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AUDIT REPORT  
NO. 73-3  
MARCH 1973

FINANCIAL  
AUDIT  
OF THE  
DEPARTMENT OF  
EDUCATION

A REPORT TO THE GOVERNOR  
AND THE LEGISLATURE  
OF THE STATE OF HAWAII



SUBMITTED BY THE LEGISLATIVE AUDITOR OF THE STATE OF HAWAII

## **THE OFFICE OF THE LEGISLATIVE AUDITOR**

The office of the legislative auditor is a public agency attached to the Hawaii State legislature. It is established by Article VI, Section 7, of the Constitution of the State of Hawaii. The expenses of the office are financed through appropriations made by the legislature.

The primary function of this office is to strengthen the legislature's capabilities in making rational decisions with respect to authorizing public programs, setting program levels, and establishing fiscal policies and in conducting an effective review and appraisal of the performance of public agencies.

The office of the legislative auditor endeavors to fulfill this responsibility by carrying on the following activities.

1. Conducting examinations and tests of state agencies' planning, programming, and budgeting processes to determine the quality of these processes and thus the pertinence of the actions requested of the legislature by these agencies.
2. Conducting examinations and tests of state agencies' implementation processes to determine whether the laws, policies, and programs of the State are being carried out in an effective, efficient and economical manner.
3. Conducting systematic and periodic examinations of all financial statements prepared by and for all state and county agencies to attest to their substantial accuracy and reliability.
4. Conducting tests of all internal control systems of state and local agencies to ensure that such systems are properly designed to safeguard the agencies' assets against loss from waste, fraud, error, etc.; to ensure the legality, accuracy and reliability of the agencies' financial transaction records and statements; to promote efficient operations; and to encourage adherence to prescribed management policies.
5. Conducting special studies and investigations as may be directed by the legislature.

Hawaii's laws provide the legislative auditor with broad powers to examine and inspect all books, records, statements, documents and all financial affairs of every state and local agency. However, the office exercises no control functions and is restricted to reviewing, evaluating, and reporting its findings and recommendations to the legislature and the governor. The independent, objective, and impartial manner in which the legislative auditor is required to conduct his examinations provides the basis for placing reliance on his findings and recommendations.



**LEGISLATIVE AUDITOR  
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**FINANCIAL AUDIT OF THE DEPARTMENT OF EDUCATION**

**Conducted by the  
Office of the Legislative Auditor  
and  
Lybrand, Ross Bros. & Montgomery  
Certified Public Accountants**

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

**Submitted by the  
Legislative Auditor of the  
State of Hawaii**

**Audit Report No. 73-3  
March 1973**





## FOREWORD

This financial audit report is the result of an examination of the financial statements and records of the State department of education for the fiscal year ended June 30, 1972. The audit was conducted by the office of the legislative auditor in cooperation with Lybrand, Ross Bros. & Montgomery, an independent certified public accountant (CPA) firm.

This report is divided into three parts. Part I contains introductory information and a brief description of the department's organization and functions. Part II contains our findings, comments, and recommendations regarding the department's financial management practices and displays the department's financial statements, including the audit opinion of the CPA firm on the accuracy of the department's financial statements.

There are serious deficiencies in the financial accounting and internal control systems of the department. The financial records for fiscal year 1971-72 were so inaccurate and poorly maintained that Lybrand, Ross Bros. & Montgomery could not attest to the accuracy of the department's financial statements relating to the general fund appropriations and expenditures. Numerous other deficiencies were found with respect to the department's financial management practices. Our findings and recommendations are contained in chapters 3 to 5 of Part II of this report.

It is our practice to request the agency affected by the audit to submit in writing its comments on the findings and recommendations and to indicate what action has been or will be taken. The department of education's response is included in Part III of this report entitled, "Response of the Department of Education."

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the officers and staff of the department of education.

Clinton T. Tanimura  
Legislative Auditor  
State of Hawaii



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## **PART I INTRODUCTION AND SOME BACKGROUND**

### **Chapter 1**

#### **INTRODUCTION**

This is a report on our financial audit of the transactions, books, and accounts of the department of education. The audit was conducted pursuant to Hawaii Revised Statutes, section 23-4, which requires the office of the auditor to conduct post-audits of all transactions and of all books and accounts kept by or for all departments, offices, and agencies of the State and its political subdivisions.

#### **Objectives of the Audit**

Our audit had the following objectives:

1. To assess the adequacy of the department of education's systems and procedures for financial accounting, internal control, and financial reporting.

2. To determine the accuracy of the department's financial statements and to render an opinion thereon.

3. To recommend such actions as appropriate to correct any deficiencies as may exist.

#### **Scope of the Audit**

The audit was concerned with the financial aspects of the department of education. The department's financial statements examined were those for the fiscal year July 1, 1971 to June 30, 1972.

#### **Audit Responsibility**

The audit was conducted by the office of the legislative auditor in cooperation with Lybrand, Ross Bros. & Montgomery, an independent certified public accountant (CPA) firm. This audit report represents the combined efforts of that firm and the office of the legislative auditor. However, the full responsibility for the contents of this report is solely that of the office of the legislative auditor, except that the attestation as to the reasonable accuracy of the department's financial statements is the responsibility of Lybrand, Ross Bros. & Montgomery.

## Organization of the Report

This report is organized into three parts. Part I (chapters 1 and 2) contains this introduction and some background; and Part II (chapters 3 through 5) contains our findings, comments, and recommendations regarding the financial management practices and financial statements of the State department of education. Part III contains the response of the department and our comments on the response. The department was asked to respond to our findings and recommendations as contained in the preliminary draft of this report.

## Chapter 2

### SOME BACKGROUND

The department of education is the largest department of the State government, employing more than 12,000 employees. For the fiscal year 1971-72, the department operated on a budget of \$162.1 million which represented approximately 24 percent of the State's total operating budget.<sup>1</sup> This chapter contains some background information on the organizational history and functions of the department of education.

<sup>1</sup>DOE, *Financial Report on Operating and Capital Improvement Project Funds, July 1, 1971-June 30, 1972*, p. 6.

## Establishment

Act 182 of the First State Legislature, Regular Session of 1961, amending Act 1 of the First State Legislature, Second Special Session of 1959 (Hawaii State Reorganization Act of 1959), created the department of education as the successor to the territorial department of public instruction.

## Functions of the Department

As enumerated in the statutes, the functions of the department of education are to administer the programs of education and public instruction throughout the State, including preschool, primary, and secondary school education, post high school vocational and adult education, library services, and such other programs as may be established by law.

## General Administration

The affairs of the department of education are under the control of an executive board and an executive officer. In addition, advice to the department is rendered by district school advisory councils. The following is a brief description of the organizational make-up of the department.

**Executive board.** The executive board, known as the board of education, is comprised

of eleven members. Eight members are elected by the qualified voters of the respective school board districts and three members are elected at-large in the city and county of Honolulu. The board has power, in accordance with law, to formulate policy and to exercise control over the public school system through its executive officer, the superintendent of education.

**District school advisory council.** There is a district school advisory council in each school board district. Members are appointed by the governor and serve for a term commencing upon his appointment and ending upon the expiration of the term of office of the governor. The advisory council serves in an advisory capacity to the board of education and to the members of the board of education from its district.

**Executive officer.** The executive officer, known as the superintendent of education, is appointed and may be removed by a majority vote of the members of the board and serves as secretary of the board. The superintendent of education, under policies established by the board of education, administers programs of education and public instruction throughout the State, including education at the preschool, primary, and secondary school levels, health education and instruction, and such other programs as may be established by law.

Assisting the superintendent of education are the office of instructional services, office of

library services, office of business services, office of personnel services, and office of research and planning.

1. *The office of instructional services* is responsible for the development and formulation of the State's curricula in general and special education. It provides instructional services to the districts and schools.

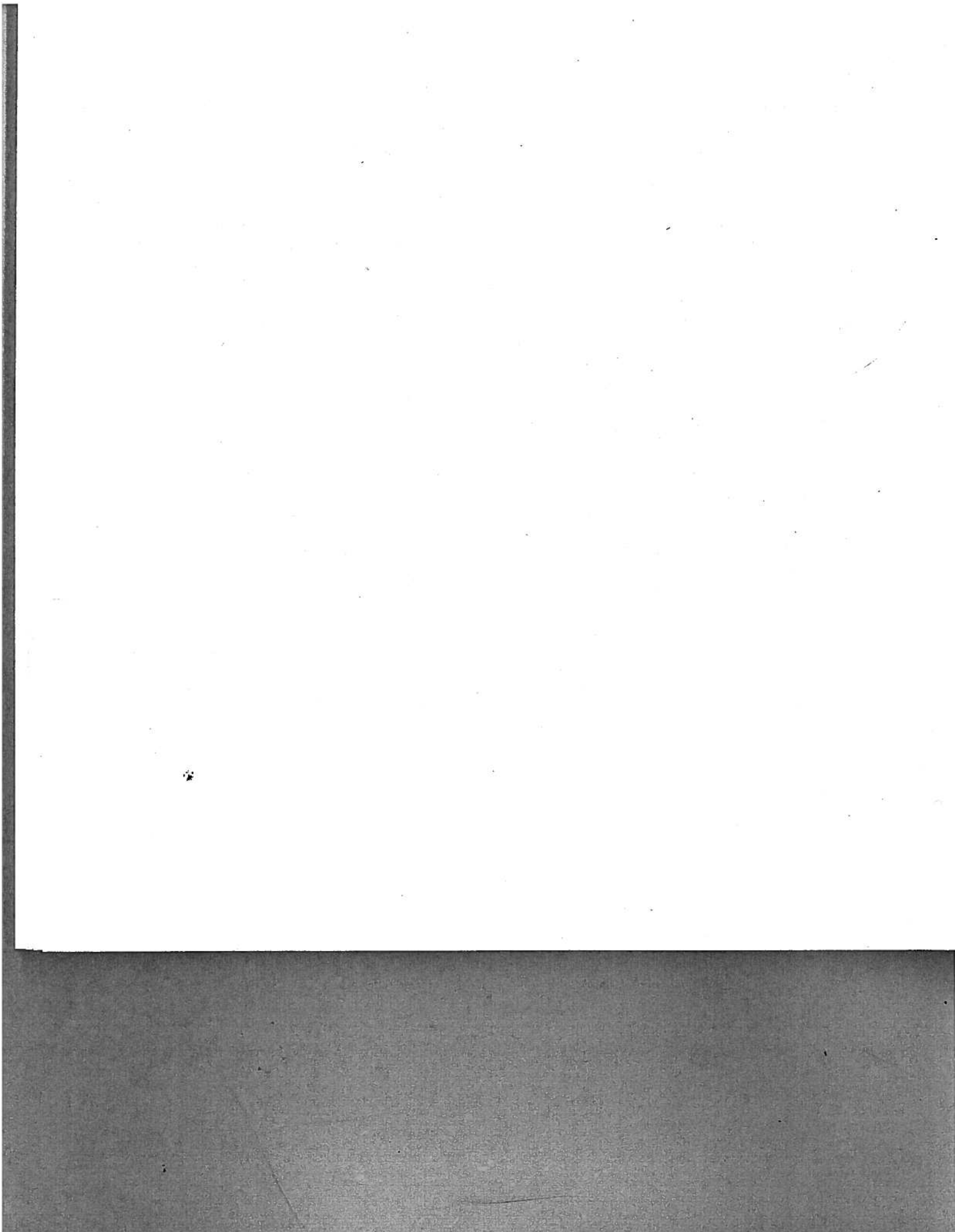
2. *The office of library services* is responsible for providing comprehensive library resources and services to the people of the State.

3. *The office of business services* provides business and other administrative support services and assistance to the department of education in the areas of financial records, payrolls, procurement, construction and maintenance of facilities and grounds, housing, school transportation, and school lunch services.

4. *The office of personnel services* provides the department and its employees with recruitment, employment, personnel relations, welfare, benefits, career management, and career development services.

5. *The office of research and planning* assists the superintendent in budgeting, management, information system, and planning, and performs all other duties assigned by the superintendent in carrying out his statewide duties and responsibilities.







## PART II FINDINGS AND RECOMMENDATIONS

### Chapter 3

#### FINANCIAL ACCOUNTING AND INTERNAL CONTROL

This chapter presents our findings and recommendations on the department of education's financial accounting practices and system of internal control.<sup>1</sup> This chapter is concerned with accounting practices and internal control systems generally. Chapter 4 discusses fiscal practices and controls as they relate specifically to purchasing and the rental of facilities.

<sup>1</sup>The term, *system of internal control*, means the plan of organization and all of the methods and measures adopted within the department to check the accuracy and reliability of accounting data, to promote operational efficiency, and to encourage adherence to prescribed laws, policies, and rules and regulations of the State and the State department of education. A sound system of internal control includes two basic elements. The first is a system of authorizations and recording procedures to provide adequate and reasonable accounting control over assets, liabilities, revenues, and expenditures in accordance with generally accepted accounting principles, the laws, policies, and rules and regulations of the State and the department of education. The second is an appropriate segregation of duties assigned in a manner that no one individual controls all phases of a transaction without the interrelated function of a cross-check by some other individual.

### Summary of Findings

There are numerous deficiencies in the DOE's method of fiscal accounting and system of internal control. In particular,

1. The department's records do not accurately reflect program costs.

2. Allotments are poorly controlled, financial records are incomplete, and input data to the statewide information system are inadequately managed.

3. Trust funds are being improperly maintained.

4. Overtime claims and work attendance reports are not being properly processed.

5. The annual inventory of DOE-held property is not being filed in a timely fashion.

6. Revenues collected are not being properly accounted for.

These deficiencies are serious and require immediate attention.

