



Department of Education State of Hawaii

Financial and Compliance Audit

June 30, 2023

**Submitted by
The Auditor
State of Hawaii**

Department of Education
State of Hawaii
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June 30, 2023

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PART I

Financial Statements



Report of Independent Auditors

The Auditor
State of Hawaii

Board of Education
Department of Education
State of Hawaii

Opinion

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Education, State of Hawaii (the "Department"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the index.

In our opinion, based on our audit and the reports of the other auditors, 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 aggregate remaining fund information of the Department, as of June 30, 2023, and the respective changes in financial position, and, where applicable, the respective budgetary comparison for the General Fund and Federal Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the public charter schools, which represent 7%, 5%, and 4%, respectively, of the total assets, total fund balance, and total revenues of the Department's governmental funds as of June 30, 2023, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for certain public charter schools, is based solely on the reports of the other auditors.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

999 Bishop Street
Suite 2300
Honolulu, HI 96813

OFFICE 808.531.3400
FAX 808.531.3433
accuityllp.com



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position, and budgetary comparison of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2023, the changes in its financial position, and budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



As discussed in Note 2 to the financial statements, effective July 1, 2022, the Department adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2024 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 the Department'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* in considering the Department's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawaii
March 27, 2024



Department of Education
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2023

As management of the Department of Education, State of Hawaii (the "Department"), we offer readers this narrative overview and analysis of the financial activities of the Department as of and for the year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements and notes to enhance their understanding of the Department's financial performance.

The financial statements represent the combination of Department of Education (the "DOE"), the Hawaii State Public Library System (the "HSPLS"), and the Hawaii State Public Charter Schools (the "HSPCS") where the DOE prepares entries, based on information provided by the HSPLS and the HSPCS, to combine financial data for the three units, in aggregate known as the Department. The fiscal and oversight authority for the DOE, the HSPLS, and the HSPCS are managed independently. The DOE has determined that the HSPCS balances are significant, but not material, and relies on certain financial information which have been audited by other auditors and coordinated by the HSPCS.

Financial Highlights

During fiscal year 2023, the Department implemented Governmental Accounting Standards Board ("GASB") Statement No. 96, *Subscription-Based Information Technology Arrangements*. The Statement established criteria for accounting and financial reporting for subscription-based technology arrangements for government end users. It requires recognition of certain subscription assets and liabilities. Implementation of GASB No. 96 had a significant effect on the Department's financial statements for the year ended June 30, 2023.

Key government-wide financial highlights for the year ended June 30, 2023 ("FY 2023") compared to the prior year ended June 30, 2022 ("FY 2022") are as follows:

- Total FY 2023 revenues were \$4.358 billion, an increase of 23% or \$810 million from \$3.548 billion in FY 2022.
- Total FY 2023 expenses were \$3.653 billion, an increase of 11% or \$369 million from \$3.284 billion in FY 2022.
- Of the total FY 2023 expenses of \$3.653 billion, 93% or \$3.394 billion was spent for school-related activities. Of the total FY 2022 expenses of \$3.284 billion, 95% or \$3.106 billion was spent for school-related activities.
- Total assets exceeded liabilities as of June 30, 2023 by \$4.143 billion (net position), compared to \$3.438 billion as of June 30, 2022, an increase of 21% or \$705 million.
- Net investment in capital assets comprised 56% and 64% of the total net position as of June 30, 2023 and 2022, respectively.

Department of Education
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2023

Overview of the Financial Statements

The Department's financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements.

- *Government-wide financial statements* – These statements provide a broad overview of the Department's finances, in a manner similar to a private sector business.

The statement of net position presents information on all of the Department's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The statement of activities presents information showing how the Department's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

- *Fund financial statements* – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Department's near-term financial position. The Department presents four major funds in the fund financial statements: (1) General Fund, (2) Federal Fund, (3) Capital Projects Fund, and (4) Other Fund.

The Department has an annual appropriated budget for its general and federal funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with the budget.

- *Notes to financial statements* – The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Department of Education
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2023

Government-Wide Financial Analysis

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

Summary Schedule of Net Position
June 30, 2023 and 2022
(Amounts in millions)

	Governmental Activities		2023 – 2022	
	2023	2022	Increase (Decrease)	Percentage Change
Assets				
Current	\$ 2,389	\$ 1,774	\$ 615	35 %
Capital assets, net	2,443	2,267	176	8 %
Total assets	<u>\$ 4,832</u>	<u>\$ 4,041</u>	<u>\$ 791</u>	20 %
Liabilities				
Current	\$ 448	\$ 391	\$ 57	15 %
Noncurrent	241	212	29	14 %
Total liabilities	<u>689</u>	<u>603</u>	<u>86</u>	14 %
Net position				
Net investment in capital assets	2,325	2,186	139	6 %
Restricted	8	20	(12)	(60)%
Unrestricted	1,810	1,232	578	47 %
Total net position	<u>4,143</u>	<u>3,438</u>	<u>705</u>	21 %
Total liabilities and net position	<u>\$ 4,832</u>	<u>\$ 4,041</u>	<u>\$ 791</u>	20 %

Overall Financial Position – The Department's overall net position has increased as of June 30, 2023, compared to the prior fiscal year-end. The Department's largest portion of net position is investment in capital assets (e.g., land, buildings, equipment), which are unavailable for future spending. The Department's unrestricted portion of net position is available for future spending. Total government-wide net position increased by \$705 million, or 21%, primarily due to an increase in net investment in capital assets of \$139 million, a decrease in restricted net position of \$12 million, and an increase in unrestricted net position of \$578 million.

Department of Education
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2023

Summary Schedule of Changes in Net Position
Years Ended June 30, 2023 and 2022
(Amounts in millions)

	Governmental Activities		2023 – 2022	
	2023	2022	Increase (Decrease)	Percentage Change
Revenues				
Program revenues				
Charges for services	\$ 92	\$ 45	\$ 47	104 %
Operating grants and contributions	493	551	(58)	(11)%
Capital grants and contributions	-	2	(2)	(100)%
General revenues				
State-allotted appropriations, net of lapses	3,023	2,222	801	36 %
Non-imposed employee wages and fringe benefits	748	727	21	3 %
Unrestricted investment earnings	2	1	1	100 %
Total revenues	<u>4,358</u>	<u>3,548</u>	<u>810</u>	<u>23 %</u>
Expenses				
School-related	3,394	3,106	288	9 %
State and complex area administration	85	57	28	49 %
Public libraries	55	48	7	15 %
Capital outlay	119	73	46	63 %
Total expenses	<u>3,653</u>	<u>3,284</u>	<u>369</u>	<u>11 %</u>
Other	-	25	(25)	(100)%
Change in net position	<u>\$ 705</u>	<u>\$ 289</u>	<u>\$ 416</u>	<u>144 %</u>

Overall Results of Operations – The Department's results of operations for FY 2023 have resulted in an increase in net position of \$705 million. This is higher than the increase in net position of \$289 million for FY 2022. Total FY 2023 expenses were \$3.653 billion, an increase of 11% or \$369 million from \$3.284 billion in FY 2022.

Governmental Fund Financial Analysis

Within the governmental fund financial statements, the overall net increase in fund balance for FY 2023 was \$570 million, and the total overall fund balance for the governmental funds as of June 30, 2023 was \$2 billion.

General Fund Budget Results – The Department was appropriated general funds of \$2.668 billion in FY 2023. Increases of "Final" compared to "Original" budgeted amounts as reported on the Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund are primarily due to legislative appropriations due to collective bargaining compensation changes.

For the General Fund, the Department is allowed to carry over up to 5% of any appropriation at the end of the fiscal year. 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. For FY 2023, general funds carried over totaled to approximately \$44.1 million, representing approximately 2.1% of recurring general fund appropriations totaling \$2.148 billion.

Department of Education
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2023

Federal Fund Budget Results – The Department appropriated \$17.8 million more federal funds than was expended during FY 2023; this merely reflects the timing of expenditures versus federal cash that may have been received during the fiscal year.

Capital Assets

The Department's capital improvement program strives to provide and maintain 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 Department's capital assets as of June 30, 2023 amounted to \$2.443 billion (net of accumulated depreciation and amortization of \$2.513 billion), an increase of \$176 million, compared to capital assets as of June 30, 2022, which amounted to \$2.267 billion (net of accumulated depreciation and amortization of \$2.361 billion). Depreciation and amortization expense for FY 2023 amounted to \$166 million.

Additional information on the Department's capital assets and construction contract commitments can be found in Note 5 and Note 11 to the financial statements.

Debt Administration

In July 2017, the Department entered into an interest-free term loan agreement with the State's Hawaii Green Infrastructure Authority ("HGIA"). The maximum loan amount is not to exceed \$46.4 million. During FY 2020, the loan amount was adjusted down to \$39.3 million. The final loan maturity date is June 30, 2037. The loan is unsecured and requires semi-annual payments starting December 31, 2018, and each June 30 and December 31 thereafter, up to and including the final maturity date. The principal outstanding as of June 30, 2023 is approximately \$26 million.

In August 2019, the Department entered into a term loan agreement with HGIA. The maximum loan amount is not to exceed \$6.7 million. The final loan maturity date is June 30, 2038. The loan is unsecured and requires semi-annual payments starting December 31, 2019, and each June 30 and December 31 thereafter, up to and including the final maturity date. The interest rate is 3.5%. The principal outstanding as of June 30, 2023 is approximately \$5 million.

In October 2020, the Department entered into a term loan agreement with HGIA. The maximum loan amount is not to exceed \$4.0 million. The final loan maturity date is December 31, 2030. The loan is unsecured and requires semi-annual payments starting June 30, 2021, and each June 30 and December 31 thereafter, up to and including the final maturity date. The interest rate is 3.5%. The principal outstanding as of June 30, 2023 is approximately \$536,000.

Additional information on the Department's long-term debt can be found in Note 6 to the financial statements.

Requests for Information

Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Fiscal Services, Department of Education, P.O. Box 2360, Honolulu, Hawaii 96804. General information about the Department can be found at the Department's website: www.hawaiipublicschools.org.

