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# Audit of the Department of Education's Special Education Equipment

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A Report to the  
Governor  
and the  
Legislature of  
the State of  
Hawaii

Report No. 03-08  
May 2003



**THE AUDITOR**  
STATE OF HAWAII

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## Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds are existing funds meet legislative criteria.
7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



### THE AUDITOR

STATE OF HAWAII

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# OVERVIEW

## *Audit of the Department of Education's Special Education Equipment*

Report No. 03-08, May 2003

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### Summary

The Department of Education is required to provide specially designed instruction to meet the unique needs of special education students. To meet these needs, the department may purchase such special education equipment as computers, therapeutic devices, learning adaptive equipment, and physical therapy equipment as specified in students' Individualized Education Program plans. To account for these instructional and program support services, in FY1999-2000, the Legislature created a program identifier in the state budget specifically referred to as EDN 150 (Comprehensive School Support Services). Since the creation of EDN 150, the department has spent over \$13.8 million in special education equipment.

We found that the department's lax management has resulted in its failure to account for over \$2.2 million in special education equipment and funds. Inventory accountability reports were inaccurate or not properly monitored. As of December 2002, 79 schools and 31 departmental offices had not certified that their 2002 annual physical inventories were conducted. In addition, of the 150 items of special education equipment we inventoried at 15 schools across the state, 91 (61 percent) were either not at the location indicated on the inventory report or had missing or incorrect state decal and/or serial numbers. We also found over \$2.2 million of special education equipment that had not been physically inventoried for years. Despite this, the superintendent of education has submitted reports to the State Procurement Office attesting to the department's accountability over its fixed assets.

The department's lack of adequate internal controls over special education equipment and funds means that the public is not assured that these assets are adequately safeguarded and that errors and fraud are promptly detected and prevented. There are no procedures to hold department personnel accountable, and special education equipment have been lost due to negligence. For example, a special education teacher left a laptop computer in an unsecured box under her classroom desk while on extended leave. When she returned, she found the computer was missing. Despite the school's effort to hold the teacher liable for the loss, the school administration was advised against such action. We also found that some schools reduced their chances of recovering missing or stolen equipment because they failed to promptly report incidents of theft or loss. For example, we found that five laptop computers at one school were either stolen or missing over the past two years but the school still had not notified the department of the theft. In addition, we found that special education equipment and funds have been inappropriately used for regular education. Finally, we found that the process to redistribute laptop computers for the Integrated Special Education (ISPED) information system was time-consuming and inefficient. After five months into



the 2002-03 school year, the department still had not completed the redistribution of 63 laptop computers among special education classroom teachers in the seven school districts.

The department's lax management may not be limited to special education equipment—it may also extend to all the department's fixed assets. Without adequate monitoring and enforcement of inventory management procedures, the department cannot ensure the effective stewardship of \$373 million in fixed assets.

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## Recommendations and Response

We recommended that the department update its inventory records and ensure that annual physical inventories are accurately and consistently performed. These inventory reports should be properly monitored to ensure compliance with the department's property inventory guide. We further recommended that the department establish policies and procedures to hold personnel liable for any negligent loss of special education equipment and to provide better guidance to the schools and offices on the importance of inventory management. Finally, we recommended that the department develop a more efficient and effective method for redistributing laptop computers for the ISPED information system.

The department agreed with our findings and recommendations. The department noted that corrective actions would be taken to ensure accountability over all of the department's equipment and fixed assets.

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Governor  
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Submitted by

**THE AUDITOR**  
STATE OF HAWAII

Report No. 03-08  
May 2003

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## Foreword

This audit of the Department of Education's special education equipment was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivision. Our audit focused on the management and use of special education equipment by the department, district offices, and schools.

We wish to express our appreciation for the cooperation and assistance extended to us by the Board of Education and the staff of the Department of Education.

Marion M. Higa  
State Auditor

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# Chapter 1

## Introduction

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Hawaii's Department of Education is required to provide individually designed instruction to meet the unique needs of special education students. In doing so, the department may purchase such equipment as computers, therapeutic devices, learning adaptive equipment, and physical therapy equipment. From FY1999-2000 to FY2001-02, the department spent over \$13.8 million in state general and federal funds to purchase such equipment. The State Auditor initiated this audit pursuant to Section 23-4, Hawaii Revised Statutes (HRS), to assess the department's management and use of its special education equipment. Section 23-4, HRS, requires the Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all department, offices, and agencies of the State and its political subdivisions.

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### Background on Special Education Equipment

The *Felix* consent decree is the outcome of a 1993 lawsuit filed against the State in U.S. District Court on behalf of seven children, their parents (guardians), and mental health advocates. The lawsuit alleged that qualified handicapped children were not receiving needed educational and mental health services and that the State had violated two federal laws: Section 504 of the 1973 Rehabilitation Act and the Individuals with Disabilities Education Act (IDEA). These laws prohibit the exclusion of disabled persons from federally funded programs and require states to provide "free and appropriate public education to disabled children."

