscal year ended June 30, 2009.

	<u>Amount</u>
Basic allocation	\$2,443,134
Bonus commodities	<u>884,214</u>
	<u><u>\$3,327,348</u></u>

NOTE M– TRANSFERS FOR DEBT SERVICE

Act 213, SLH 2007, Section 85 provided a general fund appropriation to pay for debt service on general obligation bonds issued for the DOE and transferred to the financial administration program of the State Department of Budget and Finance. Appropriation for debt service amounted to \$236,896,511 for the year ended June 30, 2009.

Starting in fiscal year 2010, DAGS is no longer going to include the transfers for debt service payments in the DOE's budget. Instead, DAGS will be transferring the payments directly to the Department of Budget and Finance (B&F) for the DOE. The total amount of the debt service payments for fiscal year 2010 that DAGS will transfer to B&F is \$194,793,118.

SUPPLEMENTARY INFORMATION

Department of Education
State of Hawaii

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal year ended June 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number ³	Pass-through entity identifying number	Federal Expenditures ¹	Amount provided to subrecipient
U.S. Department of Agriculture				
Child Nutrition Cluster				
School Breakfast Program	10.553	--	\$ 9,290,121	\$ 564,023
National School Lunch Program	10.555			
Cash assistance		--	23,029,054	1,850,331
Non-cash Assistance (Commodities) ²		--	3,327,348	-
Total National School Lunch Program			26,356,402	1,850,331
Special Milk Program for Children	10.556	--	3,575	3,575
Summer Food Service Program for Children	10.559	--	611,574	611,574
Total Child Nutrition Cluster			36,261,672	3,029,503
Child and Adult Care Food Program	10.558	--	6,335,306	6,240,061
State Administrative Expense for Child Nutrition	10.560	--	696,194	-
Fresh Fruit and Vegetable Program	10.582		474,864	-
Team Nutrition Training Program	CNTN-05-HI-1	--	79,557	-
CNP - NSLP Equipment Assistance Grant - ARRA	10.579 ⁴		113,335	113,335
Total U.S. Department of Agriculture			43,960,928	9,382,899
U.S. Department of Defense				
National Defense Authorization Act P.L. 102-484	650009	--	1,920,238	-
Troops To Teachers-DOD FY08 & FY09	000913	--	29,092	-
Joint Venture Education Forum	000913	--	4,511,891	-
Total U.S. Department of Defense			6,461,221	-
U.S. Department of Commerce				
Kauai Watershed Project	11.473	--	32,741	-
Total U.S. Department of Commerce			\$ 32,741	\$ -

Department of Education
State of Hawaii

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Fiscal year ended June 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number ³	Pass-through entity identifying number	Federal Expenditures ¹	Amount provided to subrecipient
U.S. Department of Interior				
Care for the Land, Care for the Sea (HI)	15.608		\$ 4,283	\$ -
Passed-through State Governor's Office Economic, Social and Political Development of the Territories	15.875	GR 270 094	(9,655)	-
Total U.S. Department of the Interior			(5,372)	-
U.S. Department of Transportation				
Passed-through State Department of Transportation State and Community Highway Safety	20.600	AL07-02 (09-S-01)	14,170	-
		AL07-02 (07-S-01)	1,500	-
Total U.S. Department of Transportation			\$ 15,670	\$ -

Department of Education
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Fiscal year ended June 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number ³	Pass-through entity identifying number	Federal Expenditures ¹	Amount provided to subrecipient
U.S. Department of Education				
Adult Education- State Grant Program	84.002	--	\$ 1,953,318	\$ -
Title I - Grants to Local Educational Agencies	84.010	--	41,750,941	-
Title I - Grants to Local Educational Agencies - Recovery Act	84.389 ⁴	--	9,774	-
Total Title I, Part A Cluster			41,760,715	-
Migrant Education- State Grant Program	84.011	--	906,728	-
Title I- Program for Neglected and Delinquent Children	84.013	--	379,618	-
Special Education				
Grants to States	84.027	--	41,430,699	-
Preschool Grants	84.173	--	1,009,768	-
Grants to States "Recovery" Act - ARRA	84.391 ⁴	--	19,962,635	-
Total Special Education Cluster			62,403,102	-
Impact Aid	84.041	--	24,175,164	-
MEP Consortium	84.144	--	147,015	-
NCLB - SDFSC- Readiness & Emergency Management	84.184		20,914	
Byrd Honors Scholarships	84.185	--	156,000	-
Safe and Drug-Free School and Communities - State Grants	84.186	--	1,376,900	-
Education for Homeless Children and Youth	84.196	--	179,136	-
Even Start- State Educational Agencies	84.213	--	299,859	-
Even Start- Migrant Education	84.214	--	190,963	-
Fund for the Improvement of Education	84.215	--	1,980,681	-
Twenty-First Century Community Learning Centers	84.287	--	4,074,187	-
Foreign Language Assistance	84.293		26,785	
State Grants for Innovative Programs	84.298	--	304,894	-
Education Technology State Grants	84.318	--	1,277,925	-
State Program Improvement Grants	84.323	--	472,746	-
Advanced Placement Program	84.330	--	34,349	-
Reading First State Grants	84.357	--	1,520,332	-
Native Hawaiian Education	84.362	--	1,279,456	-
Expanding Pathways to Hawaii's Leadership	84.363	--	146,998	-
English Language Acquisition Grants	84.365	--	2,330,492	-
Mathematics and Science Partnerships	84.366	--	814,315	-
Improving Teacher Quality State Grants	84.367	--	9,490,424	-
Pacific Assessment Consortium	84.368	--	650,866	-
Grants for State Assessments and Related Activities	84.369	--	2,207,273	-
Temporary Assistance for Needy Families	84.377	--	334,547	-
Common Core of Data Survey Project	500000-07	--	7,563	-
NAEP State Coordinator	650040-07	--	156,315	-
NAEP	ED-08CO-0029		42,141	-
			161,101,721	-

Department of Education
State of Hawaii

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Fiscal year ended June 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number ⁵	Pass-through entity identifying number	Federal Expenditures ¹	Amount provided to subrecipient
Passed-through Office of the State Director for Vocational Education				
Career and Technical Education - Basic Grants to States	84.048	V048A060011 V048A070011	\$ 257,027 2,931,130 <u>3,188,157</u>	\$ - - <u>-</u>
Tech-Prep Education	84.243	V243A050011 V243A060011	3,844 185,422 <u>189,266</u>	- - <u>-</u>
Passed-through State Department of Human Services Rehabilitation				
Services - Vocational Rehabilitation Grants to States	84.126	MOA-DHHS	74,718	-
Passed-through Alu Like, Inc.				
Native Hawaiian Career and Technical Education	84.259	VE07-08 VE08-09	162,120 99,700 <u>261,820</u>	- - <u>-</u>
Passed-through University of Hawaii				
Gear Up Hawaii	84.334	P334S050013	926,161	-
Native Hawaiian Special Education	84.221	C010147-mod#4 C010147-mod#5	51,104 1,493,569 <u>1,544,673</u>	- - <u>-</u>
Hana Like- Education of Native Hawaiians	84.362	S362A060027	8,084	
Passed-through Georgia State Department of Education				
Enhanced Assessment GRT- Georgia DOE FY07	84.368	S368A06005	208,760	-
Passed-through Idaho State Department of Education				
Enhanced Assessment GRT- Idaho DOE FY07	84.368	S368A60012	(27)	-
Total U.S. Department of Education			<u>167,503,333</u>	<u>-</u>
U.S. Department of Health and Human Services				
Passed-through State Department of Health				
Peer Education Counselors PEP	650720-07 650720-09	ASO 07-120 ASO 09-128	52,955 10,847	- -
Nutrition Education Program	650650	MOA-DOH 08-003	60,763	-
FSNE Program - Waimanalo DOH FY08	650651	MOA-DOH	90,992 <u>215,557</u>	- <u>-</u>

Department of Education
State of Hawaii

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Fiscal year ended June 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number ³	Pass-through entity identifying number	Federal Expenditures ¹	Amount provided to subrecipient
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	--	\$ 297,605	\$ -
Passed-through State Department of Human Services				
Temporary Assistance for Needy Families	93.558	DHS-06-BESSD-3117	1,034,529	-
		DHS-06-BESSD-3117	1,273,308	-
		DHS-06-BESSD-3118	58,611	-
			<u>2,366,448</u>	<u>-</u>
Child Care and Development Block Grant	93.575	G0100HICCD2	336,221	-
Parent Project Fences FY08	93.590	POS-08	20,588	-
Paths program- County of Hawaii FY08	495000	DHS-07-OYS-4134	9,537	-
Teen Pregnancy Prevention Trng- DHS FY 07	650703	DHS-06-BESSD-3048 SA1	76,112	-
			<u>3,322,068</u>	<u>-</u>
Total U.S. Department of Health and Human Services				
Corporation for National and Community Service				
Passed-through State Department of Labor Learn and Serve America - School and Community Based Programs	94.004	06KSPHI001	55,423	-
			<u>55,423</u>	<u>-</u>
Total Corporation for National and Community Service				
			<u>55,423</u>	<u>-</u>
TOTAL FEDERAL GRANT FUND EXPENDITURES			<u>\$ 221,346,012</u>	<u>\$ 9,382,899</u>

¹ The accompanying schedule of expenditures of federal awards is prepared 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 Expenditures for non-cash assistance are based on the value of food commodities received.

³ Other identifying number used if no CFDA number available.

⁴ Expenditures under American Recovery and Reinvestment Act of 2009.

PART II

**AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS**



**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Audit – Tax – Advisory

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To the Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information as well as the budgetary comparison for the general and federal funds of the Department of Education of the State of Hawaii (DOE), as of and for the fiscal year ended June 30, 2009, which collectively comprise the DOE's basic financial statements, and have issued our report thereon dated March 31, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the DOE's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DOE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DOE's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned cost, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in items 2009-01 to 2009-04 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

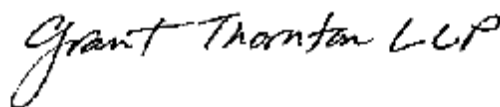
To the Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DOE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2009-05 and 2009-14.

The DOE's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the DOE's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Office of the Auditor, 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
March 31, 2010

PART III

**AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE**



Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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To the Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education

Compliance

We have audited the compliance of the Department of Education of the State of Hawaii (DOE) 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, 2009. The DOE's major federal programs are identified in the summary of auditor's results 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 DOE's management. Our responsibility is to express an opinion on the DOE'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 established by the American Institute of Certified Public Accountants; 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 DOE'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 DOE's compliance with those requirements.

Our audit disclosed the following instances of material noncompliance during the year ended June 30, 2009:

Program Title	Compliance requirement	Reference
Special Education Cluster – Grants to States, Recovery Act	Period of Availability	2009-6
Child Nutrition Program – National School Lunch Program Equipment Assistance Grant – Recovery Act	Reporting	2009-7

To the Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education

Program Title	Compliance requirement	Reference
Special Education Cluster – Grants to States and Preschool Grants; Twenty-First Century Community Learning Centers; Improving Teacher Quality State Grants	Allowable Costs	2009-8
Title I Grants to Local Educational Agencies	Subrecipient Monitoring	2009-10
Safe and Drug Free Schools and Communities State Grants; Twenty-First Century Community Learning Centers	Earmarking	2009-11; 2009-12
Safe and Drug Free Schools and Communities – State Grants	Allowable Activities; Allowable Costs	2009-22

In our opinion, except for the material noncompliance described in the previous paragraph, the DOE 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, 2009. The results of our audit procedures also disclosed other instances of noncompliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2009-9, 2009-10, 2009-13 to 2009-16, and 2009-18 to 2009-20, that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

Management of the DOE is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the DOE's internal control over compliance with the requirements that could have a direct and material effect on a major federal program as a basis for designing audit procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the DOE's internal control over compliance. Accordingly, we express no such opinion.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. However, we identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2009-06 to 2009-15, 2009-20, and 2009-22, that we consider to be material weaknesses in the DOE's internal control over compliance.

To the Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education

Our audit was also not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2009-16 to 2009-19, and 2009-21, that we consider to be significant deficiencies in the DOE's internal control over compliance.

We did not audit the DOE's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Office of the Auditor, 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
March 31, 2010

PART IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal year ended June 30, 2009

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified.

Internal control over financial reporting:

- Material weakness(es) identified? ☒ yes ☐ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☒ yes ☐ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☒ yes ☐ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☒ yes ☐ none reported

Type of auditor's report issued on compliance for major programs: Qualified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☒ yes ☐ no

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Identification of major programs:

CFDA number	Name of federal program
12.000	Joint Venture Education Forum
	Child Nutrition Cluster:
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
10.579	Child Nutrition Program – National School Lunch Program Equipment Assistance Grant – Recovery Act
	Title I, Part A Cluster:
84.010	Title I- Grants to Local Educational Agencies
84.389	Title I – Grants to Local Educational Agencies, Recovery Act
	Special Education Cluster:
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants
84.391	Special Education – Grants to States, Recovery Act
84.041	Impact Aid
84.186	Safe and Drug-Free School and Communities- State Grants
84.287	Twenty-First Century Community Learning Centers
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between type A and
type B programs:

\$3,000,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Section II – Financial Statement Findings

Finding 2009-01 – Error Corrections

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission’s “Internal Control – Integrated Framework” defines internal control as a process, affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

The term “reliability” as used with financial reporting objectives involves the preparation of financial statements that are fairly presented in conformity with generally accepted or other relevant and appropriate accounting principles and regulatory requirements for external purposes. Fair presentation is defined as:

- The accounting principles selected and applied have general acceptance.
- The accounting principles are appropriate in the circumstances.
- The financial statements, including the related notes, are informative of matters that may affect their use, understanding and interpretation.
- The information presented in the financial statements is classified and summarized in a reasonable manner, that is, it is neither too detailed nor too condensed.
- The financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, that is, limits that are reasonable and practical to attain in financial statements.

Condition/Context: Since the DOE keeps its records on a cash and encumbrance basis, accurate and timely information is needed by the Accounting Section in order to prepare accruals for receivables (e.g., due from the federal government, and other receivables) and payables (e.g., vouchers and contracts payable, wages and employee benefits, compensated absences, workers’ compensation claims, and other payables). Accurate and timely information is also necessary to ensure capital asset transactions, including construction in progress activity, is recorded and disclosed in the financial statements properly. Several errors were identified as a result of our audit procedures.

Department of Education
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Cause: The above finding was caused primarily by the lack of a detailed review of the information.

Effect: As a result of our audit procedures, adjustments were proposed, which management recorded, to reflect the correction of certain assets, liabilities, revenues, and expenses. In addition, we proposed other audit adjustments, which management elected not to record, as they were not deemed material, individually and in the aggregate, to the financial statements taken as a whole. Depending on a number of factors, amounts reported in the future maybe materially misstated.

Recommendation: Although communication between the Accounting Section and other sections and branches within the DOE (e.g., Vendor Payment, Payroll, Facilities Development, and Facilities Maintenance) appears to have improved and the Accounting Section continued to utilize the services of an outside accounting firm to prepare for the audit, we continue to recommend that management ensure that all transactions in the DOE's financial statements are properly reported in accordance with accounting principles generally accepted in the United States of America. We also continue to recommend that the Accounting Section continue to assess its control processes, procedures and resources in the accounting and financial management area, particularly as it relates to external financial reporting. Management should consider designating an individual from the Accounting Section to oversee its financial reporting requirements and process.

We also continue to recommend that training should be provided to the Accounting Section personnel on external financial reporting requirements in order for them to assess whether or not they will be able to fulfill the external reporting requirements without outside assistance. If outside assistance is still considered necessary, management should exercise greater care in the review of the work performed.

View of the responsible official and planned correction actions: Refer to response of Affected Agency.

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-02 – Accounting for Compensated Absences

Criteria: GASB Statement 16, Accounting for Compensated Absences, requires that vacation leave and benefits with similar characteristics should be recorded as a liability when earned by employees if the following conditions are satisfied:

- Compensated absence is earned on the basis of services already performed by employees.
- It is probable that the compensated absence will be paid in a future period.

Condition/Context: The vacation and sick leave balance of the DOE are reported to the State Comptroller annually. We selected 16 individuals for detailed testing of the recorded amounts of accrued vacation as of June 30, 2009. Three of the 16 sample items we examined contained errors. The errors found in the sample items examined totaled \$7,659. Based on these errors, we estimated a projected overstatement of the vacation balances of approximately \$820,000.

Cause: The above finding was caused primarily by a lack of management oversight and the manual process used to accumulate the information.

Effect: Due to the results of the errors found, we proposed certain audit adjustments. As the proposed audit adjustments were based on projected or estimated amounts, management elected not to record such proposed adjustment. Depending on a number of factors, amounts reported to the State Comptroller in the future may be materially misstated.

Recommendation: We continue to recommend that the amounts of vacation and sick leave balances be reviewed and validated against personnel and payroll records to ensure accuracy and completeness before reporting the balances to the State Comptroller.