Department of Education
State of Hawaii
Statement of Net Position – Governmental Activities
June 30, 2023

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$2,308,828,683
Receivables	
Due from federal government	49,425,607
Accounts receivable	24,351,651
Due from other agencies	6,729,390
Total current assets	<u>2,389,335,331</u>
Capital assets, net of accumulated depreciation and amortization	<u>2,443,021,923</u>
Total assets	<u><u>\$4,832,357,254</u></u>
 Liabilities and Net Position	
Liabilities	
Current liabilities	
Vouchers and contracts payable	\$ 200,237,329
Accrued wages and employee benefits	180,380,449
Accrued compensated absences	28,874,805
Workers' compensation claims reserve, current portion	21,447,726
Notes payable, current portion	2,276,284
Lease liability, current portion	5,826,441
Subscription liability, current portion	3,545,884
Due to State of Hawaii general fund	5,000,000
Other liabilities	264,677
Total current liabilities	<u>447,853,595</u>
Accrued compensated absences, less current portion	57,925,851
Workers' compensation claims reserve, less current portion	121,537,111
Notes payable, less current portion	29,626,340
Lease liability, less current portion	23,366,608
Subscription liability, less current portion	8,571,031
Total liabilities	<u><u>688,880,536</u></u>
Net position	
Net investment in capital assets	2,325,353,210
Restricted	8,098,935
Unrestricted	<u>1,810,024,573</u>
Total net position	<u><u>4,143,476,718</u></u>
Total liabilities and net position	<u><u>\$4,832,357,254</u></u>

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

Department of Education
State of Hawaii
Statement of Activities – Governmental Activities
Year Ended June 30, 2023

		Program Revenues			Net Revenue (Expenses) and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
	Expenses				
Governmental activities					
School-related	\$3,394,333,044	\$ 91,652,853	\$ 488,213,986	\$ -	\$(2,814,466,205)
State and complex area administration	85,348,070	-	1,120,068	-	(84,228,002)
Public libraries	54,586,089	830,121	3,927,259	-	(49,828,709)
Capital outlay	119,322,520	-	-	-	(119,322,520)
Total governmental activities	<u>\$3,653,589,723</u>	<u>\$ 92,482,974</u>	<u>\$ 493,261,313</u>	<u>\$ -</u>	<u>(3,067,845,436)</u>
General revenues					
State-allocated appropriations, net of lapses					3,022,736,392
Non-imposed employee wages and fringe benefits					748,295,091
Unrestricted investment earnings					2,356,397
Total general revenues					<u>3,773,387,880</u>
Other					
Other					<u>(154,071)</u>
Change in net position					705,388,373
Net position at July 1, 2022					<u>3,438,088,345</u>
Net position at June 30, 2023					<u>\$ 4,143,476,718</u>

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

Department of Education
State of Hawaii
Balance Sheet – Governmental Funds
June 30, 2023

	General	Federal	Capital Projects	Other	Total
Assets					
Cash and cash equivalents	\$ 614,238,089	\$ 218,938,314	\$1,288,751,310	\$ 186,900,970	\$2,308,828,683
Receivables					
Due from federal government	-	49,425,607	-	-	49,425,607
Accounts receivable	-	-	-	24,351,651	24,351,651
Due from other agencies	-	-	-	6,729,390	6,729,390
Total assets	<u>\$ 614,238,089</u>	<u>\$ 268,363,921</u>	<u>\$1,288,751,310</u>	<u>\$ 217,982,011</u>	<u>\$2,389,335,331</u>
Liabilities and Fund Balances					
Liabilities					
Vouchers and contracts payable	\$ 90,753,144	\$ 28,793,538	\$ 76,358,749	\$ 4,331,898	\$ 200,237,329
Accrued wages and employee benefits	157,590,890	22,208,385	-	581,174	180,380,449
Due to the State of Hawaii general fund	5,000,000	-	-	-	5,000,000
Total liabilities	<u>253,344,034</u>	<u>51,001,923</u>	<u>76,358,749</u>	<u>4,913,072</u>	<u>385,617,778</u>
Fund balances					
Restricted	-	8,098,935	-	-	8,098,935
Committed	-	-	1,212,392,561	213,068,939	1,425,461,500
Assigned	291,159,968	209,263,063	-	-	500,423,031
Unassigned	69,734,087	-	-	-	69,734,087
Total fund balances	<u>360,894,055</u>	<u>217,361,998</u>	<u>1,212,392,561</u>	<u>213,068,939</u>	<u>2,003,717,553</u>
Total liabilities and fund balances	<u>\$ 614,238,089</u>	<u>\$ 268,363,921</u>	<u>\$1,288,751,310</u>	<u>\$ 217,982,011</u>	<u>\$2,389,335,331</u>

Department of Education

State of Hawaii

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2023

Total fund balances – governmental funds		\$2,003,717,553
Amounts reported for governmental activities in the statement of net position are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Capital assets	\$4,955,972,472	
Less: Accumulated depreciation and amortization	<u>(2,512,950,549)</u>	2,443,021,923
Some liabilities are not due in the current period and, therefore, are not reported in the governmental funds. Those liabilities include		
Accrued compensated absences		(86,800,656)
Workers' compensation claims reserve		(142,984,837)
Notes payable		(31,902,624)
Lease payable		(29,193,049)
Subscription payable		(12,116,915)
Other liabilities		<u>(264,677)</u>
Net position of governmental activities		<u>\$4,143,476,718</u>

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

Department of Education

State of Hawaii

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended June 30, 2023

	General	Federal	Capital Projects	Other	Total
Revenues					
State allotments, net	\$2,559,180,257	\$ -	\$ 463,556,135	\$ -	\$3,022,736,392
Non-imposed employee wages and fringe benefits	748,295,091	-	-	-	748,295,091
Intergovernmental revenues	-	473,138,475	-	-	473,138,475
Other revenues	-	-	-	114,962,210	114,962,210
	<u>3,307,475,348</u>	<u>473,138,475</u>	<u>463,556,135</u>	<u>114,962,210</u>	<u>4,359,132,168</u>
Expenditures					
School-related	2,840,899,408	429,244,250	-	75,985,630	3,346,129,288
State and complex area administration	75,756,921	5,126,442	-	309,211	81,192,574
Public libraries	47,546,463	3,666,523	-	419,035	51,632,021
Capital outlay	53,387,135	221,906	310,139,619	2,902,965	366,651,625
	<u>3,017,589,927</u>	<u>438,259,121</u>	<u>310,139,619</u>	<u>79,616,841</u>	<u>3,845,605,508</u>
Excess of revenues over expenditures	<u>289,885,421</u>	<u>34,879,354</u>	<u>153,416,516</u>	<u>35,345,369</u>	<u>513,526,660</u>
Other financing sources (uses)					
Proceeds from notes payable	-	-	1,171,509	-	1,171,509
Lease financing	35,721,501	-	-	-	35,721,501
Subscription financing	19,427,102	-	-	-	19,427,102
Transfers in (out)	-	-	(2,236,710)	2,236,710	-
Total other financing sources (uses), net	<u>55,148,603</u>	<u>-</u>	<u>(1,065,201)</u>	<u>2,236,710</u>	<u>56,320,112</u>
Net change in fund balances	<u>345,034,024</u>	<u>34,879,354</u>	<u>152,351,315</u>	<u>37,582,079</u>	<u>569,846,772</u>
Fund balances at July 1, 2022	<u>15,860,031</u>	<u>182,482,644</u>	<u>1,060,041,246</u>	<u>175,486,860</u>	<u>1,433,870,781</u>
Fund balances at June 30, 2023	<u>\$ 360,894,055</u>	<u>\$ 217,361,998</u>	<u>\$1,212,392,561</u>	<u>\$ 213,068,939</u>	<u>\$2,003,717,553</u>

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

Department of Education

State of Hawaii

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities Year Ended June 30, 2023

Net change in fund balances – total governmental funds		\$ 569,846,772
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 capital assets is allocated over their estimated useful lives and reported as depreciation or amortization expense.		
Capital asset additions	\$ 347,042,445	
Capital asset disposals	(18,777,628)	
Accumulated depreciation on disposals	13,682,481	
Depreciation and amortization expense	<u>(166,065,158)</u>	175,882,140
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		
Changes in accrued compensated absences	\$ 31,857	
Changes in workers' compensation claims reserve	(2,894,543)	
Changes in lease payable	(26,190,232)	
Changes in subscription payable	(12,116,915)	
Changes in other liabilities	<u>(264,677)</u>	(41,434,510)
Proceeds from notes payable provide current financial resources to governmental funds; however, are reported as an increase in liabilities on the statement of net position		(1,171,509)
Repayment of notes payable is reported as an expenditure in governmental funds; however, is reported as a decrease in liabilities on the statement of net position		<u>2,265,480</u>
Change in net position of governmental activities		<u><u>\$ 705,388,373</u></u>

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

Department of Education**State of Hawaii****Statement of Revenues and Expenditures – Budget and Actual****(Non-GAAP Budgetary Basis) – General Fund****Year Ended June 30, 2023**

	Budgeted Amounts		Actual on Budgetary Basis	Variance Positive (Negative)
	Original	Final		
Revenues				
State allotments	<u>\$2,667,639,228</u>	<u>\$2,568,674,899</u>	<u>\$2,561,400,575</u>	<u>\$ (7,274,324)</u>
Expenditures				
School-related	2,567,905,300	2,470,854,479	2,225,516,812	245,337,667
State and complex area administration	57,515,212	54,930,968	53,079,956	1,851,012
Public libraries	<u>42,218,716</u>	<u>42,889,452</u>	<u>42,874,429</u>	<u>15,023</u>
Expenditures subtotal	<u>2,667,639,228</u>	<u>2,568,674,899</u>	<u>2,321,471,197</u>	<u>247,203,702</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 239,929,378</u>	<u>\$ 239,929,378</u>

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

Department of Education**State of Hawaii****Statement of Revenues and Expenditures – Budget and Actual****(Non-GAAP Budgetary Basis) – Federal Fund****Year Ended June 30, 2023**

	Budgeted Amounts		Actual on Budgetary Basis	Variance Positive (Negative)
	Original	Final		
Revenues				
Federal grants	<u>\$ 944,415,982</u>	<u>\$ 984,006,512</u>	<u>\$ 453,702,953</u>	<u>\$ (530,303,559)</u>
Expenditures				
School-related	932,171,261	961,701,601	431,252,657	530,448,944
State and complex area administration	10,625,499	21,754,908	4,571,967	17,182,941
Public libraries	<u>1,619,222</u>	<u>550,003</u>	<u>123,335</u>	<u>426,668</u>
Expenditures subtotal	<u>944,415,982</u>	<u>984,006,512</u>	<u>435,947,959</u>	<u>548,058,553</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,754,994</u>	<u>\$ 17,754,994</u>

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

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Notes to Financial Statements
June 30, 2023

1. Financial Reporting Entity

Introduction

The Department of Education, State of Hawaii (the “Department”) administers the statewide system of public schools and public libraries. Additionally, the Department 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 noncollege type of school. Federal grants received to support public school and public library programs are administered by the Department on a statewide basis.