To account for instructional and program support services provided to special education students in Hawaii, during FY1999-2000 the Legislature created a new budget program identifier, EDN 150 (Comprehensive School Support Services). The Legislature appropriated \$143 million to EDN 150 for FY1999-2000 and \$157 million for FY2000-01. During the 2001 legislative session, an additional \$27.9 million general fund emergency appropriation was also made to EDN 150 to support the *Felix* consent decree. A portion of these emergency funds (\$5.2 million) was designated to purchase laptop computers and accessories to assist principals and special education classroom teachers in developing, monitoring, and updating all special education students' Individualized Education Program (IEP) plans. An IEP is a written plan that describes specific special education services and the criteria to determine whether stated instructional objectives are met.

***The department's Inventory Management System***

The Department of Education's Operations Section, under the Administrative Services Branch, oversees the management of all department equipment, including special education equipment. The section administers, controls, coordinates, and monitors equipment through a comprehensive computerized inventory management system. A full-time inventory clerk is responsible for accounting for and reporting equipment acquisitions, transfers, disposals, and losses. The department's organizational chart is shown in Exhibit 1.1.

School principals, district superintendents, and other departmental personnel have been assigned responsibility for safeguarding and maintaining accurate records of special education equipment. To ensure this responsibility is properly carried out, the department has established inventory policies and procedures that apply to all schools and district offices. These procedures provide detailed instructions on how to maintain accountability for the department's state-owned property.

***The department's fixed asset inventory system***

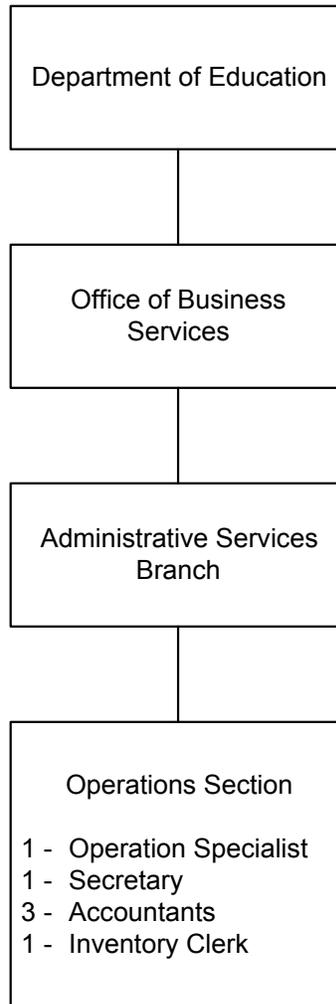
Section 103D-1204, HRS, requires departments to establish procedures for the accountability, protection, maintenance, and proper use of state property. To meet these requirements, the Department of Education has developed a financial management system that tracks equipment from acquisition to disposal. The intent of the system is to provide accurate, timely, and comprehensive asset inventory information to such decision makers as department personnel, board members, and legislators. Information maintained in the system includes:

- Property description
- Acquisition costs
- Acquisition method (e.g., purchase or gift)
- Make of the property
- Model year
- Quantity
- State decal number
- Model type
- Serial number

The financial management system can also generate a number of reports to assist schools and offices in managing and safeguarding their inventory.

Special education students receive equipment from their school or through their school's district office. When new equipment is purchased, the financial management system automatically assigns a unique property number to it and enters the number and corresponding equipment description into the school's "hold file." The hold file also includes the acquisition date and original cost of each piece of equipment purchased.

**Exhibit 1.1**  
**Organizational Chart of the Department of Education's Operations Section**



Source: Department of Education

However, equipment must be transferred from the hold file to a fixed asset inventory file before schools can inventory the equipment. To transfer the equipment record, schools must enter additional identifying information into the financial management system such as the equipment's make, model, serial number, state decal number, and specific physical location. As a reminder to transfer equipment from hold files to fixed asset inventory files, the department's Operations Section routinely sends an Inventory Report of Newly Purchased Items, or an "ERFI," to schools. The ERFI lists all fixed assets that have not been transferred from the hold file to the fixed asset inventory file.