View of the responsible official and planned correction actions: Refer to response of Affected Agency.

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-03 – Improving Compensating Controls for Inadequate Segregation of Duties over Agency Funds and Processing of Transactions

Criteria: Agency funds are used to account for assets held by the DOE on behalf of outside parties or on behalf of individuals. These funds are also known as local school funds.

Segregation of Duties

When staffing limits the extent of segregation of duties, the principal or administrator should provide for compensating controls at each school or office. As stated in the Financial Management System (FMS) User Policy and Process Flow Guide, these compensating controls would include:

1. Conducting periodic unannounced cash counts of the school or office petty cash fund.
2. Verifying that the monthly reconciliations between the bank statement and the school's register are being performed. The reviewer should sign both documents if the reconciliation is completed.
3. Inspecting checks outstanding for more than six months ("stale" checks), during the review of the monthly bank reconciliation. These checks should be canceled.
4. Checking if cash receipts are deposited daily. The dates on the Official Receipts Form 239(s) should be the same as the bank deposit slip date.
5. The principal or administrator should prepare a report of the reviews conducted during the year indicating the areas reviewed, the date of the reviews, and discrepancies found. Also, the report should be kept on file for audit purposes.

Processing Disbursements

According to the FMS User Policy and Process Flow Guide, purchase orders shall be used as a document which authorizes the purchase of materials, supplies and services. The purchase order shall be submitted to the principal for review and approval prior to the purchase. Reimbursements of local school funds may be made to individuals who receive prior approval from the principal or designee to make the purchase.

The FMS User Policy and Process Flow Guide further states that the following procedures should be performed when processing invoices for payment:

1. All goods received must be checked immediately by authorized personnel for quantity of items ordered, serviceability and damage.

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

2. Affix approval to pay stamp of the original invoice.
3. Enter date invoice received and date goods/services received.
4. Check unit prices/extensions and totals.
5. Check off items as received on school's copy of purchase order.

Processing Receipts

According to the FMS User Policy and Process Flow Guide, a cash receipt book must be maintained by each school that receives monies. An official receipt must be completed including information as to date, name of payee, purpose of collection, amount, method of payment and reference to organization.

Section 296-32 of the Hawaii Revised Statutes allows the DOE to receive and manage appropriate gifts, grants and bequests for the purpose of public education. The FMS User Policy and Process Flow Guide requires that schools maintain a report of all gifts, grants and bequests by date, name of donor, description, purpose and amount for which it is to be used. The revised Form 434, Rev. 9/94 is used for this purpose. In addition, any such amounts greater than \$500 must be presented to and accepted by the Superintendent. The schools are required to maintain a file of letters, memorandum or copies of checks for all gifts, grants and bequests received by the school.

Condition/Context: The account clerk or school administrative services assistant (SASA) performed most, if not all, the cash functions at schools. Of the three schools we visited during our testing of local school funds, we noted a lack of segregation of duties at these schools. However, the principals or designee prepared the Administrator's Check List which documented the reviews conducted.

Processing Disbursements

During our testing of a sample of 30 local school fund disbursements, we noted the following:

- Eleven (11) instances in which the purchase order was not submitted for approval prior to the purchase of goods or services.
- Eight (8) instances where the purchase requisition did not include the signature and date of the requisitioner.
- One (1) instance where the date invoice received was not documented.
- Ten (10) instances where the date goods/services were received was not documented.

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

- One (1) instance, where payments were processed without the required invoice or Form 99.
- All three (3) schools did not check off items as received on the school's copy of the purchase order.
- One (1) school that was unable to provide evidence that the unit prices, extensions and totals were checked prior to payment.

Processing Receipts

During our testing of a sample of 30 local school fund receipts, we noted the following:

- Ten (10) instances where the official receipt was not properly completed in accordance with the FMS User Policy Guide.
- Seven (7) instances where gifts, grants and bequests were not reported on the revised Form 434, Rev. 9/94.
- Eight (8) instances where the files did not contain a letter from the Superintendent acknowledging the amount of gifts, grants and bequests received.
- One (1) instance where a cash overage or shortage was not noted on the "Daily Summary of Collections".
- One (1) school that did not conduct unannounced cash counts of the schools petty cash fund.

The school also did not properly void erroneous receipt forms and did not utilize the receipt forms in sequential order. Due to staffing constraints, the daily depositing procedure was not followed.

Cause: The above finding was caused primarily by a lack of management oversight. The decentralized nature of processing these transactions and turnover of personnel may also contribute to these findings.

Effect: In the absence of compensating controls, the lack of segregation of duties may result in funds being lost, unrecorded or misused.

Recommendation: We continue to recommend that the DOE ensure that schools perform the above compensating controls because staffing limitations do not provide for segregation of duties. Adequate compensating controls will minimize the chance of undetected errors or defalcations.

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

We recommend that all disbursements of local school funds be properly approved and all necessary documents be obtained prior to purchase or payment, and the “approval to pay” stamp be affixed on the original invoices to ensure that proper approval for payment was made by an authorized individual. Approved purchase orders should contain the authorizing signature and the date the purchase order was approved.

We recommend that all receipts of local school funds be properly processed and approved and all required documentation be maintained in accordance with the FMS User Policy and Process Flow Guide.

View of the responsible official and planned correction actions: Refer to response of Affected Agency.

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-04 – Agency Fund Bank Reconciliations

Criteria: Agency funds are used to account for assets held by the DOE on behalf of outside parties or on behalf of individuals. These funds are also known as local school funds.

According to the FMS User Policy and Process Flow Guide, the process of monthly bank reconciliation is not complete until the principal ensures the following have been performed:

1. Bank reconciliations are done monthly.
2. Investigate all items which have been outstanding for an unusual period of time.
3. Review the bank statement for any unusual entries.
4. Agree that the bank reconciliation amounts matches to the Checking Ledger Report balance.
5. Review the Check Register for any unusual adjustments.
6. Indicate that review of bank reconciliations has been performed by signing or initialing and dating the bank statement.

Condition/Context: Although improvement continues to be made in this area, improvement is still needed. Of the 268 local school funds, we selected approximately 100 local school fund account bank reconciliations for the month of June 2009 to be reviewed. We noted approximately nineteen (19) schools where either the cash on hand or investment balances on the reconciliations did not agree to the Principal's Financial Report as of June 30, 2008. Certain schools had cash or investment balances on the Principal's Financial Report that were understated by approximately \$160,000. In addition, approximately \$152,000 of cash and investments balances reported by the schools was not supported. We also noted the following:

- Three (3) schools where the June 30, 2008 bank reconciliations were dated as prepared at or prior to the reconciliation date.
- One (1) school where the reviewed by date was prior to the prepared by date.
- Eight (8) schools for which there were reconciling items outstanding longer than six months.

Cause: The above finding was caused primarily by a lack of management oversight. The accounting section should help to ensure that amounts reported on the statement of assets and liabilities – agency funds are properly supported.

Effect: Inaccurate amounts could have been reported for the DOE's agency funds.

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Recommendation: The thoroughness of subsequent review and approval of bank and investment account reconciliations, could affect the accuracy of financial information provided to management. Furthermore, the probability that additional errors will occur and go undetected is greatly increased.

View of the responsible official and planned correction actions: Refer to response of Affected Agency.

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-05 – Procurement

Criteria: Hawaii Revised Statute § 103D Hawaii Public Procurement Code

Condition/Context: The following instances of noncompliance were noted:

- Two of fifteen contracts tested for procurement compliance did not comply with the procurement code.
 - o Hawaii Administrative Rules 3-122-45.01 provides the evaluation committee shall consist of at least three government employees with sufficient qualification in the areas of goods, services or construction to be procured. In one of the contract procurement samples selected, only two of the members of the evaluation committee were State employees.
 - o Hawaii Administrative Rules 3-122-30(b) requires that bids and modifications be opened publicly, in the presence of one or more witnesses, at the time, date, and place designated in the invitation for bids and the name(s) and address(es) of the required of the required witnesses shall be recorded at the opening. In one of the contract procurement samples selected, there was no documentation of the witnesses that were present at the opening of the bid.

Cause: The above condition was primarily caused by management oversight.

Effect: Contractors not selected may question the validity of the contract awarding process.

Recommendation: We recommend that the DOE exercise greater care in adhering to the Hawaii Revised Statutes § 103D. Due to the numerous requirements of the Hawaii Revised Statute § 103D, the DOE may want to consider utilizing a checklist of the requirements for its procurement activities. Employees involved in the procurement process should be advised and trained in the Hawaii Procurement Code. Compliance with the State Procurement Code may minimize the risk of future problems, potential claims, or possible loss of funding.

View of the responsible official and planned correction actions: Refer to response of Affected Agency.

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

Finding 2009-6 – Period of Availability

U.S. Department of Education
Special Education Cluster– Grants to States, Recovery Act - CFDA No.84.391
Award Year: 2008 – 2009

Criteria: The American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law on February 17, 2009. Funds received under ARRA became available for obligation beginning with this date of enactment.

Condition/Context: We noted four transactions out of a sample of 25 tested that were incurred prior to February 17, 2009. These transactions, totaling \$550,509, were related to paraprofessional support services and behavioral counseling and research contract services that were incurred in January 2009.

Cause: Management noted that the invoices in question were dated subsequent to February 17, 2009. The oversight occurred when it was assumed that the goods and services were related to the grant period.

Effect: Expenditures charged to a federal program outside of the applicable period of availability constitutes unallowable costs. Federal agencies may request a reimbursement of these expenditures and could result in reduction of future funding or future restrictions on ARRA funds.

Questioned costs: \$550,509

Recommendation: We recommend the DOE ensure that all expenditures related to a particular grant are incurred within the proper period of availability. Program accountants should periodically monitor program balances, with attention given near the beginning or end of periods of availability.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-7 – Reporting

U.S. Department of Agriculture
Child Nutrition Program – National School Lunch Program Equipment Assistance Grant –
Recovery Act - CFDA No.10.579
Award Year: 2008-2010

Criteria: Office of Management and Budget Circular A-133 §____.205 *Basis for determining Federal awards expended (a) Determining Federal awards expended* states that “The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or consumption of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and, the period when insurance is in force.”

Condition/Context: The DOE’s child nutrition programs are managed by the Office of Hawaii Child Nutrition Programs (OHCNP), a State level agency and the Office of School Food Services (SFS), a school food authority (SFA) within the DOE. The OHCNP holds the agreement with the U.S. Department of Agriculture (USDA) and is responsible for the administration and monitoring of all child nutrition programs in Hawaii. The SFS receives funds from OHCNP and is charged with funding individual DOE schools.

We noted total expenditures for Child Nutrition Discretionary Grants, ARRA reported on the initial draft of the Schedule of Expenditures of Federal Awards (SEFA) was \$274,514, which consisted of two parts – funds passed through to subrecipients of \$113,335 and funds awarded to DOE schools held by SFS of \$161,179. As of June 30, 2009, funds awarded to DOE schools held by SFS were not liquidated and thus no expenditures were incurred.

Furthermore, the DOE failed to report separately the \$113,335 passed through to subrecipients on the Schedule of Expenditures of Federal Awards.

After bringing this to the attention of management, the DOE corrected the aforementioned conditions.

Cause: Management believed that funds disbursed by OHCNP represented an expenditure of funds since the USDA recognizes the OHCNP and SFS as separate entities.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Effect: Incorrect reporting of amounts expended and passed through to subrecipients represents misstatements of the DOE's Schedule of Expenditures of Federal Awards and may lead to further inaccuracies in ARRA reporting requirements for future periods.

Questioned costs: None.

Recommendation: We recommend that management exercise greater care in reporting federal expenditures on the Schedule Expenditures of Federal Awards. We also recommend that management implement procedures to ensure that USDA guidelines are properly interpreted for reporting of expenditures.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-8 – Allowable Costs and Cost Principles – Payroll Certifications

U.S. Department of Education

Special Education Cluster – Grants to States and Preschool Grants – CFDA Nos.84.027 and 84.173; Twenty-First Century Community Learning Centers – CFDA No.84.287;

Improving Teacher Quality State Grants - CFDA No.84.367

Award Year: 2008-2009

Criteria: OMB Circular 8(h) states “Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.” Further, “Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation....” Personnel activity reports must be prepared at least monthly and must coincide with one or more pay periods.

Condition/Context: We noted certain internal control and compliance issues related to payroll costs. Samples sizes ranged from three to 17 payroll related items for each major program tested, depending on the ratio of payroll to non-payroll costs.

We noted one instance out of a sample of 12 tested totaling \$2,541 in Improving Teacher Quality State Grants where the DOE was unable to provide a payroll certification for an employee that was funded with federal funds.

We noted one instance out of a sample of 15 tested totaling \$1,045 in Special Education Cluster where the payroll certification covered a period longer than six months. In this instance, the certification period covered a one year period from June 2008 to June 2009.

We noted four instances out of a sample of 17 in Twenty First Community Learning Centers totaling \$984 and three instances out of a sample of 15 in Special Education Cluster totaling \$5,770 where an employee’s certification was not signed “after-the-fact” or was not signed within a reasonable amount of time after the covered period.

Cause: Management believes that the current practice of semi-annual certifications may need to be performed more frequently to ensure compliance.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Effect: The documentation required for personnel costs charged to federal programs is in place to help ensure proper oversight and expenditure of federal funds for personnel costs. Failure to comply with this requirement prevents these controls from operating effectively. Additionally, the costs may be deemed unallowable which may result in the DOE being required to reimburse the federal government.

Questioned costs: None.

Recommendation: We recommend management be more diligent in completing the required certifications in a timely manner. Management should consider adopting a more frequent certification period policy to help ensure compliance with federal requirements. Lastly, management should consider expanding federally-funded compliance monitoring resources.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-9 – Cash Management

U.S. Department of Education
Twenty-First Century Community Learning Centers – CFDA No. 84.287
Award Year: 2008-2009

Criteria: 2007 Office of Management and Budget Circular A-133 Part 6 *Internal Controls*. Also, 31CFR 205.33 states that “A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State’s actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102.”

Condition/Context: We selected six cash drawdowns for each of the five major programs that cash management was considered a direct and material compliance requirement for a total of 30 items tested. We noted three instances in Twenty-First Century Learning Centers totaling \$264,730 where adjustments were made to the supporting cash drawdown requests without supporting documentation.

Cause: The above conditions were caused primarily due to lack of policies to require supporting documentation related to adjustments for cash drawdown requests.

Effect: The DOE’s lack of supporting documentation for adjustments do not comply with the objectives of the requirements for cash management – to drawdown amounts for only actual and immediate needs of the program. Failure to improve cash management procedures may lead to future restrictions on drawdowns. For example, the U.S. Department of Education (ED) may require some or all of the affected programs to be subject to the Treasury-State Agreement, in which ED would restrict the programs to scheduled cash draws and increased scrutiny.

Questioned costs: None.

Recommendations: The 2006, 2007, and 2008 audits noted similar findings. Prior auditors recommended that the DOE “should improve its cash management procedures to increase the predictability of disbursements and time drawdowns of federal funds to comply with ED’s requirement to expend funds within three working days.”

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

We further recommend the DOE consider ending its practice of claiming for projected expenditures unless it can maintain evidence that the expenditures are for immediate needs. The DOE should also be more diligent in ensuring that its actual cash requests do not exceed its calculated cash needs on its line of credit worksheets.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-10 – Oversight of Charter Schools – Subrecipient Monitoring

U.S. Department of Education

Title I, Part A Cluster– CFDA Nos.84.010 and 84.389; Safe and Drug Free Schools and
Communities – State Grants – CFDA No.84.186; Improving Teacher Quality State
Grants – CFDA No.84.367

Award Year: 2008 – 2009

Criteria: 34 CFR 76.788 requires charter schools to comply with all applicable program requirements on the same basis as other LEAs.

Hawaii Revised Statutes (HRS) 302-B outlines requirements and responsibilities of charter schools.

Condition/Context: We noted that the DOE does not adequately monitor the charter schools' use of federal funds.

Allocations of federal funds are made from the DOE to the Charter School Administrative Office (CSAO). CSAO then distributes the funds to the individual charter schools. Start-up and certain conversion charter schools use accounting systems independent of those used by the DOE, making fiscal oversight difficult for DOE officials. During fiscal year 2009, the CSAO received Title I, Safe and Drug Free Schools, and Improving Teacher Quality allocations of approximately \$1.4 million, \$65,000, and \$409,000, respectively.

A charter school review panel ("Panel") was created by Act 115 of the 2007 Legislative Session to address the issues of charter school accountability. HRS Section 302B-14 requires charter schools to "conduct annual self-evaluations that shall be submitted to the panel within sixty working days after the completion of the schools year." This process is limited certain procedures that include an evaluation of the charter school's organizational viability. Section 302B-1 defines organizational viability as a charter school that "complies with applicable federal, state, and county laws and requirements."

The DOE's oversight of charter school funds is limited to a review of a fiscal requirement report that contains a budget plan for the upcoming fiscal year. After federal funds are distributed to the charter schools via the CSAO, the DOE does nothing to ensure applicable compliance requirements are met except in the case of Title I.