These financial statements represent the combination of the Department of Education (“DOE”), the Hawaii State Public Library System (“HSPLS”), and the Hawaii State Public Charter Schools (“HSPCS”) where the DOE prepares entries, based on information provided by the HSPLS and HSPCS, to combine financial data for the three units, in aggregate known as the Department. The fiscal and oversight authority for the DOE, HSPLS and HSPCS are managed independently. The DOE has determined that the HSPCS balances are significant, but not material, and relies on certain financial information which have been audited by other auditors and coordinated by the HSPCS.

The Department is a part of the executive branch of the State of Hawaii (“State”). The financial statements of the Department are intended to present the financial position, the changes in financial position, and the budgetary comparison 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 Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2023, and the changes in its financial position and budgetary comparison for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The State Comptroller maintains the central accounts for all state funds and publishes the State’s Annual Comprehensive Financial Report (“ACFR”), which includes the Department’s financial activities.

Reporting Entity

The Department 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 Department are such that exclusion would cause the Department’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 Department has determined, based on the GASB criteria, that it has no component units.

2. Summary of Significant Accounting Policies

The accompanying financial statements of the Department have been prepared in accordance with GAAP as prescribed by the GASB.

Government-wide and Fund Financial Statements

The government-wide financial statements report all assets, liabilities and activities of the Department as a whole.

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

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

Major individual governmental funds are reported as separate columns in the fund financial statements. There are no nonmajor funds reported in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Presentation

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.

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 Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

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 GAAP since they have been earned and are expected to be collected within 60 days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the Department.

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 workers' compensation claims, which are recorded as expenditures when utilized or paid. The amount of accumulated vacation and workers' compensation claims reserve are reported only in the government-wide financial statements.

Encumbrances are recorded obligations in the form of purchase or contracts. The State records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end do not constitute expenditures or liabilities.

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Fund Accounting

The financial transactions of the Department 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 financial activities of the Department that are reported in the accompanying Fund financial statements have been classified into the following major Governmental Funds. A description of the Governmental Funds are as follows.

Governmental Fund Types – The Department reports the following major Governmental Funds:

- **General Fund** – The General Fund is the main operating fund of the Department. 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.
- **Federal Fund** – The Federal Fund is used to account for federally funded programs for the Department’s major activities. This fund is made up entirely by special revenue funds, which account for the proceeds of specific revenue sources that are for specified purposes. In this case, the expenditures are for activities authorized by the federal agency grantor.
- **Capital Projects Fund** – The Capital Projects Fund includes all amounts related to the Department’s capital improvement program. It is used to account for financial resources used for the acquisition or construction of major capital facilities.
- **Other Fund** – The Other Fund is used to account for all financial activities not required to be accounted for in another fund. It includes special revenue, which account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Fund Balance

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The Department classifies fund balances based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Classifications include:

- **Restricted** – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.
- **Committed** – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature.
- **Assigned** – Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.
- **Unassigned** – Residual balances that are not contained in the other classifications.

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When both restricted and unrestricted resources are available for use, generally it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, it is generally the Department's policy that committed amounts be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks and amounts held in the State Treasury as discussed in Note 4. The State's investments held in the State Treasury are reported at fair value within the fair value hierarchy established by GAAP.

Capital Assets

Capital assets include land, improvements to land, buildings, building improvements, vehicles, right-to-use lease asset, furniture and 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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.

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

Asset Type	Minimum Capitalization Amount	Estimated Useful Life
Land	All	Not applicable
Land improvements	\$100,000	15 years
Buildings and improvements	\$100,000	30 years
Furniture and equipment	\$5,000	7 years
Vehicles	\$5,000	5 years
Public library materials	All	5 years

Leases

Lessee

The Department has a policy to recognize a lease liability and a right-to-use lease asset ("lease asset") in the government-wide financial statements. The Department recognizes lease liabilities with an initial, individual value of \$100,000 or more for land and building leases and \$25,000 or more for equipment and others, with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, the Department initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the Department has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how the Department determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Department uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Department generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Department is reasonably certain to exercise.

The Department monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported as right to use along with other capital assets and lease liabilities are reported with long-term liabilities on the statement of net position.

Subscription-Based Information Technology Arrangement

The Department has a policy to recognize a subscription liability and a right-to-use subscription asset ("subscription asset") in the government-wide financial statements. The Department recognizes subscription liabilities with an initial, individual value of \$500,000 or more with a subscription term greater than one year. Variable payments based on future performance of the Department, usage of the underlying IT asset, or number of user seats are not included in the measurement of the subscription liability, rather, those variable payments are recognized as outflows of resources (expenses) in the period the obligation for those payments is incurred.

At the commencement of a subscription-based information technology arrangement ("SBITA"), the Department initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made.

Subscription assets are recorded at the amount of the initial measurement of the subscription liabilities, plus any payments made to the SBITA vendor before the commencement of the subscription term and capitalizable initial implementation cost, less any incentives received from the SBITA vendor at or before the commencement of the subscription term.

Costs associated with a SBITA, other than the subscription payments, are accounted for as follows:

- **Preliminary project stage** – Outlays are expensed as incurred.
- **Initial implementation stage** – Outlays are capitalized as an addition to the subscription asset.
- **Operation and additional implementation stage** – Outlays are expensed as incurred unless they meet specific capitalization criteria.

Upon adoption, the Department elected to exclude the capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage that were incurred prior to the implementation of this Statement in the measurement of subscription assets as of July 1, 2022.

Subscription assets are reported in capital assets and subscription liabilities are reported with long-term liabilities on the statement of net position.

Subscription assets are amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT asset, unless the subscription contains a purchase option that the Department has determined is reasonably certain of being exercised. In this case, the subscription asset is amortized over the useful life of the underlying IT asset.

Key estimates and judgments related to SBITAs include how the Department determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The Department uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the Department generally uses its estimated incremental borrowing rate as the discount rate for SBITAs.
- The subscription term includes the noncancellable period of the SBITAs. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the Department is reasonably certain to exercise.
- The Department monitors changes in circumstances that would require a remeasurement of its subscription liability.

Compensated Absences

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

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of net position. There is no liability for unpaid accumulated sick leave since it is not convertible to pay upon termination of employment.

Program Revenues

Program revenues are derived directly from the programs of the Department or from parties outside of the Department 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 and Capital Grants and Contributions

Program-specific operating and capital grants and contributions include revenues arising from mandatory and voluntary nonexchange 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.

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.

Risk Management

The Department is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; workers' compensation; and acts of terrorism. 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 as of the date of the financial statements and the amount of the loss is reasonably estimable.

Use of Estimates

The preparation of financial statements in accordance with GAAP 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.

Recently Issued Accounting Pronouncements

GASB Statement No. 94

During fiscal year 2023, the Department implemented GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement did not have a material effect on the Department's financial statements.

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GASB Statement No. 96

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for SBITAs for government end users ("governments"). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Implementation of this Statement had a significant effect on the Department's financial statements for the year ended June 30, 2023.

Upon implementation of this Statement, the Department recognized subscription liabilities and subscription assets. There was no effect on net position previously reported as of June 30, 2022. The adoption of Statement No. 96 resulted in an increase in capital assets and liabilities of approximately \$33,614,000 as of July 1, 2022.

GASB Statement No. 99

The GASB issued Statement No. 99, *Omnibus*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately while other requirements are effective for fiscal years beginning after June 15, 2022 and June 15, 2023, respectively. The requirements that were effective immediately and beginning after June 15, 2022 did not have a material effect on the Department's financial statements. For the remaining requirements, the Department has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 100

The GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023. The Department has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 101

The GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023. The Department has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 102

The GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of the Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2024. The Department has not determined the effect this Statement will have on its financial statements.

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3. 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 ("HRS") allows the Department to carry over up to 5% 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. For fiscal year 2023, general funds carried over totaled to approximately \$44.1 million, representing approximately 2.1% of recurring general fund appropriations totaling \$2.148 billion.

For purposes of budgeting, the Department's budgetary fund structure and accounting principles differ from those utilized to present the fund financial statements in accordance with GAAP. The Department'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) 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 year ended June 30, 2023:

	General	Federal
Excess of revenues over expenditures –		
actual on a budgetary basis	\$ 239,929,378	\$ 17,754,994
Reserved for encumbrances at fiscal year-end	335,279,926	55,651,478
Expenditures for liquidation of prior fiscal year encumbrances	(197,139,129)	(40,578,106)
Revenues and expenditures for unbudgeted programs and capital projects accounts, net	(55,148,603)	-
Net accrued revenues and expenditures	(33,036,151)	2,050,988
Excess of revenues over expenditures – GAAP basis	<u>\$ 289,885,421</u>	<u>\$ 34,879,354</u>

4. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2023 consisted of cash in banks and amounts held in the State Treasury at June 30, 2023:

Cash in banks	\$ 156,299,564
Amounts held in the State Treasury	<u>2,152,529,119</u>
	<u>\$2,308,828,683</u>

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Amounts Held in the State Treasury

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the pool participants based upon their equity interest in the pooled monies. Legally authorized investments include obligations of, or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions.

At June 30, 2023, amounts held in the State Treasury by the Department are reported at fair value and totaled approximately \$2,152,529,000. The amounts held in the State Treasury reported in the accompanying financial statements reflects the Department's relative position in the State's investment pool based upon the average monthly investment balance of each participant in the investment pool.

Information relating to the cash and investments in the State Treasury is determined on a statewide basis and not for individual departments or agencies. Information regarding the carrying amount and corresponding bank balances of the investment pool, investment fair values, and maturities by type of security, and the collateralization of the investment pool balances is included in the State's ACFR.

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.

Credit Risk

The State's general 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, banker's acceptances, and money market funds maintaining a Triple-A rating.

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. 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 collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

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.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The State's asset allocation and investment policy allows for active and passive investments in international securities. The foreign currency risk exposure to the State arises from the international equity investment holdings, including commingled funds, common stocks, and exchange traded funds.

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Cash in Banks

The Department maintains cash in banks which is held separately from cash in the State Treasury. As of June 30, 2023, the carrying amount of total bank deposits and the corresponding bank balances was approximately \$37,391,000 and \$104,504,000, respectively. The HSPCS also held cash outside of the State Treasury totaling approximately \$118,908,000 at June 30, 2023.