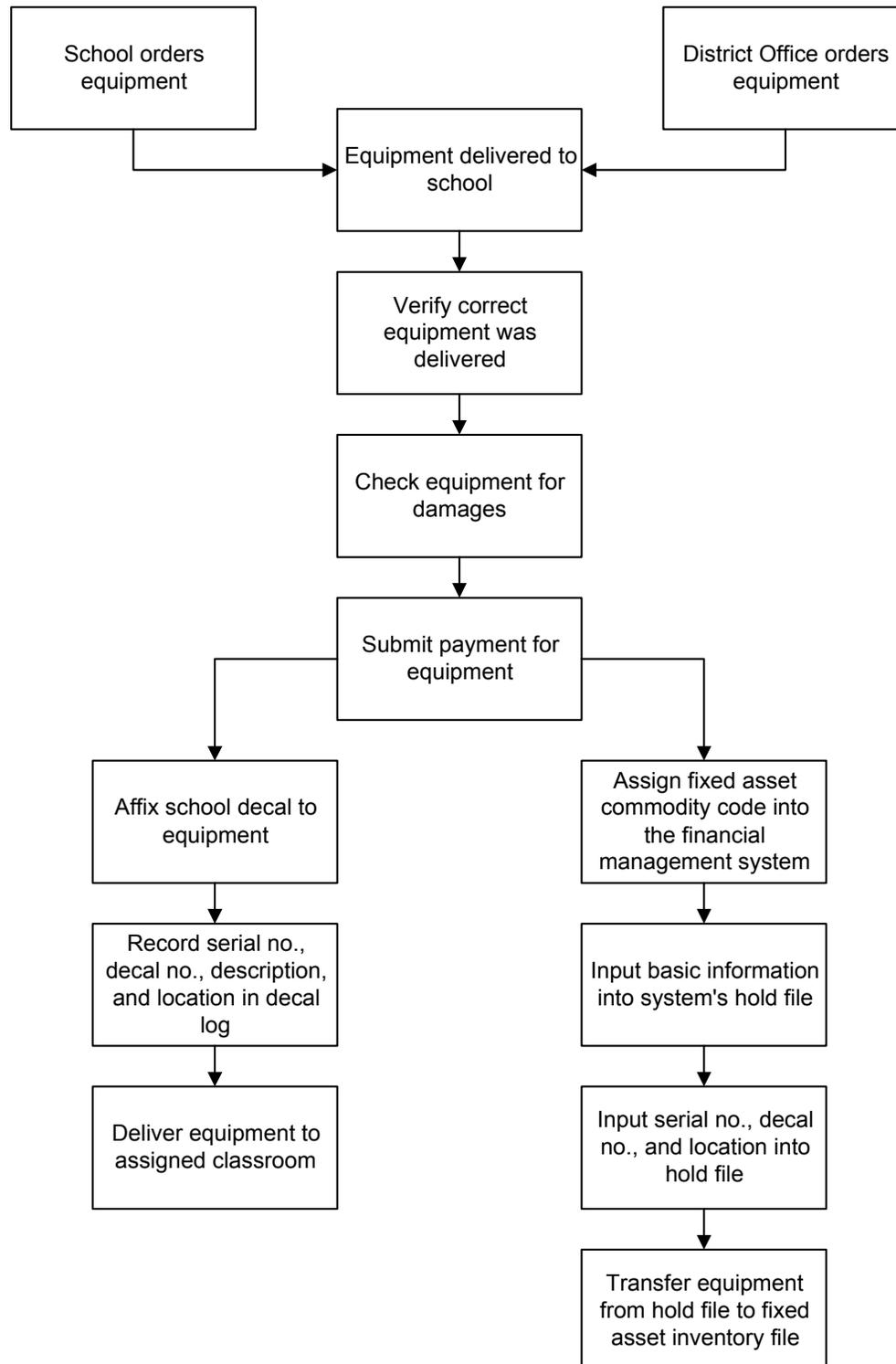
Special education equipment can also be purchased by district offices. These purchases are generally for equipment that is needed by severely impaired special education students within the district but which may be cost prohibitive for individual schools to buy. For instance, we found one piece of equipment that cost more than \$15,000.

The process for purchasing special education equipment by either a school or a district and transferring it from the hold file to the fixed asset file is displayed in Exhibit 1.2.

***Special education  
equipment financial  
information***

Since the creation of the EDN 150 budget program identifier in FY1999-2000, the department has spent over \$13.8 million on special education equipment. During FY2000-01, the department spent \$7.8 million in state general and federal funds for special education equipment, \$5.2 million of which was from a general fund appropriation specifically for laptop computers for Integrated Special Education (ISPED). ISPED is a database of information on special education and special services for Section 504, IDEA/special education, and *Felix* students. The department's special education equipment expenditures over the past three fiscal years are displayed in Exhibit 1.3.