## Denial of Audit Opinion

One of the objectives of a financial audit is to ascertain the reasonable accuracy of the financial statements of an organization. Normally, an auditor conducting a financial audit of an agency is able to attest to the accuracy of the agency's financial statements. However, in the case of the department of education, the department's financial practices and internal control system have resulted in financial records so incomplete, inaccurate, and unverifiable that Lybrand, Ross Bros. & Montgomery could not attest to the accuracy of the department's 1971-72 financial statements.<sup>2</sup>

One of the tests to ascertain the accuracy of the financial records of the State agency being audited is to compare the agency's records with those of the department of accounting and general services and to reconcile any differences that may exist.

The department of accounting and general services is responsible for maintaining the financial records of all financial transactions of the State. In effect, this means financial recordkeeping by both the department of accounting and general services and each State agency. To the extent that the financial records

of DAGS<sup>3</sup> and those of the State agency being audited agree or, if there are differences, are readily reconcilable (or readily explained), confidence may be placed on the agency's records as being reasonably accurate, provided that there is no other basis upon which the reasonable accuracy of the agency's records may be questioned.

An attempt was made in this audit to compare and reconcile the records of the department of education and those of the department of accounting and general services. However, it became quickly evident that the two records differed in so many respects that a reconciliation of the differences would be onerous and would consume a considerable amount of time. Further, a partial examination of the differences revealed that some of them probably could never be reconciled because of incomplete and inadequate DOE records. Thus all efforts at reconciliation were terminated.

In this connection, we note that a comparison and reconciliation of any agency's records with those of the department of accounting and general services should not have to wait until an audit is conducted of the agency's records. Such comparison and reconciliation should be performed by the agency itself periodically—at least quarterly. Periodic comparison and reconciliation would enable the agency to detect early any errors it may be committing and to make proper

<sup>2</sup>See chapter 5 for the auditors' opinion on the financial statements of the general fund appropriations administered by the department.

<sup>3</sup>The department of accounting and general services is often referred to in this report as "DAGS."

adjustments in its records. However, it does not appear that the DOE attempts such periodic comparison and reconciliation. The following illustrates one consequence of this failure to compare and reconcile on a periodic basis. In fiscal year 1971-72, the department overcommitted itself to the extent of \$272,000. This overcommitment was in violation of HRS, section 37-42, which states that "No department or establishment shall expend or be allowed to expend any sum or incur or be allowed to incur any obligation in excess of an allotment." Approximately \$164,000 of this overcommitment has been charged to the 1972-73 appropriations and the balance has been subsequently cancelled.

***Recommendation.** We recommend that the department of education compare and reconcile its financial records with those of the department of accounting and general services at the close of each fiscal year and periodically during the year. The records should be compared and reconciled at least quarterly in every fiscal year.*

#### **Inadequate Budgetary and Program Cost Accounting System**

The records of the department of education do not accurately reflect the costs of the programs administered by the department. This is the result of faulty and unreal allocation of the department's expenditures to its various

programs. We illustrate here with two examples of the deficiencies in the DOE's current method of allocating expenditures to programs. These two examples represent a major portion of the department's expenditures.

**Allocation of cost of teachers' salaries.** The DOE currently allocates a portion of the total cost of teachers' salaries to each of twelve curriculum programs. The amount to be allocated to each program is determined by the application of a formula based on the amount of time teachers supposedly devote to the various curriculum programs. The formula was derived as follows. The department first separately determined, for elementary and secondary levels, the average percentage of time devoted by all teachers to the various programs.<sup>4</sup> The department then averaged the elementary and secondary school percentages to derive an average time spent by all teachers, both elementary and secondary, in each subject area. For example, it was determined that, on the average, all elementary school teachers spend approximately 44 percent of their time in the language arts program and all secondary school teachers, 21 percent. These two percentages (44 and 21) were added and then divided by 2 to arrive at an average percentage of 33 percent (65 divided by 2).

<sup>4</sup>The allocation of elementary school teachers' time to the various subject areas was initially determined in 1958 and updated in 1972. The allocation of secondary school teachers' time was determined in 1969.

We think that this allocation methodology is deficient in several respects. Among them are the following. *First*, while allocating teachers' time to the various subject areas may be appropriate with respect to elementary teachers who teach various subjects throughout the school day (language arts, social studies, math, health, etc.),<sup>5</sup> it is not appropriate with respect to secondary school teachers, each of whom generally specializes and teaches in only a single subject area. For example, a secondary school teacher who specializes in math generally teaches math all day. It is not unreasonable to expect the DOE to be able to ascertain for secondary schools the number of teachers teaching in each subject area and thus to determine directly the personnel cost of each subject area.

*Second*, determining the average percentage of time that all teachers, both elementary and secondary, spend teaching in each subject area by adding the average of all secondary teachers and the average of all elementary teachers and dividing the sum by two gives undue weight to the amount of time secondary teachers spend in each subject area. This is because the number of elementary school teachers exceeds the number of secondary school teachers. Simply summing the averages of the secondary and elementary school teachers and dividing by two does not provide for assigning appropriate

weights to the respective averages, based on the number of teachers in each school level.

*Third*, determining the average percentage of time spent by all teachers in each subject area by adding the averages of the secondary and elementary teachers and dividing by two further results in assigning a portion of the cost of elementary school teachers to programs which are taught only in the secondary schools and not in the elementary schools. For example, vocational-technical courses are taught in secondary schools, but not in elementary schools. Yet, the average percentage of time spent by secondary teachers teaching vocational-technical courses (3.9%) is added to the average percentage of time spent by elementary teachers in vocational-technical courses (which is zero), and the sum is divided by two ( $3.9\% + 0\% \div 2 = 2\%$ ). This is, of course, pure fiction. The application of the resulting 2% to the total cost of teachers' salary is nowhere near the actual cost of teaching the vocational-technical courses.

*Finally*, in determining the average percentages, all teaching positions have been included, although not all teachers teach. For example, some personnel in teaching positions are counselors. Yet, their costs are not charged to the counseling program, but to the various subject areas.

The department's allocation formula has very little merit and contributes to the portraying of a financial picture which is inaccurate and misleading.

<sup>5</sup>There are problems even with the shredding and allocation of elementary school teachers' salary costs to the various subject areas the teachers teach. These problems are associated with the problem of structuring the programs of lower education, a subject which is beyond the scope of this audit.

**School operating expenses.** Amounts to defray school operating costs other than personnel (such as school supplies and equipment) are appropriated by the legislature by programs. However, after appropriations, the DOE state office allocates the appropriated amounts to districts, not by programs, but in lump sums. The lump sum amount to be allocated to each district is a subject of negotiations by the district superintendents. Each district office, in turn, allocates a lump sum for these operating costs to each school within the district. This means that each school is not constrained by any limitation as to the amount it may spend for supplies, equipment, etc., in particular subject area programs. The only spending limitation is the total amount of the allotment or allocation made to the school. However, at the same time, the department's procedural manual directs each school to maintain its fiscal records by programs. The consequence is that schools are charging operating costs to particular programs even though the costs are not properly chargeable to those programs. For example, the schools generally charge a substantial portion of the costs to the language arts program (the largest subject area program), even though the costs are not necessarily incurred in that program.

The deficiencies in the budgetary and program cost accounting system discussed above cast sufficient doubt on the accuracy with which the financial records and related financial statements reflect the true financial condition of the DOE and the costs of DOE programs.

## **Recommendations**

*We recommend that the department of education develop a budgetary and accounting system which would, among other things, reflect the actual cost of each program. In addition, we recommend that allocations of money to districts and schools for defraying operating costs be made by programs rather than in lump sum amounts.*

## **Poor Accounting Controls**

The DOE does not properly account for the monies it spends. In general, the deficiencies in accounting are:

- . A lack of quarterly expenditure controls.
- . Incomplete records on financial transactions.
- . Inadequate electronic data processing (EDP) controls.

**Lack of quarterly expenditure controls.** Monies appropriated by the legislature for education are made available to the DOE by the department of budget and finance in quarterly allotments. The quarterly allotment mechanism is prescribed by HRS, chapter 37, and is intended to ensure controls over expenditures of State funds—that is, to ensure that monies are not spent all at once or foolishly, but are spent prudently and economically and only to the extent authorized. Under chapter 37, an



allotment is the maximum amount that the department may lawfully spend during a quarter. The total of all quarterly allotments made to the DOE in any given fiscal year usually equals the total amount appropriated for education by the legislature, but not always. In fiscal year 1971-72, due to the poor financial condition of the State, the allotments granted to the department of education (as was the case for all State agencies) totaled less than the amount appropriated by the legislature.

It is only logical to expect that the department of education would maintain its expenditure records on a quarterly basis—that is, the department would (1) record by quarters the actual allotment received for each quarter from the department of budget and finance and (2) charge the expenditures it makes in any quarter against the allotment for that quarter. This system helps to ensure that spending in each quarter and during the year is prudent and would not exceed the allotment amounts. However, the department of education does not maintain its records in this fashion. Indeed, it does not control its expenditures on a quarterly basis, nor does it deem the quarterly allotments as its expenditure limits. It controls its expenditures only on an annual basis and the only limit it considers is the total appropriation amount. Note the following DOE practices.

At the beginning of each fiscal year, the department divides the year's total amount appropriated for education into four parts and records each part as the expected allotment for each quarter. This division of the total

appropriation into four parts gives the appearance that the DOE is operating under the quarterly allotment process. But such is not the case. During the year, it makes no adjustments to this initial entry as actual allotment ceilings are received from the department of budget and finance. The department instead continues to maintain on its books the amounts it had initially recorded. In addition, the DOE does not charge its expenditures to any quarterly allotment amount but to the appropriation total. Thus, during the course of the year, the DOE may spend in any given quarter more than the allotment amount determined by the department of budget and finance and spend in subsequent quarters any unexpended quarterly allotment amount.

Spending in any quarter more than the allotment amount determined by the department of budget and finance is contrary to law. HRS, section 37-42, makes such overspending illegal.<sup>6</sup> Spending in subsequent quarters any unexpended quarterly allotment amount is contrary to a State policy which provides that unexpended quarterly balances shall lapse. Spending more than the quarterly allotment and using unexpended quarterly allotment balances also cause the records of the department of education to be at odds with the records of the department of accounting and general services which maintains its records

<sup>6</sup>HRS, section 37-42, makes an officer expending or allowing the expenditure of any sum in excess of an allotment liable to removal from office and to a civil action for reimbursement to the State of any amount paid by the State in excess of the allotment.

according to law and policy. At the outset of this chapter we noted that, in fiscal year 1971-72, the DOE overcommitted itself by \$272,000. This overcommitment resulted largely because of these DOE practices.

**Recommendation.** *We recommend that the department of education control its expenditures on the basis of the quarterly allotments it receives from the department of budget and finance. All expenditures in any quarter should be charged against the allotment for the quarter and any unexpended quarterly allotment balance should be treated as having lapsed. Only in this way will the department be able to guard against overcommitting State funds.*

**Incomplete records to account for financial transactions.** One of the forms used by the department to record financial transactions is the journal voucher. A journal voucher is commonly used to adjust or correct the records to reflect the true financial condition. For example, if an error is made in recording a transaction, the error may subsequently be corrected through the use of a journal voucher. To be of any value, the journal voucher should contain a complete explanation of the nature and basis for the journal voucher and be supported by necessary documentation such as corrected invoices and worksheets. Our examination revealed that many journal vouchers used in fiscal year 1971-72 contained no such explanation and lacked sufficient documentation. Further, a number of journal vouchers contained errors in the recording of dollar amounts. Without an adequate

explanation, supporting documents, and correct dollar amounts, there is little assurance that the transactions to which the journal vouchers related were properly and accurately recorded.

In addition, it appears that the department is not ensuring that any adjustments or corrections required to be made by the journal vouchers are being made not only in the DOE's records but also in the records of the department of accounting and general services. Since DAGS is the central recordkeeping agency for the State, adjustments or corrections made in the financial records of DOE generally require similar adjustments in the records of DAGS. This requires the preparation of a journal voucher by the DOE for recording by DAGS. As a check to ensure that applicable adjustments have been recorded in DAGS' records, a cross-reference to the applicable comptroller journal voucher number should be made on the corresponding DOE journal voucher. However, it appears that the department has been lax in this regard. More often than not, the department's journal voucher contains no cross-reference to the corresponding comptroller's journal voucher. Thus, there is no assurance that an appropriate comptroller's journal voucher was prepared for all of the departmental adjustments which affect DAGS' records. We believe that this is one of the reasons for the many differences in the records of the DOE and DAGS.

**Recommendation.** *We recommend that the department improve its preparation and control of journal vouchers as follows:*

1. *All journal vouchers contain adequate explanations as to the nature and reasons for the journal entries and be accompanied by supporting source documents.*

2. *All journal vouchers be checked for mathematical accuracy and the completion of such checks be so indicated in some manner on each journal voucher.*

3. *All applicable departmental journal vouchers be properly cross-referenced to the corresponding comptroller's journal vouchers. The person responsible for approving journal vouchers should check to see whether an adjustment to DAGS' records is necessary and, if so, whether an appropriate comptroller's journal voucher was prepared.*

**Inadequate electronic data processing (EDP) controls.** The department of education utilizes the EDP services of the statewide information system division (SWIS) of the State department of budget and finance to process and record financial transactions. In using such EDP services, it is important that appropriate controls be established by the DOE to ensure against possible errors in the handling of input data which could materially affect the accuracy of the department's financial records. Our examination revealed that the department is not exercising sufficient controls over its data submissions to SWIS and in the initiation of changes to input data.

