OVERVIEW

Financial Audit of the Department of Public Safety

Report No. 06-05, August 2006

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 Hawai‘i, for the fiscal year July 1, 2004 to June 30, 2005. 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.

In the opinion of the firm, the financial statements present fairly, in all material respects, the department's financial position and changes in its financial position for the fiscal year ended June 30, 2005, in conformity with generally accepted accounting principles.

With respect to the department's internal control over financial reporting and operations, we found several deficiencies considered to be reportable conditions. The first reportable condition is that the department is not fulfilling its fiduciary responsibility to the inmates. The department continues to have difficulties in both reconciling and transferring inmate trust account balances accurately and timely. For example, the total gross unreconciled difference between the Inmate Trust Accounting system and bank balances for all correctional facilities and community correctional centers was $129,779 as of June 30, 2005. Also, the controls over advances to inmates need improving. We found that advances were made for unallowable purposes and advances for inactive inmates are not monitored and collected. Additionally, although there have been significant improvements, proper remittance of unclaimed or inactive inmate accounts continues to be problematic for the department.

Our second reportable condition is that ineffective internal controls allow significant overtime to remain unchecked. Although vacancies and potential staffing limitations may contribute to the inherency of some overtime costs, current policies and procedures are ineffective at limiting those costs. For example, the policies and procedures allowed an employee to be paid two years after the work was performed. Additionally, uninhibited sick leave usage continues to increase overtime costs.

We also found that although the collection of salary overpayments has improved significantly, uncollected balances remain. Enhancements in the collection process for recent staff overpayments have helped reduce the balances, but the department must continue its efforts to eliminate the remaining uncollected balances.

Finally, we found that the department's adherence to its operational internal controls and procedures needs improving. Specifically, we found two instances

in which the department did not comply with the state procurement code. We also found that its capital assets inventory listing was inaccurate and resulted in a restatement of the department's beginning net assets in the basic financial statements totaling approximately $4.3 million, net of related accumulated depreciation.

Recommendations and Response

We recommend that the department's business offices immediately reconcile inmate trust accounts to bank balances and the department advise each facility to comply with its policies as they pertain to the inmate fund transfers between facilities. The department should reiterate the importance of adherence to established policies related to inactive inmate accounts and advances and should also develop and implement policies and procedures over inactive suspense accounts.

We also recommend that the department's management consider the following to address significant overtime: establish more specific criteria for determining when overtime is necessary; focus efforts on preventing overtime costs; prepare exception reports; monitor the equitable allocation of overtime; ensure that the request and timesheet for overtime work is completed and approved in a timely manner; and revise policies. The department should also consider the following recommendations to address potential sick leave abuse: work with the bargaining units to implement a more stringent policy for determining patterns of sick leave abuse; implement realistic deadlines to complete sick leave abuse reviews; and consider automating leave records to facilitate detection of sick leave abuse patterns.

We further recommend that the department's management continue to perform timely audits of salary overpayments and reduce the backlog of pending audits. The department should also take action to reconcile discrepancies between bargaining agreements and state statutes to reduce delays in scheduling hearing dates. The department should also consider contracting out the salary collection process in order to expedite the process further.

Finally, we recommend that the department adhere to the state procurement code pertaining to small purchases. Also, the department's management should instruct facilities to accurately conduct annual physical inventory and reconcile it to the State's capital asset inventory listing.

In its written response to our draft report, the department agrees with many of our findings and recommendations while strongly disagreeing with our comments and characterizations regarding overtime. However, we stand by our conclusions in the final report and believe our audit report presents a balanced and accurate analysis of the department's financial operations.

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