Title I program officials perform periodic monitoring procedures over charter schools, including communication with the CSAO, communicating with charter school management, and performing periodic desk reviews and field audits. During the 2008 – 2009 school year, the Office of

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Curriculum Instruction and Student Support (OCISS), who is charged with oversight of the Title I program, performed site visits on seven of the 21 charter schools receiving federal funds. However, a charter school deemed low risk receives minimal oversight from OCISS, since OCISS monitoring procedures focus on higher risk charter schools.

Although charter schools are exempt from certain state laws, charter schools receiving federal funds are not exempt from federal compliance requirements.

Cause: Program officials cite their lack of authority over charter schools and inadequate staffing to oversee the charter schools.

Effect: This lack of oversight creates the potential for misappropriation and abuse of federal funds. Federal sanctions may include the reduction or the loss of future federal funding.

Questioned costs: None.

Recommendation: We recommend management implement policies and procedures to ensure charter schools receiving federal funds are in compliance with federal requirements. At the very minimum, program managers should have access to and review monthly charter school financial reports in sufficient detail to identify areas for further investigation.

If staffing is a concern, the DOE should consider allocating resources to outsource agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations. Since the pass-through entity determines the procedures to be used and compliance areas to be tested, these agreed-upon procedures engagements enable the pass-through entity to target the coverage to areas of greatest risk.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-11 – Earmarking

U.S. Department of Education
Safe and Drug Free Schools and Communities State Grants – CFDA No. 84.186
Award Year: 2008 – 2009

Criteria: According to 20 USC 7112(b)(1), a State educational agency shall distribute at least 93% of the State allocation less the amount reserved for the chief executive officer of the State to its local educational agencies (LEA). Per 20 USC 7112(c)(1), a State educational agency may use a maximum of 5% of the State allocation less the amount reserved for the chief executive office of the State, for activities described within the subsection. According to 20 USC 7115(c), each State eligible agency shall provide a maximum of 40% of the funds available to a local educational agency to carry out various activities as listed in clauses (ii) through (vi) of subsection (b)(2)(E).

Condition/Context: We requested from program officials evidence to support compliance with the aforementioned regulations. The DOE was unable to provide us with documentation to support its compliance.

The State of Hawaii was allocated \$1,115,904 of Safe and Drug Free Schools and Communities State Grants funds after allocation to the Governor's office. Of this amount, 93%, or \$1,037,791 was required to be distributed to LEAs. The DOE allocated only 70%, or \$784,048 to its school complex areas.

With regard to State-level activities, the DOE was allowed a maximum of 5%, or \$55,795 of its initial allocation. The DOE allocated 24%, or \$271,353 for State-level activities.

We were unable to verify whether the 40% requirement pursuant to 20 USC 7115(c) was met due to lack of supporting documentation.

The DOE also lacks controls over monitoring of earmarking requirements throughout the year.

Cause: The above condition was caused primarily due to turnover in the program manager position.

Effect: Improper allocation of funds may result in overspending in certain areas and may prevent schools from realizing the maximum benefits allowed under the terms of the program. Furthermore, failure to monitor its earmarking requirements may cause the DOE to be in noncompliance at year end.

Questioned costs: None.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Recommendation: We recommend the DOE implement procedures to ensure earmarking calculations are monitored throughout the year. This may include the use of a standard worksheet that is maintained throughout the year by one or more individuals, and reviewed by management at the end of the period. The DOE should also be more diligent in reserving the proper amounts under the terms of grant provisions.

In addition, management should ensure that new program managers receive timely and adequate training to be able to carry out their respective programs according to federal guidelines.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-12 – Earmarking

U.S. Department of Education
Twenty-First Century Community Learning Centers – CFDA No. 84.287
Award Year: 2008 – 2009

Criteria: According to 20 USC 7172(c)(1), each State shall reserve at least 95% of the amount allotted for each fiscal year for awards to eligible entities under 20 USC 7174. 20 USC 7172(c)(2) states, a State educational agency may use a maximum of 2% of the amount made available to the State for various State administration as listed in the subsection. Per 20 USC 7172(c)(3), a State educational agency may use a maximum of 3% of the amount made available to the State for various State-level activities as listed in the subsection.

Condition/Context: We reviewed DOE’s allocation notice that supports amounts reserved for the grant year. We noted 43%, or \$2,275,314, of the total authorized funding of \$5,297,714 for Twenty-First Century Community Learning Centers was allocated to the Office of Curriculum, Instruction, and Student Support (OCISS). The allocation notice noted that these funds were for “subsequent allocations,” however, we were unable to determine whether these amounts would be expended for State-level activities. In general, funds allocated to State offices are reserved for State-level activities.

Further, a total of 55%, or \$2,916,446 was initially allocated to DOE schools, which is less than the 95% required by program regulations.

The DOE also lacks controls over monitoring of earmarking requirements throughout the year.

Cause: The above condition was caused primarily by lack of procedures to ensure compliance with earmarking requirements.

Effect: Improper allocation of funds may result in overspending in certain areas and may prevent schools from realizing the maximum benefits allowed under the terms of the program. Furthermore, failure to monitor its earmarking requirement may cause the DOE to be in noncompliance at year end.

Questioned costs: None.

Recommendation: We recommend the DOE implement procedures to ensure earmarking calculations are monitored throughout the year. This may include the use of a standard worksheet that is maintained throughout the year by one or more individuals, and reviewed by management at the end of the period. The DOE should also be more diligent in reserving the proper amounts under the terms of grant provisions.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-13 – Equipment and Real Property Management

U.S. Department of Education

Safe and Drug Free Schools and Communities State Grants – CFDA No. 84.186; Title I, Part A Cluster – CFDA Nos.84.010 and 84.389; Twenty-First Century Community Learning Centers – CFDA No. 84.287; Special Education Cluster – Grants to States and Preschool Grants – CFDA Nos.84.027 and 84.173

Award Year: 2008 – 2009

U.S. Department of Defense

Joint Venture Education Forum-CFDA No. 12.000

Award Year: 2008 – 2009

Criteria: 34 CFR 80.32(b): “A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures.” Hawaii Administrative Rules (HAR) Title 3 Chapter 130 details requirements for inventory management.

Condition/Context: We selected a sample of equipment purchased with federal funds having unit costs greater than \$5,000 from the five major programs that equipment and real property management was considered a direct and material compliance requirement. Our sample included 28 equipment additions totaling \$223,133. The DOE failed to record in State inventory records 17 items totaling \$133,864 purchased with federal funds during the fiscal year. Some of these items were reported in a temporary hold file awaiting release into the final State inventory records. We also noted two schools were unable to provide us with proper documentation of required annual inventory counts as required by HAR 3-130-6 and 3-130-7.

Cause: The above conditions were caused primarily by lack of management oversight and shortage of available staff to focus on inventory accounting.

Effect: Failure to include purchases on inventory records prevents officials from monitoring State assets and does not provide a complete total of inventory on hand. This may also lead to the potential for misappropriation of assets since it may be less risky for an individual to steal an asset that has not been reported on inventory records.

Questioned costs: None.

Recommendation: We recommend the DOE enforce procedures to ensure that inventory is properly reported on State inventory reports. Adequate monitoring controls should be implemented to ensure proper oversight. Furthermore, DOE should properly dispose of assets that are obsolete and not being utilized. The dispositions should be reported to the inventory managers for proper deletion on State records. Lastly, we recommend that principals ensure that schools are performing and documenting required annual State inventory counts.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-14 – Procurement, Suspension, and Debarment

U.S. Department of Education

Title I, Part A Cluster – CFDA Nos. 84.010 and 84.386; Twenty-First Century Community Learning Centers – CFDA No. 84.287; Safe and Drug Free Schools and Communities State Grants – CFDA No. 84.186; Improving Teacher Quality State Grants CFDA No. 84.367

Award Year: 2008 – 2009

U.S. Department of Defense

Joint Venture Education Forum-CFDA No.12.000

Award Year: 2008 – 2009

Criteria: 34 CFR 80.46 “When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds.” Hawaii Revised Statutes (HRS) 103D; Hawaii Administrative Rules (HAR) 3-120-4 and 3-122-75.

Pursuant to HRS and HAR, the DOE is required to “cite on the purchase order or on the contract, the authority waiver as “Exempt from Chapter 103D, HRS, pursuant to section 3-120-4(b) (cite exemption number from exhibit).” In addition, the DOE is required to obtain no less than three quotes for purchases between \$5,000 – \$15,000; for purchases between \$15,000 and \$50,000 the three quotes must be written.

Condition/Context: We selected a sample of 25 procurement items for each of the six major programs for which procurement, suspension and debarment was considered a direct and material compliance requirement for a total of 150 items tested. We noted that the DOE did not obtain the required three quotes for purchases exceeding \$5,000. A summary of programs and total instances and amounts involved is as follows:

Title I, Part A Cluster	2 instances	\$ 21,711
Twenty First Century	3 instances	\$ 56,586
Safe and Drug Free Schools	1 instance	\$ 9,170
Joint Venture Education Forum	2 instances	\$ 13,491
Improving Teacher Quality	3 instances	\$108,804

Cause: The above conditions were primarily due to lack of sufficient resources for training and management oversight.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Effect: The Hawaii Procurement Code, HRS 103D, was developed in part to ensure that public money is expended using the best interests of the public and that funds are expended in an equitable manner. The conditions noted above resulted in noncompliance with HRS 103D.

Questioned costs: None.

Recommendation: We recommend the Department be more diligent in complying with applicable procurement requirements. This may include additional training and workshops where necessary. Also, school level administrators where purchases originate should ensure that all required documents are obtained and included in the procurement file prior to authorizing the purchase. All exceptions to HRS 103D and applicable HAR should be clearly noted on the applicable purchase orders.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

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Finding 2009-15 – Period of Availability

U.S. Department of Education
Special Education Cluster – Grants to States and Preschool Grants- CFDA Nos.84.027 and
84.173; Improving Teacher Quality State Grants-CFDA No.84.367
Award Year: 2007 – 2008

Criteria: 34 CFR 76.703 & 76.709: SEAs must obligate funds during the 27 months, extending from July 1 of the fiscal year for which the funds were appropriated through September 30 of the second following fiscal year.

Condition/Context: For Special Education Cluster and Improving Teacher Quality State Grants, we noted cash balances of \$79,045 and \$3,989, respectively, remained after the fiscal year 2007 grant award periods of availability ended on September 30, 2008. We also noted that additional expenditures were incurred after the period of availability expired on September 30, 2008 related to the Special Education Cluster 2007 grant totaling \$132,848 as of June 30, 2009.

Additionally, Improving Teacher Quality State Grants incurred an excess of \$11,177 in expenditures over encumbrance liquidations after the period of availability expired on September 30, 2008.

Cause: The above conditions were primarily due to lack of timely accounting adjustments within the period of availability.

Effect: Expenditures incurred after the expiration of a grant's period of availability constitutes unallowable costs. Federal agencies may request a reimbursement of these expenditures. Also, balances held in excess of amounts necessary could result in noncompliance with cash management requirements.

Questioned costs: \$144,025 calculated as the sum of \$132,848 and \$11,177 discussed above.

Recommendation: We recommend the DOE ensure that all expenditures related to a particular grant are incurred and reported within the proper period of availability. Program accountants should periodically monitor program balances, with special attention given near the beginning and end of periods of availability. Any necessary adjustments should be made on a timely basis. If adjustments relate to specific invoices, a copy of those invoices should be retained as supporting documentation in the adjustments file.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

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Finding 2009-16 - Eligibility

U.S. Department of Agriculture
Child Nutrition Cluster – School Breakfast Program, National School Lunch Program,
Special Milk Program for Children, and Summer Food Service Program for Children -
CFDA Nos.10.553, 10.555, 10.556, and 10.559
Award Year: 2008-2009

Criteria: 7 CFR §245.6 (c) *Determination of eligibility* (4) *Calculating income* states, “When a household submits an application containing complete documentation, as defined in §245.2, and the household’s total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in §245.2, the children in that household must be approved for free or reduced price benefits, as applicable.” 7 CFR §245.2 defines Income Eligibility Guidelines as “the family-size income levels prescribed annually by the Secretary for use by States in establishing eligibility for free and reduced price meals and for free milk.” Federal Register Vol. 73 No. 69, USDA Child Nutrition Programs – Income Eligibility Guidelines states that, “In accordance with the Department’s policy as provided in the Food and Nutrition Service publication Eligibility Guidance for School Meals Manual, ‘Income’ includes ...(11) alimony or child support payments;... ‘Income’ does not include any income or benefits received under any Federal programs that are excluded from consideration as income by any statutory prohibition.”

Condition/Context: We noted one application out of a sample of 60 tested that included a household member receiving assistance under the Supplemental Nutrition Assistance Program (SNAP), which allows for automatic acceptance based on categorical eligibility guidelines. However, this application was not granted automatic eligibility. Instead, a projected income calculation was performed that improperly included Food Stamp benefits. Although the applicant's projected income was overstated by the amount of Food Stamp benefits, this applicant was accepted into the program based on income eligibility guidelines.

We also noted one application out of 60 tested where welfare, child support, and alimony benefits were improperly excluded from projected income calculations. After bringing this to the attention of DOE program management, it was determined that there would be no change in eligibility for this applicant if the benefits were properly included in income calculations.

Cause: The above conditions were primarily due to inadequate review of application forms and lack of management oversight.

Effect: Incorrect calculation of projected household income may create situations where applicants are improperly accepted into the program. It also may prevent other eligible applicants from receiving benefits.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Questioned costs: None.

Recommendation: We recommend management provide additional training to program personnel to ensure the proper implementation of eligibility standards and criteria. Program management should also perform more adequate and timely reviews of application files to help ensure that all eligibility determinations are properly made.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

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Finding 2009-17 - Eligibility

U.S. Department of Agriculture
Child Nutrition Cluster – School Breakfast Program, National School Lunch Program,
Special Milk Program for Children, and Summer Food Service Program for Children –
CFDA Nos.10.553, 10.555, 10.556, and 10.559
Award Year: 2008-2009

Criteria: 7 CFR §245.6(a) *General requirements – content of application and descriptive materials* (1) *Household application* states that, “The State agency or local educational agency must provide a form that permits a household to apply for all children in that household who attend schools in the same local educational agency... The application shall be clear and simple in design....”

7 CFR §245.6 (c) *Determination of eligibility* (4) *Calculating income* states that, “When a household submits an application containing complete documentation, as defined in §245.2, and the household’s total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in §245.2, the children in that household must be approved for free or reduced price benefits, as applicable.” 7 CFR §245.2 states that “documentation” means the completion of application which includes: ...income received by each household member, identified by source of income....”

Further, the U.S. Department of Agriculture Instruction for School Districts and Eligibility Manual For School Meals Guidelines Part 4. Income Eligibility (C.) Determining Household Income – Special Stipulates: “The earnings of a child who is a full-time or regular part-time employee must be listed on the application as income.”

Condition/Context: We tested 60 household application files which had been approved for free or reduced price benefits. We noted that the State Application Form Part 4 “List All Other Household Members and Their Gross Income” stipulates that the applicant should list “All adults and children not listed under Part 1 Students Attending SOH DOE Schools” with their gross income. The DOE application form does not require a child's income to be reported as part of household income as long as the child attends a DOE school and is listed under Part 1 of the application form.

Cause: The above conditions are due to a poorly designed State Application Form.

Effect: The design of the State application form may prevent all applicants from completely and accurately reporting total household income and could lead to unreported household income. This condition creates the potential for unqualified households with children being improperly approved for free or reduced price benefits.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Questioned costs: None.

Recommendation: We recommend management review the documentation of applications and implement procedures to ensure compliance with eligibility requirements. The DOE should consider whether or not to redesign the State Application Form would be beneficial or consider procedures such as implementing a requirement that all applicants be interviewed prior to being accepted into the program.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

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Finding 2009-18 – Eligibility

U.S. Department of Agriculture
Child Nutrition Cluster – School Breakfast Program, National School Lunch Program,
Special Milk Program for Children, and Summer Food Service Program for Children –
CFDA Nos.10.553, 10.555, 10.556, and 10.559
Award Year: 2008-2009

Criteria: 7 CFR §245.6(a) *General requirements – content of application and descriptive materials* (6) *Household members and social security numbers* states that, “The application must require applicants to provide the names of all household members. The social security number of the adult household member who signs the application must be provided. If the adult member signing the application does not possess a social security number, the household must so indicate.”

Condition/Context: We noted one application out of a sample of 60 tested which were approved for free or reduced price benefits that did not contain the social security number of the adult household member who signed the application. Additionally, there was no indication in the file that the applicant did not have a social security number.

Cause: The above conditions were primarily due to inadequate reviews of application forms and lack of management oversight.

Effect: Incomplete applications do not comply with eligibility standards and criteria. A combination of other missing application data elements may render an application invalid, and may create a situation where an applicant is receiving benefits for which he or she is not entitled to.

Questioned costs: None.