1. **Control over input data.** One of the most common forms of EDP input controls is

the use of batch totals. Under this form of control, before inputting data, a batch (a unit) of the input data is selected and manually totaled. After input of the data and the EDP process is completed on the batch, the batch total computed by EDP is compared with the department's pre-input total to verify that they are the same. In this way, the accuracy and completeness of the EDP processing of departmental data submissions will be assured. The department of education has not instituted any such input controls. In the absence of input controls, the department has been unable to detect errors in SWIS' handling of several transactions during 1971-72. These errors resulted in inaccuracies in the department's appropriation ledger. For example, a \$170,000 transaction was not properly recorded by SWIS and thus not reflected in the DOE's appropriation ledger. If appropriate input controls had been in effect, this error could have been discovered by the DOE and a correction instituted instead of its being uncovered by our examination.

**Recommendation.** *We recommend that the department of education establish controls such as batch totaling to ensure that departmental input data are properly handled by SWIS.*

2. **Control over changes to input data.** Changes to the DOE's input data are sometimes initiated by SWIS personnel without the knowledge of the department of education. These changes usually concern the DOE's payroll. Whenever a payroll transaction is incorrect (e.g., wrong employee number), the computer rejects the transaction. Ordinarily, to



correct a rejected payroll transaction, SWIS notifies the DOE's accounting office. The accounting office would then prepare a journal entry to correct the rejected transaction. However, in three instances during fiscal year 1971-72, the SWIS personnel made changes to rejected payroll entries on their own without notifying the DOE. These changes by the SWIS personnel were done incorrectly. As a result, the department's payroll clearing account (the account against which payroll transactions are charged) reflected a balance of approximately \$11,000 at June 30, 1972, when, in fact, there should have been no balance at all. To avoid errors of this nature, we believe that all changes to input data should be made by DOE personnel only. Of course, this is not to discourage SWIS personnel from bringing to the attention of the DOE any errors or questionable items that they might detect.

***Recommendation.** We recommend that the statewide information system personnel hereafter refrain from initiating changes to the department of education input data. All such changes should be at the initiative of the department of education.*

### **Improper Maintenance of Trust Funds**

The DOE is currently improperly holding certain sums of money in trust funds.<sup>7</sup> These sums

<sup>7</sup>See chapter 5 for the financial statements of these trust funds.

include those being illegally held in trust and those in trust funds whose trust purposes terminated some time ago.

1. ***Illegal trusts.*** There is a sum of \$123,970 being held in trust funds illegally established. This sum includes \$119,875, paid to the DOE by the State department of transportation in early 1970 as consideration for the demolition by the DOE of a school classroom building. The demolition was made necessary by the construction of a freeway which passed through a part of a school property. The remaining amount of \$4,095 represents refunds from former DOE employees of salaries paid to them while on sabbatical leaves. They were required to refund their salaries when they failed to return to the DOE as required by statute.

The continuing retention of this sum of \$123,970 in trust is improper. The department had no authority in the first place to place monies collected from these sources in trust funds, nor does it have any authority to expend the funds. These monies are public funds and should be treated as revenues of the State and deposited into the State's general fund.<sup>8</sup>

<sup>8</sup>HRS, section 103-2, states that "All revenues of the State or of any agency thereof not specifically appropriated to other purposes shall be general realizations of the State to be available for general use in financing government operations and services, which revenues and realizations in their aggregate are herein referred to as the 'general fund' . . . ."

**Recommendation.** We recommend that the department immediately deposit in the State's general fund the sum of \$123,970 presently held in trust and that it deposit all future receipts of this nature into the State's general fund immediately upon receipt.

2. **Trust funds whose trust purposes have terminated.** The department has the sum of \$10,244 in a trust fund whose trust purposes have long since ceased. Of the \$10,244, \$9,893 represents the balance of funds resulting from the printing and sale of the *Art Teaching Guide—Hawaii*, 1960. Funds for the printing and sale of this document were originally provided by a private foundation grant. There has been no activity in this account since 1966.

The remaining \$351 represents the balance of a private grant to defray the transportation costs of certain DOE personnel who traveled to the mainland to inspect school facilities. There has been no activity in this account since 1969.

Since the purposes of these grants have already been fulfilled, there is no need for the continuing maintenance of the \$10,244 in a trust fund. There may well be some legal considerations in the disposition of this sum of money, since it is a part of original grants made by private sources for specific purposes. Nevertheless, it appears that some action is required to eliminate the need for the continual maintenance of this sum in trust.

**Recommendation.** We recommend that the department seek the advice of the State attorney general in the disposition of the \$10,244:

## Improper Processing of Overtime Claims and Attendance Reports

1. **Overtime claims.** Schools are required to submit overtime requests to the appropriate district offices for approval. Departmental procedures also require each school to submit to the district office a copy of each claim for overtime hours actually worked.<sup>9</sup> However, a sample of district offices revealed that the district offices are not receiving copies of claims for overtime. Adequate controls over overtime cannot be exercised on a district-wide basis by the district offices unless they receive reports of overtime actually experienced in the schools.

**Recommendation.** We recommend that the department of education take such steps as necessary to ensure that schools file with the district office copies of all overtime claims.

2. **Attendance reports.** All organizational units are required to prepare monthly attendance reports for submission to the payroll section of the department's business office. The monthly attendance reports are used to certify that all regular salaried employees were present at work except for those being reported to be absent. The departmental rules specify that schools and offices are to use such daily attendance records as the "in/out sheet" and "staff attendance register" as the bases for

<sup>9</sup>DOE, *Business Office Handbook, Accounting and Purchasing*, Volume I, section XIII, p. 53.

preparing the monthly attendance reports.<sup>10</sup> This procedure, however, is not being followed. Schools are preparing their monthly attendance reports on the basis of the leave of absence applications submitted by their employees. That is, all employees are counted as having been present at work, even though some of them may in fact have been absent but failed to file leave of absence applications. Indeed, in fiscal year 1971-72, there were a number of such instances. This practice is clearly improper. It not only permits the reporting of an employee as having been at work when in fact such may not have been the case, but it encourages employees not to file leave applications and jeopardizes the proper maintenance of employee leave records by causing the records to reflect more leave time available to individual employees than they are entitled to.

*Recommendation.* We recommend that the department take such steps as necessary to ensure that schools prepare their monthly attendance reports from their daily attendance records.

#### **Non-Compliance with Inventory Filing Requirements**

Under Hawaii statutes, all persons or agencies of a public character are required to file annually with the State comptroller a sworn return or inventory containing a full, true and

correct list of all State property in their possession, custody, or control as of July 1. The filing of such returns with the comptroller is required on or before August 15 of each year.<sup>11</sup>

For the year 1972, the department of education, as late as November 22, 1972, had not submitted an inventory listing of all State property under its control. The department's reason for non-filing is that all schools had not as yet submitted their respective inventory listings which are needed to complete the departmental listing.

*Recommendation.* We recommend that the department of education develop a system whereby all schools and administrative offices can submit their respective inventory listings on a timely basis as to enable the department to submit to the State comptroller a listing for the department as a whole on or before August 15 of each year as required by statute.

#### **Controls over Revenue Collections**

Schools carry on many kinds of activities which generate income. The department of education categorizes these monies collected by the schools into two major classes. The first class is called, "non-appropriated local school funds." It includes monies generated from such school activities as student dues, cap and gown fees,

<sup>10</sup>*Ibid.*, p. 51.

<sup>11</sup>HRS., section 106-1.

and school paper sales. This class of monies is for students' use and is deposited into school bank accounts and not in the State treasury. The second class is identified as "collection account funds." It includes monies generated from such activities as school lunch, summer school, adult education, athletic events, and donations which are State realizations and require deposit into the State treasury. The discussion which follows relates only to the second class of funds.

The department's regulation for accounting for the collection and receipt of the second class of funds requires that each school establish two bank accounts to which collections are to be deposited daily.<sup>12</sup> Cafeteria receipts are deposited in one account and all other receipts in the other. Monies in these two collection bank accounts are then transmitted to the State treasury through the department's business office on the following schedule:

*Summer school receipts*—either on the last business day of the week (if the amount exceeds \$150) or on the last business day of the summer program.<sup>13</sup>

*Cafeteria receipts*—every Tuesday afternoon for the previous week's (Monday to Friday) receipts.<sup>14</sup>

<sup>12</sup>DOE, *Business Office Handbook, Accounting and Purchasing*, Volume I, pp. VII-6 and VII-7.

<sup>13</sup>*Ibid.*, p. XI-3.

<sup>14</sup>*Ibid.*, p. VII-19.

*Other collection account receipts*—either on the last business day of the week (if the amount exceeds \$75) or on the last business day of the month.

The regulation also requires that all transmittals to the business office be by checks and be accompanied by a remittance advice showing the sources of income and the amount being transmitted to the State treasury.<sup>15</sup> The business office prepares a summary of all checks received and deposits them into the State treasury.

Our examination revealed that some of the schools are not complying with this departmental regulation. In summary, the deficiencies are as follows:

Failure to make daily bank deposits of these receipts.

Failure to comply with the transmittal schedule established by departmental policy.

A lack of control over the numerical issuance of remittance advices.

**Failure to make daily bank deposits.** The departmental requirement that schools make daily bank deposits of collection account receipts is not being followed by all schools. Some schools are holding their receipts for as

<sup>15</sup>*Ibid.*, p. VII-16.

long as a week before making their deposits. One school, in fiscal year 1971-72, held its summer school receipts for more than a week before depositing.

***Recommendation.** We recommend that schools make daily deposits of their cash receipts into their bank collection accounts and that the department of education business office take such steps as necessary to ensure such daily deposits.*

**Failure to comply with the transmittal schedule established by departmental policy.** Since cash receipts are not considered available for use by the State until such time as they are deposited into the State treasury, any delay from the time of collection to the time of deposit prevents the State from utilizing cash that could otherwise be available. Thus, it is essential that schools transmit their collection account receipts to the department's business office in compliance with the transmittal schedule established by departmental regulation. However, it appears that some schools are not adhering to this transmittal schedule. It is not unusual for months to elapse between initial collection and deposit into the State treasury.

Many schools transfer receipts of athletic funds and other State revenue to the business office only two or three times during the year, although the department's regulation requires that these kinds of receipts be transmitted to the business office at least once a month, or weekly if the amount exceeds \$75. Some schools delay transmitting cafeteria receipts for as long as

three weeks, although the regulation requires that such receipts from the previous week be transmitted on the following Tuesday.

***Recommendation.** We recommend that schools transmit their cash receipts to the department of education business office on a timely basis as required by the department of education regulation and that the department of education business office insist on such timely transmittals.*

**Lack of control over numerical issuance of remittance advices.** All transmittals of cash receipts to the department's business office must be accompanied by a properly completed remittance advice. This remittance advice notifies the business office of the sources of the receipts and the amount being transmitted for deposit into each fund (general, trust, etc.). To ensure that all transmittals of cash receipts are received and recorded by the department's business office, it is essential that remittance advices be accounted for numerically. The department's business manual specifies that each school or subdivision should number its remittance advices consecutively.<sup>16</sup> However, the manual does not specify whether it is the department's or the schools' responsibility to account for the numerical sequencing of these advices. As a result, there is a lack of control over the numerical issuance of remittance advices. Several schools do not even number their remittance advices, while others skip or issue duplicate numbers.

<sup>16</sup>*Ibid.*, p. VII-17a.



**Recommendation.** *We recommend that the department issue pre-numbered remittance advice forms to the schools and that the department of education business office assume the responsibility for accounting for the numerical issuance of remittance advices by the schools.*

## Chapter 4

### PROCUREMENT AND FACILITY LEASING PRACTICES

This chapter contains our findings and recommendations on the department of education's procurement and facility renting practices.

#### Summary of Findings

Our findings are as follows.

1. Schools and offices are violating or deliberately circumventing departmental policies in the purchase of goods and services.

2. The DOE lacks standardized specifications for equipment. This lack of standardized specifications prevents the DOE from engaging in bulk purchases to lower its equipment purchasing costs.

3. Schools and offices are not complying with departmental procedures in processing their purchases.

4. The DOE lacks a coordinated approach to space leasing and is unnecessarily paying real property taxes on space leased by it.

#### Circumvention and Violation of Departmental Policies

Generally, under current DOE procurement policies, certain purchases of goods and services (other than personal services) costing less than \$50, emergency purchases, and purchases of books on the DOE approved book list costing less than \$4000 may be made by the various schools and offices directly from the vendor without the approval of the DOE purchasing office. All other purchases must be reviewed and approved by the purchasing office. In addition, all purchases of school equipment, regardless of amount, must also be approved by the appropriate district office. All purchases over \$4000 are subject to the requirements of HRS, section 103-22, relating to public advertising and competitive bidding.

The various schools and offices in the DOE are either directly violating or are deliberately circumventing these departmental policies in the purchase of goods and services. In particular, large purchases are being split into small orders to avoid internal review procedures, blanket purchase orders are being issued in amounts in excess of that authorized, purchases are being

made under the color of "emergencies" when in fact no emergencies exist, and purchases are being made without the prior issuance of purchase orders.

**Splitting purchases.** Current DOE purchasing policies authorize schools and offices to purchase supplies and services directly from vendors, without prior review by the DOE business office, when such purchases do not exceed \$50. This authorization, however, extends only to supplies that are not included in the DOE storeroom price list or the DAGS price list.<sup>1</sup> While this procedure helps to expedite the procurement of sundry goods and services, the department is mindful that this privilege may be abused. It, therefore, expressly prohibits the splitting of large purchases to circumvent the \$50 ceiling and, further, cautions that officials found to be abusing this privilege may have their purchasing authority withdrawn.<sup>2</sup>

Despite these expressed restraints, schools and offices appear to be deliberately circumventing the departmental policy limiting direct purchase from vendors to purchases under \$50. Consider the following examples:

<sup>1</sup>The DOE operates a central storeroom which purchases and issues items commonly used by schools such as athletic supplies, art supplies, and building maintenance supplies. The department of accounting and general services contracts with various vendors for the supply of certain items commonly used by various State agencies at fixed unit prices for a fixed contract period. State agencies purchasing items listed on the DAGS price list are required to purchase such items from the vendors contracted by DAGS.