## Exhibit 1.2 Purchasing Process for Special Education Equipment



Source: Department of Education

**Exhibit 1.3**

**EDN 150 Expenditures for Special Education Equipment, FY1999-2000 to FY2001-02**

	<b>FY1999-2000</b>	<b>FY2000-01</b>	<b>FY2001-02</b>	<b>Total</b>
Computer equipment	\$2,257,147	\$6,634,987	\$1,565,775	\$10,457,909
Computer software	115,641	96,111	144,062	355,814
Audio visual	185,553	257,380	180,662	623,595
Instructional equipment	177,388	249,195	359,598	786,181
Furniture and furnishings	178,858	201,897	204,199	584,954
Office equipment	179,820	131,099	138,424	449,343
Telecommunications equipment	65,164	77,349	77,920	220,433
Other equipment	58,198	151,047	137,662	346,907
<b>Total</b>	<b>\$3,217,769</b>	<b>\$7,799,065</b>	<b>\$2,808,302</b>	<b>\$13,825,136</b>

Source: Department of Education

Portions of EDN 150 funding are also allocated to each school district, some of which are further allocated to special education classroom teachers in the district. During school year 2002-03, each special education classroom teacher was allocated \$1,690 to purchase supplies and equipment. However, most teachers were not directly provided with this entire amount. A portion was often retained by the school to purchase such equipment as copiers, televisions, or computers to support the school's special education program. Amounts allocated to teachers at the 15 schools we visited ranged from \$200 to the full \$1,690.

**Objectives of the Audit**

1. Assess the efficiency and effectiveness of the Department of Education's management over special education equipment.
2. Make recommendations as appropriate.

**Scope and Methodology**

The audit focused on the Department of Education's management of its special education equipment. It also included a review of special education equipment at selected schools and district offices. The audit covered FY2000-01 to the present and previous years as necessary.

We collected information through interviews, observation, document review, and testing at the state office, district offices, and schools. We also evaluated the department's compliance with applicable statutes,

rules, and policies that define its responsibility for safeguarding special education equipment. Tests were performed to assess compliance with sound inventory management practices and management techniques. We also assessed management controls relevant to the audit's objective.

We conducted site visits at 14 elementary, middle, and high schools throughout the State's seven school districts. We also included one alternative school and two district offices in our sample. We assessed whether adequate controls and accountability procedures over special education equipment were being implemented. We also conducted physical counts of some special education equipment to verify the accuracy of fixed asset inventories. We evaluated the use of special education equipment to ensure it was being used for its intended purpose.

Our audit was conducted from October 2002 to February 2003 in accordance with generally accepted government auditing standards.

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# Chapter 2

## Inadequate Management Results in the Department of Education’s Inability To Account for Over \$2.2 Million in Special Education Equipment and Funds

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The Department of Education developed a comprehensive financial system with the intent of providing accurate, timely, and comprehensive information about its fixed assets. The department also established policies and procedures for the purpose of controlling and safeguarding its fixed assets inventory. However, despite its efforts, the department has failed to ensure that \$2.2 million of special education equipment is properly accounted for and managed. We found that physical inventories of special education equipment are not being conducted, inventory reports that reflect inaccuracies within the system are not being reviewed and addressed, and millions of dollars worth of special education equipment remain unaccounted for. We also found that departmental personnel responsible for special education equipment lack adequate guidance on proper inventory management and do not consider inventory management a high priority. Finally, we found that special education equipment and funds are improperly being used for regular education.

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### Summary of Findings

1. The Department of Education’s lax management has resulted in its failure to account for special education equipment and funds.
2. The department has neglected to implement appropriate controls to ensure stewardship over special education equipment and funds.

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### Lax Management Results in Little Accountability Over Special Education Equipment and Funds

The State and the Department of Education both recognize the importance of safeguarding fixed assets. Both require an annual inventory of state property and have promulgated policies and procedures to ensure these inventories are conducted comprehensively and accurately. In addition, the department requires prompt reporting of any fixed assets that are discovered missing or stolen to the appropriate authorities.

Although a system is in place to account for its fixed assets, inadequate management and oversight by the department has resulted in a failure to

adequately account for special education equipment. We found that some special education equipment cannot be accounted for by schools and district offices and that some schools do not conduct an annual inventory. In addition, some schools prevent the possible recovery of missing or stolen equipment because they fail to report incidents of theft or loss. Finally, the superintendent of education has submitted reports to the State Procurement Office incorrectly attesting to the department's accountability over its fixed assets.

***Physical inventory accountability reports are inaccurate and not properly monitored***

Section 103D-1206, HRS, requires all state and county administrators to conduct an annual physical inventory of state property and file a report with the State Procurement Office by September 16. The section also requires that the report be certified as complete, true, and correct to the best knowledge, information, and belief of the administrator filing the report.

We found that the department did not conduct its 2002 annual physical inventory as required. On October 9, 2002, the superintendent sent a letter to the State Procurement Office certifying that the department's annual inventory had been conducted and the report it filed was accurate. However, as of December 2002, we found that 79 schools and 31 offices had not yet certified that their annual physical inventory was conducted. In fact, department officials reported that an accurate physical inventory has not been certified and reported for over four years.

The superintendent's certification that the department's annual physical inventory has been conducted should only occur after all schools and offices have completed their physical inventories. Without this corroborating information, the superintendent cannot ensure all state property has been accurately and properly accounted for as required by law.