Recommendation: We recommend management be more diligent to ensure that all data elements on an application are completed prior to approval. Management should implement procedures to ensure that all applications are properly reviewed. Evidence of reviews should be noted on the application forms.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-19 – Eligibility

U.S. Department of Agriculture
Child Nutrition Cluster – School Breakfast Program, National School Lunch Program,
Special Milk Program for Children, and Summer Food Service Program for Children –
CFDA Nos.10.553, 10.555, 10.556, and 10.559
Award Year: 2008-2009

Criteria: 7 CFR §245.6 (c) *Determination of eligibility* (7) *Denied application and the notice of denial* states that, “When the application furnished by a family is not complete or does not meet the eligibility criteria for free or reduced price benefits, the local educational agency must document and retain the reason for ineligibility and must retain the denied application.” USDA Eligibility Manual For School Meals (*Federal Policy for Determining and Verifying Eligibility*) Part 3 *Processing Applications N. Recordkeeping* states that, “...for denied applications, local educational agency must sign or initial the application and indicate the denial date, the reason for the denial and the date the denial notice was sent.”

Condition/Context: We selected five application files for the Child Nutrition Cluster programs which had been denied free or reduced price benefits. We noted there was no evidence of a denial notice retained in the file for all five applications inspected.

Among these five denied applications, one application appeared to be approved by the determining official for free benefits. Upon further review of the application, we determined that the student was eligible for free benefits. Management noted that the reason for the denial was that no response was received from the household for the annual verification request.

Cause: The above conditions were primarily due to lack of policies to require documentation of support for denied applications.

Effect: Incomplete documentation of applications creates further opportunities for oversight of critical details. For example, when researching a file for past history, a staff member may mistakenly consider that an application was approved when it was actually denied because of inadequate documentation of denial notices.

Questioned costs: None.

Recommendation: DOE School Food Services maintains documentation of eligibility determinations for all DOE schools. We recommend that management ensure that all application files contain complete documentation of all eligibility determinations, including evidence that supports denied applications.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-20 – Subrecipient Monitoring

U.S. Department of Agriculture

Child Nutrition Cluster – School Breakfast Program, National School Lunch Program,
Special Milk Program for Children, and Summer Food Service Program for Children –
CFDA Nos.10.553, 10.555, 10.556, and 10.559

Award Year: 2008-2009

Criteria: Office of Management and Budget Circular A-133 Part 3 M. *Subrecipient Monitoring* states that, “A pass-through entity is responsible for *Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133, and that the required audits are completed within 9 months of the end of the subrecipient’s audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.”

7 CFR §210.18(l) *Administrative reviews – Withholding Payment* states that, “At a minimum, the State agency shall withhold Program payments to a school food authority as follows: (1) Cause. (i) The State agency shall withhold all Program payments to a school food authority if documented corrective action for critical area violation(s) which exceed the review threshold(s) is not provided within the deadlines in paragraph (k) (2) of this section.” 7 CFR §210.18(k)(2) *Corrective action – Documented Corrective action* states that “Documented corrective action may be provided at the time of the review; however, it shall be postmarked or submitted to the State agency no later than 30 days from the deadline for completion of each required corrective action,....”

Office of Management and Budget Circular A-133 Part 3 M. *Subrecipient Monitoring* states that “A pass-through entity is responsible for *Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.”

Condition/Context: We examined five subrecipient master agreements with the DOE’s Office of Hawaii Child Nutrition Programs (OHCNP) with subawards totaling \$356,481 for fiscal year ending June 30, 2009. We noted that management had not performed follow-up procedures to determine whether their subrecipients were subject to OMB A-133 audit requirements that require audits to be

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

completed within nine months of the end of the subrecipients' audit period. These four subrecipients received a total of \$73,264 for the fiscal year.

We also noted that DOE management requested from one of its subrecipients the submission of a corrective action plan by March 19, 2009 as a result of findings from a field review. The subrecipient did not submit corrective action as of June 30, 2009 and DOE management did not withhold further payments to the subrecipient until September 8, 2009. This subrecipient received a total of \$15,062 for the fiscal year, \$5,571 of which was received during the period between March 19, 2009 and June 30, 2009.

Lastly, we noted that management did not identify award information such as CFDA number and name of Federal agency in the subrecipient agreements.

Cause: The above conditions were primarily due to lack of management oversight. The subrecipient agreements were formatted years ago and had not been updated to meet current requirements.

Effect: Management is unable to ensure that its subrecipients are in compliance with federal regulations if it does not obtain and review the required audit reports pursuant to OMB A-133.

Additionally, a corrective action plan is an effective way to hold subrecipients accountable for the resolution of findings as a result of an audit or desk review. Without timely receipt of corrective action plans, the DOE is unable to ensure that its subrecipients are in compliance with federal requirements

Without properly identifying certain information such as CFDA numbers and Federal awarding agencies, subrecipients may not be aware of compliance requirements they should adhere to, which may increase the risk of subrecipients performing unallowable activities. Subrecipients may find it difficult to research compliance requirements without certain identifying information such as CFDA numbers.

Questioned costs: \$5,571, calculated as the amount of funds received by the subrecipient during the period between March 19, 2009 and June 30, 2009 who failed to submit a corrective action plan as discussed above.

Recommendation: We recommend management ensure that audit reports are obtained from its subrecipients and reviewed for compliance on a timely basis. We also recommend that management obtain corrective action plans on a timely basis. Management should also promptly withhold future subrecipient payments if an imposed deadline is not met. Lastly, management should update their

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

agreements with all subrecipients to ensure compliance information and requirements are properly communicated.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-21 – Reporting

U.S. Department of Defense
Joint Venture Education Forum – CFDA No.12.000
Award Year: 2008-2009

Criteria: The Joint Venture Education Forum (JVEF) program consists of subprograms referred to as initiatives, each charged with specific goals for schools deemed to be military impacted. Each initiative is managed by a strategy group, comprised of JVEF members from public schools, leaders from military commands, government, community, and business. Each strategy group holds a memorandum of agreement (MOA) between the DOE and the U.S. Pacific Command (USPACOM), its awarding agency.

Although MOA details differ slightly among strategy groups, each MOA requires submission of a form of a final detailed report to the JVEF Board of Directors and to the USPACOM Coordinator.

34 CFR 80.40 and 80.42 details standard reporting requirements and retention and access requirements for records.

Condition/Context: We requested copies of the required close-out reports that were submitted to USPACOM from the DOE. These included the Textbooks, Technology, Citizenship, Transitions, and Curriculum initiatives that had lapse dates of June 30, 2009. The reports provided to us contained no evidence of supervisory reviews. Further, we noted no indication that the reports were transmitted to USPACOM on a timely basis.

Cause: Management believed their current practice of report submission was adequate and did not require evidence of transmission and supervisory reviews.

Effect: Lack of sufficient reviews and oversight may lead to instances where reports are not transmitted timely, submitted with errors, or are not submitted in accordance with program guidelines. Unreliable reports are ineffective for determining the progress of the program's objectives and may hinder future allocation of resources.

Questioned costs: None.

Recommendation: We recommend that the transmittal of all final JVEF financial reports and documents (provided by each funding recipient such as the DOE, Hawaii 3R's, military branches of service, etc.) regarding completed MOAs be formally transmitted with a cover letter, and submitted for review and approval to the JVEF Executive Co-Chairs – USPACOM and the DOE, the JVEF Board of Directors and to the USPACOM and FOE Coordinator.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Finding 2009-22 – Allowable Activities and Allowable Costs

U.S. Department of Education
Safe and Drug Free Schools and Communities – State Grants – CFDA No. 84.186
Award Year: 2008 – 2009

Criteria: The Elementary and Secondary Education Act of 1965, as amended, Title IV, Part A, Subpart 1, Sec. 4115 describes the Safe and Drug Free Schools authorized activities. Among other authorized activities, LEAs must use the funds to “foster a safe and drug-free learning environment that supports academic achievement” and must be designed “to prevent or reduce violence; the use, possession and distribution of illegal drugs; and delinquency; and to create a well disciplined environment conducive to learning, which includes consultation between teachers, principals, and other school personnel to identify early warning signs of drug use and violence and to provide behavioral interventions as part of classroom management efforts....”

Condition/Context: We noted three transactions out of a sample of 22 tested that did not appear to fall within the allowable parameters described above. One transaction in question involved travel expenses for 13 students and chaperones to attend a national robotics competition in Atlanta totaling \$9,170. When this was brought to management’s attention, the program manager contacted the U.S. Department of Education (ED) to request clarification. ED confirmed that this particular transaction was not an allowable cost.

A second transaction, totaling \$6,494 in reimbursements, related to travel expenses for students to attend the Imiloa Astronomy Center and Onizuka Center for International Astronomy in Hilo, Hawaii, and for transportation to and from a high school prom.

Lastly, \$1,800 was expended from Safe and Drug Free funds for miscellaneous school supplies purchased from a vendor that specializes in special needs equipment.

Cause: Management noted that by taking interested students “off the streets” and providing them programs that fostered team building skills, management believed the above constituted allowable activities.

Effect: Expenditures charged to a federal program that does not comply with applicable guidelines are unallowable costs and may prevent the DOE from receiving future program funding. The DOE may also be required to reimburse ED for the costs of the transactions in question.

Questioned costs: \$17,464, calculated as the total of the three transactions described above.

Department of Education
State of Hawaii

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Fiscal year ended June 30, 2009

Recommendation: We recommend the DOE ensure that all federal funds are expended within the guidelines of program regulations. Should a question arise regarding a transaction, program management should contact ED for clarification and preapproval if necessary. Correspondence should be maintained and attached to the respective purchase orders and/or invoices.

Views of the responsible official and planned corrective actions: Refer to Response of Affected Agency.

PART V

CORRECTIVE ACTION PLAN

(Provided by the Department of Education, State of Hawaii)



STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

March 29, 2010

Grant Thornton LLP
1132 Bishop Street, Suite 2500
Honolulu, HI 96813-2864

Ladies and Gentlemen:

The Single Audit of the State of Hawaii Department of Education (HIDOE) for the fiscal year ended June 30, 2009 was substantially completed by February 2010, ahead of the March 31, 2010 Federal deadline. However, due to the State of Hawaii – Department of Accounting and General Services (DAGS) Auction Rate Securities issue and the DAGS investment pool income accruals, the report was not completed until late March 2010.

The prior year's audit was not completed until May 20, 2009. By that time, the 2008-09 fiscal year was almost over; therefore, repeat findings have occurred.

We are also pleased with this year's unqualified opinion on the Department's financial statements, i.e. the best rating by auditors. The audit findings and recommendations have been reviewed and corrective action plans have been prepared. In accordance with OMB Circular A-133, the following pages contain the **Corrective Action Plan** for the year ended June 30, 2009 and the **Summary Schedule of Prior Audit Findings** for the year ended June 30, 2008.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Kathryn S. Matayoshi".

Kathryn S. Matayoshi
Interim Superintendent

PH:dy

Attachments

STATE OF HAWAII DEPARTMENT OF EDUCATION
SINGLE AUDIT -- CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2009

FINANCIAL STATEMENT FINDINGS

2009-01 Error Corrections

(Pages 61 to 62)

Corrective Action Plan

The financial audit report by Grant Thornton LLP for the prior fiscal year ended June 30, 2008 was not completed and issued until May 28, 2009, which was almost at the end of the current audited fiscal year ended June 30, 2009. Therefore, several findings in the 2008 audit are repeated in the 2009 audit report.

*As mentioned in the prior year 2008 audit report, several factors and circumstances contributed to the challenges in the Department of Education's Accounting Section. **Attachment A** is a graphical depiction of the events that have occurred, affecting the 2007, 2008 and 2009 audits. These factors and circumstances are also listed below:*

- *Retirement of six (6) key seasoned veterans in Accounting, (representing over one-third of the positions) with a combined total of over 175 years of Department of Education accounting experience.*
- *Hiring of new staff that had to focus on day-to-day processing.*
- *Delays in hiring additional replacement staff.*
- *Termination of employment of one account clerk, and the resulting vacancy not filled for over one year.*
- *Absence of another accountant position for over one year.*
- *Other conditions resulting in the absences of two other accountants.*
- *Complexity of Capital Improvement Program (CIP) accounting and coordination due to responsibilities transferred from the Department of Accounting & General Services (DAGS).*
- *Strains placed on the new staff due to the vacancies without staffing relief.*
- *Resignations of two accounting supervisors, in April 2008.*
- *Resignations of four accountants: three in April and one in June 2008.*
- *Resignation of the newly-hired Accounting Supervisor (Fiscal Specialist III) in December 2009, after only one year in the position.*

The Department has taken action by hiring temporary personnel into the vacant positions, and has now replaced several personnel vacancies with dedicated, hard-working new hires. In addition, retiree accountants assisted the Accounting Section by providing consultation, training and support. We are in the process of re-filling the Accounting Supervisor position.

Accounting records

The auditors' description of the Department of Education's accounting records kept on a "cash and encumbrance basis" is not unique; it also applies to all other state agency accounting records, since the original designs (by CPA firm KPMG Peat Marwick about 20 years ago) of the state accounting systems at the Department of Accounting and General Services (DAGS) and the Department of Education were focused on governmental appropriations, expenditures, and remaining balances, instead of proper fund accounting and financial statement reporting. For example, all state agency fund balances have been kept, and continue to be kept, on spreadsheets, instead of on readily traceable and auditable system-generated ledgers. The Department of Education's now-outdated and ill-designed computerized accounting system is problematic. Most of the audit findings could be remedied or addressed with up-to-date computerization and "dashboard" financial statements and management reports. The Department's existing accounting system, 20 years old, is now obsolete, written in COBOL language. We have developed comprehensive documentation on requirements to replace the financial accounting system. We have proposed legislation in the 2010 session of the Legislature, to allow bond funding for investments in information technology. It is imperative that we invest in current web-based financial software, as a replacement.

The following table summarizes the improvements that the Department of Education Accounting Services Branch has achieved in the 2008-09 audit, in comparison to the prior years:

Summary of Improvements Made by the Department of Education
Accounting Services Branch, Office of Fiscal Services

Audit finding	FY 2006-07	FY 2007-08	FY 2008-09
Audit opinion on financial statements	Qualified, due to not having an actuarial valuation to verify the adequacy of reserves for workers' compensation liability.	Unqualified opinion, i.e. the best rating by auditors.	Unqualified opinion, i.e. the best rating by auditors.
Timeliness of audit completion	Late: Audit for 2006-07 finalized on August 14, 2008; Extensions obtained from U.S. DOE five (5) months past the Federal audit deadline of March 31, 2008.	On-time completion of audit by March 31, 2009, except for State DAGS delays due to Auction Rate Securities asset write-down, in which DAGS delayed the audit completion until May 20, 2009	Completion of audit in record time, estimated to be early at the end of February 2010; however, delays may occur again due to the same DAGS issue of Auction Rate Securities as in 2008, and DAGS investment pool income accruals.

Audit finding	FY 2006-07	FY 2007-08	FY 2008-09
Workers' compensation reserve for claims, and year-end liability calculation.	No actuarial valuation to verify the adequacy of reserves for workers' compensation liability.	Actuarial valuation obtained; resulted in a prior-period adjustment to reserves as of June 30, 2007. Actuary recommended changes to Office of Human Resources' (OHR) workers' comp reserve methodologies.	Audit finding resolved. Actuarial valuation obtained; no prior-period adjustments; OHR workers' compensation methodologies properly amended. Accounting reserves properly calculated, and determined to be adequate by auditors.
Timely reconciliations of accounts; proper reviews and approvals of the reconciliations.	Four (4) central bank accounts not reconciled in a timely manner. Lack of periodic reconciliation of over 800 other appropriation accounts; lack of thorough review and approval of reconciliations. Two accounting supervisors and four accountants resigned. Three other accountants absent due to various reasons.	All central bank accounts reconciled timely. Staffing replaced. Other appropriation reconciliations completed; however, auditors indicated the need for more timely reconciliations, and proper reviews of the reconciliations by a supervisor.	Audit finding resolved: All central bank accounts reconciled timely. All other 800 appropriation reconciliations were completed and were reviewed in a timely manner, with far less reconciling items, due to the diligent efforts and hard work of new staff.

Audit finding	FY 2006-07	FY 2007-08	FY 2008-09
Communication of financial statement reporting requirements to all involved areas.	Communication needed improvement between the Accounting Section and Vendor Payment, Payroll, Facilities Development, and Facilities Maintenance.	Communication improved; however, auditors cited the need for continued improvement in communication.	Audit finding resolved: Due to the diligent efforts and hard work of staff, communication has significantly improved across all areas cited earlier.
Accounting for property and equipment, including construction in progress.	Information is needed to properly record property and equipment transactions, particularly due to the activity in construction in progress.	Accounting Section coordinated with the Office of School Facilities and Support Services (OSFSS) to track and analyze the status of construction projects. Improvements were made.	Audit finding resolved: Due to the diligent efforts and hard work of staff, the accounting records for construction projects were reviewed by the auditors and were determined to be fairly stated in all material respects.
Internal control procedures and resources.	Auditors recommended assessments of procedures, consider restructuring of functions in accounting.	Assessment of procedures completed and documented. Flowcharts prepared for all major accounting procedures. Auditors recommended continued assessments.	Auditors recommended continued assessments. Due to budget cuts, reduced Branch staff and implemented a Board-approved reorganization. Accounting Supervisor resigned. In process of recruiting a qualified replacement.