All deposits are collateralized in accordance with State statutes. The balances are insured by the Federal Deposit Insurance Corporation and collateralized with securities held by the Department's agent. 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.

5. Capital Assets

For the year ended June 30, 2023, capital assets activity for the Department was as follows:

	Balance July 1, 2022	Additions	Deductions	Balance June 30, 2023
Governmental activities				
Capital assets not being depreciated				
Land	\$ 89,472,001	\$ 5,976,000	\$ -	\$ 95,448,001
Construction in progress	509,350,195	252,408,406	(472,592,421)	289,166,180
Total capital assets not being depreciated	<u>598,822,196</u>	<u>258,384,406</u>	<u>(472,592,421)</u>	<u>384,614,181</u>
Capital assets being depreciated				
Land improvements	385,974,106	36,049,080	-	422,023,186
Buildings and improvements	3,143,128,486	420,335,906	-	3,563,464,392
Furniture and equipment	415,779,063	39,267,134	(6,033,173)	449,013,024
Vehicles	15,677,882	2,805,178	(364,091)	18,118,969
Public library materials	64,271,942	3,516,358	(8,098,092)	59,690,208
Total capital assets being depreciated	<u>4,024,831,479</u>	<u>501,973,656</u>	<u>(14,495,356)</u>	<u>4,512,309,779</u>
Less: Accumulated depreciation for				
Land improvements	(248,731,060)	(20,331,459)	-	(269,062,519)
Buildings and improvements	(1,700,205,836)	(94,776,628)	-	(1,794,982,464)
Furniture and equipment	(340,363,749)	(33,034,470)	5,073,788	(368,324,431)
Vehicles	(13,815,376)	(1,104,650)	372,376	(14,547,650)
Public library materials	(56,386,902)	(3,395,014)	8,098,092	(51,683,824)
Total accumulated depreciation	<u>(2,359,502,923)</u>	<u>(152,642,221)</u>	<u>13,544,256</u>	<u>(2,498,600,888)</u>
Lease assets				
Buildings and improvements	184,975	33,281,348	-	33,466,323
Equipment	3,869,005	2,440,153	(154,071)	6,155,087
Total lease assets	<u>4,053,980</u>	<u>35,721,501</u>	<u>(154,071)</u>	<u>39,621,410</u>
Less: Accumulated amortization for				
Buildings and improvements	(6,166)	(8,766,448)	-	(8,772,614)
Equipment	(1,058,783)	(1,367,067)	138,225	(2,287,625)
Total accumulated amortization	<u>(1,064,949)</u>	<u>(10,133,515)</u>	<u>138,225</u>	<u>(11,060,239)</u>
Subscription assets				
Subscription	-	19,427,102	-	19,427,102
Less: Accumulated amortization	-	(3,289,422)	-	(3,289,422)
Total capital assets, net	<u>\$2,267,139,783</u>	<u>\$ 649,441,507</u>	<u>\$ (473,559,367)</u>	<u>\$2,443,021,923</u>

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Depreciation and amortization expense was charged to functions as follows:

	Governmental Activities
School-related	\$ 154,918,475
State and complex area administration	4,155,496
Public libraries	6,991,187
Total additions to accumulated depreciation and amortization	<u>\$ 166,065,158</u>

6. Long-Term Liabilities

The change in long-term liabilities during the year ended June 30, 2023 was as follows:

	Accrued Compensated Absences	Workers' Compensation Claims Reserve	Notes Payable	Lease Payable	Subscription Payable
Balance at July 1, 2022	\$ 86,832,513	\$ 140,090,294	\$ 32,996,595	\$ 3,002,817	\$ -
Additions	36,282,929	22,998,402	1,171,509	31,984,883	19,427,102
Reductions	<u>(36,314,786)</u>	<u>(20,103,859)</u>	<u>(2,265,480)</u>	<u>(5,794,651)</u>	<u>(7,310,187)</u>
Balance at June 30, 2023	86,800,656	142,984,837	31,902,624	29,193,049	12,116,915
Less: Current portion	<u>(28,874,805)</u>	<u>(21,447,726)</u>	<u>(2,276,284)</u>	<u>(5,826,441)</u>	<u>(3,545,884)</u>
	<u>\$ 57,925,851</u>	<u>\$ 121,537,111</u>	<u>\$ 29,626,340</u>	<u>\$ 23,366,608</u>	<u>\$ 8,571,031</u>

The compensated absences and workers' compensation liabilities have been paid primarily by the general fund in the past. The carrying amount of liabilities for unpaid workers' compensation claims of approximately \$164,882,000 is reported at present value using a discount rate of 2.0%.

Notes Payable

Following is a summary of the three notes payable with HGIA:

Unsecured interest-free note payable, due in semi-annual installments of \$973,694 through June 30, 2037	\$ 26,071,032
Unsecured note payable, due in semi-annual installments of \$232,642 (principal and interest of 3.5%) through June 30, 2038	5,295,557
Unsecured note payable, due in semi-annual installments of \$32,433 (principal and interest of 3.5%) through December 31, 2030	<u>536,035</u>
	31,902,624
Current maturities	<u>2,276,284</u>
	<u>\$ 29,626,340</u>

Interest payments totaled approximately \$212,000 for the year ended June 30, 2023.

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Principal and interest payments to maturity are as follows:

Years ending June 30	
2024	\$ 2,276,284
2025	2,287,896
2026	2,299,918
2027	2,312,365
2028	2,325,251
2029 – 2033	11,825,706
2034 – 2038	8,575,204
	<u>\$ 31,902,624</u>

Lease Payable

The Department has entered into leases for building space and equipment use. The terms of the agreements range from one to five years. The calculated interest rate used was 2.87%.

Principal and interest payments to maturity are as follows:

	Principal	Interest	Total
Years ending June 30			
2024	\$ 5,826,441	\$ 793,113	\$ 6,619,554
2025	5,135,736	623,599	5,759,335
2026	4,424,523	474,390	4,898,913
2027	2,308,305	367,628	2,675,933
2028	1,572,338	303,487	1,875,825
2029 – 2033	3,675,013	1,099,496	4,774,509
2034 – 2038	1,079,284	829,076	1,908,360
2039 – 2043	1,245,611	662,749	1,908,360
2044 – 2048	1,437,571	470,789	1,908,360
2049 – 2053	1,271,097	301,998	1,573,095
2054 – 2058	833,157	117,303	950,460
2059 – 2060	383,973	12,053	396,026
	<u>\$ 29,193,049</u>	<u>\$ 6,055,681</u>	<u>\$ 35,248,730</u>

Subscription Assets and Liability

The Department has entered into SBITAs for various administrative and operational purposes. These subscriptions include services related to cloud-based software applications, data storage, and management services. Under the terms of these arrangements, the Department does not take possession of the software at any time and the vendor provides ongoing services for the software's operation. The subscription periods vary, with initial noncancellable terms ranging from 2 to 10 years. The calculated interest rate used upon adoption was 3.93%.

For the year ended June 30, 2023, the Department recognized approximately \$435,000 of interest expense related to these arrangements.

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Principal and interest payments to maturity are as follows:

	Principal	Interest	Total
Years ending June 30			
2024	\$ 3,545,884	\$ 484,851	\$ 4,030,735
2025	2,910,228	343,560	3,253,788
2026	1,805,084	226,374	2,031,458
2027	1,877,263	154,195	2,031,458
2028	969,889	79,129	1,049,018
2029 – 2033	1,008,567	40,450	1,049,017
	<u>\$ 12,116,915</u>	<u>\$ 1,328,559</u>	<u>\$ 13,445,474</u>

7. Food Distribution Program

The U.S. Department of Agriculture (“USDA”), Food and Nutrition Service (“FNS”), has delegated the administrative responsibility of the Food Distribution Program to the Hawaii Child Nutrition Programs (“HCNP”) office. HCNP 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 reimbursed under the NSLP and SFSP of the previous school year. FNS estimates the cost to purchase the USDA Foods. The amount charged to the entitlement is based upon the net dollar values of the purchased USDA Foods. Bonus commodities are USDA Foods that are additional to Hawaii’s entitlement. A portion of the entitlement is allocated for the purchase of fresh produce.

The Department received approximately \$6,886,000 of commodities for the year ended June 30, 2023. No bonus commodities were received for the year ended June 30, 2023.

8. Non-imposed Employee Wages and Fringe Benefits

Payroll fringe benefit costs that are funded by state appropriations are assumed by the State and are not charged to the Department’s operating funds. These costs, totaling approximately \$748,295,000 for the year ended June 30, 2023, have been reported as revenues and expenditures in the general fund of the Department.

9. Retirement Benefits

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties, which includes the Department, are required to be members of the Employees’ Retirement System of the State of Hawaii (“ERS”), a cost-sharing multiple-employer defined benefit pension plan that administers the State’s pension benefits program. Benefits, eligibility and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at the ERS website: <http://ers.ehawaii.gov/resources/financials>.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement plans. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class.

Noncontributory Class

- **Retirement Benefits** – General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with thirty years of credited service are eligible to retire at age 55.
- **Disability Benefits** – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- **Death Benefits** – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or surviving dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at the time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.
- Death Benefits – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the twelve months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.
- Disability and Death Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus a refund of contributions and accrued interest. Ten years of credited service are required for ordinary disability.

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Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

Hybrid Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees’ retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with thirty years of credited service are eligible to retire at age 55.
- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.
- *Death Benefits* – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member’s contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member’s contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees’ retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with thirty years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.
- *Disability and Death Benefits* – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member’s contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2023 was 24% for general employees. Contributions to the pension plan from the Department were approximately \$390,891,000 for the year ended June 30, 2023.

Pursuant to Act 17, SLH 2017, employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for general employees increased to 24.0% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Measurement of the actuarial valuation of the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Department. The State allocates the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension only to component units and proprietary funds that are reported separately in stand-alone financial statements or in the State's ACFR. Accordingly, the Department's proportionate share of the State's pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is not reported in the accompanying financial statements.

Additional disclosures and required supplementary information pertaining to the State's net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension can be found in the State's ACFR. The State's ACFR can be obtained at the Department of Accounting and General Services' website: <http://hawaii.gov/dags/rpts>.

Postemployment Healthcare and Life Insurance Benefits

Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, 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. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at <https://eutf.hawaii.gov/reports>. The report may also be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

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For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten or more years 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 fewer 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.

For employees hired on or after July 1, 2001, and who retire with fewer 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 employees retiring with at least 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.

