

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Financial Audit of the Public School System

Summary

The Office of the Auditor and the certified public accounting firm of Nishihama & Kishida, CPA's, Inc. conducted a financial audit of the public school system for the fiscal year July 1, 1994 to June 30, 1995. The public school system is managed by the Department of Education. The audit examined the department's financial records and the systems of accounting and internal controls and tested these for compliance with applicable laws and regulations.

In the opinion of Nishihama & Kishida, CPA's, Inc., the financial statements present fairly the public school system's financial position and results of operations for the fiscal year ended June 30, 1995. These statements are in conformity with generally accepted accounting principles. Nishihama & Kishida, CPA's, Inc. noted no material weaknesses in the internal control structure and its operation. It also noted that, with respect to items tested, there were no material instances of noncompliance with applicable laws and regulations.

We found continuing problems with the financial management system and that improvements are needed in certain internal control practices.

With respect to the financial management system, we found that while some changes have been made to the system, limitations in system availability and response time continue to cause user dissatisfaction. To improve accountability within the public school system, we found that a comprehensive budgeting and accounting system is needed at the school level. We also found that expenditure reporting on a school-by-school basis is needed. Further, we found that improvements could be made in the timeliness of financial reporting and in educating users about report contents and how they are to be used.

With respect to internal controls, we found a number of reportable conditions that should be addressed. Most of these were at the school level and involved the lack of segregation of duties, weak controls over cash receipt books, and failure to record deposits in a timely manner. We also found that bank reconciliations were not prepared in timely fashion by the Office of Business Services. In addition, we found the department's storeroom practices circumvent state law. We found that excessive inventory kept the department from lapsing moneys to the general fund, caused obsolescence loss, and requires larger-than-necessary warehouse space.

Other weaknesses in internal controls were also noted. Cash collections by teachers and counselors are not remitted to the school business offices in a timely manner. Controls over school cafeteria collections could be improved. The A+ Program's



collection and enrollment procedures are deficient causing a shortfall in anticipated receipts. Employees' vacation and sick leave balances were not maintained on a current basis and can result in overpayments to employees. The department also needs to update its fixed assets inventory records as required by law.

Recommendations and Response

We made a number of recommendations concerning the department's planning, budgeting, and financial accounting and reporting. The department generally concurred with our recommendations and seeks legislative support for its initiatives to make improvements. To assist the Legislature in its review of requests for funding improvements to the planning, budgeting, and financial accounting and reporting systems, we provided, as an appendix, *Guidelines for Legislative Review*.

The department generally concurred with our recommendations to make improvements in its internal controls. One exception concerned deposits. We recommended that schools deposit moneys directly into the state treasury to relieve the department of the responsibility of reconciling checking accounts. The department disagreed with this recommendation. It believes the number and volume of deposits and the proximity of banking facilities makes this unfeasible. It states that the bank now provides the department with deposit information on electronic media which has greatly helped the reconciliation process and bank accounts are now being reconciled monthly. We are pleased that the department has addressed the problem through alternative measures.

On the issue of excessive storeroom inventory, the department generally defends its current practices, but states it will re-evaluate inventory levels to determine if they can be reduced.

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