Over the past three years, the Department of Education Accounting Services Branch has made significant improvements in its operations, and the improved audit results validate our efforts. We have recovered from unprecedented staff turnover, and are taking steps to continually improve our efficiency and effectiveness. The auditors expect 100% accuracy; therefore, if any audit adjustments are made, this finding would persist. It is our view that the audit opinion speaks for itself, that we have achieved an unqualified audit opinion (which is the best and highest rating by auditors) as to the

financial statements of the Department of Education for both fiscal years 2007-08 and 2008-09 consecutively. Furthermore, the summary table above shows the progress we have made in key areas; and the reduced content of the audit findings also validate the improvements we have made.

With the passage of the American Recovery and Reinvestment Act of 2009 (ARRA), and the need for timely audit information, the Federal Office of Management and Budget (OMB) has proposed to accelerate the future financial and compliance audit deadlines from March 31 to January 31, 2011 for the audit of fiscal year 2009-10, and December 31, 2011 for the audit of fiscal year 2010-11. Since the Department of Education's Accounting Services Branch has made, and will continue to make, significant improvements in its financial reporting functions, we are confident that we will achieve completion of the audits on-time for each of those years, pending Federal decisions, and despite the OMB-proposed substantially accelerated deadlines. As evidence of this improvement, this 2008-09 audit was substantially completed by February 2010, ahead of the March 31, 2010 Federal deadline.

*Contact Person: Edwin Koyama, Accounting Director
Accounting Services Branch
Office of Fiscal Services*

Anticipated Completion Date: June 30, 2010

*(Please also refer to **Attachment A** for a historical depiction of significant events affecting the financial audit.)*

Corrective Action Plan

The financial and compliance audit report by Grant Thornton LLP for the prior fiscal year ended June 30, 2008 was not completed and issued until May 20, 2009, which was almost at the end of the current audited fiscal year ended June 30, 2009. Therefore, several findings in the 2008 audit are repeated in the 2009 audit report.

The Department's corrective action plan for employee vacation and sick leave consists of three major initiatives:

1. Clearing of employee leave processing backlog

As reported in the prior year, the Department has contracted the services of a certified public accounting (CPA) consulting firm to assist with clearing the backlog of processing employee leave accounting reports. The existing employee leave accounting system was developed in the 1980s, and has not been modified since its inception.

Updating employee leave records in the Department is a difficult time-consuming process, because of the large number of employees in the Department and the complex variety of leave accrual rules which must be followed for different types of employees to comply with various union contract provisions. In most other state agencies, employees simply earn 14 hours of sick and vacation leave each month, which may be prorated based on the actual number of days the employee is on paid status during the month. In the Department of Education, there are basically 4 categories of employees with different leave accrual rules:

(a) 10-month certificated employees, or teachers, who are credited with 18 days of sick leave at the beginning of each school year.

(b) 10-month classified employees, such as educational assistants, who are credited with 144 hours of sick leave at the beginning of each school year.

(c) 12-month certificated/classified employees, who earn the normal 14 hours of sick leave and vacation leave each month.

(d) 12-month teachers and registrars, who earn 21 days of sick leave and 14 days of vacation leave each year.

With the assistance of the CPA consulting firm, there has been massive efforts focused on removing this backlog. We expect to have substantial completion of the backlog by June 30, 2010.

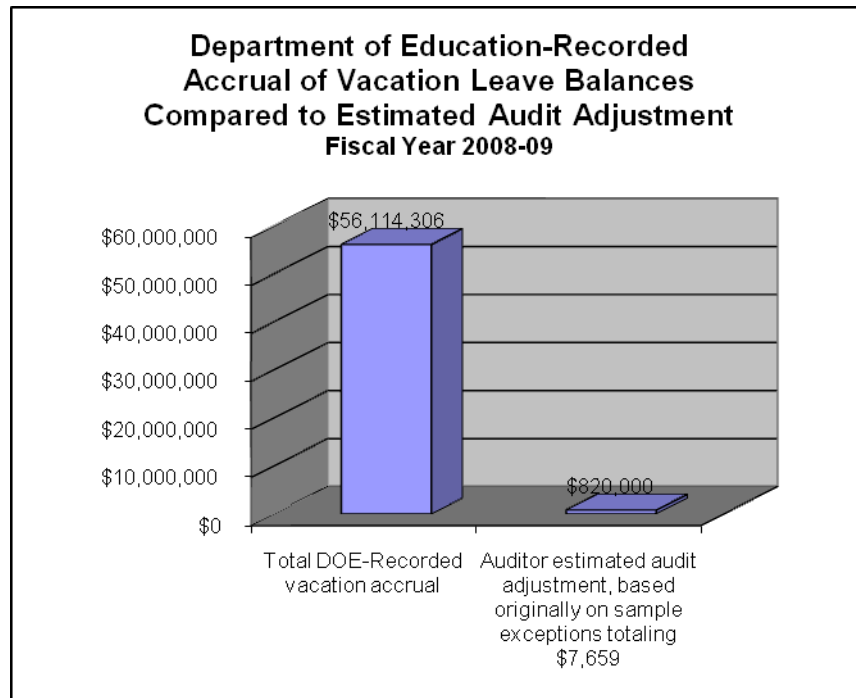
2. Conversion to a new KRONOS time and attendance and payroll system

The Department has fully implemented a new KRONOS time and attendance system at all schools and offices as of April 2009. The new system has fully automated the accruals and procedures for employee leave balances, and is able to provide updated information on demand at any time. The Department has planned to implement a new KRONOS payroll system, as a module supplementing the time and attendance system. The KRONOS payroll system has undergone thorough testing; however, due to differences in furlough calculations (the union agreements require average salary furlough reductions prorated over the year, whereas KRONOS would deduct pay for each actual furlough day taken), the system implementation date has been postponed until the State furlough issues are resolved. In addition, the overall project has been challenging due to the complexity of payroll for the various classifications of our employees, due to collective bargaining negotiated pay characteristics that vary significantly by employee classification. Concurrently, we are also researching the piloting of, and subsequent implementation of, employee computerized access for time-stamping of attendance and/or hours worked, in addition to, or in place of, swiping of employee badges via time clocks. The objective of this process is to place the primary responsibility for attendance and/or hours worked, upon each employee, instead of placing undue burdens on timekeepers.

3. Fiscal year-end accrual of vacation leave balances

In the prior years, the accrual of vacation leave balances was complicated by the fact that the leave information was kept manually at each school and office. Since the Department has fully implemented the new KRONOS time and attendance system at all schools and offices as of April 2009, we were not faced with difficulties of manually-kept records that were at risk of not being updated, particularly for employee retirements or other changes. Accordingly, the year-end accrual of vacation leave balances was much easier as of June 30, 2009, with only one automated source system.

In order to ensure the accuracy of the year-end calculations, in accordance with recommendations made by the auditors in the prior year, the Department's Accounting Section took a full leadership role in determining the calculation methodology; coordinating the payroll data retrieval; and verifying the accuracy of the accrual calculations. In discussions with the auditors, they acknowledged that improvements were made in the Accounting leadership roles. In this 2009 report, the auditors indicated some adjustments were needed in the vacation accrual. The audit sample totaled to \$7,659 of audit exceptions, that the auditors estimated a potential impact extrapolation to the total accrual population to be approximately \$820,000. What the auditors fail to point out is that the estimated adjustment represents only 1.5% of the Department's calculated vacation accrual totaling \$56 million that the Department recorded as of June 30, 2009, prior to the auditors' review.



As stated in our corrective action plan for Finding 2009-01, it appears that the auditors' expectation is for 100% accuracy. Particularly in the current economic conditions of the State, and budgetary constraints faced by all state agencies, and with furloughs of staff having less work days to complete our tasks, fairly stated financial statements "in all material respects," as the standard audit concluding opinion reads, is a reasonable standard to attain, and the Department of Education's Accounting Services Branch has focused countless hours of dedicated efforts, and has done a creditable job in achieving that standard. Pertaining specifically to this audit finding, the Department of Education's Accounting Services Branch will continue its efforts to refine the accruals for vacation leave balances at fiscal year end.

*Contact Persons: Edwin Koyama, Accounting Director
Accounting Services Branch
Office of Fiscal Services*

*Keenan Chang, Fiscal Specialist II
Accounting Section
Accounting Services Branch
Office of Fiscal Services*

*Anticipated Completion Date: Clearing of backlog: (est.) December 2010
Financial statement accrual: February 28, 2011*

Corrective Action Plan

Beginning with school year 2007-08, the Department's Internal Audit Office implemented an Annual Checklist for Compliance of Local School Fund Procedures for all schools as part of its monitoring efforts. The results were compiled into a report which served as a tool for the Complex Area Business Managers (CABMs) to identify areas at their respective schools needing additional support. Each school is required to certify that specific steps have been completed, such as:

- Bank reconciliations completed;
- Annual Principal Financial Report completed and signed;
- Administrator's Checklist completed and signed;
- Money Raising and Donations are summarized and accounted for;
- Training sessions attended;
- Cash receipts and disbursements are accounted for;
- Petty cash accounted for; and
- Fixed assets inventory updated.

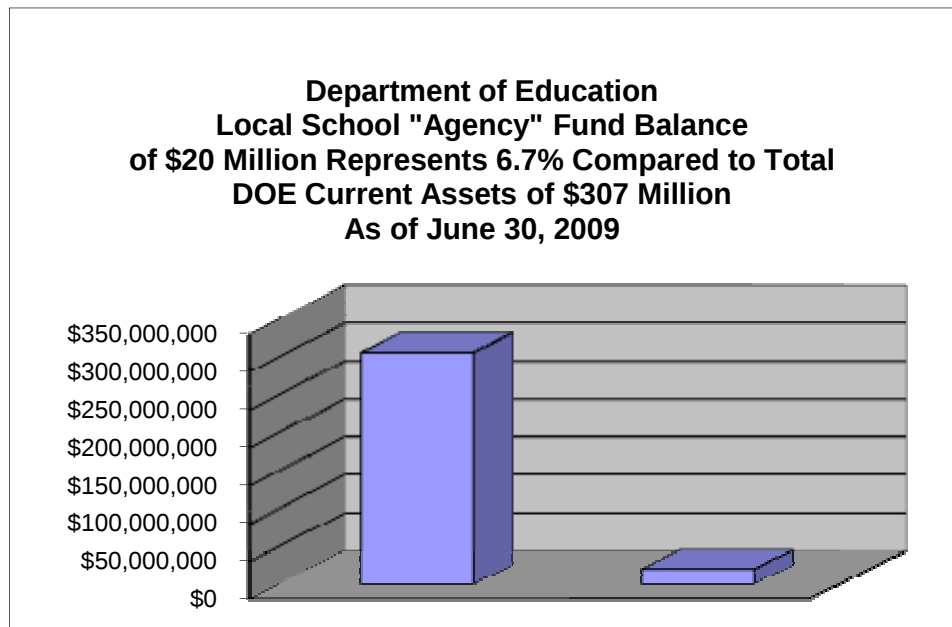
This Checklist is required to be submitted to the Department's Internal Audit Office (IA) by August 15 of each year. Schools that do not submit copies of the completed Checklists are placed on a site visit list. The IA visits those schools and performs a local school fund audit at that time. IA also performs random site visits of other schools to assess compliance (post-audit), as well as to review corrective action plans from prior audits.

The Department's Complex Area Business Managers (CABMs) in each of the fifteen (15) complex areas utilize the types of tools that the Department provides. The CABMs assist the Complex Area Superintendents in monitoring all 257 schools across the State of Hawaii, and they assist schools to comply with fiscal procedures, including local school "agency" funds. Proper use of this tool will strengthen internal controls and should result in substantial reductions in the occurrences of these local school fund audit findings.

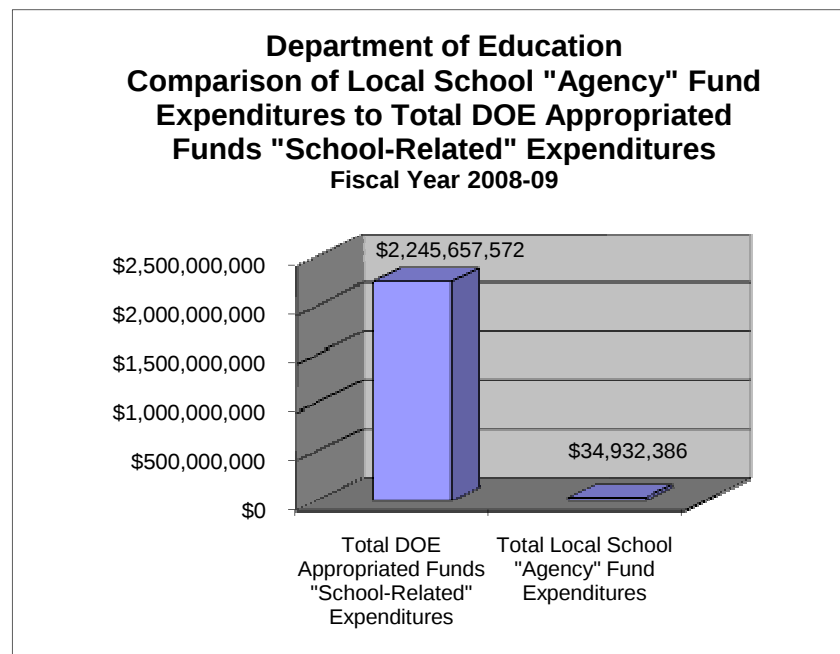
Contextual information

The Department appreciates the auditor's findings pertaining to local school "agency" funds. Since those are "liquid" assets, they are of "high risk" and the findings must be given urgent attention. In addition, since these "agency" funds are held by schools on behalf of student activity transactions, the Department recognizes that it has a fiduciary responsibility to account for these transactions properly. Concurrently, however, we also believe the findings should be considered in appropriate context, in comparison to the total Department current assets, and expenditures under its purview.

The Department's local school "agency" fund balance of \$20 million represents 6.7 percent compared to the total Department current assets of 307 million as follows:



In addition, the Department's local school "agency" fund expenditures of \$35 million represents 1.6 percent compared to the total Department appropriated fund "school-related" expenditures of \$2.2 billion, as follows:



*Please see **Attachment B** for details of each Complex Area Business Manager as contact persons, for the specifics of additional corrective action plans for each of the 15 complex areas across the state, with anticipated completion dates.*

*Contact Persons: Please refer to **Attachment B**.*

*Anticipated Completion Dates: Please refer to **Attachment B**.*

Improving Compensating Controls for Inadequate Segregation of Duties over Agency Funds

Attachment B

Corrective Action Plan

Complex Area	Contact Person	Corrective Action Plan	Anticipated Completion Date
Farrington-Kaiser-Kalani	May K. Price	The updated Administrator's Checklist was sent to all Principals, School Administrative Services Assistants (SASAs) and Administrative Services Assistants (ASAs). Copies of the schools' Administrator's Checklists were sent to Complex Area Business Manager (CABM), in response to Internal Audit's requirement for submission of the Annual Checklist from each school. Schools that did not have completed Administrator's Checklists were contacted with follow-up visits. Principals and SASAs were provided with assistance and training as needed in completing the Administrator's Checklist. CABM will continue mini-fiscal reviews at the schools. The reviews follow the DOE "Agreed Upon Procedures Program" for Local School Accounts, that include monitoring of the Administrator's Checklist and areas addressed in the checklist.	Ongoing
Kaimuki-McKinley-Roosevelt	Elden Nakamura	Complex Area Business Manager will conduct site visits to monitor the use of the Administrator's Checklist. In addition, meet with school Administrator and SASA to review assignment of duties with available personnel in order to segregate cash functions and train on procedures as needed.	Ongoing
Aiea-Moanalua-Radford	Adrienne Freitas	Business Manager or designee, will periodically make unannounced visits to the schools to perform reviews of the Administrator's Checklist.	Ongoing
Leilehua-Miilani-Waialua	Judy Skeen Gray/Lynn Kitaoka (T/A)	Will conduct a review of the Local School policy and procedures for SASAs and Account Clerks. Will review Administrator's Check List, proper documentation, audit findings and provide possible solutions to any violations.	April 2010
Campbell-Kapolei	Michael N. Tanaka	Although our complex area was not audited in the sample, for schools with only a SASA and one account clerk, CABM or ASA will review Local School Fund (LSF) for segregation of duties and processing of disbursements and receipts.	6/30/2010
Pearl City-Waipahu	Lawrence Suan	Pearl City-Waipahu complex area schools were not audited in the sample; however the following is being done to address the issue of compensating controls for inadequate segregation of duties over agency funds: Complex area schools are to keep on file Administrator's Checklists. There will be a hard copy of the checklist in school's office that includes dates of review for compensating controls. Document to be signed by school principal on a quarterly basis. Employees who process various agency fund functions will be identified and sign off on checklist as well. The Complex Area	03/31/10 & 06/30/10