***Some schools fail to conduct an annual inventory as required by the department***

In addition to state law, schools are also required by departmental guidelines to conduct annual physical inventories. Schools must not only conduct a physical inventory but also certify by the fourth quarter of each year that the inventory was conducted. To conduct their annual inventory, schools are provided a fixed asset inventory report with identifying information for the schools' fixed assets. Any discrepancies on the list found during the physical inventory must be promptly reported.

We found, however, that some schools do not conduct an annual physical inventory as required. Five out of the 15 schools (33 percent) we visited could not certify that their 2002 annual physical inventory had been conducted. These were Wahiawa Middle, Mililani Mauka Elementary,

Ma`ili Elementary, Kailua High, and Kapa`a Middle schools. Some school personnel acknowledged that physical inventories had not been conducted because they are considered a low priority.

We also found that the fixed asset inventory reports used by schools to conduct an annual physical inventory are inaccurate. We conducted a physical inventory of 150 special education equipment items using a fixed asset inventory report similar to that used by schools. The report includes verifiable information such as item description, serial number, decal number, and item location. We tested whether the 150 items were at the locations indicated on the fixed asset inventory report and had the correct decal and serial number. These procedures are similar to those that schools should perform when conducting their annual physical inventory. Of the 150 items inventoried, 91 (61 percent) were either not at the location indicated on the inventory report or had missing or incorrect decal and/or serial numbers. A summary of our inventory test is displayed in Exhibit 2.1.

**Exhibit 2.1  
Inventory Testing Conducted at 15 Department of Education Schools, January to February 2003**

School	School District	Special Education Equipment	Annual Physical Inventory Certified	Number of Inventory Errors
Nanakuli Intermediate/High School	Leeward	\$96,796	Yes	2
Kekaulike High School	Maui	\$71,549	Yes	6
Kapa`a High School	Kauai	\$59,895	Yes	9
Kapa`a Middle School	Kauai	\$48,448	<b>No</b>	7
Kailua High School	Windward	\$45,309	<b>No</b>	3
McKinley High School	Honolulu	\$44,263	Yes	3
Ma`ili Elementary School	Leeward	\$43,185	<b>No</b>	10
Keonepoko Elementary School	Hawaii	\$37,509	Yes	4
Maui Waena Inter School	Maui	\$37,299	Yes	5
Wahiawa Middle School	Central	\$36,497	<b>No</b>	10
King Intermediate School	Windward	\$34,803	Yes	10
Mililani Mauka Elementary School	Central	\$30,588	<b>No</b>	6
Jefferson Orthopedic	Alternative	\$30,226	Yes	4
Dole Middle School	Honolulu	\$28,584	Yes	3
Pahoa Intermediate/High School	Hawaii	\$14,077	Yes	9
<b>Totals</b>		<b>\$659,030</b>		<b>91</b>

Schools that do not certify or conduct an annual inventory cannot ensure their special education equipment is adequately accounted for. Furthermore, the department's negligence in enforcing its requirement that all schools conduct an annual physical inventory contributes to a lack of accountability. The five schools that could not certify that they conducted an annual inventory had over \$200,000 in special education equipment on their fixed asset inventory reports. Some of this equipment, purchased with public funds, may be missing or lost without the schools' or department's knowledge. The department has also failed to review and update the schools' fixed asset inventory reports to ensure the information contained in the reports is accurate. If proper inventory management is not enforced, the department will continue to be plagued by a lack of accountability for special education equipment.

***Disregard for a superintendent's directive has resulted in the department's inability to account for over \$2.2 million in special education equipment***

When schools or district offices purchase special education equipment, they must transfer the asset from their temporary hold file to their fixed asset inventory file. Equipment remaining in the hold file cannot be physically inventoried; only equipment in the fixed asset inventory file can be inventoried. Recognizing the importance of transferring assets to the fixed asset inventory file, the former superintendent sent a letter to all schools and district offices in September 2000 about the lack of internal controls over the fixed asset inventory file. The superintendent directed administrators to transfer all assets to the fixed asset inventory file within 60 days of processing payment for the item and informed them that completing this task would factor in their annual performance appraisal.

Despite this directive, we found over \$2.2 million worth of special education equipment in the department's hold files. Of this, \$800,000 worth of equipment resides in district offices' hold files and cannot be inventoried. Although this equipment should have been transferred to the receiving schools' fixed asset inventory files, the district offices have failed to do so.

For example, we found 17 special education equipment items listed in district offices' hold files that were purchased in 1993 for \$24,850. Some of these items are computers, and most likely have already been disposed of. However, because the items remain in the district offices' hold files, it is impossible to determine where they are actually located or who may be using them. In addition, we found a \$15,000 item that was acquired over three years ago but has not been transferred to the fixed asset inventory file. In one case, a \$29,000 computer file server acquired in November 2001 was not physically inventoried during the FY2001-02 annual physical inventory because it was still in the hold file. Exhibit 2.2 displays the amount of special education equipment residing in the districts' hold files as of December 2002.

