

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Financial Audit of the Department of Personnel Services

### Summary

The Office of the Auditor and the certified public accounting firm of Deloitte & Touche conducted a financial audit of the Department of Personnel Services pursuant to Section 23-4, Hawaii Revised Statutes, which requires the auditor to conduct post audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State.

In the opinion of Deloitte & Touche, the department's financial statements present fairly its financial position, the results of its operations, and the changes in its proprietary fund as of June 30, 1991. All were in conformity with generally accepted accounting principles. Deloitte & Touche found no instances where the department did not comply with applicable laws and regulations, nor did the firm find weaknesses in the department's control measures that would affect an opinion of the financial statements.

We found, however, that the department had effected a reorganization without obtaining the necessary approvals as required by administrative directive. The legal basis of the administrative directive is found in the State Constitution and Chapter 26, Sections 38 and 39, Hawaii Revised Statutes. In an action related to this unauthorized reorganization, a key position was upgraded and a substantial retroactive pay adjustment was made in January 1991. In documentation authorizing the position upgrade, the then director certified that the position was "not contrary to the approved organization or functional statements." Sections 76-53(a) and 76-53(b), Hawaii Revised Statutes, provide that no payroll disbursement be made unless the director certifies that the person has been employed in accordance with applicable rules, regulations, and orders, and that any payment made contrary to those rules, regulations, or orders may be recovered.

The authority to approve departments' organizational changes rests with the governor. Unauthorized changes circumvent the controls established by the governor to exercise that authority. In this case the unauthorized change enabled the department to make a substantial retroactive pay adjustment to an employee. Payments made in an action related to the unauthorized reorganization may be recoverable by the State.

We also found differences between the department's records and those of the Department of Accounting and General Services (DAGS). We were informed that the department had not reconciled its accounting records to those of DAGS. The Department of Accounting and General Services maintains the official accounting records of the State, while the department maintains the detailed accounting records supporting the DAGS' records. Periodic reconciliations of the records are necessary to identify and correct any differences.

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## Recommendations and Response

We recommended that the department take steps to ensure that all organizational changes follow applicable administrative directives and that the organizational structure be authorized by the governor. We also recommended that the department consult with the attorney general to determine whether it is possible to seek restitution of pay made as a result of an unauthorized reorganization. We further recommended that the department periodically reconcile its accounting records with DAGS' records.

The department agreed with our recommendations. It is assessing its operations with an eye towards reorganization and, upon completion, will submit a request for approval of reorganization as required by administrative directive. It is also seeking restitution of payments made as a result of an unauthorized reorganization. The department now reconciles its records to those of DAGS.

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## Background

The financial audit was for the fiscal year July 1, 1990, to June 30, 1991. Examined were the department's financial records and its systems of accounting and internal controls. We also reviewed all records and systems examined for compliance with applicable laws and regulations.

Since its creation in 1959, the Department of Personnel Services has been responsible for the state's personnel program. It is responsible for personnel development and training, as well as the recruitment, examination, position classification, and pay administration for all departments. It is also responsible for the processing and payment of workers' compensation claims of state employees.

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