

OVERVIEW

Financial Audit of the Department of Public Safety

Report No. 02-10, May 2002

Summary

The Office of the Auditor and the certified public accounting firm of KPMG LLP conducted a financial audit of the Department of Public Safety, State of Hawaii for the fiscal year July 1, 2000 to June 30, 2001. The audit examined the financial records and transactions of the department; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

We found deficiencies in the financial accounting and internal control practices of the department. The department continues to experience unusual patterns of sick leave and overtime costs are significant. During the fiscal year under audit, an average of 27 sick leave days was taken for all uniformed staff. This is significantly higher than the average of ten days for all state employees.

During FY2000-01, the facilities incurred about \$7 million in overtime costs, nearly 13 percent of facility salaries and wages. In our sample of 25 ACOs and medical and food service staff with highly unusual overtime compensation levels, approximately 40 percent of their total compensation was related to overtime or about \$22,000 of overtime pay per employee. Some employees were paid more for overtime than for their regular salaries and wages.

The department continues to maintain a significant outstanding balance of salary overpayments—\$1.8 million, of which the department estimates that approximately \$598,000 will be uncollectible. The process of collecting salary overpayments typically takes between 11 and 20 months under optimal conditions.

The department is still unable to reconcile inmate trust account balances to bank balances. For example, the inmate trust bank account at the Women's Community Correctional Center has not been reconciled since 1999. The staff responsible for this task are not held accountable and the lack of proper reconciliation procedures makes it difficult to determine whether the unreconciled differences were caused by accounting errors or possible misappropriation of funds.

Furthermore, the department has not reduced the number of inmate accounts related to released or paroled inmates. On June 30, 2001, there were 2,554 inactive inmate accounts for paroled or released inmates totaling approximately \$107,800. The department fails to withhold inmate funds for victim restitution and child support despite the fact that the inmates have available funds.

Finally, we found that the department is unable to document the reported value of its fixed assets of \$134 million. Nor is it able to reconcile the amount of fixed assets reported in the internal service fund on June 30, 2001 to its Annual Inventory

Report of Property. The unreconciled difference is approximately \$473,000. This is of concern since the department, in the fiscal year ending on June 30, 2002, will be required by governmental accounting standards to present financial statements similar to business type organizations, including the computation of depreciation expense for its fixed assets. Failure to comply with this requirement will have a serious impact on the accuracy of the department's financial statements in future audits.

Recommendations and Response

We recommend that the department work with the bargaining units to implement a more stringent policy for determining unusual patterns of sick leave abuse subject to investigation. At a minimum, the policy should restrict ACOs from being called in for overtime if they called in sick within the prior seven days. The department should also establish more specific criteria for determining when overtime is necessary, identify watches consistently incurring unusual overtime costs, and require that overtime for those watches be authorized by the chief of security or the warden prior to calling in ACOs to work overtime. The department should also prepare exception reports identifying employees and watches with unusually high sick leave pay and use this information to monitor and investigate sick leave abuse and minimize overtime costs, and monitor overtime costs by individual to ensure that allocation of overtime is equitable.

The department should perform required audits of salary overpayments in a timely manner and in compliance with laws and regulations. It should reduce the backlog of pending audits by setting monthly departmental goals for the number of audits and hearings to be performed. Also, the department should develop a program for the eventual responsibility of conducting salary overpayment hearings. The department should also consider contracting out the salary collection process on a contingency basis.

The department should immediately reconcile inmate trust accounts to bank balances. Inactive inmate accounts outstanding over 180 days should be identified and remitted to the Department of Budget and Finance. The department should also implement a system whereby all restitution and child support are identified and remitted to the proper agencies on a quarterly or semi-annual basis.

The department should document the reported cost basis of all fixed assets and should reconcile the Annual Inventory Report of Property to the financial statements.

The department generally agrees with most of our findings and recommendations; however, it commented that it believes some of the findings and conclusions "do not accurately reflect a full understanding of the issues."

Marion M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830