<sup>2</sup>DOE, *Business Office Handbook, Accounting and Purchasing*, Volume I, pp. IV-5 and IV-14.2.

**Central Intermediate School:** On July 1, 1971, three purchase orders (Nos. 2040, 2042, 2043) were prepared to buy sewing supplies totaling \$150 from the same vendor. Each of the three purchase orders was made for \$50.

**Farrington High School:** On September 27, 1971, two purchase orders (Nos. 265, 266) were prepared to purchase groceries totaling \$90 from the same vendor. One purchase order was made for \$50 and the other for \$40.

**Kailua High School:** On July 1, 1971, four purchase orders were prepared to buy biological laboratory supplies totaling \$72.62, all from the same vendor. The purchase orders were made for varying sums none of which exceeded \$50.

In each case, (1) multiple purchase orders were used to purchase similar supplies from the same vendor; (2) purchase orders were identically dated and, in two cases, were prepared in numerical sequence; and (3) each purchase order was made for \$50 or less although the total value of supplies purchased exceeded that amount. Thus, it appears that, in each case, purchases were purposely divided to circumvent the \$50 ceiling established by policy to control independent purchasing by schools and offices.

**Recommendation.** We recommend that the department of education take such steps as necessary to ensure that purchases are not deliberately split into a number of smaller purchases to avoid reviews of purchases by the department of education business office.

**Misuse of blanket purchasing authority.** Schools and offices of the DOE are now permitted, and even encouraged, to use "blanket" purchase orders to acquire frequently used, low cost items in order to reduce the administrative expense of processing repetitive purchases.<sup>3</sup> Under this procedure, only one purchase order is issued to a vendor to cover purchases of a specified commodity or service over a period of time, thus eliminating the need to issue separate purchase orders for each purchase. This procedure, however, is regulated by departmental policy which states that (1) blanket purchase orders may not be used to purchase items included in the DOE storeroom price list or the DAGS price list, and (2) blanket purchase orders may not be executed for sums exceeding \$100 nor applied to purchases of items with unit costs of \$10 or more. The administrative routing of a blanket purchase order is the same as that prescribed for a regular purchase order.

Our audit disclosed that many schools are violating the \$100 limit established by policy for blanket purchase orders. Representative samples of such violations are as follows:

<sup>3</sup>*Ibid.*, p. IV-13, a "blanket purchase order" is defined as a "contract with a specific vendor for a specific monetary amount good for an open or a specified period."

School	Program	Purchase Order			For
		Date	Amount		
Kailua High	Driver education	7/ 1/71	\$200		Gas, oil, etc., for May 1971
		7/ 1/71	200		Gas, oil, etc., for Sept 1971
		7/ 1/71	200		Gas, oil, etc., for Oct. 1971
Radford High	Driver education	12/13/71	500		Gas & repairs for Aug. & Sept. 1971
	Athletics	10/20/71	450		Gas & oil for Oct-Dec '71
Waianae High	Athletics	1/13/72	500		Bus transportation for basketball
		1/13/72	400		Concession supplies
Nanakuli High & Int.	Home economics	1/11/72	300		Groceries to be purchased later

In each case cited above, a blanket purchase order was issued for an amount exceeding the dollar ceiling established by departmental policy, some as much as five times more than currently authorized.

**Recommendation.** We recommend that the department of education ensure that blanket purchase orders do not exceed the \$100 limitation specified in its policy.

**Misuse of emergency purchases.** Decentralized purchasing authority is also delegated to schools and offices to meet "emergency" situations, that is, when a



demand for supplies, materials, and services is caused by conditions beyond the control of the school or office. Under such circumstances, direct purchases of up to \$100 is permitted.<sup>4</sup> Purchases exceeding this amount which are not covered by other authorization require the prior approval, by telephone or otherwise, of the district office. Current DOE procedures also require that every emergency purchase order contain a full explanation of the nature of the emergency.

Our review of emergency purchases revealed that many such purchases are made under conditions which do not constitute true emergencies as defined in the DOE purchasing policy. It appears that the emergency purchase order procedures are being misused to bypass the normal review process of the DOE purchasing office. We cite below some examples of such dubious "emergencies" for which emergency purchase orders have been issued.

The office of instructional services (OIS) issued four purchase orders on July 1, 1972 for various sums, ranging from \$231 to \$1900 to purchase educational testing materials from different mainland vendors. These purchases were treated as emergencies and were sent directly to the vendors by the OIS with instructions for delivering the materials directly to individual schools by August 15, 1972. As noted by the delivery date

<sup>4</sup>*Ibid.*, p. IV-14.1.

specified, the materials were not urgently needed at the time of the order but, instead, were intended for use during the forthcoming school year. It appears that, in this instance, the purchase orders could have been handled routinely and should have been reviewed by the DOE's purchasing office.

In early July 1972, the Honolulu district office issued three purchase orders to purchase box lunches from two different restaurants on the island of Hawaii in connection with the "Kamuela Work Experience" project which was then administered by the Honolulu district office. These purchases were treated in an emergency fashion even though the requirement for box lunches was known and budgeted for in the plans for the project approved in mid-May 1972.

On August 9, 1972, the Kauai district office issued a purchase order for \$1800 to pay for the rental of a photocopying machine covering the period July 1 through December 31, 1972. This purchase was treated as an emergency even though the need to rent such a machine had been known or should have been known before July 1.

In every case described here, the conditions under which the purported emergency purchases

were initiated were foreseeable and within the immediate control of the purchasers in question. Moreover, we note further that none of the purchase orders contained any explanation of the nature of the emergency as required by policy. Such being the case, we believe that the emergency purchasing authority vested in schools and offices is being misused, perhaps through oversight but more likely deliberately to avoid established administrative review processes of the department.

***Recommendation.** We recommend that appropriate controls be instituted to prevent the misuse of the emergency purchase authorization granted to schools and offices.*

**Confirming purchases.** In our earlier discussion regarding blanket purchase orders, we enumerated several examples illustrating the misuse of blanket purchase orders. Included among the examples were a purchase order issued by Kailua High School on July 1, 1971 for gas and oil purchased in May 1971 and a purchase order issued by Radford High School on December 13, 1971 for gas and repair services secured in August and September 1971. Note that in these two instances, purchase orders were issued after the purchases had been consummated. The issuance of purchase orders after the purchases have been made is known in the vernacular as "confirming purchases." A DOE policy expressly prohibits this practice of confirming purchases. The policy states that schools and offices are responsible for ensuring, among other things, that "no items

are . . . contracted for or received prior to the issuance of a purchase order . . . ."<sup>5</sup>

Notwithstanding this policy, the practice of confirming purchases is widespread in the DOE. A random review of purchase orders prepared by the various state offices of the DOE during the 1971-72 fiscal year disclosed numerous purchase orders that confirmed prior purchases. The purchases confirmed included the purchases of items for which there appears to have been no reason why purchase orders could not have been secured first (e.g., air fare, photocopy machine rentals, shipping charges, meals, legal fees and notices). Even purchases from the State surplus property warehouse were made on a confirming purchase basis. About one-third (12 of 35 purchases) of the purchase orders for goods from the State surplus property warehouse were issued after the receipt of the goods purchased.

We find this prevalent use of confirming purchases to be distressing, particularly in view of earlier disclosures of this widespread practice and the declared intent of the DOE to correct this problem. We refer to a previous audit report issued in March 1971, relating to vendor payments, which disclosed that about 12 percent of the purchase orders examined then were of the confirming type.<sup>6</sup> As explained in

<sup>5</sup>DOE, *Business Office Handbook, Accounting and Purchasing*, Volume 1, p. IV-10.

<sup>6</sup>See legislative auditor's report entitled, *Audit of the State Vendor Payment Process*, audit report no. 71-3, March 1971.

that audit report, confirming purchases are technically illegal and disruptive of the normal vendor payment process. The DOE responded at that time that it would "adhere to the policy that confirming purchases be allowed in emergency situations only." However, this practice of utilizing confirming purchases for any and all types of purchases remains unabated.

***Recommendation.** We recommend that the department of education take immediate steps to prevent the continuing use of confirming purchases.*

#### **Lack of Standardization of Equipment Specifications**

Current DOE purchasing policies specify that one of the duties of the department's purchasing office is to "fix standards of quality and quantity and develop standard specifications after consultation with the proper authorities."<sup>7</sup> However, these standards have yet to be established for educational equipment. In the absence of standards, individual schools and offices fulfill their own equipment requirements on the basis of individual preferences as to make and model. Consider, for example, the equipment purchases made by a sample of 28 schools and the district office in the central district (table 4.1).

<sup>7</sup>DOE, *Business Office Handbook, Accounting and Purchasing*, Volume I, p. IV-3.

**Table 4.1**  
**Equipment Purchases of 28 Schools and the District Office**  
**For the Year Ended June 30, 1972**  
**Central District**

Equipment Description	No. of Schools & Offices Making Purchases	Quantity Purchased	Cost	No. of Makes & Models Purchased
Tape recorders:				
Cassette	29	299	\$14,956	18
Reel to reel	8	16	2,494	5
Projector:				
Movie	29	39	19,626	12
Film/slide	13	40	5,023	14
Slide	9	12	1,911	11
Overhead	15	38	6,705	13
Typewriters	15	71	18,779	13
Televisions	5	21	2,791	2
Phonographs	17	61	5,528	16
Duplicators	14	28	20,216	13
Cameras	8	13	1,268	10

As reflected in table 4.1, numerous makes and models of each kind of equipment were purchased. The most extreme example is the purchase of slide projectors. The 12 slide projectors purchased represented 11 different makes and models.

We recognize that variances in the makes and models purchased will necessarily occur to some degree due to differences in equipment requirements. However, accommodating

individual preferences and needs in equipment purchases should be balanced against the economics of such a practice.

In recent years, the use of educational equipment as teaching aids has been increasing. DOE programs such as HEP and school libraries utilize a substantial amount of educational equipment as essential elements of the programs. In the year ended June 30, 1972, the DOE's equipment purchases amounted to approximately \$2.3 million. With increasing uses of educational equipment, it is evident that a standardization of equipment specifications is essential. Standardization makes it possible to consolidate purchases and to purchase in bulk. Clearly, bulk purchases make favorable purchase discounts and bid prices feasible, thus reducing the costs of equipment purchases.

In this connection, we note that the state office issued a memo to the district offices in June 1972 requesting information regarding equipment specifications. This request was made in response to the interest expressed by the district offices for a study on the feasibility of undertaking a bulk purchasing program for school equipment for the 1972-73 school year. The replies from the district offices indicated that the information requested could not be provided in time to implement bulk purchasing during the 1972-73 school year; the district offices, however, generally expressed their interest in participating in such a program in the future.

Bulk purchases also have a material effect on securing service contracts. Bulk purchases

generally result in a fewer number of different brands of equipment purchased. This in turn makes it easier to obtain service contracts. Currently it appears that the DOE is having difficulty securing service contracts. For the year ended June 30, 1972, the DOE's expenditures for equipment repairs and maintenance were approximately \$336,000 of which only \$58,000 was under service contracts. We understand that vendors are generally reluctant to provide repair and maintenance service under all-inclusive service contracts because of the wide range of brands of equipment utilized by the schools.

In addition to the benefits of favorable prices and increased feasibility of service contracts, bulk purchasing also provides the DOE with the opportunity to obtain time-price contracts. Time-price contracts allow the purchaser to purchase his equipment requirements over a period of time at the bid price established in the contract, provided that a certain minimum number is purchased. Thus, the replacement of equipment can be done at timely intervals within the specified contract period without fear of possible increases in the price due to inflation. Moreover, the purchase of fewer brands enables the department to determine equipment life on a more uniform basis. This will aid in better planning of equipment replacements.

***Recommendation.** We recommend that the department of education develop standards for equipment specifications to enable the department to:*

1. *Purchase school equipment in bulk. The department should continue to press for such information as necessary from the districts to enable it to implement a volume purchasing program.*

2. *Secure repair and maintenance service contracts on a wider scale. The department should include service contracts as parts and parcels of all future bulk purchases.*

### **Procedural Deficiencies**

Although the DOE business office handbook provides explicit and detailed instructions regarding the procedures by which purchases should be processed, the schools and offices are not complying with these instructions. Among the deficiencies are inadequate solicitation of informal price quotations for purchases of less than \$4000, poor control over purchase orders, careless processing of vendors' invoices, and slow transmittals of vendors' invoices to the DOE business office.

**Inadequate price solicitation.** Present DOE policy covering purchases when the dollar volume is less than \$4000 states that

"The requesting agency (schools and offices) will obtain informal price quotations (telephone quotations) from interested vendors. All telephone quotations will be recorded and filed. Wherever practical, a minimum of

three (3) bids should be solicited prior to selection of the lowest responsible bidder."<sup>8</sup>

This policy is intended to ensure the most satisfactory price for each purchase and applies to purchases made from sources other than the DOE storeroom or for items not appearing on the DAGS price list.

Despite this policy, many of the schools and offices do not seek bids from three vendors as required by the policy. Indeed, it is a common practice to approach a single vendor or to rely on prices reflected on previously issued purchase orders for similar items. Further, contrary to policy, price quotations obtained from vendors are not always recorded and documented.

Under these circumstances, there is no clear assurance that the prices paid for merchandise are the lowest obtainable for goods of similar quality. Moreover, the absence of bid records leaves the department defenseless against charges of vendor favoritism should such charges arise. Thus, we believe it to be prudent for the DOE to insist that all schools and offices adhere strictly to the requirements of soliciting competitive bids and properly documenting all quotations.

