

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Status Report on Monitoring Fiscal Accountability of the Department of Education: Case Study - Royal Elementary School

### Summary

Section 296-92, Hawaii Revised Statutes (HRS), directs the State Auditor to prepare annual fiscal accountability reports of the expenditures of the Department of Education and evaluations of its programs. Section 296-92 HRS, further requires that these annual fiscal accountability reports distribute expenditures according to the following categories: administration, facility support and operations, teacher support/training, pupil support and classroom instruction.

In our first annual fiscal accountability report released in February 1995, we found that the department's attribution of cost by function did not reliably identify how educational dollars are spent. Consequently, for our second annual fiscal accountability report, we did not attempt to categorize statewide expenditures by function. Rather, we focused on identifying costs at a single school in order to allow us to manually examine in some detail all expenditures attributed to the school. We selected the FY1993-94 operational costs for Royal Elementary School as the subject of this examination.

We reviewed the department's current expenditure reports from its Financial Management System and found the reports lacking in detail to identify how the \$1 billion appropriated for public education is being spent. The department claims 94 percent of state and district expenditures are for services provided directly to school sites; however, the department cannot identify expenditures made on behalf of schools. The department is also unable to identify support agencies' operational costs either on a school-by-school or a programmatic basis. The lack of expenditure reports which attribute costs by function and location resulted in our manual calculation of the operational cost for Royal Elementary School during FY1993-94. Cost estimates for programs by site and function were developed by reviewing expenditure reports and by interviewing pertinent personnel to determine the scope and purpose of services provided to Royal Elementary School.

Based on these cost estimates, we were able to calculate the per pupil cost for Royal Elementary School during FY1993-94 to be \$5,705. We were also able to provide per pupil costs for students with special needs and compared these expenditures to per pupil costs for students receiving regular education.

The department has not fully utilized its Financial Management System (FMS) to perform financial analyses and assist in decision making. Program specialists were unfamiliar with the FMS expenditure reports and in several cases failed to detect expenditures charged to incorrect accounts. We found this to be of concern since FMS was intended to integrate the department's budgeting and accounting systems. Finally, object codes currently used in the FMS reports may be used to help identify costs by functions. Such cost data would provide more meaningful information than is currently available.

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## Recommendations and Response

In order to account for expenditures by the categories required in Section 296-92, HRS, we recommend the department identify all personnel costs by function and location in FMS and work with the governor to ensure support agencies report school level expenditures annually on a school-by-school basis. We also recommend that the department assess and report to the 1997 Legislature whether the FMS can be used to report personnel costs by program, function, and site and whether object codes can be used to identify other costs by function in the FMS.

The Department of Education basically concurred with our recommendations. The department acknowledges the need to improve its financial management system to permit the tracking of expenditures by cost and function. The department indicated its willingness to develop a pilot project that explores the applicability of an electronic financial management system to report personnel cost by function. However, the department indicated it will need additional funding from the Legislature to conduct such a pilot study. The department also noted the need to work with the Department of Accounting and General Services to develop and implement a new payroll system capable of distributing personnel costs by function and location.

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