Improving Compensating Controls for Inadequate Segregation of Duties over Agency Funds

Attachment B

Corrective Action Plan

Complex Area	Contact Person	Corrective Action Plan	Anticipated Completion Date
		Business Manager or a designee will verify that document is on file at school. • Form 434 (Report of Gifts, Grants and Bequests). A file of supporting documentation (letters, memorandum, check copies, etc.) for donations received will be maintained in relation with Form 434. The acceptance letters to Superintendent for donations of \$500.00 or more should be on file as well. • A list of Authorized Check Signers for agency funds will be kept on file. All signatories listed should be current school personnel. • Reviews of agency fund functions and documents which include deposits (WIZ Receipts), disbursements (P.O.s, invoices) "bad" checks (Form 411) and donations have been conducted at complex area schools. There are ongoing efforts by CABM to visit/revisit schools to ensure FMS compliance.	05/31/10 & 06/30/10 05/31/10 & 06/30/10 Ongoing through/beyond 06/30/10
Nanakuli-Waianae	Earlyne Harada	The Business Manager will review the segregation of duties policies with the appropriate staff at each school. Periodic reviews of the controls will then be done throughout the year, with a report of findings given to each principal and staff for follow up. If after a review, the Business Manager still notices that there is a lack of fiscal controls in place, a follow up report will be submitted to the principal, along with the Complex Area Superintendent for further action.	June 2010
Caste-Kahuku	Cindi Ahuna	Assist with revision of FMS User Policy and Process Flow Guide: Review current FMS policy and process flow guide with SASAs, Account clerks and Principals to recommend revision of policies to Accounting Department. Train new principals and as requested by CAS or principal on the following: ☐ Completing each section ☐ Filling out the Administrator's Checklist ☐ Importance of completing the Checklist Perform reviews of Administrative Checklist of schools identified during the Internal Audit annual checklist process. Remind/train schools that have indicated non-compliance on the Internal Audit Department's annual checklist.	June 2010 Ongoing March 2010 – June 2011 March 2010 – June 2010

Corrective Action Plan

Complex Area	Contact Person	Corrective Action Plan	Anticipated Completion Date
Kailua-Kalaheo	Sydney Kline	Complex area not audited in this sample. However, we are performing the following to ensure compliance with FMS User Policy and Process Flow Guide: Assist with revision of FMS User Policy and Process Flow Guide: Review current FMS policy and process flow guide with SASAs, Account clerks and Principals to recommend revision of policies to Accounting Department. Train new principals and as requested by CAS or principal on the following: ☐ Completing each section ☐ Filling out the Administrator's Checklist ☐ Importance of completing the Checklist Perform reviews of Administrative Checklist of schools identified during the Internal Audit annual checklist process. Remind/train schools that have indicated non-compliance on the Internal Audit Department's annual checklist	June 2010 Ongoing March 2010 – June 2011 March 2010 – June 2010–
Hilo-Laupahoehoe-Waiakea	Adri Wilson	Although Hilo Laupahoehoe Waiakea Complex Area schools were not included in the audit sample, below lists processes and action items that are (or will be) in place to address local school fund segregation of duties, processing of disbursements, and processing of receipts: 1. CABM to conduct local school training / review sessions for School Administrators topics to include: ▪ Proper use and completion of Administrators Checklist ▪ Recording and documentation requirements for gifts acceptance ▪ Bank Reconciliation reviews – what to look for, most frequent errors ▪ Risks and dangers of inadequate segregation of duties ▪ Cash receipt process and associated documents ▪ Cash disbursement process and associated documents 2. Periodic cash counts will be conducted throughout the year.	March-May 2010

Improving Compensating Controls for Inadequate Segregation of Duties over Agency Funds

Attachment B

Corrective Action Plan

Complex Area	Contact Person	Corrective Action Plan	Anticipated Completion Date
		3. Monthly review of reconciliations between the bank statement and the school's register are being performed. Review also includes ensuring signature and dates on both documents are completed and checks are not stale dated. 4. School administrators will continue to use the Administrator's Checklist to document the controls verified throughout the year. CABM will do periodic reviews of Checklist to ensure proper completion. 5. Semi-annual review by CABM to include a sampling of cash receipts and cash disbursements. Sample selection will be tested to ensure timely deposits and proper documentation and approval process for disbursements. CABM to review findings with School Administrator.	
Kau-Keaau-Pahoa	Karie Klein	The Kau-Keaau-Pahoa Complex Area was not audited in the sample of three schools; however, what we are doing to address local school fund segregation of duties, processing of disbursements, and processing of receipts continues to include ensuring the use of and completion of the standardized Administrator's Checklist by each school. In addition, the quarterly Local School review conducted by the CABM confirms whether the checklist shows signoff by the administrator.	Ongoing
Honokaa-Kealakehe-Kohala-Konawaena	Scott Jeffrey	The Honoka'a Kealakehe, Kohala, Konawaena Complex Area was not in the sample of three schools. However, here is what we are doing to address the issues of local school fund segregation of duties, processing of disbursements and processing of receipts. The CABM and ASAs visit schools to assist with training of new personnel and to provide cross-training to other clerical staff. Schools are assisted in providing for appropriate segregation of duties where possible. In all cases, and especially where adequate segregation of duties is not possible, schools are assisted in the use of the Administrator's Checklist for compensating controls and for adequate oversight of these sensitive funds.	Ongoing

Improving Compensating Controls for Inadequate Segregation of Duties over Agency Funds

Attachment B

Corrective Action Plan

Complex Area	Contact Person	Corrective Action Plan	Anticipated Completion Date
		On November 4, 2009, the CABM and the ASAs held training sessions for all SASAs plus any other office staff that wished to attend. This training session reviewed the LSF requirements along with other Budget and Financial Management System (FMS) issues important to the clerical personnel. A copy of FMS chapters was provided to each school electronically in a searchable PDF file version to assist them in being able to look up information. Included were the requirements for processing of disbursements and receipts. During period school visits, ASAs and the CABM review selected transactions to verify continued adherence to requirements and to provide on-going instruction and clarification.	
Baldwin-Kekaulike-Maui	Kevin Drake	The complex area did not have any schools in the audit sample. However, there is ongoing review and training in the areas of segregation of duties, processing disbursements and processing receipts. Review and training can take of the form of correspondence, group meetings and individual instruction at the school as needed. There is also CABM involvement with clerical personnel changes and with cross training efforts at the schools.	Ongoing
Lahainaluna-Lanai-Molokai	Nancy Hall	The CABM collects and reviews the school's LSF bank reconciliation monthly. The CABM performs periodic mini audits at each school in the Complex Area to check: stale outstanding checks; correct documentation including purchase order (PO), Approval To Pay (ATP) stamp on invoice; cash count of petty cash; disbursements and deposits. The CABM meets with the SASAs, at least quarterly and sometimes monthly, to review LSF procedures and provide training. A LSF training session was held on 10/14/09 for all schools in the Complex Area and was conducted by Ross Komenaka, User Support Technician (UST). CABM will meet with SASAs and Principals to review procedures.	Ongoing
Kauai-Waimea	Gail Nakaahiki	Kauai schools have improved on bank reconciliations since the creation of the new Excel bank reconciliation spreadsheet in January 2009. For fiscal year 2010, SASAs and Account Clerks are still required to send monthly bank reconciliations to CABM. CABM reviews and provides feedback to schools. Regarding training, at the beginning of each school year, the Kauai Complex Area Superintendent has a Leadership meeting. In the afternoon, the CABM, SASAs, ASAs	June 2010

Corrective Action Plan

Complex Area	Contact Person	Corrective Action Plan	Anticipated Completion Date
		and Private Secretary had a break-out session to discuss the upcoming school year training requests. Since Kauai schools were trained last fiscal year on FMS and Local School Accounting, the SASAs requested for other training (Out of State Travel, Bus Transportation, Personnel, Time and Attendance (TnA), Fixed Assets, Role of the SASA, Excel and personal improvement). For this fiscal year the CABM and ASAs planned to follow-up at schools on their Local School by visiting one or two schools per month. Schools requested reviews and the plan was to start in late August after opening of school. In early August 2009, the complex area was notified that the state office would be conducting a Title I, Title III and McKinney Vento audit in late August 2009/early September 2009 and in mid September 2009, the department's internal auditor's office would be also conducting a "mini audit" at several Kauai schools on their 2009 Local School Account, purchasing card (P-Card) and TnA files. In preparation for the Local School mini-audits, the ASAs and CABM went to the selected schools to assist in preparation of the audit. This included pre-auditing/reviewing their documents; assisting schools in organizing their files; gathering documents requested by the internal auditor, reviewing their Administrator's Checklist, and assisting schools in correcting any discrepancies and/or documenting audit trail. CABM met with ASAs on October 12, 2009 to review Title I audits, LSA mini-reviews and to come up with an action plan for year. During the month of October 2009, ASAs and CABM assisted schools with the completion of their Local School Account "Mini-Audit" reports. This included reviewing audit deficiencies with the schools to insure their understanding of the findings and the proper remedies to resolve the deficiencies. Workdays are limited due to Furlough Fridays, so to use work time more efficiently and service more schools, ASAs and CABM have been using the phone/email to address their questions/concerns and school visits were put on hold. CABM is working on scheduling with ASAs reviewing schools that were not reviewed by state office and following up with those that were reviewed to ensure that recommendations/corrective actions have been implemented. We plan to review the school that recently had a new principal and will soon have a new SASA.	

Corrective Action Plan**Standardized bank reconciliation procedures and templates**

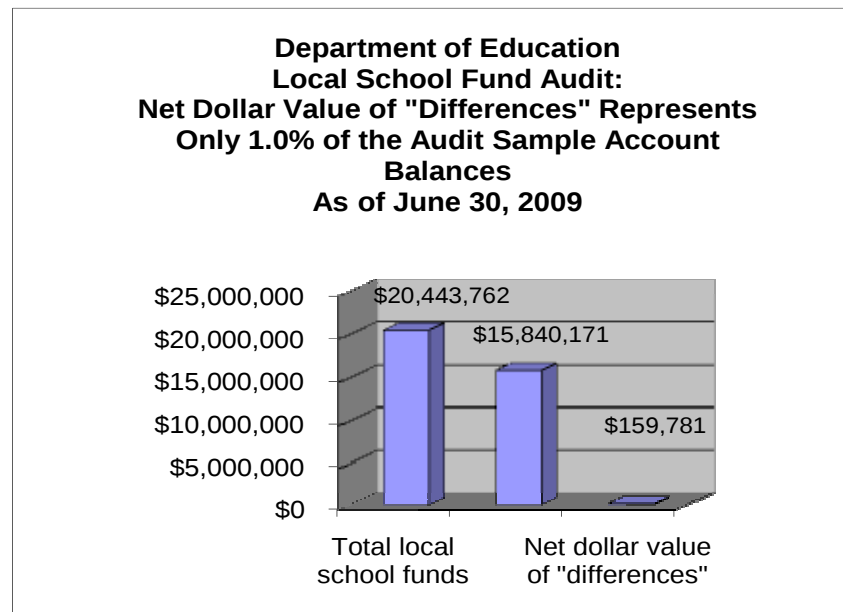
On January 23, 2009, the Superintendent directed all schools to comply with standardized bank reconciliation procedures and templates for all local school "agency" funds.

On January 7, 2009, all Complex Area Business Managers were trained on these standardized bank reconciliation procedures and templates, as well as on the corrective action plan with timelines.

The implementation of these standardized bank reconciliation procedures and templates has resulted in a decrease in the number of schools having an audit finding in the local school fund bank reconciliations and with continued monitoring, may lead to the elimination of this audit finding.

Contextual information

The 2009 audit finding indicated "nineteen (19) schools where either the cash on hand or investment balances on the reconciliations did not agree to the Principal's Financial Report as of June 30, 2009." This represents more than a 50% improvement over the 2008 audit finding, in which forty (40) schools were found to have differences. These differences at 19 schools totaled to a net of \$159,781. This represents only 1.0 percent of the audit sample account balances of \$15.8 million, as follows:



In addition, the audit sample also represents 77 percent, or over three-fourths (3/4) of the total local school "agency" fund balances as of June 30, 2009, as depicted above.

Accordingly, although the wording of the finding implies differently, the Department has made substantial progress in improving the reconciliation process at the 257 schools.

The additional factor affecting these “differences” is that each school’s local school fund balances must be extracted at fiscal year-end, and must be reported in the Department’s Financial Management System (FMS) for summarization and reporting to the State Department of Accounting and General Services (DAGS) as part of the State’s Consolidated Annual Financial Report (CAFR). If school data is not “closed” at fiscal year end, the data must be reviewed in detail by the Accounting Section and manually adjusted, school-by-school.

Most of the audit adjustments in the 2009 audit pertained to investment accounts, and the fact that data is not always readily available for verification as of specific dates, i.e. June 30. In several cases, these investment accounts are time-consuming to verify. For example, certificates of deposit have varying maturity dates, and banks or other investment managers do not necessarily provide monthly balance statements for those types of investments. In preparation for the 2010 audit, the Department has already begun conducting an in-depth analysis of all school investment accounts; will perform an interim verification as of March 31, 2010; and will perform another confirmation at fiscal year end June 30, 2010, to validate the year end investment balances.

Please refer to Attachment C for details of each Complex Area Business Manager as contact persons, for the specifics of additional corrective action plans for each of the 15 complex areas across the state, with anticipated completion dates.

Contact Persons: Please refer to Attachment C.

Anticipated Completion Dates: Please refer to Attachment C.

Agency Fund Bank Reconciliations

Attachment C

Corrective Action Plan

Complex Area	Contact Person	Corrective Action Plan	Anticipated Completion Date
Farrington-Kaiser-Kalani	May K. Price	Complex Area Business Manager (CABM) receives and reviews bank reconciliations from the schools. Findings are followed up with reminders and requests for corrective action. Additionally, ongoing mini-fiscal reviews completed on site at the school include a review of bank reconciliations. Principal and SASA are consulted on all findings. Mini-fiscal reviews and bank reconciliation reviews of the schools are an ongoing and continued practice.	Ongoing
Kaimuki-McKinley-Roosevelt	Elden Nakamura	Review monthly bank statements and bank reconciliations. Ensure all schools are using the current reconciliation template. Notify school of errors and/or necessary changes. Train as needed. For FY09, Internal Audit audited the local school account at Lincoln Elementary. One of the findings was that the bank reconciliations were not completed by Lincoln Elementary. The CABM and ASA worked with Lincoln Elementary to reconcile the local school account up to June 30, 2009, which was completed on August 18, 2009. The SASA was trained on the new bank reconciliation template and has sent a copy of the bank reconciliation to the CABM for review on a monthly basis. The CABM and ASA will follow up on the corrective actions to ensure that those actions have been implemented.	Ongoing
Aiea-Moanalua-Radford	Adrienne Freitas	Business Manager or designee will continue to monitor schools for timely quarterly closing of the local school account. Assistance and training on bank reconciliations and related topics are provided to schools, as needed.	Ongoing
Leilehua-Mililani-Waialua	Judy Skeen Gray / Lynn Kitaoka (T/A)	Monthly collection and review of bank reconciliation for all complex area schools. Verify balances on bank reconciliation to bank statements and check register, check for any variances, assist schools if unable to complete bank reconciliation and verify that principal signs/approves the bank statement and bank reconciliation. Provide any training upon request.	3/2010 - Ongoing

Corrective Action Plan

Complex Area	Contact Person	Corrective Action Plan	Anticipated Completion Date
Campbell-Kapolei	Michael N. Tanaka	CABM has worked with SASAs/account clerks to clear up reconciling items, accessing the bank statements online to expedite the reconciliation process and stressing the need to perform reconciliations on a timely basis.	Ongoing
Pearl City-Waipahu	Lawrence Suan	Pearl City-Waipahu complex area schools did not have any findings in the audit sample; however the following has been/is being done in regards to agency fund bank reconciliations: • Instructions for the standardized bank reconciliation issued by Internal Audit were generated and forwarded to complex areas schools by CABM. CA schools in turn submitted bank reconciliations using the standardized template along with supporting documentation to CABM commencing with the month of February 2009. Documents were reviewed and findings noted if applicable. Training for schools with findings was conducted in March 2009. • Subsequent submissions from CA schools were forwarded to the CABM on a monthly basis through June 2009. Review and additional training for school staff based on findings was conducted as applicable • CA schools are currently submitting bank reconciliations on a quarterly basis (w/monthly submissions from select schools) for compliance review by CABM. Verification of FMS guidelines in regards to adjusting entries, supporting documentation (check register, bank statement, etc.), required signatures/dates, outstanding checks > 6 months old, altered bank templates and reconciling items is performed. • CABM will continue to emphasize to CA schools the importance of document prepared/reviewed date and signature integrity.	03/31/09 07/31/09 Ongoing practice 03/31/10