**Recommendation.** *We recommend that the department of education take such steps as necessary to ensure that schools and offices comply with the requirements of soliciting competitive bids and recording all quotations.*

<sup>8</sup>*Ibid.*, p. IV-14.2.



**Inadequate control over purchase orders.** It is essential that proper and accurate records of the purchase orders issued be maintained. Proper and accurate records are necessary to ensure against unauthorized purchases and purchases in excess of allotments. Some schools and offices of the DOE, however, are not maintaining adequate records of their purchase orders. In our examination of a sample of 16 schools, two district offices, and two offices at the state level, we found the following deficiencies.

*First*, voided purchase orders are being discarded rather than kept. Purchase orders are voided when purchases do not occur after the issuance of the orders. To facilitate tracing the status of all purchase orders issued, voided purchase orders should not be discarded, but clearly marked as "void" and filed in numerical sequence with all other purchase orders.

*Second*, there are far too many cases where purchase order numbers are requested by requisitioners without subsequent use of the numbers. These cases arise when requisitioners to whom purchase order numbers have been issued fail to proceed to purchase the goods or services they intended to purchase. In these cases, no purchase orders are prepared since the decision not to buy is made before the issuance of purchase orders (although after the issuance of the purchase order numbers). Since subsequent purchase order numbers may have already been issued when the decision not to buy is made, these unused purchase order numbers are not subsequently issued. This creates a void—that is, numbers without

purchase orders. Too many of these instances cause confusion in the records. Moreover, this practice tends to increase the possibility of unauthorized purchases going undetected due to the lack of a complete and accurate purchase order file. We think that this practice of issuing purchase order numbers without the subsequent issuance of purchase orders should be kept to a minimum, if not eliminated. This means that either requisitioners must be cautioned against asking for purchase order numbers until purchases are clearly intended or purchase orders be issued nonetheless and marked "void" if purchases do not follow the issuance of purchase order numbers, or both.

**Recommendation.** *We recommend that the schools and offices be required to properly account for all of their purchase orders. In this regard, voided purchase orders should not be discarded but clearly marked as "void" and filed in numerical sequence with the other purchase orders. In addition, the practice of issuing purchase order numbers without the subsequent preparation of purchase orders should be discontinued except in cases of emergencies.*

**Careless processing of vendors' invoices.** Current DOE purchasing policies specify that the department's "invoice payment stamp" be imprinted on the original copy of all vendors' invoices and that each item on the stamp imprint be properly completed.<sup>9</sup> The stamp

<sup>9</sup>DOE, *Business Office Handbook, Accounting and Purchasing*, Volume I, pp. VI-2 and VI-3.

imprint contains boxes and spaces to be checked or filled in and initialed, indicating (1) whether only a part or all of the goods or services for which the invoice was issued were received, (2) that the invoice prices, extensions, and footings are mathematically correct, and (3) the dates on which the goods or services and the invoice, respectively, were received. The purpose of checking and filling these spaces is to ensure that the invoice is a legitimate obligation of the school or office and to ensure that the invoice is processed within the time limitations (number of days) specified in departmental procedures. Thus, the proper completion of the items on the invoice payment stamp imprint is the basis upon which the DOE controls its payments of vendors' invoices.

It appears that many of the schools and offices are not complying with the above requirements. We found numerous instances where the required entries on the invoice payment stamp imprint had not been completed. The entry which was omitted most frequently was the date that goods were received or services were rendered. Without this date, there is no assurance that the goods or services shown on the processed invoices were actually received. As a result, the possibility exists that some of these invoices may have been processed for payment prior to the actual receipt of the goods or services.

Our inquiry as to why these improperly processed invoices were accepted for payment disclosed that the DOE business office assumed that the invoices were proper since the principals

or administrators of the applicable schools and offices had certified on the accompanying invoice transmittal form (Form 420) that these invoices represented proper expenditures. The practice of accepting improperly processed invoices for payment on such a basis contradicts established DOE purchasing procedures which require the business office to audit all invoices. Not only should the DOE business office insist on proper processing of invoices, but principals and administrators who approve invoices should also review all invoices and documents for completeness and propriety instead of merely affixing their signatures to the invoice transmittal forms.

In this connection, we note that it is a common practice among some of the schools and offices to discard the vendors' delivery slips once the related invoices have been approved for payment. Such a practice is improper, for it results in the destruction of the records that substantiate the actual delivery of the goods purchased. The delivery slip with the signature of the DOE recipient serves as the principal document upon which such a substantiation can be made, and, thus, it should be retained as a part of the purchasing records.

***Recommendation.** We recommend that the department of education business office take such steps as necessary to ensure that schools and offices comply with departmental procedures in processing their invoices for payment. It should be the policy of the department of education business office not to accept any invoices for payment if the required procedures are not*

complied with. In addition, we recommend that schools and offices retain their delivery slips as a permanent record to substantiate the receipt of goods. These delivery slips should be attached to the schools' or offices' copies of the applicable vendors' invoices.

**Delayed transmittal of invoices.** In a previous audit report relating to vendor payments issued in March 1971, it was found that there were delays in the DOE's vendor payment process.<sup>10</sup> The report noted that one of the reasons contributing to this delay was the untimely transmittal of vendors' invoices to the department's vouchering section by the schools and offices. The audit report stated that "58% of the invoices take over seven days to reach the vouchering section, and that the average time is ten days." Although the DOE responded at that time that they will take "the necessary action to reduce this problem through stricter enforcement of policies and procedures," it appears that this problem of delayed transmittals remains unabated.

Our examination of processed invoices and the related invoice transmittal forms disclosed that in numerous cases invoices were not transmitted to the DOE business office (vouchering section) within the time specified by DOE procedures. These procedures specify that invoices with discounts must be transmitted

within two days and those without discounts within one calendar week after the receipt of the invoice or receipt of the goods, whichever is later.<sup>11</sup> Many of the exceptions noted were not a matter of a few days, but were of several months as indicated by the examples presented below.

Office or School	Purchase Order No.	Date Invoice or Item Received Whichever Is Later	Date Invoice Transmitted to Business Office
Board of Education	406	3/16/72	5/30/72*
Office of the Superintendent	209	1/31/72	3/12/72
Leeward District	205	4/24/72	5/30/72
Kailua High School	5584	2/ 3/72	5/31/72*
Nanakuli High School	154	10/ 71	8/ 8/72*
Waianae High School	088	11/20/71	3/21/72*

\*Exceeds 60 days.

The major reasons for these delays in transmitting invoices to the DOE business office are attributable to the following:

DOE procedures specify that invoices will be approved for payment by the person who initiated the purchase.<sup>12</sup> The initiators of purchases are usually teachers. Invoices for purchases

<sup>10</sup>See legislative auditor's report entitled, *Audit of the State Vendor Payment Process*, audit report no. 71-3, March 1971.

<sup>11</sup>DOE, *Business Office Handbook, Accounting and Purchasing*, Volume I, pp. VI-3 and VI-4.

<sup>12</sup>*Ibid.*, p. V-5.



initiated by teachers are sometimes received during teacher vacation periods. When this happens, the invoices are held by the school's business office until the teachers return.

Some teachers tend to neglect their responsibility of approving invoices promptly. They attend to such tasks only as they find time away from their school work.

The schools' business offices neglect to process invoices due to the pressure of other work requirements.

Untimely transmittals of vendors' invoices to the DOE business office should be discouraged. Delays in the payment of invoices result in costs to the State. *First*, delays make it impossible for the State to take advantage of cash discounts. We noted several instances where the DOE was not able to take advantage of cash discounts because of the slow transmittal of the invoices. *Second*, delays subject the State to the payment of interest. Under HRS, section 103-10, the State must pay interest at the rate of ½ percent per month on amounts to vendors which remain unpaid for more than 60 days. Note that among the examples of slow transmittals presented above are four cases in which the transmittals substantially exceeded the 60-day statutory requirement. Note, too, that the delays noted in the examples are exclusive of the additional time required by the

DOE business office and the department of accounting and general services to process the invoices before actual payment to the vendors.

*Recommendation.* As previously mentioned, the problem of delayed transmittals of vendors' invoices from the schools and offices to the DOE business office was earlier disclosed in a previous audit report relating to vendor payments, issued in March 1971. It is apparent that this problem continues to exist despite the declared intent at that time of the DOE to reduce this problem "through stricter enforcement of policies and procedures." We recommend that the department of education implement the applicable recommendations contained in the previous audit report.

### Rental of Facilities

From time to time, the DOE leases office or building space from commercial or eleemosynary groups to meet its space needs. At June 30, 1972, the department had ten such lease agreements in force with an aggregate annual rental of about \$330,000. Two leases have since expired. Table 4.2 lists the leases which were in force on November 30, 1972. As noted in the table, the largest lease commitment is the lease of 29,450 square feet of office space in the York building in Honolulu at an approximate cost of \$161,000 annually. The smallest commitment is the lease of 1450 square feet of building space for use as the temporary Kailua-Kona library at an annual rental of \$9400.

Table 4.2  
Inventory of Building Space Leased by the DOE  
(As of November 30, 1972)

Occupant	Facility Leased		Lessor	Lease Term	Annual Lease Rental*
	Gross Area (sq ft)	Location			
Office of Instructional Services	29,450	Honolulu	Aaron M. Chaney	10/16/70 - 10/15/75	\$161,505
DOE Storeroom	20,392	Honolulu	Y. Higa Enterprises, Ltd.	5/31/71 - 5/31/73	39,958
Adult Education	13,000	Honolulu	Makiki Christian Church	9/ 1/72 - 12/31/72	14,400
ETV-SLIM	8,906	Honolulu	Kahala Mall Shopping Center	10/15/72 - 10/14/73	42,756
Leeward District Office	5,000	Waipahu	Westgate Enterprises	7/ 1/72 - 6/30/73	21,942
Windward District Office	4,500	Kaneohe	Kaneohe Ventures, Ltd.	1/ 1/72 - 12/31/74	17,700
Teacher Assist Center	4,000	Honolulu	Lbak Properties, Inc.	4/ 1/72 - 3/31/75	21,600
Kailua-Kona Library	1,450	Kailua, Kona	B. M. Poovey, Carl Bright	3/15/72 - 3/14/77	9,420

\*Based on monthly base rental.

Prior to August 1970, each operating agency negotiated and executed space lease agreements on its own, subject only to a legal review of lease documents by the State attorney general. However, since August 1970, the control over leasing and renting of space for any and all purposes has been centralized in the department of accounting and general services (DAGS). Under the governor's administrative directives issued in 1970 and 1971,<sup>13</sup> DAGS is charged with the responsibility of overseeing the allocation of space to all State operating agencies, including leased or rented spaces. Such

being the case, any operating agency desirous of leasing any space must submit to DAGS a request for authorization to do so. When authorized, the operating agency seeks out available space and negotiates a lease. The negotiated lease, however, is subject to review and approval of DAGS.<sup>14</sup>

<sup>13</sup>Governor's administrative directive no. 1970-3 (August 20, 1970) and administrative directive no. 1971-1 (April 8, 1971).

<sup>14</sup>It should be noted that the department of land and natural resources (DLNR) is also involved in the approval of lease agreements by virtue of HRS, section 171-30, which assigns to the board of land and natural resources the exclusive responsibility for acquiring real property or any interest therein, including acquisition by way of a lease. To conform to the governor's administrative directives, the DLNR has included in its rules the requirement that all lease agreements involving the public use of private real property be first approved by DAGS before transmittal to DLNR.

Our examination into the department of education's roles and responsibilities regarding the leasing of facilities revealed two deficiencies: (1) the search for facilities is being conducted in a fragmented fashion; and (2) the department has failed to effect rental savings which is possible through securing real property tax exemptions. Discussion follows.

**Fragmented facility search.** Normally, when an agency finds a need for more office or operating space than is allocated, it initiates a search to locate available additional space which suits its purpose and, as appropriate, enters into negotiations for the use or rental of such space. Within the DOE, the functions of searching for space and negotiating for its use or rental are now decentralized and handled by each school, office, and unit requiring such additional space.

It would appear that a more coordinated approach to finding leasable space is desirable. In the *first* place, there is no assurance that each school, office, or unit possesses the necessary expertise in the rental market to effectively evaluate and negotiate lease rents and conditions. *Second*, it is conceivable that, where several operating units are involved, each could be duplicating the efforts of the others in the search for space. *Third*, some centrally determined criteria and guidelines are necessary by which suitability may be determined, available facilities may be compared, and cost implications of each option may be considered. Investments in lease rentals can amount to a considerable sum over a multi-year period. To this extent, the initial commitment to lease a

particular facility should be fully examined in light of other comparable facilities available at that time. It is incumbent upon the DOE, therefore, to establish appropriate criteria and guidelines to ensure the selection of appropriate facilities at terms most favorable to the DOE.

**Recommendation.** *We recommend that the department of education coordinate the search for leasable space by all of its schools, offices, and units and establish criteria and guidelines to ensure the selection of appropriate facilities at terms most favorable to the department of education.*

**Failure to effect rental savings.** Under HRS, section 246-36(2), an exemption from real property taxes is allowed for "real property under lease to the State or any county under which the lessee is required to pay the taxes on such property," provided, of course, that a claim to this effect is properly filed with and approved by the department of taxation. A tax exemption of this nature could effectively result in a reduction of rental costs to the DOE for properties leased from commercial sources.<sup>15</sup>

In a previous audit report issued in April 1971, we noted that a certain commercial office space under lease by the DOE qualified for an exemption from the tax but no exemption claim had been filed by the DOE. We recommended

<sup>15</sup>Presently, revenues from the real property tax accrue to the respective counties. Thus, it might be said that the State can save the cost of the tax if the DOE would apply for and receive tax exemptions pursuant to section 246-36(2).

at that time that that particular lease and "all lease agreements of the DOE now in effect involving the rental of commercial office or building space be reviewed and exemptions from the real property tax be obtained wherever applicable."<sup>16</sup>

Although over 18 months have elapsed since that audit finding was issued, the department has yet to effect internal policies and procedures to ensure that it files for real property tax exemptions for premises it leases from commercial firms. As a consequence, of the seven leases it holds from commercial firms (see table 4.2), only two are currently exempt from real property taxes.

