



Office of the Auditor
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Jan K. Yamane
Acting State Auditor
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Constitutional Mandate

The Office of the Auditor, pursuant to Article VII, Section 10 of the Hawai'i State Constitution, is required to conduct post-audits of the transactions, accounts, program and performance of departments, offices and agencies of the State and its political subdivisions, and to certify to the accuracy of all financial statements issued by the respective accounting officers.

Financial Audit of the Department of Education

Financial Statements, Fiscal Year Ended June 30, 2014

The primary purpose of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Education, as of and for the fiscal year ended June 30, 2014, and to comply with the requirements of federal OMB circular A-133, which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by N&K CPAs, Inc.

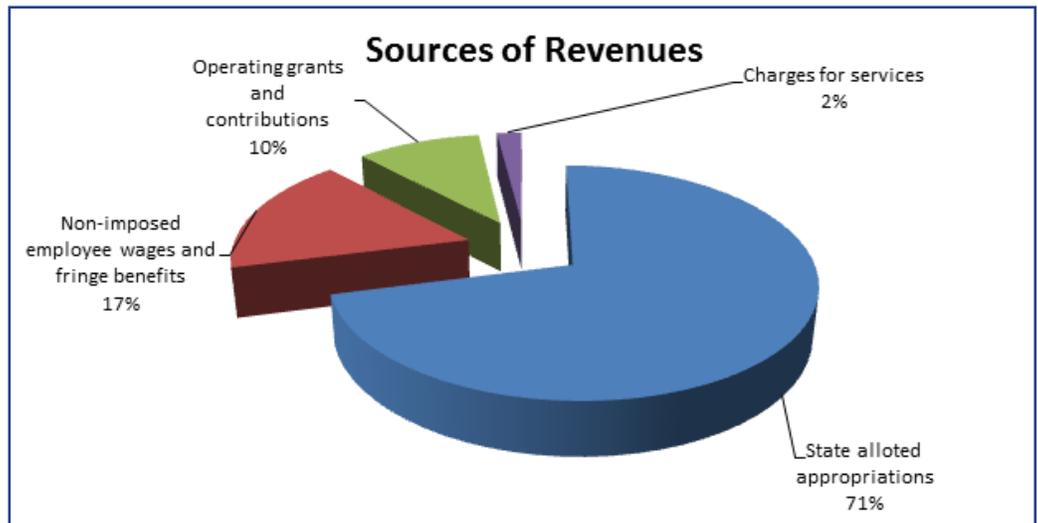
About the Department

The department administers the statewide system of public schools and public libraries. The department is also responsible for administering state laws regarding regulation of private school operations through a program of inspection and licensing and the professional certification of all teachers for every academic and non-college type of school. Federal grants received to support public school and public library programs are administered by the department on a statewide basis.

Financial Highlights

For the fiscal year ended June 30, 2014, the department reported total revenues of \$2.75 billion, total expenditures of \$2.51 billion, resulting in a gain of approximately \$240 million.

Sources of revenues included \$1.94 billion in state general fund appropriations, \$459 million in non-imposed employee wages and fringe benefits, \$288 million in operating grants and contributions, and \$54 million in charges for services.



Expenses consisted of \$2.35 billion for school-related costs, \$62 million for state and school complex area administration, \$38 million for public libraries, and \$61 million for capital outlay.



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Auditors' Opinions

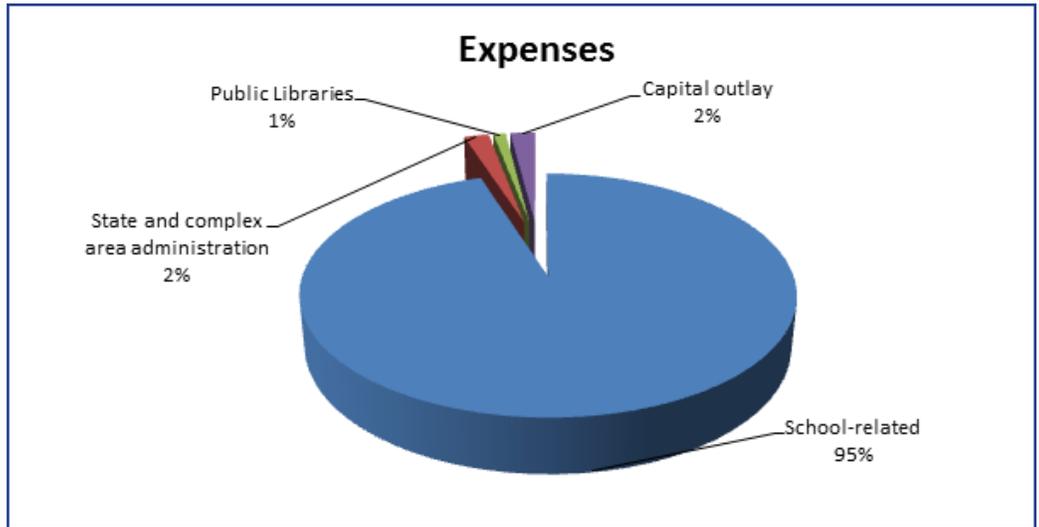
Financial Statements: **+**
 Unmodified opinion

Federal Compliance: **-**
 Qualified opinion

Issues of Concern

Material Weaknesses
1
Significant Deficiencies
1

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Total assets of the department exceeded total liabilities by \$1.61 billion. Of this amount, approximately \$187 million is unrestricted and may be used to meet ongoing expenses and obligations. Total assets of \$2.02 billion were comprised of cash of \$561 million, receivables of \$47 million, and net capital assets of \$1.41 billion. Liabilities totaled \$408 million.

Auditors' Opinions

The department received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The department received a qualified opinion on its compliance with requirements that could have a direct or material effect on the department's major federal programs.

Findings

There were no reported deficiencies in internal controls over financial reporting that were considered to be material weaknesses and required to be reported under *Government Auditing Standards*. However, there was a significant deficiency in internal controls over financial reporting:

- The KRONOS system used by the department erroneously calculated the vacation and sick leave balances.

There was a deficiency in internal controls over compliance that was considered to be a material weakness:

- The department was unable to complete various federal reports properly for the Community Investment Program.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2014_Audit/DOE2014