

OVERVIEW

Procurement Audit of the Department of Education: Part 1

Report No. 09-03, February 2009

Summary

The Office of the Auditor and the certified public accounting firm of Grant Thornton LLP conducted a procurement audit of the Department of Education, State of Hawai'i, for the fiscal year July 1, 2006 to June 30, 2007. The audit examined the procurement processes, policies, and transactions of the department and included inquiry, analytical procedures, and inspection of relevant records and documents to assess the department's compliance with state procurement laws and regulations. The firm also performed procedures to evaluate the design and operating effectiveness of the department's controls over compliance with state procurement laws for transactions procuring goods and services in excess of \$25,000, the department's small purchase threshold.

Our audit revealed a lack of proper leadership and controls over the department's procurement process and a resulting indifference toward procurement compliance among department personnel. Although the department inherited a flawed procurement system from other state agencies pursuant to the State's Reinventing Education Act of 2004, the department had pushed for the act's passage on the belief that the existing procurement process was dysfunctional and obsolete. In short, the department undertook the responsibility of its own accord.

Upon assuming that responsibility, procurement authority for the department was hastily delegated to the branch and school levels in an attempt to meet the demands of the 250+ schools statewide. However, many of the delegated procurement officers lacked sufficient knowledge and experience to effectively carry out those duties. This shortfall was compounded by the department's failure to establish an adequate system to standardize and monitor its procurement activities. More than three years later, there is still no formal internal control system over procurement in place. Further, the department lacks corrective or disciplinary procedures for procurement violations, and the Board of Education has not maintained a sufficiently involved role in oversight of procurement.

The result is much confusion among employees and dissent within the department over proper procurement policies and procedures. We discovered numerous occurrences of non-compliance with procurement laws and regulations for each of the various procurement methods utilized by the department. Many of the infringements appeared to be inadvertent. For example, we found 20 purchases made in fiscal year 2007 using purchasing cards (or P-cards) that exceeded the \$2,500 limit without proper approval. Those 20 purchases were also for prohibited items, including computers and travel coupons.

Other findings, particularly those that occurred in the Office of School Facilities and Support Services, appeared to have been done in an attempt to circumvent



proper procurement practices. The office's many large-dollar capital projects were commonly procured with minimal planning and oversight. For example, for 7 of 21 professional service contracts we reviewed, ranging from \$848,000 to \$7,350,000, the budget was based on the vendors' proposed amounts. Significant budget overruns were also common—of 36 repair and maintenance staff purchase order contracts, 10 were at least 10 percent and \$5,000 over budget; 4 of those were more than 100 percent and \$50,000 over budget. In addition, contractors were routinely permitted to start work before contracts were executed, which office personnel admit is a regular practice but believe is warranted due to the lengthy contract process.

Based on the results of our initial testwork, which included identification of several risk factors and fraud indicators, we were compelled to expand the scope of the audit. Due to the nature of the expanded scope of work and the resulting findings, the results of the additional work are presented in a separate report, Report No. 09-04, *Procurement Audit of the Department of Education: Part 2*.

With respect to the firm's evaluation of internal controls, in the opinion of the firm, the department has not maintained effective internal control over compliance with the Hawai'i Procurement Code for the procurement of goods and services exceeding the department's \$25,000 small purchase threshold for the fiscal year ended June 30, 2007. The firm identified a material weakness—that the department lacks required monitoring controls over its internal controls related to procurement and is therefore unable to assess the effectiveness of its internal controls.

Recommendations and Response

We made several recommendations regarding the department's leadership and oversight over its procurement process. Among them, we recommended that the Board of Education adopt a code of ethics and a conflicts of interest policy and institute a formal fraud risk management program. We recommended that the department establish an effective internal control system over procurement and implement standardized procurement policies and procedures.

The department acknowledged independent audits as key components of accountability and public transparency, and generally welcomed our findings and recommendations. In addition, the department described steps already taken to address some of our findings and expressed its commitment to implementing recommendations and adopting best practices to improve the procurement process throughout the department.

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