Agency Fund Bank Reconciliations

Attachment C

Corrective Action Plan

Complex Area	Contact Person	Corrective Action Plan	Anticipated Completion Date
Nanakuli-Waianae	Earlyne Harada	A monthly review of bank reconciliations will now be performed by the Business Manager, as part of a monthly check of local school fund procedures and practices adherence. The schools will be required to submit their bank reconciliations for review to the business manager, which was not a requirement in prior years. The Business Manager will note any findings on a report to the principal. Reviewed all bank reconciliations at June 30, 2009.	Ongoing
Castle-Kahuku	Cindi Ahuna	Compile listing of investment accounts and review reconciliations for the quarter ending March 2010. Visit and assist schools with investment account reconciliation errors. Review all bank reconciliations (cash and investment) at June 30, 2010. Train new administrative staff or as requested by administrative staff on the following: ☐ Bank reconciliation template ☐ Recording journal vouchers	July 2009 April 2010- May 2010 July 2010 Ongoing
Kailua-Kalaheo	Sydney Kline	Reviewed all bank reconciliations at June 30, 2009. Compile listing of investment accounts and review reconciliations for the quarter ending March 2010. Visit and assist schools with investment account reconciliation errors. Review all bank reconciliations (cash and investment) at June 30, 2010. Train new administrative staff or as requested by administrative staff on the following: ☐ Bank reconciliation template ☐ Recording journal vouchers	July 2009 April 2010- May 2010 July 2010 Ongoing

Corrective Action Plan

Complex Area	Contact Person	Corrective Action Plan	Anticipated Completion Date
Hilo-Laupahoehoe-Waiakea	Adri Wilson	Although Hilo Laupahoehoe Waiakea Complex Area schools were not included in the audit sample, below lists processes and action items that are (or will be) in place to address local school fund segregation of duties, processing of disbursements, and processing of receipts: 1. CABM to conduct local school training / review sessions for School Administrators topics to include: ▪ Proper use and completion of Administrators Checklist ▪ Recording and documentation requirements for gifts acceptance ▪ Bank Reconciliation reviews – what to look for, most frequent errors ▪ Risks and dangers of inadequate segregation of duties ▪ Cash receipt process and associated documents ▪ Cash disbursement process and associated documents 2. Monthly review of reconciliations between the bank statement and the school's register are being performed. Review also includes ensuring signature and dates on both documents are completed and checks are not stale dated.	March-May 2010 March 2009
Kau-Keaau-Pahoa	Karie Klein	The Kau-Keaau-Pahoa Complex Area did not have findings in the audit sample. Continuing efforts include ensuring the use of and completion of the standardized Administrator's Checklist by each school. In addition, the quarterly Local School review conducted by the CABM confirmations whether the checklist shows signoff by the administrator. We are currently coordinating efforts on examining investment accounts as well as efforts to refine controls on investment accounts.	Ongoing

Agency Fund Bank Reconciliations

Attachment C

Corrective Action Plan

Complex Area	Contact Person	Corrective Action Plan	Anticipated Completion Date
Honokaa-Kealakehe-Kohala-Konawaena	Scott Jeffrey	In March and April, 2009, the new Complex Area Business Manager (CABM) visited each school with that Complex's ASA. The new Excel template for the Local School Fund Account (LSA) bank reconciliation form was introduced to any school not yet using it during those visits. The requirements were reviewed and school staff began using the new format. The CABM made several follow-up visits to schools that had trouble with using the form to clear up misunderstandings and technology issues. The CABM reviews all schools' LSA bank reconciliations monthly to assure that the bank reconciliations are completed on a timely basis and that FMS requirements for LSA are followed. Any outstanding checks on the reconciliation which appeared on the prior month's reconciliation prompt an email from the CABM to the SASA or Account Clerk to follow up with the payee. The Complex Area is also participating in the coordinated effort on examining investment accounts to make sure that these funds are properly accounted for and reconciled.	Ongoing
Baldwin-Kekaulike-Maui	Kevin Drake	There is ongoing review of each school's cash account monthly bank reconciliation submitted to the CABM. Follow up with each school takes place with any actual or potential areas of concern. Currently the business management group is developing a process to reconcile and review investment accounts in a manner similar to the cash account reconciliation and review process. There is CABM involvement with any clerical personnel changes and cross training efforts as well as periodic reminders via correspondence or group meetings.	Ongoing

Agency Fund Bank Reconciliations

Attachment C

Corrective Action Plan

Complex Area	Contact Person	Corrective Action Plan	Anticipated Completion Date
Lahainaluna-Lanai-Molokai	Nancy Hall	For schools whose investment balance did not match the bank statement, we are working with the bank to receive statements in a timelier manner. For schools where the prepared date was the same as the reviewed date, this is not uncommon in the smaller schools where there are fewer transactions, reconciliations do not take as long to complete, and the principal is readily available to do the review. CABM will meet with all SASAs and Principals to review procedures.	Ongoing
Kauai-Waimea	Gail Nakaahiki	Kauai schools have improved on bank reconciliations since the creation of the new Excel bank reconciliation spreadsheet in January 2009. For fiscal year 2010, SASAs and Account Clerks are still required to send monthly bank reconciliations to CABM. CABM reviews and provides feedback to schools.	June 30, 2010

Corrective Action Plan

The Department of Education, Office of Fiscal Services, Procurement and Contracts Branch (PCB) acknowledges room for improvement in our procurement processes. Corrective action has already been implemented based on a previous audit finding. PCB has instituted (internal) audit checklists to ensure that we are in full compliance with this requirement.

PCB continues to provide training workshops on procurement and contracts issues throughout the year. The workshops and training are provided to a target audience of school/program administrators, school administrative services assistants (SASAs), account clerks, administrative services assistants (ASAs), and complex area business managers (CABMs). The training by PCB has been provided as stand-alone workshops or as requested by complex area superintendents, program managers, and state offices.

The training covers the various procurement methods, including price lists, vendor lists, small purchase and exempt procurement for goods and services (\$0 - \$24,999), exempt, sole source, IFB, RFP, professional services, emergency procurement, and MOA/MOU procurements (\$25,000 and above). PCB also maintains a database of procurement and contracting flowcharts, checklists, forms, and instructions/guidelines and is available to all DOE employees as necessary for review and reference. DOE employees are also encouraged to contact PCB if there are further questions that may arise or to seek additional assistance.

PCB will continue to provide training via workshops and through an "opening of school/office" memo to remind all administrators and support staff of procurement and contracts requirements. In addition, PCB has instituted its own internal documentation review process for projects/contracts of \$25,000 and more. The Office of Fiscal Services will work with the CABMs to perform reviews of school level procurement transactions to ensure on-going compliance. A working team of CABMs, with consultation by PCB, has developed an audit program for the schools and offices to ensure that monitoring is part of the review of the schools procurement transactions. Federal program managers will also notify their program participants of compliance to the procurement code, whether for federal or general fund procurement transactions.

Finally, school level administrators and support staff must be more diligent in complying with applicable procurement requirements, as outlined in training and notifications to the federal program participants, including the importance of maintaining proper procurement and contract files.

Contact Person: Andrell Beppu Aoki, Director
 Procurement and Contracts Branch
 Office of Fiscal Services

Anticipated Completion Date: June 30, 2010

FEDERAL AWARD FINDINGS

2009-06 Period of Availability

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Corrective Action Plan

Under the American Recovery and Reinvestment Act of 2009 (ARRA), the U.S. Department of Education has awarded an ARRA formula grant to the Hawaii Department of Education, for special education, concurrently under the authority of the Individuals with Disabilities Education Act (IDEA). The total amount of the initial grant award was \$19,962,635, i.e. almost \$20 million, which was awarded during the currently audited state fiscal year ended June 30, 2009. This represents the first-half increment of the total ARRA formula grant for the Hawaii Department of Education, totaling \$39,925,269, i.e. almost \$40 million. The second-half increment was not awarded until after the currently audited state fiscal year ended June 30, 2009.

These ARRA IDEA funds were expended to pay for contracted special education services. In our expenditure drawdowns for the initial \$19,962,635, the auditors have identified \$550,509 (representing 2.7% of the total \$19.96 million) pertaining to four invoices special education services that (although paid and drawn during the grant period) were incurred in January 2009, prior to the grant inception date of February 17, 2009, and were inadvertently included in the expenditure drawdowns.

The Hawaii Department of Education has contacted Ms. Ruth Ryder, U.S. Department of Education Program Contact for this ARRA IDEA grant, who is also the Division Director of the Monitoring and State Improvement Planning Division, U.S. Department of Education Office of Special Education and Rehabilitative Services (OSERS). We notified Ms Ryder of this audit finding; we indicated that the Hawaii Department of Education acknowledges the finding; and we inquired as to the appropriate course of action, including return of the funds. Ms. Ryder has responded that, instead of returning the funds, the Hawaii Department of Education would be allowed to make a later accounting adjustment to transfer other qualified costs for special education services rendered during the grant period, “assuming we had available Federal funds for the period in which the services were rendered,” since the grant does not lapse until September 30, 2010. We do have available Federal funds for the period in which the services were rendered for the accounting adjustment; therefore, we will process the allowable accounting adjustment, subsequent to this audited state fiscal year ended June 30, 2009.

Contact Person: Edwin Koyama, Accounting Director
Accounting Services Branch
Office of Fiscal Services

Anticipated Completion Date: March 31, 2010

Corrective Action Plan

Under the American Recovery and Reinvestment Act of 2009 (ARRA), the U.S. Department of Agriculture (USDA) has awarded an ARRA formula grant to the Hawaii Department of Education, to assist in the purchase of cafeteria equipment for School Food Authorities (SFAs) participating in the National School Lunch Program (NSLP), through a competitive grant process. Priority was given to SFAs for cafeteria equipment for schools, in which at least 50 percent of the students were eligible for free or reduced-price meals. Other focus areas of the grant included: Improving the quality of meals to meet the dietary guidelines; improving the safety of food served in the school programs; improving the overall energy efficiency of the school food service operations; and supporting the expansion of participation in the school meal program.

The Hawaii Department of Education Office of Hawaii Child Nutrition Programs (OHCNP) has: (1) Issued an ARRA grant solicitation to SFAs participating in the NSLP; (2) Received and scored ARRA grant applications from SFAs competitively; (3) Awarded ARRA grants to SFAs participating in the NSLP; and (4) Transferred funds to SFAs with ARRA funds, via direct checks from the OHCNP.

The Office of Hawaii Child Nutrition Programs (OHCNP) and the Hawaii Department of Education accounting office had interpreted the OHCNP checks issued to all School Food Authorities (SFAs) as expenditures. However, the auditors defined the Department of Education's OHCNP check paid to the Department of Education, addressed to its own School Food Service Branch (as the SFA for the public schools) as a payment to itself. Therefore, the auditors concluded that, since the School Food Service Branch's procurement of equipment had extended past the state fiscal year ended June 30, 2009, and no actual payments to vendors had occurred, there should have been no expenditures reported for the Department of Education's School Food Service SFA portion as of that date; and that expenditures to the other SFAs (not DOE-SFSB) should have been reported as "pass throughs" to subrecipients on the Schedule of Expenditures of Federal Awards.

The Hawaii Department of Education Accounting Section has made the respective corrections in the year-end Schedule of Expenditures of Federal Awards, and will make respective corrections in the ARRA FederalReporting.gov website. Since this ARRA grant was new this fiscal year, we have instituted procedures to properly interpret the USDA guidelines for this grant, and will properly account for such expenditures in the future.

Contact Person: Edwin Koyama, Accounting Director
Accounting Services Branch
Office of Fiscal Services

Anticipated Completion Date: April 30, 2010

Corrective Action Plan

The Department of Education's Federal Compliance and Project Management Office has developed a Standard of Practice (SoPO404), department-wide, that requires all federally paid employees to complete a payroll certification as per the requirement outlined in attachment B, paragraph 8h(3) of the Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments.

The Department monitors to ensure program managers of federally funded programs:

- 1. Include as part of their regular program monitoring and evaluation activities verification of fund recipient adherence to the payroll certification requirement SoP0404, and*
- 2. Assure that fund recipient training includes information regarding this requirement.*
- 3. Attend a mandatory training on the requirements of OMB Circular A-87(8)(h). All Program Managers of federal funds will be required to submit to the Federal Compliance and Project Management Office an annual monitoring plan to ensure compliance with OMB Circular A-87(8)(h).*

Due to the continued challenges experienced in complying with this payroll certification procedure, the Department is in the process of expanding Federally-funded compliance monitoring resources, which will be dedicated full-time to monitor for proper and timely payroll certifications.

*Contact Persons: Robert Campbell, Ph.D., Director
Federal Compliance and Project Management Office
Office of the Superintendent*

*Edwin Koyama, Accounting Director
Accounting Services Branch
Office of Fiscal Services*

Anticipated Completion Date: June 30, 2010

Corrective Action Plan

The Accounting Section has in place specific cash withdrawal procedures and worksheets. Through continuous training, review, and monitoring, we will ensure accurate compliance regarding cash management requirements.

Beginning July 1, 2008, the Accounting Section implemented withdrawing federal funds based on actual expenditures only. Our previous cash withdrawal methodology involved estimated projections of our semi-monthly payroll requirements based on a payroll data received from the Department of Accounting and General Services (DAGS), which the Department posts in its Financial Management System (FMS) only on a once-a-month basis.

We have developed and have established a reporting process to incorporate the use of the semi-monthly DAGS payroll data to provide the accountants with actual payroll expense information. With this updated information, our cash draw-downs included improved calculations and served to reduce the differences between actual expenditures versus estimates.

Adjustments on worksheets “unsupported”:

The Accounting Section already has written procedures that are in place. Due to the newness of staff, these procedures were followed in varying degrees. The Accounting Section has undergone significant turnover of staff within the last three years.

The Accounting Section manages over 50 active federal grants that may require weekly cash withdrawals. The cash status of each federal grant is evaluated and reviewed at the time the Accounting Section will make the decision to draw funds.

The written procedures in place will be expanded to require the accountants to ensure that proper documentation and explanations for all adjustments are maintained for the cash drawdown worksheets. In addition, the accountants will be required to resolve these adjustments in a timely manner.

Communication with the U.S. Department of Education, as cognizant agency:

The Hawaii DOE submitted its corrective action plan to the U.S. Department of Education Post Audit Group, with the Hawaii DOE’s new Letter of Credit Withdrawal Procedure for review.

The Hawaii DOE corrective action plan was accepted by the U.S. Department of Education Post Audit Group on January 28, 2009.

*Contact Person: Keenan Chang, Fiscal Specialist II
Accounting Section
Accounting Services Branch
Office of Fiscal Services*

Anticipated Completion Date: June 30, 2010

2009-10 Subrecipient Monitoring - Oversight of Charter Schools

(Pages 78 to 79)

Corrective Action Plan

The Department continues to work with the Charter School Administrative Office to develop formal procedures for the inclusion of Public Charter Schools in the federal funded program monitoring plans. The procedures shall be presented to the Charter School Review Panel no later than July 31, 2010.

*Contact Person: Robert Campbell, Ph.D., Director
Federal Compliance and Project Management Office
Office of the Superintendent*

*Maunalei Love, Executive Director
Charter School Administrative Office*

Anticipated Completion Date: June 30, 2010

Corrective Action Plan

The Program Manager for the Safe and Drug Free Schools Program retired in 2009. A new program manager was assigned to the program in October 2009 and is scheduled to attend a “Federal Compliance and Project Management” training to be held during the spring of 2010, which will be conducted by the Federal Compliance Section of the DOE.

In the meantime, a grant administration plan has been submitted and approved to include the following:

- 1. The Safe and Drug Free Schools Program Manager will allocate all of the required program funds to Department of Education Complex Areas. State level activities, if any, will be held to a maximum of 5% of the total funds.*
- 2. The Complex Area Superintendents will then allocate Safe and Drug Free Schools funds to individual schools based on each school’s submitted plan. A minimum of 93% of the total funds will be expended by schools.*
- 3. All required documentation of spending and allocations will be collected by each Complex Area Superintendent.*
- 4. The Complex Area Superintendents will submit the documentation to the Safe and Drug Free Schools program manager in June 2010 and June 2011.*

*Contact person: Dave Randall, M.Ed, Educational Specialist
Health and Physical Education
Curriculum and Instruction Branch
Office of Curriculum, Instruction and Student Support*

Anticipated Completion Date: July 31, 2010

Corrective Action Plan

Twenty-First Century Community Learning Center funds are First in First out (FIFO) funds must be expended in 27 months after the funds have been allocated to the state. During the 2008-09 school year, we received seven (7) grant applications and only four (4) met the qualifications of the grant and were approved for funding. With the returning cohort of subgrantees, a total of 10 subgrants were active during the 2008-2009 school year. A total of \$3,942,536 was allocated out to all the grantees, both new and returnees. The funds that were not allotted carryover in the Budget System as "Planned/Budget" carryover. There is a purpose for the use of these funds and, at the start of the new fiscal year, the funds are allocated to the returning grantees for the 2009-2010 on August 5, 2009.