While the exact amount of the rentals that the DOE may save from securing exemptions from real property taxes is not readily determinable, we believe it could be a substantial sum.<sup>17</sup> For example, the teacher assist center lease noted in table 4.2 provides for the payment by the DOE of a specified sum as real property taxes which the lessor is required to pay on the leased premises. The amount of the real property taxes in this case is

<sup>16</sup>Legislative auditor, *Audit of the Hawaii Educational Television System*, audit report no. 71-4, April 1971.

<sup>17</sup>The financial effect of the real property tax exemption upon rental fees can be determined if the lease specifies the portion of the tax which is prorated to the lessee. If not, some reasonable estimate can be made on the basis of the proportionate space occupied by the lessee in relation to the total area of the real property being taxed. The leases examined generally lacked information for calculating the value of the real property tax exemption. The teacher assist center lease, mentioned in the text, is an exception.

about \$2700 annually. Conceivably, the rental can be reduced by this amount. Over the life of the current three-year lease on this particular property, the potential savings to the DOE is about \$8100. Of particular significance is the fact that the teacher assist center lease and the leases on three other rented facilities were entered into or renewed during the first six months of 1972—a full year after the DOE was alerted by our previous audit report to the real property tax exemption privilege accorded to public agencies.

Our inquiry into the probable causes for the failure to obtain tax exemptions suggests that district offices and other subordinate administrative offices of the DOE, which now assume the task of negotiating lease agreements to meet their respective space needs, are not sufficiently apprised of the tax exemption privilege. Consequently, efforts are not exerted to include terms covering this matter in the negotiation of lease renewals or, where a lease is still in effect, to seek revisions in the terms of the lease to permit the DOE to apply for the exemption.

We are cognizant that the DOE has under review some proposed guidelines and procedures covering the rental of facilities which do include a reference to the real property tax exemption. However, we note that these instructions are still in draft form and have not been formally issued. In the meantime, however, because of the failure to actively pursue the tax exemption privilege available to the department, the DOE is paying more than it really should for renting commercial office or building space.

***Recommendations.** We recommend that the department of education review all current lease agreements involving the rental of commercial office or building space, initiate proceedings without further delay to renegotiate terms pertaining to real property tax exemptions and, wherever applicable, seek the exemptions from the department of taxation.*

*We further recommend that the proposed facility rental guidelines now under review by the department of education contain specific instructions relating to real property tax exemptions, specifically as to the information required in lease agreements to legally qualify the department of education for tax exemptions and the procedures by which such exemptions should be obtained.*

## **Chapter 5**

### **FINANCIAL STATEMENTS AND ACCOUNTANTS' OPINIONS**

#### **Introduction**

This chapter contains the results of an examination of the financial statements of the department of education for the fiscal year July 1, 1971 to June 30, 1972. This examination was conducted by Lybrand, Ross Bros. and Montgomery. This chapter contains explanatory notes

to the financial statements, opinions regarding the accuracy of the financial statements, and displays of the financial statements of the general fund, special funds, and trust funds administered by the department of education.

A brief description of the various financial statements and definitions of some technical terms used in the statements and this chapter are as follows.

#### **Description of financial statements**

1. *Accountants' opinion* indicates the scope of the examination and the accountants' expression of an opinion as to whether the financial statements present fairly the financial position and/or the results of the operations of the department of education for the examination period in accordance with generally accepted accounting principles consistently applied.

2. *Notes to the financial statements* represent disclosures intended to furnish the reader with a better understanding of the financial statements and which are necessary to ensure against a misreading of the financial statements.

3. *Combined balance sheet* discloses the assets, liabilities, reserves, and fund balances of the department's special funds and trust funds as of a specified date.

4. *Statement of appropriations, allotments, expenditures, and encumbrances* (general fund) indicates the funds authorized,



made available, expended, and obligated for the period presented.

5. *Combined statement of revenue, expenditures, transfers, and fund balance* summarizes the results of financial transactions during the year by the respective special funds.

6. *Statement of revenue* shows the revenue actually collected during the year by the department of education to the credit of the State general fund and a comparison of the anticipated and actual collection of revenue.

7. *Combined statement of cash receipts and disbursements* summarizes the results of the cash transactions had during the year by the respective trust funds.

#### Definition of terms

1. *Accrual accounting* — A method of accounting in which revenue is recorded when earned and expenditures are recorded as soon as they result in liabilities for benefits received, notwithstanding that the receipt of the revenue or the payment of the expenditure may take place, in whole or in part, in another accounting period.

2. *Appropriated receipts* — Funds received by the State for designated purposes and specifically authorized by the State legislature to be expended by the State agency. Depending upon the designated purposes of the receipts the funds may lapse at the end of the fiscal year or be carried over until completely expended.

3. *Capital expenditure* — An expenditure which results in the acquisition of or addition to the general fixed assets.

4. *Cash accounting* — A method of accounting in which revenue is recorded when received in cash and expenditures are recorded when paid.

5. *Encumbrance* The earmarking or setting aside of certain sums of money from an appropriation for payment at a future date.

6. *Equipment* — Tangible property of a more or less permanent nature, other than land, buildings, and improvements, which is useful in carrying on operations and is usually acquired through the agency's operating appropriation.

7. *Expenditure* — The actual disbursement of funds for the payment of goods delivered or services rendered which are incurred against authorized funds.

8. *Fund balance* — The excess of a fund's assets over its liabilities and reserves which is available for future appropriation unless restricted to a specific purpose.

9. *Lapsed balance* — The balance of funds authorized, which is unexpended and uncommitted at the end of a prescribed time period. This balance is available for appropriation by the State legislature in the ensuing fiscal year.



10. *Modified cash accounting* — A method of accounting in which revenue is recorded when actually received and expenditures are recorded when actually incurred.

11. *Other current expenses* — Expenditures other than for personal services.

12. *Personal services* — Salaries and wages paid to employees.

13. *Reserve* — An account which records a portion of the fund balance which must be segregated for some future use and which is, therefore, not available for further appropriation.

14. *Transfers* — Inter-fund, inter-department, and other transfers and transactions outside of an agency, authorized by the director of budget and finance and/or the governor.

### Summary of Findings

The findings in summary are as follows.

1. Due to incomplete and inadequate DOE financial records, no opinion can be rendered as to the fairness with which the general fund and the State school revolving special fund financial statements represent the financial positions of the two named funds.

2. With respect to other special fund and trust fund statements, they appear to fairly

represent the financial position of the respective funds.

### General Notes to the Financial Statements

Explanatory notes which are pertinent to an understanding of the financial statements and financial condition of the funds administered by the department are discussed below.

**Accounting principles.** The accounts of the department of education are maintained and the accompanying financial statements have been prepared on a *modified cash basis of accounting*. Generally, under the modified cash method, revenue is recognized when actually received and expenditures are recognized when actually incurred.

The accounting procedures provide for the recording of commitments at the time contracts are awarded and orders placed for equipment, construction, services, and supplies. These commitments are represented as encumbrances in the accompanying financial statements and are necessary to reflect obligations against appropriations.

Capital assets constructed or purchased by the department of education are recorded as expenditures of the various funds. These assets are not reflected as assets in the accompanying balance sheets of the funds, but are reflected in the general fixed assets of the State of Hawaii. Depreciation of these assets is not recorded by the State of Hawaii.

**Fund categories and description.** The accounting system is characterized by the use of separate funds. These funds are structured to conform to appropriations and allotments authorized by law. Major categories of funds administered by the department of education are briefly described below.

1. The *general fund* is used to account for all resources not specifically set aside for special purposes. Any activity not financed through another fund is financed through this fund. The budget as adopted by the legislature provides the basic framework within which the resources and obligations of the general fund are accounted. The budget and the related general fund accounting process complement each other as basic control functions in the general administration of the department. The general fund of the department of education is a part of the State of Hawaii general fund and the accompanying general fund financial statement is limited to and reflects only the appropriations and obligations of the department of education except that the appropriations and obligations of the school lunch program are excluded from this statement.

2. *Special funds* are operated to account for revenue designated for particular purposes. These funds are often of the same nature as the general fund; however, they are distinguishable from the general fund in that special funds have legislative or other limitations imposed upon their use. A description of the department of education's special funds is presented below.

- a. *Adult education fund.* Hawaii Revised Statutes, section 301, authorizes the department of education to establish and regulate a program of adult education of less than college grade utilizing the public school facilities. This fund was created to account for fees collected and certain expenditures incurred by the program which are not being accounted for in the general fund.
- b. *Hawaiian homes educational project fund.* Section 213 of the Hawaiian Homes Commission Act of 1920 established the Hawaiian home-development fund whereby 85 percent of the "additional receipts-development fund portion" is segregated into the Hawaiian home educational project fund. This fund accounts for such educational projects as are developed and directed by the department of education after consultation with the university of Hawaii and the department of Hawaiian home lands. Such projects are directed primarily toward the educational improvement of the children of the lessees of the Hawaiian home lands.
- c. *Private donations for distributive education.* This fund was created in accordance with section 296-32, Hawaii Revised Statutes, to account for private donations received by or

on behalf of the department of education.

- d. *State school revolving fund.* This fund accounts for purchases and sales of workbooks for the adult education classes.
- e. *Summer school revolving fund.* This fund was created in accordance with section 298, Hawaii Revised Statutes, to account for tuitions and other fees collected and expenditures incurred for the operation of the public summer school program.

3. *Trust funds* are used to account for resources held by the department of education as a trustee or an agent. The accounts are operated in accordance with specific agreements or other governing regulations. A description of the department's various trust funds is presented below.<sup>1</sup>

- a. *Donations – education.* This fund was established in accordance with section 296–32, Hawaii Revised Statutes, to account for donations received by or on behalf of schools.
- b. *Temporary deposits – education.* This fund was established by the

department mainly to account for sabbatical leave refunds. It is also used to account for other miscellaneous deposits.

- c. *Temporary deposits – public libraries.* These funds were established in accordance with section 312–4, Hawaii Revised Statutes, to account for temporary deposits received from nonresident individuals borrowing library books.
- d. *Donations and gifts – public libraries.* These funds were established in accordance with section 312–2, Hawaii Revised Statutes, to account for donations received for library purposes.
- e. *Foundations and other grants.* This fund was established to account for grants from the Educational Facilities Laboratories, Inc.
- f. *Private monies and gifts.* This fund was established to account for donations made for the purpose of purchasing and selling art teaching guides.
- g. *Donations for transcribing services.* This fund was established to account for donations received for the benefit of the blind and physically handicapped.

<sup>1</sup>See chapter 3 for our comments on the propriety of maintaining some of these trust funds.

**Commitments.** The department has several leases for office space expiring at various dates to 1977. The annual rental under the terms of the leases approximates \$330,000. The lease rental requirements are encumbered only for a one-year period rather than for the term of the leases.

In accordance with the general practice followed by other State agencies, the department of education does not reflect the accrued and potential liability for earned vacation and sick leave credits. Within certain limitations the employees are entitled to receive cash payments for accrued vacation upon the termination of their employment. The policy of the department of education is to record the expenditures for vacation leave when paid from current appropriations.

Sick leave can accumulate at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of an illness and is not convertible to pay upon the termination of employment.

All full-time employees of the department of education are required by section 88 of the Hawaii Revised Statutes to become members of the employees' retirement system of the State of Hawaii, a contributory retirement system. Optional membership is available to elected officials and certain other non-required employees with the authorization of the system's board of trustees. The department's and other State agencies' share of the retirement expense for the fiscal year ended June 30, 1972

is included in the general appropriation bill as an item to be expended by the department of budget and finance and is not reflected in the department's accompanying financial statements. The accrued liability contribution, which includes prior service cost, is being funded over a 50-year period from July 1, 1964.

**Pending litigation.** The department is currently involved in three litigations or disputes involving teacher dismissals. These pending cases are presently either before the board of education, the first circuit court, or the supreme court of Hawaii. Claims for back pay up to October 31, 1972 total approximately \$42,000.

The department is also involved in several collective bargaining disputes which may affect the operating budget in subsequent years.

**Legislative appropriations.** Act 68, SLH 1971, effective July 1, 1971, appropriated to the department of education \$166,753,503 for the 1972-1973 fiscal year to be financed from the following sources:

	<u>1972-1973</u>
General revenue	\$140,868,846
Federal funds	16,252,377
Special funds	9,632,280
	<u>\$166,753,503</u>

Act 68 (amended by Act 202, SLH 1972), Act 197, SLH 1971 (effective July 1, 1971), and

Act 176, SLH 1972, also appropriated to the department of education the following sums for capital improvement projects for the 1971-72 and 1972-73 fiscal years. The appropriations for these projects are being expended principally by the department of accounting and general services.

	<u>1971-1972</u>	<u>1972-1973</u>
Act 68, Session Laws, 1971*	\$26,479,000	\$17,966,000
Act 197, Session Laws, 1971	25,806,000	—
Act 176, Session Laws, 1972	—	18,250,000
	<u>\$52,285,000</u>	<u>\$36,216,000</u>

\*As amended by Act 202, Session Laws, 1972.