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the EUTF paid by the Department was approximately \$181,966,000 for the year ended June 30, 2023. The employer is required to make all contributions for members.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Measurement of the actuarial valuation of the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB is made for the State as a whole and is not separately computed for the individual State departments and agencies such as the Department. The State allocates the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB only to component units and proprietary funds that are reported separately in stand-alone financial statements or in the State's ACFR. Accordingly, the Department's proportionate share of the State's OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB are not reported in the accompanying financial statements.

Additional disclosures and required supplementary information pertaining to the State's net OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB can be found in the State's ACFR.

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.

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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.

10. Risk Management

The State 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 retains the first \$1,000,000 per occurrence of property losses such as fires and 3% of a property's replacement cost value for catastrophic losses such as hurricanes, earthquakes and floods; the first \$7,500,000 with respect to casualty and professional liability claims; the first \$500,000 of losses due to crime; and the first \$5,000,000 due to cyber liability. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence of property losses is \$200,000,000, except for terrorism, which is \$100,000,000 per occurrence. The annual aggregate limit for general liability losses is \$7,500,000 per occurrence, \$5,000,000 for cyber liability losses and, for crime losses, the limit per occurrence is \$10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of \$35,000,000 per occurrence and \$39,000,000 in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The Department administers its workers' compensation losses. A liability for workers' compensation is established if information indicates that a loss has been incurred as of June 30, 2023, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported and loss adjustment expenses. The amount of the estimated loss is recorded in the accompanying statement of net position, as those losses will be liquidated with future expendable resources, and amounted to approximately \$142,985,000 as of June 30, 2023 (see Note 6).

The following table represents changes in the amount of the estimated losses and the loss adjustment costs as of June 30, 2023 and 2022:

	2023	2022
Unpaid losses and loss adjustment costs		
Beginning of the fiscal year	\$ 140,090,294	\$ 134,646,419
Incurred losses and loss adjustment costs		
Provision of insured events of current fiscal year	22,830,167	21,809,227
Change in provision for insured events of prior fiscal years	168,235	6,483,827
Total incurred losses and loss adjustment costs	<u>22,998,402</u>	<u>28,293,054</u>
Payments		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(1,858,184)	(2,002,157)
Losses and loss adjustment costs attributable to insured events of prior fiscal year	(18,245,675)	(20,847,022)
Total payments	<u>(20,103,859)</u>	<u>(22,849,179)</u>
Balance at end of year	<u>\$ 142,984,837</u>	<u>\$ 140,090,294</u>

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11. Commitments and Contingencies

Encumbrances

The Department is committed under contracts awarded and orders placed for construction, repairs and maintenance, expenses, supplies, etc. These commitments as of June 30, 2023 were as follows:

General Fund	\$ 303,642,234
Federal Fund	177,152,180
Capital Projects Fund	668,962,281
Other Fund	6,347,805
	<u>\$1,156,104,500</u>

Litigation

The Department has been named as defendant in a number of lawsuits and claims arising in the normal course of operations. A number of claims may possibly result in adverse judgments against the Department. However, such claim amounts cannot be reasonably estimated at this time. Although the Department and its counsel are unable to express opinions as to the outcome of ongoing litigation, it is their opinion that any potential liability arising therefrom will not have a material adverse effect on the financial position of the Department because any judgments against the Department are judgments against the State and would be funded by the legislative appropriation of the State General Fund.

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave as of June 30, 2023 was approximately \$801,302,000.

12. Subsequent Events

The Department has reviewed all events that have occurred from July 1, 2023 through March 27, 2024, the date that the financial statements were available for issuance, for proper accounting and disclosure in the financial statements.

Supplementary Information

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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-through Grantor and Program or Cluster Title (Pass-Through Identifying Number)	Federal Assistance Listing Number	Total Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture			
Child Nutrition Cluster			
National School Lunch Program	10.555	\$ 84,763,193	\$ 7,319,594
COVID-19 National School Lunch Program	10.555	4,456,518	102,751
Subtotal – National School Lunch Program		89,219,711	7,422,345
Summer Food Service Program for Children			
State administrative expense	10.559	53,822	-
Fresh Fruit and Vegetable Program	10.582	1,274,152	-
Total – Child Nutrition Cluster		90,547,685	7,422,345
Child Nutrition-Technology Innovation Grant	10.541	66,027	-
Child and Adult Care Food Program	10.558	694,366	694,366
State Administrative Expense for Child Nutrition	10.560	871,179	-
Farm to School State Formula Grant	10.645	15,674	-
Team Nutrition Training Grants	10.574	94,051	-
Child Nutrition Discretionary Grants Limited Availability	10.579	57,926	5,926
Total – U.S. Department of Agriculture		92,346,908	8,122,637
U.S. Department of Defense			
Competitive Grants Promoting K-12 Student Achievement at Military-Connected Schools	12.556	824,788	-
Department of Defense Impact Aid	12.558	1,888,534	-
Community Investment	12.600	221,906	-
Total – U.S. Department of Defense		2,935,228	-
U.S. Department of the Interior			
Economic, Social, and Political Development of the Territories	15.875	4,526,574	-
Total – U.S. Department of the Interior		4,526,574	-
U.S. Department of the Treasury			
Passed through the Executive Office of the State of Hawai'i			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds (Memo-2022.09.15)	21.027	50,000,000	-
Total – U.S. Department of the Treasury		50,000,000	-
Institute of Museum and Library Services			
Grants to States	45.310	1,357,053	-
COVID-19 Grants to States	45.310	2,306,567	-
Total – Institute of Museum and Library Services		3,663,620	-
U.S. Department of Education			
Adult Education – Basic Grants to States	84.002A	3,199,660	-
Title I – Grants to Local Educational Agencies	84.010A	48,494,779	-
Migrant Education – State Grant Program	84.011A	2,091,370	-
Title I – State Agency Program for Neglected and Delinquent Children and Youth	84.013A	62,221	-
Special Education Cluster (IDEA)			
Special Education – Grants to States (IDEA Part B)	84.027A	46,968,794	-
COVID-19 Special Education Grants to States (IDEA, Part B)	84.027X	5,360,206	-
Special Education – Preschool Grants (IDEA Preschool)	84.173A	983,276	-
COVID-19 Special Education – Preschool Grants (IDEA Preschool)	84.173X	115,885	-
Total – Special Education Cluster		53,428,161	-

(continued)

See accompanying report of independent auditors and notes to the schedule of expenditures of federal awards.

Department of Education
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-through Grantor and Program or Cluster Title (Pass-Through Identifying Number)	Federal Assistance Listing Number	Total Federal Expenditures	Passed Through to Subrecipients
Impact Aid	84.041	3,699,595	-
Migrant Education Coordination Program	84.144F	84,339	-
Safe and Drug-free Schools and Communities National Programs	84.184H	476,839	-
Education for Homeless Children and Youth	84.196A	373,480	-
Twenty-first Century Community Learning Centers	84.287C	6,401,152	1,456,120
Native Hawaiian Education	84.362A	232,869	-
English Language Acquisition State Grants	84.365A	3,731,470	-
Asian American and Pacific Islander Data Disaggregation Initiative	84.365D	20,110	-
Supporting Effective Instruction State Grant	84.367A	9,023,814	-
Grants for Enhanced Assessment Instruments	84.368A	60,993	-
Grants for State Assessments and Related Activities	84.369A	1,626,222	-
Striving Readers Comprehensive Literacy ("SRCL") Program	84.371C	11,461,277	1,523,332
Statewide Longitudinal Data Systems	84.372A	625,241	-
Student Support and Academic Enrichment Program	84.424A	6,793,291	-
Trauma Recovery Demonstration Grant Program	84.424C	91,685	-
COVID-19 Education Stabilization Fund	84.425D	4,090,326	-
COVID-19 Education Stabilization Fund	84.425U	96,716,105	-
COVID-19 Education Stabilization Fund	84.425V	478,487	-
COVID-19 Education Stabilization Fund	84.425W	296,605	-
Passed through Alu Like, Inc.			
Native Hawaiian Career and Technical Education (VE-CAS2122-06)	84.259A	283,634	-
Passed through the Executive Office of the State of Hawai'i			
COVID-19 Education Stabilization Fund (Letter-2022.11.07)	84.425R	3,119,501	-
Passed through the Research Corporation of the University of Hawaii			
COVID-19 Education Stabilization Fund (Agreements for Services)	84.425C	1,162,599	-
Passed through University of Hawaii			
Career and Technical Education – Basic Grants to States (MA1834, Letter-2021.07.06, Letter-2020.07.01)	84.048A	2,765,728	-
Gaining Early Awareness and Readiness for Undergraduate Programs (WO1409)	84.334A	44,187	-
Gaining Early Awareness and Readiness for Undergraduate Programs (MA1789, MA1628)	84.334S	1,579,242	-
Native Hawaiian Education (MA1594)	84.362A	166,796	-
Total – Passed through University of Hawaii		4,555,953	-
Total – U.S. Department of Education		262,681,778	2,979,452
U.S. Department of Health and Human Services			
Cooperative Agreements to Promote Adolescent Health through			
School-Based HIV/STD Prevention and School-Based Surveillance	93.079	101,574	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	3,799	-
Head Start	93.600	108,990	-
Passed through State Department of Health			
Epidemiology and Laboratory Capacity for Infectious Diseases (MOA-2021.12.17)	93.323	5,331,960	-
Activities to Support State, Tribal, Local and Territorial ("STLT")			
Health Department Response to Public Health or Healthcare Crises (MOA-2022.08.01)	93.391	25,000	-
Total – Passed through State Department of Health		5,356,960	-
Passed through State Department of Human Services			
Temporary Assistance for Needy Families (DHS-19-ETPO-0037)	93.558	4,030,099	-
Total – U.S. Department of Health and Human Services		9,601,422	-
Total expenditures of federal awards		\$ 425,755,530	\$ 11,102,089

(concluded)

See accompanying report of independent auditors and notes to the schedule of expenditures of federal awards.

Department of Education
State of Hawaii
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") for the year ended June 30, 2023 includes the federal award activity of the Department of Education ("DOE"), the Hawaii State Public Library System ("HSPLS"), and certain Hawaii State Public Charter Schools ("HSPCS") where the DOE prepares the Schedule, based on information provided by HSPLS and HSPCS, to combine federal financial data for the three departments, in aggregate known as the Department.

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Department.