Of the \$2,275,314 that was shown in the situation of the report, only \$105,954 was used for state activities. The rest were allocated out to the subgrantees during the 2009-10 school year as mentioned. Hence, this will show that more than 95% of the grant allocation was given out to the subgrantees.

*Contact Person: Daniel Williams, Educational Specialist
Special Programs Management Section
Student Support Branch
Office of Curriculum, Instruction and Student Support*

Anticipated Completion Date: September 2010

Corrective Action Plan

Each federal grant coordinator of the grants cited, will monitor the schools who have received the respective grant funds, and will follow-up to ensure that, if federal grant funds are expended on fixed assets, that:

- *Asset purchases are properly recorded on the inventory records;*
- *Disposals are properly recorded on the inventory records; and*
- *Annual inventory counts are performed.*

The Department of Education already has State inventory procedures in place. User Support Technicians (USTs) in the Office of Information Technology Services do conduct quarterly training sessions on fixed assets. The training includes acquisitions of fixed asset; clearing of temporary “hold” files; additions of fixed assets purchased outside of the Financial Management System (FMS); performance of required annual inventory counts; and disposals or retirements of fixed assets.

The Accounting Section plans to expand its federally-funded resources to also monitor for this compliance.

Contact Persons:

<i>Safe and Drug-Free Schools: CFDA No. 84.186</i>	<i>Katherine Sakuda, Director David Randall, Educational Specialist School Literacy Improvement and Innovation Section Curriculum and Instruction Branch Office of Curriculum, Instruction and Student Support (OCISS)</i>
<i>Title I Grants to LEAs: CFDA No. 84.010</i>	<i>Sharon Nakagawa Educational Specialist Special Programs Management Section Student Support Branch OCISS</i>
<i>Twenty-First Century Community Learning Centers: CFDA No. 84.287</i>	<i>Solomon Kaulukukui, Jr. Educational Specialist Special Programs Management Section Student Support Branch OCISS</i>
<i>Special Education Cluster – Grants to States: CFDA No. 84.027</i>	<i>Debra Farmer Educational Specialist Special Education Section Curriculum and Instruction Branch OCISS</i>

<i>Special Education Cluster – Preschool Grants: CFDA No. 84.173</i>	<i>Anne Kokubun Educational Specialist Special Education Section Curriculum and Instruction Branch OCISS</i>
<i>Department of Education Fixed Asset Inventory</i>	<i>Keenan Chang Fiscal Specialist II Accounting Section Accounting Services Branch Office of Fiscal Services</i>

Anticipated Completion Date: June 30, 2010

Corrective Action Plan

The Department of Education, Office of Fiscal Services, Procurement and Contracts Branch (PCB) acknowledges room for improvement in our procurement processes. We note that there were only 11 instances out of 150 purchase orders tested at the school level, which represents 8% of the total tested.

PCB continues to provide training workshops on procurement and contracts issues throughout the year. The workshops and training are provided to a target audience of school/program administrators, school administrative services assistants (SASAs), account clerks, administrative services assistants (ASAs), and complex area business managers (CABMs). The training by PCB has been provided as stand-alone workshops or as requested by complex area superintendents, program managers, and state offices.

The training covers the various procurement methods, including price lists, vendor lists, small purchase and exempt procurement for goods and services (\$0 - \$24,999), exempt, sole source, IFB, RFP, professional services, emergency procurement, and MOA/MOU procurements (\$25,000 and above). PCB also maintains a database of procurement and contracting flowcharts, checklists, forms, and instructions/guidelines and is available to all DOE employees as necessary for review and reference. DOE employees are also encouraged to contact PCB if there are further questions that may arise or to seek additional assistance.

PCB will continue to provide training via workshops and through an "opening of school/office" memo to remind all administrators and support staff of procurement and contracts requirements. In addition, PCB has instituted its own internal documentation review process for projects/contracts of \$25,000 and more. The Office of Fiscal Services will work with the CABMs to perform reviews of school level procurement transactions to ensure on-going compliance. A working team of CABMs, with consultation by PCB, has developed an audit program for the schools and offices to ensure that monitoring is part of the review of the schools procurement transactions. Federal program managers will also notify their program participants of compliance to the procurement code, whether for federal or general fund procurement transactions.

Finally, school level administrators and support staff must be more diligent in complying with applicable procurement requirements, as outlined in training and notifications to the federal program participants.

*Contact Person: Andrell Beppu Aoki, Director
 Procurement and Contracts Branch
 Office of Fiscal Services*

Anticipated Completion Date: September 30, 2010

Corrective Action Plan

The Hawaii Department of Education (DOE) Accounting Section's First-In-First-Out (FIFO) accounting methodology transfers eligible expenditures between grant years to ensure that the oldest grant balances are properly cleared. The methodology is based on the premise that, expenditures made before the expiration of the obligation period of the grant represent valid transfers, including time periods after the liquidation date for availability of the funds.

In each grant, the Hawaii DOE had sufficient expenditures from more current annual awards for both of the above CFDA-numbered grants cited, that were paid within the respective obligation periods that could be applied using the FIFO method, to the oldest grant balances. The audit findings pertain to the timing of these accounting entries. These are recurring situations as old and new grants run concurrently.

The Hawaii DOE Accounting Section has contacted the U.S. Department of Education grant offices for the Special Education Cluster (CFDA# 84.027) and the Improving Teacher Quality State Grants (CFDA# 84.367) to remedy this situation and resolve the specific grant balances.

In the future, the Accounting Section will record FIFO journal entries to clear grant balances within the ninety-day adjustment period after the grant obligation period end date.

Contact Person: Keenan Chang, Fiscal Specialist II
Accounting Section
Accounting Services Branch
Office of Fiscal Services

Anticipated Completion Date: June 30, 2010

Corrective Action Plan

School Food Services Branch (SFSB) will conduct annual in-service training every July to all persons that process applications. It will consist of both data entry, and program guidelines and regulations. A written internal handbook will be updated and used as a reference guide during training.

In addition, the Branch will conduct more detailed review of the applications.

*Contact Person: Glenna Owens, Program Manager
School Food Services Branch
Office of School Facilities & Support Services*

Anticipated Completion Date: September 30, 2010

Corrective Action Plan

School Food Services Branch (SFSB) will amend the “2010-2011 Household Application for Free and Reduced Price Meal Benefits” as well as the instruction:

- 1) All household members must be listed along with their gross income and frequency of income, and*
- 2) Indicate no income by marking the “no income box or writing zero (0). Adequate space will be provided for this information.*

*Contact Person: Glenna Owens, Program Manager
School Food Services Branch
Office of School Facilities & Support Services*

Anticipated Completion Date: September 30, 2010

Corrective Action Plan

School Food Services Branch (SFSB) will administer a second party review of all applications. A designated person will spot check for blanks on an application before it is filed at the end of each day. This is not to be confused with the confirmation review of applications done for verification.

*Contact Person: Glenna Owens, Program Manager
School Food Services Branch
Office of School Facilities & Support Services*

Anticipated Completion Date: September 30, 2010

Corrective Action Plan

More than half of the schools make copies of the “Notification of Approval or Denial Letters” and keep them on file for the period required by the School Food Services Branch (SFSB). In prior years, schools were not required to copy and keep these letters. SFSB will now instruct schools that they must keep these letters as auditable records. Instructions to schools will be made through written updates on application processing and training sessions.

*Contact Person: Glenna Owens, Program Manager
School Food Services Branch
Office of School Facilities & Support Services*

Anticipated Completion Date: September 30, 2010

Corrective Action Plan

The Office of Hawaii Child Nutrition Program (OHCNP) will revise the existing sub-recipient monitoring procedure to address all areas of concern cited in this finding.

OHCNP will reinforce the use of the existing National School Lunch Program (NSLP) tracking logs to document the receipt of the NSLP Agreement and core Administrative Review activities. The NSL agreement log will be used to document the School Food Authority's annual agreement/application process which includes the submission of an annual A-133 report. Failure to submit an A-133 audit report in a timely manner will be documented and timely follow up will be provided by OHCNP staff. The OHCNP Director will monitor the NSLP logs on an on going basis thru the use of shared electronic files to ensure sub-recipient monitoring activities are completed by staff in a timely manner and in accordance with regulations including receipt, review and acceptance of corrective action and/or withholding of sub-recipient funds if warranted due to non-compliance.

In September 2009, OHCNP procured the contractual services of a Child Nutrition expert to update the NSLP agreement to comply with current state and federal regulations including the Office of Management and Budget (OMB) A-133 "Award Identification" information as follows: the addition of the Catalog of Federal Domestic Assistance Number, the title, the award name, the award number and the name of the Federal awarding agency. OHCNP will provide mandatory NSLP training during 2010 on the agreement process, the A-133 audit requirement, and the administrative review process, including the timeline for corrective action and payment withholding, if warranted.

By implementing these changes, OHCNP is confident that sub-recipient monitoring activities will be executed and documented by program specialist in a timely manner along with oversight by management to comply with OMB A-133 requirements.

Contact Person: Sue Uyehara, RD, MPH, Director
Office of Hawaii Child Nutrition Programs
Federal Compliance and Project Management Office
Office of the Superintendent

Anticipated Completion Date: September, 2010

Corrective Action Plan

The report asked that the JVEF consider the transmittal of all final financial reports and documents between each funding entity could be transmitted officially with a cover letter, and submitted for review and approval to each of the JVEF Executive Co-Chairs (PACOM and the DOE). Current procedures require JVEF funding recipients send a final report solely to PACOM.

JVEF FY2007 funds (received in DOE FY2008) that lapsed on June 30, 2009 were liquidated on October 2009. Closeout reports for FY2007 based on this audit are currently obtaining final validation signature and are anticipated to be sent to USPACOM by March 2010.

The process for future year funding is addressed for FY2008 and FY2009 funds sent to the Department. Going forward, all funds will allow, at minimum, one full year for grant execution and expenditure (or as stated in the MOA). In addition, the lapse and be liquidation dates have been identified as 30 June for the appropriate school year end (or as identified by the MOA). i.e. FY 2008, 30 June 2010 or for FY2009, 30 June 2011.

The recommendation finding that all grant recipient final closeout reports be validated, signed, and submitted to the Executive Co-Chairs (USPACOM and DOE) will be forwarded to the JVEF Board, and USPACOM and DOE Coordinators for review. The Department does not anticipate any objections from the Executive Co-Chairs or JVEF members.

Timeline:

<i>Date</i>	<i>Corrective Action Plan</i>
<i>February-March 2010</i>	<i>Final cover memo and closeout report for FY2007 submitted to JVEF Executive Co-Chairs for review and approval.</i>
<i>June 2010</i>	<i>Audit Report submitted to the JVEF Board for review and consideration.</i>
<i>September 2010</i>	<i>JVEF Board revises JVEF operation procedures that future signed financial final reports be addressed to JVEF Executive Co-Chairs. document and approves for signature.</i>

Contact Person: Cherise Imai
 Military Liason Administrative Assistant
 Office of the Superintendent

Anticipated Completion Date: September, 2010

Corrective Action Plan

The Program Manager for the Safe and Drug Free Schools Program retired in 2009. A new program manager was assigned to the program in October 2009. Funding for the Safe and Drug Free Schools Program is ending this year.

In the meantime, a grant administration plan has been submitted and approved to include the following:

- 1. The Safe and Drug Free Schools Program Manager will allocate all of the required program funds to Department of Education Complex Areas. State level activities, if any, will be held to a maximum of 5% of the total funds.*
- 2. The Complex Area Superintendents will then allocate Safe and Drug Free Schools funds to individual schools based on each school's submitted plan. A minimum of 93% of the total funds will be expended by schools.*
- 3. All funds spent by schools shall be based upon the spending guidelines for Safe and Drug Free Schools. Expended funds will be recorded in each school's End of Year Report.*
- 4. All required documentation of spending and allocations will be collected by each Complex Area Superintendent.*
- 5. The Complex Area Superintendents will submit the documentation to the Safe and Drug Free Schools program manager in June 2010 and June 2011.*

*Contact person: Dave Randall, M.Ed, Educational Specialist
Health and Physical Education
Curriculum and Instruction Branch
Office of Curriculum, Instruction and Student Support*

Anticipated Completion Date: July 31, 2010

PART VI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Provided by the Department of Education, State of Hawaii)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Prior Fiscal Year Ended June 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS

2008-01 Error Corrections

(Pages 60 to 62 of the Prior Year June 30, 2008 Report)

(Pages 65 to 67 of the June 30, 2007 Report)

Status -- Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Financial Statement Finding No. 2009-01.

2008-02 Accounting for Compensated Absences

(Page 63 of the Prior Year June 30, 2008 Report)

(Pages 67 to 68 of the June 30, 2007 Report)

(Pages 55 to 56 of the June 30, 2006 Report)

Status -- Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Financial Statement Finding No. 2009-02.

2008-03 Improve Compensating Controls For Inadequate Segregation of Duties over Agency Funds

(Pages 64 to 66 of the Prior Year June 30, 2008 Report)

(Pages 68 to 69 of the June 30, 2007 Report)

(Pages 57 to 58 of the June 30, 2006 Report)

Status -- Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Financial Statement Finding No. 2009-03.

2008-04 Agency Fund Bank Reconciliations

(Pages 67 to 68 of the Prior Year June 30, 2008 Report)

(Pages 69 to 70 of the June 30, 2007 Report)

Status -- Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Financial Statement Finding No. 2009-04.

SECTION II - FINANCIAL STATEMENT FINDINGS - continued

2008-05 Risk Financing

(Pages 69 to 70 of the Prior Year June 30, 2008 Report)

(Page 70 of the June 30, 2007 Report)

(Pages 59 to 60 of the June 30, 2006 Report)

Status -- *Corrective action has been taken to the extent that this finding no longer appears in the Financial Statement Findings.*

2008-06 Procurement

(Page 71 of the Prior Year June 30, 2008 Report)

Status -- *Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Financial Statement Finding No. 2009-05.*

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2008-07 Allowable Costs and Cost Principles - Payroll Certifications

(Pages 72 to 73 of the Prior Year June 30, 2008 Report)

(Pages 74 to 75 of the June 30, 2007 Report)

(Pages 61 to 62 of June 30, 2006 Report)

Status -- Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2009-13.

2008-08 Cash Management

(Pages 74 to 76 of the Prior Year June 30, 2008 Report)

(Pages 71 to 73 of the June 30, 2007 Report)

(Page 69 of the June 30, 2006 Report)

Status -- Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2009-09.

2008-09 Oversight of Charter Schools

(Pages 77 and 78 of the Prior Year June 30, 2008 Report)

Status -- Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2009-10.

2008-10 Eligibility

(Page 79 of the Prior Year June 30, 2008 Report)

Status -- Corrective action has been taken to the extent that this finding no longer appears in the Federal Award Findings and Questioned Costs.

2008-11 Matching, Level of Effort, and Earmarking

(Page 80 of the Prior Year June 30, 2008 Report)

(Pages 73 to 74 of the June 30, 2007 Report)

Status -- Corrective action has been taken to the extent that this finding no longer appears in the Federal Award Findings and Questioned Costs.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

2008-12 Equipment and Real Property Management

(Page 81 of the Prior Year June 30, 2008 Report)

Status -- Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2009-13.

2008-13 Special Tests and Provisions – Required Level of Expenditures

(Page 82 of the Prior Year June 30, 2008 Report)

Status -- Corrective action has been taken to the extent that this finding no longer appears in the Federal Award Findings and Questioned Costs.

2008-14 Allowable Costs – Native Hawaiian Education–Unallowable Costs of Entertainment

(Page 83 of the Prior Year June 30, 2008 Report)

Status -- Corrective action has been taken with respect to the Native Hawaiian Education Grant. However, corrective action and monitoring is still in progress for the Safe and Drug Free Schools and Communities State Grants in the current year. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2009-22.

2008-15 Procurement, Suspension, and Debarment

(Pages 84 to 85 of the Prior Year June 30, 2008 Report)

(Pages 78 to 80 of the June 30, 2007 Report)

Status -- Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2009-14.

2008-16 Period of Availability

(Page 86 of the Prior Year June 30, 2008 Report)

(Pages 75 to 76 of the June 30, 2007 Report)

Status -- Corrective action has been taken with respect to the Native Hawaiian Education Grant. However, corrective action and monitoring is still in progress for the Special Education Grant and Improving Teacher Quality State Grants in the current year. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2009-15.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

2008-17 Special Tests and Provisions – Highly Qualified Teachers and Paraprofessionals

(Page 87 of the Prior Year June 30, 2008 Report)

(Page 78 of the June 30, 2007 Report)

Status -- *Corrective action has been taken to the extent that this finding no longer appears in the Federal Award Findings and Questioned Costs.*

2008-18 Indirect Cost Rate

(Page 88 of the Prior Year June 30, 2008 Report)

(Page 80 of the June 30, 2007 Report)

Status -- *Corrective action has been taken to the extent that this finding no longer appears in the Federal Award Findings and Questioned Costs.*



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