### General Fund Statement

**Accountants' opinion.** Lybrand, Ross Bros. and Montgomery has filed the following opinion with the legislative auditor concerning the DOE's general fund financial statement:

"To the Legislative Auditor  
State of Hawaii  
Honolulu, Hawaii

We have examined the accompanying statement of appropriations, allotments, expenditures and encumbrances [table 5.1] of the General Fund (not including the transactions of the School Lunch Services Program appropriations which are excluded from the scope of our examination) of the Department of Education, State of Hawaii for the year ended June 30, 1972. We have also

examined the accompanying statement of revenue collected by the Department of Education for the State of Hawaii General Fund [table 5.2] for the year ended June 30, 1972. As explained in . . . the general notes to the financial statements [see page 35 of this report], the General Fund of the Department of Education is part of the State of Hawaii General Fund and our opinion expressed herein, insofar as it relates to the amounts included for the General Fund is limited to the transactions of the Department of Education only. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as stated in the following paragraph.

Our examination disclosed that many of the financial records maintained by the Department of Education were incomplete or inadequate. As a result, there were many differences in the appropriation accounts as of July 1, 1971 and June 30, 1972 with that of the official records maintained by the State Department of Accounting and General Services and these differences were not reconciled by the Department of Education for the years ended June 30, 1971 and 1972. Although the accompanying statement of appropriations, allotments, expenditures and encumbrances has been prepared from the official records of the State Department of Accounting and



General Services, the above-mentioned differences may materially affect the results of operations of the General Fund of the Department of Education, State of Hawaii for the year ended June 30, 1972. Since the scope of our examination did not provide for the extension of auditing procedures to enable us to reconcile these differences, we do not express an opinion on the accompanying statement of appropriations, allotments, expenditures and encumbrances.

In our opinion, the revenue collected by the Department of Education, State of Hawaii for the State of Hawaii General Fund for the year ended June 30, 1972 is fairly stated in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Lybrand, Ross Bros. & Montgomery  
Certified Public Accountants

Honolulu, Hawaii  
October 31, 1972"

**The statements.** The DOE general fund financial statement is displayed in table 5.1. A statement of general fund revenue is shown in table 5.2.

**Notes to the general fund financial statement, June 30, 1972.** 1. *Financial records.* The statement of appropriations, allotments, expenditures, and encumbrances reflect the

balances noted in the central accounting records maintained by the State department of accounting and general services since its records are the official financial records of the State of Hawaii.

Although the State department of accounting and general services accounts for the federal funds by program categories, in order to provide a more logical presentation, the statement of appropriations, allotments, expenditures, and encumbrances for the federal funds has been reclassified on a grant basis.

2. *Encumbrances.* The encumbrances reflect only the amount of obligations incurred to the extent of the fourth quarter allotment balances. The DOE incurred obligations of approximately \$272,000 in excess of the allotment balances. Approximately \$164,000 of the encumbrances were applied against the 1972-73 appropriations with the remainder subsequently cancelled.

3. *Statement of revenue.* The statement of revenue reflects the revenue collected by the department of education to the credit of the State of Hawaii general fund. The authority to collect fees is covered by the various sections of the Hawaii Revised Statutes.

The variances between estimated and actual revenue are generally due to over- or under-estimation of program revenue at the time the operating budgets were prepared. Specifically, the significant variance noted in the "Assistance for Educational Agencies Affected by



Federal Activities, P.L. 874," is attributable to the funds being received earlier than anticipated.

### Special Fund Statements

**Accountants' opinion.** Lybrand, Ross Bros. and Montgomery has filed the following opinion with the legislative auditor concerning the DOE's special fund statements.

"To the Legislative Auditor  
State of Hawaii  
Honolulu, Hawaii

We have examined the combined balance sheet [table 5.3 ] of the Special Funds (not including the Special School Lunch Fund which was excluded from the scope of our examination) of the Department of Education, State of Hawaii as of June 30, 1972 and the related combined statement of revenue, expenditures, transfers and fund balance [table 5.4] for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances except as stated in the following paragraph.

As indicated in the "note to the financial statements of the special funds" [see page 42 of this report], the financial records of the Department of Education showed the beginning fund balance of the State School

Revolving Fund to be \$3471 more than the official records of the State Department of Accounting and General Services. Although the financial statements of the State School Revolving Fund have been prepared from the official records of the State Department of Accounting and General Services, the above-mentioned difference may materially affect the balance sheet of the State School Revolving Fund at June 30, 1972 and the results of its operations for the year then ended. Since the scope of our examination did not provide for the extension of auditing procedures to enable us to reconcile this difference, we do not express an opinion on the balance sheet of the State School Revolving Fund of the Department of Education, State of Hawaii at June 30, 1972 and the related statement of revenue, expenditures, transfers and fund balance for the year then ended.

In our opinion, except for the State School Revolving Fund, the aforementioned financial statements (excluding the Special School Lunch Fund) present fairly the financial position of the various Special Funds of the Department of Education, State of Hawaii at June 30, 1972 and the results of their respective operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Lybrand, Ross Bros. & Montgomery  
Certified Public Accountants

Honolulu, Hawaii  
October 31, 1972"

**The statement.** The combined special fund balance sheet as of June 30, 1972 is displayed in table 5.3. The combined statement of revenue, expenditures, transfers, and fund balance is in table 5.4.

**Note to the special fund financial statements, June 30, 1972.** As of July 1, 1971, the department of education's fund balance for the State school revolving fund showed \$3,471 more than the central accounting records maintained in the State department of accounting and general services. The balance noted in the records of the State department of accounting and general services is shown as the beginning fund balance on the special fund financial statements, since the department of accounting and general services' records are the official financial records of the State of Hawaii.

#### **Trust Fund Statements**

**Accountants' opinion.** Lybrand, Ross Bros. & Montgomery has filed the following opinion with the legislative auditor concerning the DOE's trust fund statements.

"To the Legislative Auditor  
State of Hawaii  
Honolulu, Hawaii

We have examined the combined balance sheet [table 5.5 ] of the Trust Funds (not

including the State Schools Athletic Fund which was excluded from the scope of our examination) of the Department of Education, State of Hawaii as of June 30, 1972 and the related combined statement of cash receipts and disbursements [table 5.6] for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above referred to financial statements present fairly the financial position of the various Trust Funds (excluding the State Schools Athletic Fund) of the Department of Education, State of Hawaii at June 30, 1972 and the cash receipts and disbursements of the respective Trust Funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Lybrand, Ross Bros. & Montgomery  
Certified Public Accountants

Honolulu, Hawaii  
October 31, 1972"

**The statements.** The trust funds' combined balance sheet is noted in table 5.5. Table 5.6 sets forth the combined statement of cash receipts and disbursements.

Table 5.1  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
GENERAL FUND

Statement of appropriations, allotments, expenditures and encumbrances  
for the year ended June 30, 1972

	Balance Forward	Appropriations	Appropriated Receipts	Transfers and Other Items	Total	Expenditures	Encumbrances	Lapsed Balance
<b>INTELLECTUAL LEARNINGS</b>								
<b>Mathematics</b>								
Research and Development	\$ -	\$ 50,607.00	\$ -	\$ -	\$ 50,607.00	\$ -	\$ -	\$ 4,637.27
Personal services	-	-	-	-	-	45,969.73	-	-
	-	50,607.00	-	-	50,607.00	45,969.73	-	4,637.27
Operating	-	13,267,321.00	-	(2,959,510.25)	10,307,810.75	-	-	470,299.36
Personal services	-	-	-	-	-	9,212,952.00	-	-
Other current expenses	-	-	-	-	-	601,536.06	23,023.33	-
	-	13,267,321.00	-	(2,959,510.25)	10,307,810.75	9,814,488.06	23,023.33	470,299.36
Investment - Non Capital	-	6,600.00	-	-	6,600.00	-	-	6,600.00
Total Mathematics	-	13,324,528.00	-	(2,959,510.25)	10,365,017.75	9,860,457.79	23,023.33	481,536.63
<b>Language Arts</b>								
Research and Development	-	139,180.00	-	-	139,180.00	-	-	12,973.36
Personal services	-	-	-	-	-	126,206.64	-	-
	-	139,180.00	-	-	139,180.00	126,206.64	-	12,973.36
Operating	-	24,198,457.00	-	(1,446,744.00)	22,751,713.00	-	-	872,361.76
Personal services	-	-	-	-	-	17,694,307.19	18,778.05	-
Other current expenses	-	-	-	-	-	3,193,790.39	972,475.61	-
	-	24,198,457.00	-	(1,446,744.00)	22,751,713.00	20,888,097.58	991,253.66	872,361.76
Investment - Non Capital	-	1,582,172.00	-	1,564,021.64	3,146,193.64	-	-	1,586,660.24
Personal services	-	-	-	-	-	365,533.76	-	-
Other current expenses	-	-	-	-	-	992,716.89	201,282.75	-
	-	1,582,172.00	-	1,564,021.64	3,146,193.64	1,358,250.65	201,282.75	1,586,660.24
Total Language Arts	-	25,919,809.00	-	117,277.64	26,037,086.64	22,372,554.87	1,192,536.41	2,471,995.36
<b>Science</b>								
Research and Development	-	352,881.00	-	-	352,881.00	-	-	41,355.05
Personal services	-	-	-	-	-	311,525.95	-	-
	-	352,881.00	-	-	352,881.00	311,525.95	-	41,355.05
Operating	\$ -	\$ 7,259,934.00	\$ -	\$ ( 320,362.00)	\$ 6,939,572.00	\$ -	\$ -	\$ -
Personal services	-	-	-	-	-	6,132,224.11	5,257.85	191,013.15
Other current expenses	-	-	-	-	-	567,345.11	43,731.78	-
	-	7,259,934.00	-	( 320,362.00)	6,939,572.00	6,699,569.22	48,989.63	191,013.15
Investment - Non Capital	-	3,850.00	-	-	3,850.00	-	-	3,850.00
Total Science	-	7,616,665.00	-	( 320,362.00)	7,296,303.00	7,011,095.17	48,989.63	236,218.20
<b>Foreign Language</b>								
Research and Development	-	8,434.00	-	-	8,434.00	-	-	772.35
Personal services	-	-	-	-	-	7,661.65	-	-
	-	8,434.00	-	-	8,434.00	7,661.65	-	772.35
Operating	-	2,229,410.00	-	( 275,997.00)	1,953,413.00	-	-	76,222.64
Personal services	-	-	-	-	-	1,752,197.09	1,502.24	-
Other current expenses	-	-	-	-	-	116,189.41	7,301.62	-
	-	2,229,410.00	-	( 275,997.00)	1,953,413.00	1,868,386.50	8,803.86	76,222.64
Investment - Non Capital	-	1,100.00	-	-	1,100.00	-	-	1,100.00
Total Foreign Language	-	2,238,944.00	-	( 275,997.00)	1,962,947.00	1,876,048.15	8,803.86	78,094.99
<b>TOTAL - INTELLECTUAL LEARNINGS</b>	-	49,099,946.00	-	(3,438,591.61)	45,661,354.39	41,120,155.98	1,273,353.23	3,267,845.18

The contents included in Chapter 5 of the report are an integral part of the financial statements.

Table 5.1 (cont'd)  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION

GENERAL FUND

Statement of appropriations, allotments, expenditures and encumbrances  
for the year ended June 30, 1972

	Balance Forward	Appropriations	Appropriated Receipts	Transfers and Other Items	Total	Expenditures	Encumbrances	Lapsed Balance
<b><u>SOCIAL - PERSONAL LEARNINGS</u></b>								
<b><u>Health</u></b>								
Research and Development	-	25,303.00	-	-	25,303.00	-	-	2,318.13
Personal services	-	-	-	-	-	22,984.87	-	-
	-	<u>25,303.00</u>	-	-	<u>25,303.00</u>	<u>22,984.87</u>	-	<u>2,318.13</u>
Operating	-	6,870,388.00	-	( 336,785.00)	6,533,603.00	-	-	172,006.14
Personal services	-	-	-	-	-	6,140,793.62	5,257.85	-
Other current expenses	-	-	-	-	-	187,088.45	28,456.94	-
	-	<u>6,870,388.00</u>	-	<u>( 336,785.00)</u>	<u>6,533,603.00</u>	<u>6,327,882.07</u>	<u>33,714.79</u>	<u>172,006.14</u>
Investment - Non Capital	-	3,300.00	-	-	3,300.00	-	-	3,300.00
Total Health	-	<u>6,898,991.00</u>	-	<u>( 336,785.00)</u>	<u>6,562,206.00</u>	<u>6,350,866.94</u>	<u>33,714.79</u>	<u>177,624.27</u>
<b><u>Music</u></b>								
Research and Development	\$ -	\$ 23,036.00	\$ -	\$ -	\$ 23,036.00	\$ -	\$ -	\$ 2,474.88
Personal services	-	-	-	-	-	19,154.12	-	-
Other current expenses	-	-	-	-	-	190.30	1,216.70	-
	-	<u>23,036.00</u>	-	-	<u>23,036.00</u>	<u>19,344.42</u>	<u>1,216.70</u>	<u>2,474.88</u>
Operating	-	5,824,403.00	-	( 84,760.00)	5,739,643.00	-	-	134,570.93
Personal services	-	-	-	-	-	5,256,082.84	4,506.73	-
Other current expenses	-	-	-	-	-	331,444.12	13,038.38	-
	-	<u>5,824,403.00</u>	-	<u>( 84,760.00)</u>	<u>5,739,643.00</u>	<u>5,587,526.96</u>	<u>17,545.11</u>	<u>134,570.93</u>
Investment - Non Capital	-	2,750.00	-	-	2,750.00	-	-	2,750.00
Total Music	-	<u>5,850,189.00</u>	-	<u>( 84,760.00)</u>	<u>5,765,429.00</u>	<u>5,606,871.38</u>	<u>18,761.81</u>	<u>139,795.81</u>
<b><u>Art</u></b>								
Research and Development	-	16,869.00	-	-	16,869.00	-	-	1,545.78
Personal services	-	-	-	-	-	15,323.22	-	-
	-	<u>16,869.00</u>	-	-	<u>16,869.00</u>	<u>15,323.22</u>	-	<u>1,545.78</u>
Operating	-	4,660,882.00	-	380,327.00	5,041,209.00	-	-	127,081.34
Personal services	-	-	-	-	-	4,397,606.73	3,755.61	-
Other current expenses	-	-	-	-	-	482,978.02	29,787.30	-
	-	<u>4,660,882.00</u>	-	<u>380,327.00</u>	<u>5,041,209.00</u>	<u>4,880,584.75</u>	<u>33,542.91</u>	<u>127,081.34</u>
Investment - Non Capital	-	2,200.00	-	-	2,200.00	-	-	2,200.00
Total Art	-	<u>4,679,951.00</u>	-	<u>380,327.00</u>	<u>5,060,278.00</u>	<u>4,895,907.97</u>	<u>33,542.91</u>	<u>130,827.12</u>
<b><u>Physical Education</u></b>								
Research and Development	-	25,303.00	-	-	25,303.00	-	-	2,318.13
Personal services	-	-	-	-	-	22,984.87	-	-
	-	<u>25,303.00</u>	-	-	<u>25,303.00</u>	<u>22,984.87</u>	-	<u>2,318.13</u>
Operating	-	6,991,826.00	-	( 369,036.00)	6,622,790.00	-	-	272,011.23
Personal services	-	-	-	-	-	6,132,223.92	5,257.85	-
Other current expenses	-	-	-	-	-	190,055.80	23,241.20	-
	-	<u>6,991,826.00</u>	-	<u>( 369,036.00)</u>	<u>6,622,790.00</u>	<u>6,322,279.72</u>	<u>28,499.05</u>	<u>272,011.23</u>
Investment - Non Capital	-	3,300.00	-	-	3,300.00	-	-	3,300.00
Total Physical Education	-	<u>7,020,429.00</u>	-	<u>( 369,036.00)</u>	<u>6,651,393.00</u>	<u>6,345,264.59</u>	<u>28,499.05</u>	<u>277,629.36</u>