The following is a summary of the HSPCS entities that obtained separate audits performed in accordance with the Uniform Guidance, including separate Uniform Guidance submissions to the Federal Audit Clearinghouse:

- Connections Public Charter School
- Hawai'i Academy of Arts and Science Public Charter School
- Hawai'i Technology Academy
- Ka Waihona O Ka Na'auao Public Charter School
- Kamaile Academy
- Kamalani Academy
- Kanu O Ka 'Āina New Century Public Charter School
- Ke Kula 'O Nāwahīokalani'ōpu'u Iki LPCS
- Kualapu'u School
- State Public Charter School Commission

Awards listed in these separately issued Uniform Guidance submissions, with federal expenditures aggregating to \$16,702,524 for the year ended June 30, 2023, are not included in the accompanying Schedule.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Department does not use the 10% de minimis indirect cost rate as the Department is not allowed to per the Uniform Guidance.

See accompanying report of independent auditors.

PART II
Compliance and Internal Control



**Report of Independent Auditors 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***

The Auditor
State of Hawaii

Board of Education
Department of Education
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Education, State of Hawaii (the "Department") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 27, 2024. Our report includes a reference to other auditors who audited the financial statements of certain public charter schools, as described in our report on the Department's financial statements. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

999 Bishop Street
Suite 2300
Honolulu, HI 96813

OFFICE 808.531.3400
FAX 808.531.3433
accuityllp.com



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding No. 2023-001 which we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department's Response to Findings

Government Auditing Standards requires the auditors to perform limited procedures on the Department's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
March 27, 2024



**Report of Independent Auditors on Compliance
for Each Major Federal Program and on Internal Control
Over Compliance Required by the Uniform Guidance**

The Auditor
State of Hawaii

Board of Education
Department of Education
State of Hawaii

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the State of Hawaii, Department of Education's ("the Department") compliance with the types of compliance requirements described in the Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on the Department's major federal programs for the year ended June 30, 2023. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Qualified Opinions on Assistance Listing ("AL") No. 15.875, Economic, Social, and Political Development of the Territories; and AL No. 84.425U, COVID-19 Education Stabilization Fund

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on AL No. 15.875, *Economic, Social, and Political Development of the Territories*; and AL No. 84.425U, *COVID-19 Education Stabilization Fund*, for the year ended June 30, 2023.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2023.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("*Uniform Guidance*"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

999 Bishop Street
Suite 2300
Honolulu, HI 96813

OFFICE 808.531.3400
FAX 808.531.3433
accuityllp.com



We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of the Department's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinions on AL No. 15.875, Economic, Social, and Political Development of the Territories; and AL No. 84.425U, COVID-19 Education Stabilization Fund

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding:

Finding No.	AL No.	Program or Cluster Name	Compliance Requirement
2023-002	15.875	Economic, Social, and Political Development of the Territories	Reporting
2023-007	84.425U	COVID-19 Education Stabilization Fund	Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for the Department to comply with requirements applicable to those programs.

Other Matter – Federal Expenditures Not Included in the Compliance Audit

The Department's basic financial statements include the operations of the Connections Public Charter School, the Hawai'i Academy of Arts and Science Public Charter School, the Hawai'i Technology Academy, the Ka Waihona O Ka Na'auao Public Charter School, the Kamaile Academy, the Kamalani Academy, the Kanu O Ka 'Āina New Century Public Charter School, the Ke Kula 'O Nāwahīokalani'ōpu'u Iki LPCS, the Kualapu'u School, and the State Public Charter School Commission. These entities expended \$16,702,524 in federal awards which is not included in the Department's schedule of expenditures of federal awards during the year ended June 30, 2023. Our compliance audit, described in the Qualified and Unmodified Opinions section of our report, did not include the operations of the Connections Public Charter School, the Hawai'i Academy of Arts and Science Public Charter School, the Hawai'i Technology Academy, the Ka Waihona O Ka Na'auao Public Charter School, the Kamaile Academy, the Kamalani Academy, the Kanu O Ka 'Āina New Century Public Charter School, the Ke Kula 'O Nāwahīokalani'ōpu'u Iki LPCS, the Kualapu'u School, and the State Public Charter School Commission because these entities separately engaged auditors to perform audits in accordance with the Uniform Guidance, or did not require an audit in accordance with the Uniform Guidance.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Department's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Department's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material



noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Department's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 2023-003 through 2023-006. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditors to perform limited procedures on the Department's response to the noncompliance findings identified in our compliance audit and described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.



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 in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a 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. A *significant deficiency in internal control over compliance* 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 in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding Nos. 2023-002 and 2023-007 to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditors to perform limited procedures on the Department's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
March 27, 2024

Department of Education
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued

Unmodified

Internal control over financial reporting

- Material weaknesses identified?
- Significant deficiencies identified?

☐ yes	☒ no
☒ yes	☐ none reported
☐ yes	☒ no

Noncompliance material to financial statements noted?

Federal Awards

Internal control over major programs

- Material weaknesses identified?
- Significant deficiencies identified?

☒ yes	☐ no
☐ yes	☒ none reported

Type of auditors’ report issued on compliance for major programs

Qualified

An unmodified opinion was issued on the Department's compliance with its major federal programs for the year ended June 30, 2023, except for the requirements regarding reporting for AL No. 15.875, *Economic, Social, and Political Development of the Territories*, and special tests and provisions for AL No. 84.425U, *COVID-19 Education Stabilization Fund*, for which the opinion on compliance was qualified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

☒ yes	☐ no
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Identification of major federal programs:

Name of Federal Program or Cluster

Federal Assistance Listing Number

Hawaii Compact Impact Grant

15.875

COVID-19 Coronavirus State and Local Fiscal Recovery Funds

21.027

LSTA State Grants

45.310

COVID-19 LSTA State Grants

45.310

Adult Education – Basic Grants to States

84.002A

Migrant Education – State Grant Program

84.011A

Special Education Cluster (IDEA)

84.027A, 84.173A

COVID-19 Special Education Cluster (IDEA)

84.027X, 84.173X

Career and Technical Education – Basic Grants to States (Perkins V)

84.048A

Twenty-First Century Community Learning Centers

84.287C

English Language Acquisition State Grants

84.365A

Supporting Effective Instruction State Grants

84.367A

COVID-19 Education Stabilization Fund

84.425

Dollar threshold used to distinguish between Type A and Type B program

\$3,000,000

Auditee qualified as low-risk auditee?

☒ yes	☐ no
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Department of Education
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section II – Financial Statement Finding

Finding No. 2023-001: Accounting for Capital Assets (Significant Deficiency)

Condition

During our audit, we noted that for three out of 22 capital projects selected for testing, the projects were cancelled prior to July 1, 2022, however, were reported as in progress as of June 30, 2023, resulting in an overstatement of capital assets in the department-wide statement of net position and an understatement of expense in the department-wide statement of activities of approximately \$2.3 million.

Criteria

Pursuant to the Department's policies and procedures, the Office of Facilities and Operation is responsible for notifying the Office of Fiscal Services when a capital project has been cancelled and should be expensed for financial reporting purposes.

Cause

The erroneous classification of projects as being in progress in the Department's capital asset records as of June 30, 2023 may be attributed to untimely communication from the Office of Facilities and Operation to the Office of Fiscal Services regarding the cancellation of the projects.

Effect

Failure to write off previously capitalized costs for cancelled capital projects from construction in progress in a timely manner necessitated the proposition of unadjusted audit entries to properly state the Department's beginning fund balance and capital assets balances.

Repeat Finding

This is a repeat of prior audit Finding No. 2022-001.

Recommendation

We recommend that the Office of Facilities and Operation ensure that communication regarding the cancellation of capital projects is made to the Office of Fiscal Services in a timely manner.

Cause and View of Responsible Officials

The deficiency is a result of the Office of Facilities and Operation's failure to report project cancellations to the Office of Fiscal Services in a timely manner.

Department of Education
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section III – Federal Award Findings and Questioned Costs

**Questioned
Cost**

\$ –

Finding No. 2023-002: **Reporting (Material Weakness)**

Federal Agency: U.S. Department of the Interior

**Assistance Listing
Number and Title:** 15.875 – Economic, Social, and Political Development of the Territories

Condition

During our audit, for two out of six financial and narrative of project status reports selected for testing, we noted no available evidence to verify the reports were prepared.

We were also informed by program personnel that four semi-annual financial reports and four narrative of project status reports, which were not selected for testing, were also not prepared.

Criteria

The Office of Insular Affairs (“OIA”) requires financial reports and a narrative of project status to be submitted within 30 days after the end of the reporting period.

Cause

Due to turnover in critical positions, the lack of report preparation may be attributed to general oversight by the program personnel.

Effect

The failure to file required reports reduces transparency on the use of program funds and hinders monitoring by the awarding agency.

Context

A sample of six reports were selected for audit from a population of 14 reports. Our test found two instances in which reports were not submitted. We were also informed by management that the eight reports which were not selected for testing were also not submitted. Our sample was a statistically valid sample.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that the program personnel responsible for preparing and reviewing reports have adequate knowledge of reporting requirements.

Cause and View of Responsible Officials

The program personnel were unaware of the reporting requirements as defined in the OIA Cooperative Agreement. The Office of Monitoring and Compliance Branch will ensure program personnel are informed through written procedures and training.

Department of Education
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

**Questioned
Cost**

\$ –

Finding No. 2023-003: **Cash Management (Control Deficiency)**
Period of Performance (Control Deficiency)

Federal Agency: U.S. National Endowment for the Humanities

**Assistance Listing
Number and Title:** 45.310 – Grants to State

Condition

During our audit, we noted the following instances of noncompliance:

Cash Management

We selected eight federal cash receipts and identified nine instances totaling approximately \$1,594,000 in which the time elapsing between the receipt of federal funds and the disbursement of amounts within the aggregate cash receipt to an individual vendor was greater than 30 days.

Period of Performance

We selected 40 disbursements for testing and identified two instances totaling approximately \$40,000 in which expenditures were made outside of the award period.

Criteria

Cash Management

U.S. Department of the Treasury Regulations 31 Code of Federal Regulations (“CFR”) Section 205.33 requires the Department to minimize the time between the receipt of federal funds from the federal government and the Department’s disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the Department’s actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Period of Performance

Title 2 Section 200.344 of the CFR requires final accounting and settlement within 90 days after the end of the federal fiscal year, or upon termination or closeout of an award, whichever is earlier.

Cause

We were informed by program personnel that due to supply chain issues, invoices were not received in a timely manner which led to the untimely disbursement and expenditure of federal funds.

Effect

Cash Management

The delay in disbursing advances of federal funds prevents the use of those funds for more urgent purposes by the federal government and represents an instance of noncompliance with the requirements of Title 2 U.S. CFR Part 200.