**Exhibit 2.2**

**Value of Special Education Equipment in School District Hold Files as of December 2002**

<b>School District</b>	<b>Value of Equipment in Hold File</b>	<b>Number of Special Education Students</b>
Honolulu	\$144,038	2,915
Central	30,930	3,367
Leeward	165,730	4,314
Windward	106,938	2,303
Hawaii	41,910	3,108
Maui	275,756	2,745
Kauai	43,794	1,229
<b>Total</b>	<b>\$809,096</b>	<b>19,981</b>

Source: Department of Education

District offices' failure to transfer responsibility for special education equipment purchased for schools results in those offices being accountable for equipment that they do not physically possess. Although district offices are still accountable for these items, school administrators reported they have not been visited by district office personnel to physically inventory such equipment.

If the department does not conduct a comprehensive physical inventory, it cannot ensure that the school or district office has actual possession of the equipment or determine whether the equipment is missing or has been lost or stolen.

The issue is even more alarming when reviewing the department's hold file for all its fixed assets over the past six fiscal years. Although the value of the fixed assets in the department's total hold file has decreased over the six years, it still exceeded \$28 million in FY2001-02 and has averaged about \$40 million during the past six fiscal years. The department's balance in its hold file is shown in Exhibit 2.3.

**Exhibit 2.3**

**Department of Education Hold File Balance, FY1996-97 to FY2001-02**

Fiscal Year	Value of Equipment in Hold File	Value of Equipment in Fixed Asset File	Total Assets	Percentage of Total Assets in Hold File
1996-97	\$52,558,828	\$309,957,863	\$362,516,691	18%
1997-98	47,240,679	322,798,035	370,038,714	15%
1998-99	38,669,450	352,686,730	391,356,180	11%
1999-2000	41,599,826	369,536,567	411,136,393	8%
2000-01	30,389,651	402,313,518	432,703,169	8%
2001-02*	28,139,738	345,818,318	373,958,056	8%
Average	\$39,766,362	\$350,518,505	\$390,284,867	11%

\*Note: The previous requirement for reporting fixed assets was a value greater than \$250. In FY2001-02 the requirement was changed to greater than \$1,000.

Source: State Procurement Office

***Schools have failed to promptly report missing or stolen equipment in accordance with department guidelines***

The department's guidelines require schools to submit a Report of Loss or Damage to the department whenever state property is discovered lost or damaged. The guidelines further specify that the police department be notified and a report submitted within ten days of the incident. However, we found that schools have failed to promptly report missing, lost, or stolen special education equipment.

For example, at Kalihi Waena Elementary School one special education laptop computer was discovered missing in June 2002; however, it was not reported to the department and the police until December 2002, five months later. A Kalihi Waena Elementary School official admitted that the stolen item was reported only because of our visit to the school. In another school, a laptop computer was discovered missing in June 2001 but not officially reported to the department until November 2002, 17 months later. During our visit to another school in January 2003, we found five laptop computers had been stolen over the past two years but the department still had not been notified of the theft.

Failure to promptly notify the department and the police about missing or stolen equipment decreases the chances of retrieving the equipment and delays possible reimbursement.

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## **The Department Neglected To Implement Additional Controls to Ensure Stewardship Over Special Education Equipment and Funds**

Internal control comprises the plans, methods, and procedures used to manage an organization. It serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. We found, however, that the department has not implemented such methods or procedures for special education equipment. For example, the department has not employed measures meant to hold its personnel accountable for the negligent loss of state assets. In addition, lacking appropriate guidance, departmental personnel exhibit an indifferent approach to inventory management. As a result, special education equipment and funds have been inappropriately used for regular education and a process to redistribute special education equipment is inefficient. Without appropriate internal controls, the department cannot ensure the effective stewardship of public resources such as special education equipment and funds.

### ***School personnel are not held accountable for negligent loss of special education equipment***

School personnel are required to provide due care, custody, and control over state property assigned to them. Therefore, they are the principal stewards over special education equipment. In recognition of this responsibility, some schools have a policy that special education equipment must be secured in locked containers. However, other schools have no such policy. Despite the lack of such a policy, individuals responsible for special education equipment should be held liable if such equipment is lost or stolen due to negligence. We found that this has not always been the case.

For instance, a special education teacher at McKinley High School left a laptop computer in an unsecured box under her classroom desk while on leave. When she returned, the laptop was missing. Students, substitute teachers, custodians, and night school students had all used the classroom during the teacher's absence. Despite the school's efforts to hold the teacher liable for the loss, the Honolulu District Office advised the school against such action.