Department of Education
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Period of Performance

The delay in expenditures prevents the granting agency from timely assessing the status and activities of the program and represents an instance of noncompliance with the requirements of Title 2 U.S. CFR Part 200.

Context

Cash Management

A sample of eight federal cash receipts totaling approximately \$2,410,000 were selected for audit from a population of 20 federal cash receipts totaling approximately \$3,647,000. Our test found nine instances in which the Department's disbursement of the funds within the aggregate cash receipt to an individual vendor was not completed in a timely manner. Our sample was a statistically valid sample.

Period of Performance

A sample of 40 disbursements totaling approximately \$3,547,000 were selected for audit from a population of 20 federal cash receipts totaling approximately \$3,664,000. Our test found two instances in which expenditures were made outside of the award period. Our sample was a statistically valid sample.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that the Department perform the following to ensure compliance:

Cash Management

Upon receipt of federal funds, ensure that the subsequent disbursement of such funds occurs in a timely manner.

Period of Performance

Ensure expenditures of federal funds are made within the grant award period.

Cause and View of Responsible Officials

During fiscal year 2023, multiple vendors experienced supply chain issues that resulted in untimely deliverables. As a result of these delays, the Department could not disburse funds in a timely manner.

Department of Education
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

**Questioned
Cost**

\$ –

Finding No. 2023-004: **Student Eligibility (Control Deficiency)**

Federal Agency: U.S. Department of Education

**Assistance Listing
Number and Title:** 84.002A – Adult Education – Basic Grants to States

Condition

During our audit, we noted one instance in which a student was permitted to enroll in Workplace Literacy and Adult Basic Education programs without meeting the eligibility criteria for those programs.

Criteria

Section 200.403 – *Factors affecting allowability of costs* of Title 2 U.S. *Code of Federal Regulations* (“CFR”) Part 200, states “(c) – in order for costs to be allowable under Federal awards it must be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of non-Federal entity.”

Cause

The inaccurate eligibility determinations may be attributed to general oversight by the program personnel.

Effect

Failure to adhere to the program’s eligibility requirements exposes the Department to an undue risk of noncompliance with the requirements of Title 2 U.S. CFR Part 200.

Context

A sample of 25 individuals were selected for audit from a population of 3,627 individuals eligible to participate in Workplace Literacy and Adult Basic Education programs. Our test found that one individual was improperly deemed as being eligible to participate in Workplace Literacy and Adult Basic Education programs. Our sample was a statistically valid sample.

Repeat Finding

This is a repeat of prior audit Finding No. 2022-03.

Recommendation

We recommend that program personnel ensure that the appropriate eligibility criteria are followed when determining an individual’s ability to enroll in Workplace Literacy and Adult Basic Education programs.

Cause and View of Responsible Officials

The local service provider was unaware of the eligibility requirements for *basic skills deficient* individuals and did not thoroughly understand *workplace adult education and literacy activities* as defined in United States Code, Title 29, Chapter 32, *Workforce Innovation and Opportunity Act* §3272. The Office of Curriculum and Instructional Design Community Education Specialist will ensure the local service provider is informed through written eligibility procedures and training.

Department of Education
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

**Questioned
Cost**

\$ –

Finding No. 2023-005: **Special Tests and Provisions (Control Deficiency)**

Federal Agency: U.S. Department of Education

**Assistance Listing
Number and Title:** 84.011A – Migrant Education – State Grant Program

Condition

During our audit, for 17 out of 40 students selected for testing, we noted no available evidence to verify the services provided to Priority of Services (“PFS”) students.

Criteria

Pursuant to Title 1, Part C, Section 1304 of the *Every Student Succeeds Act* (“ESSA”), the Department is required to give priority services to eligible migrant students.

Cause

Due to vacancies in critical positions, certain schools were unable to provide services to PFS students.

Effect

Failure to adhere to the program’s requirements exposes the Department to an undue risk of noncompliance with the requirements of Title 2 U.S. CFR Part 200.

Context

A sample of 40 students were selected for audit from a population of 615 students. Our test found 17 instances in which services were not rendered. Our sample was a statistically valid sample.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that program management ensure that personnel are familiar with all grant requirements and retain necessary documentation to comply with federal program requirements.

Cause and View of Responsible Officials

The Department is currently in the process of hiring personnel to assist with providing services.

Department of Education
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

**Questioned
Cost**

\$ –

Finding No. 2023-006: **Matching, Level of Effort, and Earmarking (Control Deficiency)**

Federal Agency: U.S. Department of Education

**Assistance Listing
Number and Title:** 84.365A – English Language Acquisition State Grants

Condition

During our audit, we noted the following instances of noncompliance:

- The program expended greater than 5% of federal funds awarded for state level activities.
- The program expended the greater of 2.5% or \$175,000 in federal funds awarded on administration costs.

Criteria

Pursuant to Title 3, Part A, of the ESSA, the Department can reserve up to 5% of their awarded federal program funds to carry out state activities. The Department can also reserve the greater of 2.5% of their awarded federal program funds or \$175,000 for administration costs.

Cause

Due to turnover in critical positions, the lack of adequate financial reporting to calculate and track compliance with the required earmarking requirements may be attributed to general oversight by the program personnel.

Effect

Failure to adhere to the program’s requirements exposes the Department to an undue risk of noncompliance with the requirements of Title 2 U.S. CFR Part 200.

Context

A sample of two awards were selected for audit from a population of two awards which terminated during fiscal 2023. Our test found two instances in which state activities and administration costs were greater than earmarking requirements. Our sample was a statistically valid sample.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that the program personnel follow the policies and procedures established to comply with earmarking requirements.

Cause and View of Responsible Officials

We were informed that program personnel were aware of the noncompliance. However, due to turnover in critical positions, they were unable to correct the noncompliance by June 30, 2023.

Department of Education
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

**Questioned
Cost**

\$ –

Finding No. 2023-007: **Special Tests and Provisions (Material Weakness)**

Federal Agency: U.S. Department of Education

**Assistance Listing
Number and Title:** COVID-19 84.425U – Education Stabilization Fund

Condition

During our audit, we noted program personnel were unable to provide a complete and accurate listing of all expenditures incurred in association with construction projects funded with program monies during fiscal year 2023.

Criteria

Pursuant to Title 2, Section 200, Appendix II, of the CFR, for all construction contracts in excess of \$2,000 financed by federal funds, the Department is required to pay wages not less than those established for the locality of the project by the U.S. Department of Labor.

Cause

Personnel responsible for the tracking of construction projects funded with program monies during the period from July 2022 through April 2023 are no longer with the Department. Current program personnel began the oversight and tracking of such activities in May 2023; however, they were unable to locate any records associated with the tracking of expenditures associated with construction projects funded with program monies that may have been maintained by the previous program personnel during the period from July 2022 through April 2023.

Effect

Failure to adhere to the program's requirements exposes the Department to an undue risk of noncompliance with the requirements of Title 2 U.S. CFR Part 200.

Context

The Department was unable to provide a complete and accurate listing of all expenditures incurred in association with construction projects funded with program monies during fiscal year 2023.

Repeat Finding

This is not a repeat finding.

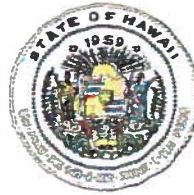
Recommendation

We recommend that the program personnel maintain a complete and accurate listing of all expenditures incurred in association with construction projects funded with program monies. We also recommend that the contractual terms of any construction contracts in excess of \$2,000 financed with program monies include the appropriate provisions to comply with award requirements.

Department of Education
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Cause and View of Responsible Officials

Due to turnover in critical positions, the program personnel were unable to furnish a complete and accurate listing of all executed construction contracts in excess of \$2,000 and expenditures for each contract during fiscal year 2023. The program personnel will ensure retention of necessary documentation to comply with federal program requirements.



STATE OF HAWAII
DEPARTMENT OF EDUCATION
KA 'OIHANA HO'ONA'AUAO
P.O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

March 27, 2024

Accuity LLP
999 Bishop Street, Suite 1900
Honolulu, HI 96813

Ladies and Gentlemen:

The Single Audit of the Hawaii State Department of Education (Department) for the fiscal year ended June 30, 2023 was completed before the March 31, 2024 Federal deadline. We are please that the Department received an unmodified opinion on its financial statements.

We have reviewed your audit findings and recommendations and corrective action plans have been prepared. In accordance with 2 CFR 200.508, the following pages contain the **Corrective Action Plan** for the year ended June 30, 2023 and the **Summary Schedule of Prior Audit Findings** for the year ended June 30, 2022.

Sincerely,

A handwritten signature in blue ink, appearing to read "Keith T. Hayashi".

Keith T. Hayashi
Superintendent

KTH:dy
Attachments

c: Internal Audit Office

Department of Education
State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023

Finding	Description	Type	Status		Current Year Finding
			Resolved	Unresolved	
2022-001	Accounting for Capital Assets	Significant Deficiency ("SD")		X	2023-001
2022-002	Federal Funding Accountability and Transparency Act Reporting	Control Deficiency ("CD")	X		
2022-003	Student Eligibility	CD		X	2023-004

Corrective Action Plan

FINANCIAL STATEMENT FINDING

2023-001 Accounting for Capital Assets – Significant Deficiency (Page 48)

View of Responsible Officials

Management agrees with the finding.

Corrective Action Plan

The three projects noted in the finding were related capital improvement projects that were no longer proceeding from the design phase into the construction phase. The Department's Office of Facilities and Operations ("OFO") Facilities Development Branch ("FDB") did not timely notify the Office of Fiscal Services ("OFS") Accounting Services Branch ("ASB") of this type of project cancellation.

OFO FDB and OFS ASB will review their internal processes related to cancelled capital improvement projects and will update the Department's policies and procedures accordingly.

*Contact Persons: Jadine Urasaki, Facilities Director
Facilities Development Branch
Office of Facilities and Operations*

*Trisha Kaneshiro, Fiscal Specialist
Accounting Services Branch
Office of Fiscal Services*

Anticipated Completion Date: December 2024

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2023-002 Reporting – Material Weakness (Page 49)

View of Responsible Officials

Administration agrees with the findings and recommendations.

Corrective Action Plan

The Office of Monitoring and Compliance (“MAC”) will provide training to recipients when funds are allocated within the Department.

The Policy, Innovation, Planning and Evaluation Branch (“PIPE”) will communicate with the Office of Fiscal Services and MAC on a semi-annual basis to start the reporting process on December 1 and June 1 of each year to meet the January 31 and July 31 respective deadlines. Additionally, PIPE has identified a dedicated staff member who will spearhead the administration of this grant to ensure that any changes in the reporting requirements as defined in the OIA Cooperative Agreement will be quickly identified and followed.

*Contact Persons: Ken Kakesako, Director
Policy, Innovation, Planning and Evaluation Branch
Office of Strategy Innovation and Performance*

*Jacy Yamamoto, Interim Director
Office of Monitoring and Compliance
Office of the Deputy Superintendent*

Anticipated Completion Date: June 1, 2024

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(Continued)

2023-003 Cash Management – Control Deficiency
Period of Performance – Control Deficiency (Page 50)

View of Responsible Officials

Management appreciates the opportunity to respond to the findings of the audit. The Hawaii State Public Library System (“HSPLS”) makes every attempt to meet all federal laws and guidelines for funding that is received. Many factors outside our control directly impacted the timely payment of vendors as noted in the audit. Specifically:

- 1) Federal budget uncertainty; delay in receiving federal funding. For the past several years, Congress has not been able to pass a comprehensive federal budget, and instead has funded the Grants to States fund via continuing resolutions making it difficult to plan out expenditures with any certainty. In addition to lacking the certainty of when and/or if funding will be available, the Grants to States funds have not been released to states in a timely manner, including during the audit period. Instead of at the beginning of the federal fiscal year around October 1st, funding has been received months later, leaving States with a lot less time to procure, process and receive purchases. This means we do not have access to the funding for the full grant cycle and directly impacts if/when we are able to procure goods and services.*
- 2) Supply chain and shipping issues. The State of Hawaii procurement requirements do not allow us to pay for goods and services until we receive the products or the services are rendered satisfactorily. HSPLS continues to face significant supply chain and shipping issues which affects the timely payment of vendors. As an island state in the middle of the Pacific Ocean, there are often delays in receiving an entire shipment on time in full, even post-pandemic. For large products or orders, sometimes the order and/or related parts are not shipped together further delaying completion of the order by the vendor and issuance of the invoice. In many instances, vendors do not send their invoices in a timely manner, preventing HSPLS from dispersing funds in a timely manner.*
- 3) Federal agency guidance. We would also like to note that in the past, we have contacted our funding federal agency and let them know that we have had challenges with supply chain and shipping issues. We were advised that it was understood, and that as long as we had encumbered the funds by September 30, that we would be able to use the funding that was allotted to us even if the invoice is received after the close of the federal fiscal year.*

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(Continued)

2023-003 Cash Management – Control Deficiency
Period of Performance – Control Deficiency (Continued)

Corrective Action Plan

We will do our best to continue to monitor and minimize any untimely disbursements of federal funds.

*Contact Person: Stacy A. Aldrich
State Librarian
Hawaii State Public Library System*

Anticipated Completion Date: Ongoing

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(Continued)

2023-004 Student Eligibility – Control Deficiency (Page 52)

View of Responsible Officials

Management agrees with the finding and provides more context regarding the finding. Participant eligibility procedures are based on USC §3272 and §3102 were created for Adult Education Family Literacy Act (“AEFLA”)-funded adult schools. The procedures were distributed, and training was provided on March 31, 2023 to address prior audit Finding No. 2022-03. The enrollment record that did not meet the criteria for eligibility in the Single Audit Fiscal Year Ending 06/30/23 had an intake date of September 15, 2022, approximately six months before the procedures were distributed and training provided.

A corrective action has already taken place through the March 31, 2023 procedures distribution and training. The AEFLA-funded adult schools are aware that all participants reported in the AEFLA reporting system, known as the National Reporting System, including participants in workplace adult education and literacy activities as defined in United States Code, Title 29, Chapter 32 Workforce Innovation and Opportunity Act §3272, must meet AEFLA eligibility requirements.

Corrective Action Plan

Participant eligibility procedures for AEFLA-funded adult schools based on USC §3272 and §3102 will be reviewed annually with AEFLA-funded adult schools through a technical assistance session. The procedures inform the staff of the AEFLA-funded adult school of the following:

- *The Workforce Innovation and Opportunity Act*
- *The Adult Education and Family Literacy Act*
- *The relevant U.S. Code and Code of Federal Regulations*
- *A definition of AEFLA-eligible individuals*
- *Categories of funding and their purpose*
- *The role of the U.S. DOE Office of Career Technical and Adult Education*
- *The role of the Hawaii state director for adult education*
- *The role of the AEFLA-funded local service providers*

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(Continued)

2023-004 Student Eligibility – Control Deficiency (Continued)

Contact Person: Dan Miyamoto, TA Community Education Specialist
Curriculum Innovation Branch
Office of Curriculum and Instructional Design

Anticipated Completion Date: August 31, 2024

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(Continued)

2023-005 Special Tests and Provisions – Control Deficiency (Page 53)

View of Responsible Officials

Management agrees with the finding and recommendation. The Department is currently in the process of hiring personnel to assist with providing services.

Corrective Action Plan

Migrant Education Program leadership will review the criteria identified in the Title I, Part C, Section 1304 of the Every Student Succeeds Act, which requires the Department to give priority services to officially identified Priority for Service designated students. Program leadership will ensure that personnel are familiar with all grant requirements and retain necessary documentation to comply with federal program requirements. A statewide memo will be distributed to include:

- *A summary about the identification process for determining who are Migrant Education students and the state program database that tracks this information.*
- *Review of all Federal and State education obligations to service Migrant Education students.*
- *Include a list of potential support services and resources to service Migrant Education students.*
- *Information will be added to the Leadership Bulletin to help inform and remind leaders about the state's obligations to support Migrant Education students.*
- *Additional dissemination of this information will be shared by Assistant Superintendent Kalama to all Complex Area Superintendents.*

*Contact Person: Bruce Kawachika, State Migrant Education Program Manager
Student Services Branch
English Learner/Migrant Education Section
Office of Student Support Services*

Anticipated Completion Date: December 31, 2024

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(Continued)

2023-006 Matching, Level of Effort, and Earmarking – Control Deficiency (Page 54)

View of Responsible Officials

The Department generally agrees with the findings and recommendations. However, it should be noted that the earmarking findings described here are issues that were identified by the Department in June 2023 (prior to being audited) and a corrective action plan was put into place at that time. It had not yet been completed at the time of the audit and so was not reflected in the grant years that were used for this audit.

Corrective Action Plan

Note: As stated above, the earmarking issues raised by the audit were issues that had come to our attention in June of 2023. A corrective plan was established at that time. The steps for correcting these issues were begun June 21, 2023 but had not yet been completed at the time of the audit. The Corrective Action Plan being presented here is a modified version of this plan that encompasses the original plan as well as documents steps to address related issues raised in this audit.

Step	Action Activity	Expected Result	Expected Completion Date
1	Identify all administrative positions billed to Title III in order to assess how much, if any, these positions will put us over the SEA/LEA consolidated administrative caps.	Provided a basis upon which to determine which positions needed to be funded through other funds.	Completed: 06/21/2023
2	Request funding via Unidentified Budget Need Form ("UBN") for positions billed to Title III that needed to be funded elsewhere.	Stopped the flow of payroll out of Title III for the current year (2023-2024).	Completed: 06/21/2023
3	Monitor 2023-2024 Title III payroll to identify payroll charges already billed to Title III that need to be moved to the alternative funding source identified in Step 2.	Corrects the charges for the positions moved that were billed to Title III during the process of the UBN.	Started: 02/01/2024 To Be Completed By: 03/10/2024

HAWAII STATE DEPARTMENT OF EDUCATION
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2023

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(Continued)

Step	Action Activity	Expected Result	Expected Completion Date
4	Work with accounting to adjust payroll charges for 2023-2024 that are being billed to previous grant years.	Corrects the problem created by the current Budget System where payroll is automatically billed to the oldest grant year still available regardless of when the payroll actually occurs. This correction should result in payroll coming out of the correct grant year and help to avoid payroll from multiple grant years being billed to one single grant year via our computer system.	Completed: 02/26/2024
5	Rename the Program ID (Budget code) for administrative positions to create an accounting system that matches the set asides from Title III more clearly.	Corrects the problem created by the name of the current Title III Administrative Program ID to clearly indicate that this is where the set aside for Administrative expenses for the consolidated unitary system occurs. Makes the budget reporting system more transparent.	Started: 02/16/2024 To Be Completed By: 03/10/2024
6	Create a written set of guidelines establishing procedures for: - Ensuring that the creation of new positions does not cause the Department to exceed the Administrative Caps. - Ensures that payroll is billed to the correct year. - Establishes a system for regular monitoring of payroll charges to ensure that Administrative Caps are not exceeded.	Gives guidance to anyone in the Title III Specialist position the information needed to ensure compliance with all Federal regulations regarding positions and the related SEA/LEA administrative caps.	Start: 03/01/2024 To Be Completed By: 06/30/2024
7	Create a written set of guidelines for onboarding new Title III personnel regarding Title III legislation, USDOE Non-regulatory Guidance, State guidelines and rules. These will be shared with the Office of Monitoring and Compliance for input.	This will make the transition of new personnel in Title III go smoother as there will be a written resource to which they can refer when questions arise.	Start: 04/01/2024 To be Completed By: 07/30/2024

Contact Person: Kathleen Grondin, Title III Specialist
English Learners Office
Office of Student Support Services

Anticipated Completion Date: July 30, 2024

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(Continued)

2023-007 Special Tests and Provisions – Material Weakness (Page 55)

View of Responsible Officials

Management agrees with the findings and recommendations.

Corrective Action Plan

The audit finding was due in large part to a vacancy in the Department ESSER grant support position that arose in the first quarter of the fiscal year, which contributed to the breakdown in construction project tracking.

The Department hired a replacement for this grant support position in the second quarter of the fiscal year, and during the third quarter hired a second grant support position to ensure enhanced support capacity and continuity. These two individuals continue to comprise the ESSER Grant Management Office (team) and in the fourth quarter of the fiscal year initiated a process to document school and complex area use of ESSER funds for construction purposes.

The team held a department-wide informational webinar in partnership with the Department's Office of Facilities and Operations on May 22, 2023. The webinar agenda included the newly implemented pre-approval construction application process and federal requirements pursuant to Title 2, Section 200, Appendix II, of the Code of Federal Regulations ("CFR").

The team will continue to work with the Department's Complex Area Staff to reiterate the award requirements and examine construction-related contracts over \$2,000 to verify compliance with the award requirements.

*Contact Person: Brian Hallett
Assistant Superintendent and CFO
Office of Fiscal Services*

Anticipated Completion Date: June 30, 2024