There were also several other instances where teachers left laptop computers in unsecured locations but were not held accountable when those computers were "lost." In those cases, the schools filed and received reimbursement for the lost items from the department. However, at Pahoia Intermediate/High School, a teacher was held personally liable for a lost computer; he made a \$500 donation to the school representing the fair value of the lost computer.

The department should implement a policy to hold individuals accountable and liable for any loss of state property when the loss is due

to negligence. Such a policy would encourage school personnel to use due care and ensure appropriate stewardship when using and storing special education equipment.

***District and school personnel receive limited guidance from the department contributing to loss of special education equipment***

The department has overall responsibility to maintain an accurate record of state-owned special education equipment and to safeguard that equipment. This responsibility has been delegated to all schools, district offices, and various departmental personnel. To ensure these responsibilities are carried out, school and district office personnel need adequate guidance from the department on how to appropriately monitor and inventory special education equipment. In the absence of such guidance, we found that critical data needed to account for equipment was missing from the financial management system's fixed asset inventory file. Theft-sensitive items such as laptop computers and printers were missing serial numbers and state decal numbers; without this information, equipment becomes impossible to distinguish.

For example, during school year 2000-01, the department purchased about 2,300 laptop computers for the ISPED database which were issued to special education teachers, principals, and student support coordinators. In February 2003, the department reported 58 ISPED laptop computers, valued at \$108,600, were either missing, stolen, or damaged. However, our sample of 15 schools' fixed asset inventory reports showed that only two schools (McKinley High School and Nanakuli High/Intermediate School) had properly entered the computers' serial and decal numbers into the financial management system. Because those 58 laptops may lack identifying information (i.e., serial and decal numbers), the potential for the department to recover the equipment is diminished.

Inventory mismanagement at the district office and school levels may be attributed to the department's laxity in providing appropriate oversight or sufficient guidance regarding inventory management. Despite the former superintendent's emphasis on inventory management, personnel at the schools and offices still do not consider inventory management a key responsibility.

***Special education equipment and funds are used for regular education***

The Legislature appropriates particular funds to the department so it can provide equipment needed to meet the unique needs of students who require special education learning services. However, some schools have neglected to provide adequate stewardship over special education resources they have been provided. We found that some schools used equipment and funds designated for special education for other purposes. For example, ISPED laptop computers should be assigned only to certain personnel; but at one school, we found an unauthorized individual using

an ISPED laptop computer. As a result, special education classroom teachers at the school were sharing laptop computers. At two other schools, non-special education teachers were using ISPED laptop computers.

Special education funds are also being used to purchase equipment for regular education. We found that special education funds were used to purchase a \$2,100 electronic copyboard for a school administrator, computers for a computer lab not specifically intended for special education students, and a laptop computer for a regular education program. Special education funds were also used to purchase textbooks and a computer for a regular education teacher.

The department has failed to reserve special education equipment and funds for their intended purpose and, as a result, has not complied with the intent of legislative appropriations and risks its capability to provide appropriate services to disabled children under the *Felix* consent decree.

***Redistribution of special education laptop computers is time consuming and inefficient***

School personnel reported that there are sufficient computers with internet capability, needed to develop student IEPs through the ISPED database, available to special education classroom teachers. Thus, the department's decision to redistribute more than 2,300 laptop computers for every special education classroom teacher and principal may be questionable.

However, due to changes in the number of special education classroom teachers at each school, the department implemented a process to annually redistribute ISPED laptop computers to ensure that each special education classroom teacher has one. In October 2002, the department began a three-phase redistribution process scheduled for completion in December 2002. Exhibit 2.4 describes the three phases.

**Exhibit 2.4  
Redistribution of ISPED Laptop Computers for SY2002-03**

Phase	Time Period	Major Objectives
Phase I	October 21 - 31, 2002	<ul style="list-style-type: none"> <li>Verify and update inventory at each school and district.</li> </ul>
Phase II	November 11 - 22, 2002	<ul style="list-style-type: none"> <li>Based on September 30, 2002 "official" staffing of special education teachers, determine laptops for redistribution.</li> </ul>
Phase III	November 25 - December 6, 2002	<ul style="list-style-type: none"> <li>Schools to "update" their equipment inventory from phase I of the project.</li> </ul>

Source: Department of Education

The redistribution of ISPED laptop computers is time consuming and inefficient. In January 2003, more than five months into the 2002-03 school year, the department had not completed reallocating the laptop computers. A department official also reported that the reallocation from the previous school year was not completed, requiring the department to determine the total number of laptop computers available at each school. After completing the time-consuming inventory, the department redistributed only 63 laptop computers (2.7 percent) among the seven school districts.

Since schools have limited need for additional laptop computers, the department should consider a more expeditious and efficient process to reallocate such computers.

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## Conclusion

Although the audit focused on special education equipment, our concerns extend to inventory management for all the department's fixed assets. With over \$373 million in fixed assets, the department has failed to account for, protect, maintain, and use a significant amount of state property. More alarming is that the department has not conducted a physical inventory of million of dollars worth of assets in years, yet has been submitting certifications that such inventories were conducted. In addition, department personnel continue to negligently leave equipment unattended. Without appropriate emphasis on and oversight of inventory management, department personnel will continue to minimize the need to improve accountability for special education equipment.

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## Recommendation

The superintendent of education should ensure that the department:

- a. Updates its financial management system to ensure compliance with state procurement requirements;
- b. Establishes standard procedures to ensure that annual physical inventories are accurately and consistently performed;
- c. Monitors and audits inventory reports to ensure that schools and offices comply with policies and procedures established in the department's property inventory guide;
- d. Requires schools and offices to transfer all assets from hold files to fixed asset files prior to conducting their annual physical inventories;

- e. Establishes policies and procedures to hold personnel liable for any negligent loss of special education equipment;
- f. Provides schools and offices with better guidance on proper inventory management; and
- g. Improves the process of redistributing laptop computers for the ISPED database.

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## Response of the Affected Agency

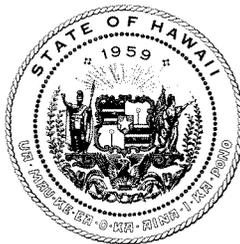
### Comments on Agency Response

We transmitted drafts of this report to the Board of Education and the Department of Education on May 2, 2003. A copy of the transmittal letter to the Board of Education is included as Attachment 1. The department's response is included as Attachment 2. The Board of Education declined to submit a written response.

The department responded that it accepts and concurs with our recommendations and agreed to take corrective actions. The department also noted that our recommendations apply not only to special education equipment, but also to all of the department's equipment and fixed assets. The department accepts the need to implement better accounting practices, tracking, and enforcement of inventory policies and procedures to ensure compliance with state procurement requirements. The department also agreed to establish policies and procedures to hold personnel liable for negligent loss of state property. We commend the department for taking steps to implement our recommendations.

ATTACHMENT 1

STATE OF HAWAII  
OFFICE OF THE AUDITOR  
465 S. King Street, Room 500  
Honolulu, Hawaii 96813-2917



MARION M. HIGA  
State Auditor  
(808) 587-0800  
FAX: (808) 587-0830

May 2, 2003

*COPY*

The Honorable Herbert Watanabe, Chair  
Board of Education  
Department of Education  
Queen Liliuokalani Building  
1390 Miller Street  
Honolulu, Hawaii 96813

Dear Mr. Watanabe:

Enclosed for your information are 14 copies, numbered 6 to 19, of our confidential draft report, *Audit of the Department of Education's Special Education Equipment*. We ask that you telephone us by Tuesday, May 6, 2003, on whether or not you intend to comment on our recommendations. Please distribute the copies to the members of the board. If you wish your comments to be included in the report, please submit them no later than Monday, May 12, 2003.

The Department of Education, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this confidential draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa  
State Auditor

Enclosures



LINDA LINGLE  
GOVERNOR



PATRICIA HAMAMOTO  
SUPERINTENDENT

STATE OF HAWAII  
DEPARTMENT OF EDUCATION

P.O. BOX 2360  
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

May 14, 2003

RECEIVED

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OFFICE OF THE AUDITOR  
STATE OF HAWAII

Ms. Marion M. Higa, State Auditor  
Office of the Auditor  
465 S. King Street, Room 500  
Honolulu, HI 96813-2917

Dear Ms. Higa:

SUBJECT: Audit of the Department of Education's Special Education Equipment

Thank you for the opportunity to respond to the draft report, *Audit of the Department of Education's Special Education Equipment*.

Although the objectives of the audit were to assess the efficiency and effectiveness of the Department of Education's management over special education equipment and to make recommendations as appropriate, we realize that the recommendations apply to all of the Department's equipment and fixed assets.

With that said, the Department recognizes that there are problems in monitoring schools and offices to properly update their inventory file. The Department accepts the need to implement better accounting practices, tracking, and the enforcement of established inventory policies and procedures. The schools need to be more closely monitored.

We are reviewing our current practices and will be making appropriate changes to ensure compliance with state procurement requirements, establishing policies and procedures to hold personnel liable for negligent loss, as well as being accountable to carry out established policies and procedures, and developing efficient processes to manage our physical inventory file which includes training and monitoring.

We appreciate the opportunity to comment on your report. The Department accepts and concurs with your office's recommendations, and will take corrective action in the areas noted above.

Very truly yours,

Patricia Hamamoto  
Superintendent

PH:dy

- c: The Honorable Linda Lingle, Governor
- The Honorable Herbert Watanabe, Board of Education
- Assistant Superintendents
- Branch Directors, Superintendent's Office
- Office of Curriculum, Instruction and Student Support