The contents included in Chapter 5 of the report are an integral part of the financial statements.

Table 5.1 (cont'd)  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
GENERAL FUND

Statement of appropriations, allotments, expenditures and encumbrances  
for the year ended June 30, 1972

	Balance Forward	Appropriations	Appropriated Receipts	Transfers and Other Items	Total	Expenditures	Encumbrances	Lapsed Balance
<b>Social Studies</b>								
Research and Development	\$ -	\$ 63,259.00	\$ -	\$ -	\$ 63,259.00	\$ -	\$ -	\$ 5,796.78
Personal services	-	-	-	-	-	57,462.22	-	-
	-	63,259.00	-	-	63,259.00	57,462.22	-	5,796.78
Operating	-	16,754,747.00	-	( 515,515.00)	16,239,232.00	-	-	531,277.17
Personal services	-	-	-	-	-	14,892,546.11	12,769.07	-
Other current expenses	-	-	-	-	-	726,435.48	76,204.17	-
	-	16,754,747.00	-	( 515,515.00)	16,239,232.00	15,618,981.59	88,973.24	531,277.17
Investment - Non Capital	-	8,250.00	-	-	8,250.00	-	-	8,250.00
Total Social Studies	-	16,826,256.00	-	( 515,515.00)	16,310,741.00	15,676,443.81	88,973.24	545,323.95
<b>Student Affairs</b>								
Research and Development	-	78,052.00	-	43,471.00	121,523.00	-	-	75,936.30
Personal services	-	-	-	-	-	39,327.77	1,926.00	-
Other current expenses	-	-	-	-	-	4,131.33	201.60	-
	-	78,052.00	-	43,471.00	121,523.00	43,459.10	2,127.60	75,936.30
Operating	-	3,431,024.00	4,665.00	224,755.00	3,660,444.00	-	-	712,031.84
Personal services	-	-	-	-	-	2,584,396.24	334.76	-
Other current expenses	-	-	-	-	-	309,742.42	53,938.74	-
	-	3,431,024.00	4,665.00	224,755.00	3,660,444.00	2,894,138.66	54,273.50	712,031.84
Investment - Non Capital	-	1,650.00	-	-	1,650.00	-	-	1,650.00
Total Student Affairs	-	3,510,726.00	4,665.00	268,226.00	3,783,617.00	2,937,597.76	56,401.10	789,618.14
TOTAL SOCIAL - PERSONAL LEARNINGS	-	44,786,542.00	4,665.00	( 657,543.00)	44,133,664.00	41,812,952.45	259,892.90	2,060,818.65
<b>ECONOMIC LEARNINGS</b>								
<b>Vocational Technical</b>								
Research and Development	-	8,434.00	-	-	8,434.00	-	-	772.35
Personal services	-	-	-	-	-	7,661.65	-	-
	-	8,434.00	-	-	8,434.00	7,661.65	-	772.35
Operating	-	2,350,803.00	-	35,170.00	2,385,973.00	-	-	620,966.58
Personal services	-	-	-	-	-	1,673,404.18	1,502.24	-
Other current expenses	-	-	-	-	-	83,651.99	6,448.01	-
	-	2,350,803.00	-	35,170.00	2,385,973.00	1,757,056.17	7,950.25	620,966.58
Investment - Non Capital	\$ -	\$ 1,100.00	\$ -	\$ -	\$ 1,100.00	\$ -	\$ -	\$ 1,100.00
Total Vocational Technical	-	2,360,337.00	-	35,170.00	2,395,507.00	1,764,717.82	7,950.25	622,838.93
<b>Practical Arts</b>								
Research and Development	-	40,970.00	-	-	40,970.00	-	-	16,409.88
Personal services	-	-	-	-	-	19,154.12	-	-
Other current expenses	-	-	-	-	-	2,149.02	3,256.98	-
	-	40,970.00	-	-	40,970.00	21,303.14	3,256.98	16,409.88
Operating	-	5,806,469.00	-	523,118.00	6,329,587.00	-	-	266,941.43
Personal services	-	-	-	-	-	5,256,192.84	4,506.73	-
Other current expenses	-	-	-	-	-	712,002.74	89,943.26	-
	-	5,806,469.00	-	523,118.00	6,329,587.00	5,968,195.58	94,449.99	266,941.43
Investment - Non Capital	-	2,750.00	-	-	2,750.00	-	-	2,750.00
Total Practical Arts	-	5,850,189.00	-	523,118.00	6,373,307.00	5,989,498.72	97,706.97	286,101.31
TOTAL ECONOMIC LEARNINGS	-	8,210,526.00	-	558,288.00	8,768,814.00	7,754,216.54	105,657.22	908,940.24

The contents included in Chapter 5 of the report are an integral part of the financial statements.

Table 5.1 (cont'd)  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
GENERAL FUND

Statement of appropriations, allotments, expenditures and encumbrances  
For the year ended June 30, 1972

	Balance Forward	Appropriations	Appropriated Receipts	Transfers and Other Items	Total	Expenditures	Encumbrances	Lapsed Balance
<b>ADMINISTRATION</b>								
State Administration								
Prior Year Accounts	40,460.97	-	-	( 11,687.11)	28,773.86	-	-	-
Personal services	-	-	-	-	-	409.50	-	-
Other current expenses	-	-	-	-	-	28,041.11	323.25	-
	<u>40,460.97</u>	<u>-</u>	<u>-</u>	<u>( 11,687.11)</u>	<u>28,773.86</u>	<u>28,450.61</u>	<u>323.25</u>	<u>-</u>
Operating	-	444,508.00	-	( 166,963.00)	277,545.00	-	-	22,636.11
Personal services	-	-	-	-	-	180,636.98	3,036.30	-
Other current expenses	-	-	-	-	-	62,017.57	9,218.04	-
	<u>-</u>	<u>444,508.00</u>	<u>-</u>	<u>( 166,963.00)</u>	<u>277,545.00</u>	<u>242,654.55</u>	<u>12,254.34</u>	<u>22,636.11</u>
Total State Administration	<u>40,460.97</u>	<u>444,508.00</u>	<u>-</u>	<u>( 178,650.11)</u>	<u>306,318.86</u>	<u>271,105.16</u>	<u>12,577.59</u>	<u>22,636.11</u>
State Travel	-	-	-	237,105.00	237,105.00	174,755.92	14,739.08	47,610.00
Other current expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>237,105.00</u>	<u>237,105.00</u>	<u>174,755.92</u>	<u>14,739.08</u>	<u>47,610.00</u>
Staff Services								
Prior Year Accounts	\$ 284,867.67	\$ -	\$ -	\$ ( 194,964.96)	\$ 89,902.71	\$ -	\$ -	\$ -
Personal services	-	-	-	-	-	12,534.00	-	-
Other current expenses	-	-	-	-	-	77,368.71	-	-
	<u>284,867.67</u>	<u>-</u>	<u>-</u>	<u>( 194,964.96)</u>	<u>89,902.71</u>	<u>89,902.71</u>	<u>-</u>	<u>-</u>
Operating	-	2,227,028.00	-	86,999.01	2,314,027.01	-	-	223,422.90
Personal services	-	-	-	-	-	1,766,982.29	3,615.82	-
Other current expenses	-	-	-	-	-	249,978.55	70,027.45	-
	<u>-</u>	<u>2,227,028.00</u>	<u>-</u>	<u>86,999.01</u>	<u>2,314,027.01</u>	<u>2,016,960.84</u>	<u>73,643.27</u>	<u>223,422.90</u>
Total Staff Services	<u>284,867.67</u>	<u>2,227,028.00</u>	<u>-</u>	<u>( 107,965.95)</u>	<u>2,403,929.72</u>	<u>2,106,863.55</u>	<u>73,643.27</u>	<u>223,422.90</u>
District/School Administration								
Prior Year Accounts	114,350.53	-	-	( 19,060.00)	95,290.53	-	-	-
Personal services	-	-	-	-	-	7,612.06	57,488.21	-
Other current expenses	-	-	-	-	-	7,637.59	22,552.67	-
	<u>114,350.53</u>	<u>-</u>	<u>-</u>	<u>( 19,060.00)</u>	<u>95,290.53</u>	<u>15,249.65</u>	<u>80,040.88</u>	<u>-</u>
Research and Development	-	142,908.00	-	2,169.00	145,077.00	-	-	8,800.80
Personal services	-	-	-	-	-	126,233.74	-	-
Other current expenses	-	-	-	-	-	9,602.99	439.47	-
	<u>-</u>	<u>142,908.00</u>	<u>-</u>	<u>2,169.00</u>	<u>145,077.00</u>	<u>135,836.73</u>	<u>439.47</u>	<u>8,800.80</u>
Operating	-	12,617,937.00	-	682,559.89	13,300,496.89	-	-	165,594.60
Personal services	-	-	-	-	-	12,132,253.77	6,844.53	-
Other current expenses	-	-	-	-	-	907,408.10	88,395.89	-
	<u>-</u>	<u>12,617,937.00</u>	<u>-</u>	<u>682,559.89</u>	<u>13,300,496.89</u>	<u>13,039,661.87</u>	<u>95,240.42</u>	<u>165,594.60</u>
Total District/School Administration	<u>114,350.53</u>	<u>12,760,845.00</u>	<u>-</u>	<u>665,668.89</u>	<u>13,540,864.42</u>	<u>13,190,748.25</u>	<u>175,720.77</u>	<u>174,395.40</u>
TOTAL ADMINISTRATION	<u>439,679.17</u>	<u>15,432,381.00</u>	<u>-</u>	<u>616,157.83</u>	<u>16,488,218.00</u>	<u>15,743,472.88</u>	<u>276,680.71</u>	<u>468,064.41</u>
<b>SUPPORT</b>								
Repairs and Maintenance								
Prior Year Accounts	353,827.59	-	-	( 292,285.14)	61,542.45	-	-	-
Personal services	-	-	-	-	-	20,185.27	2,204.00	-
Other current expenses	-	-	-	-	-	39,153.18	-	-
	<u>353,827.59</u>	<u>-</u>	<u>-</u>	<u>( 292,285.14)</u>	<u>61,542.45</u>	<u>59,338.45</u>	<u>2,204.00</u>	<u>-</u>
Operating	-	5,933,716.00	-	24,656.48	5,958,372.48	-	-	341,448.94
Personal services	-	-	-	-	-	4,975,337.25	9,086.29	-
Other current expenses	-	-	-	-	-	556,782.46	75,717.54	-
	<u>-</u>	<u>5,933,716.00</u>	<u>-</u>	<u>24,656.48</u>	<u>5,958,372.48</u>	<u>5,532,119.71</u>	<u>84,803.83</u>	<u>341,448.94</u>

The contents included in Chapter 5 of the report are an integral part of the financial statements.



Table 5.1 (cont'd)  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION

GENERAL FUND

Statement of appropriations, allotments, expenditures and encumbrances  
for the year ended June 30, 1972

	Balance Forward	Appropriations	Appropriated Receipts	Transfers and Other Items	Total	Expenditures	Encumbrances	Lapsed Balance
Total Repairs and Maintenance	\$ 353,827.59	\$ 5,933,716.00	\$ -	\$ ( 267,628.66)	\$ 6,019,914.93	\$ 5,591,458.16	\$ 87,007.83	\$ 341,448.94
<u>Accreditation</u>								
Operating	-	45,000.00	-	362.00	45,362.00	-	-	1,564.98
Personal services	-	-	-	-	-	35,019.00	-	-
Other current expenses	-	-	-	-	-	8,613.14	164.88	-
Total Accreditation	-	45,000.00	-	362.00	45,362.00	43,632.14	164.88	1,564.98
TOTAL - SUPPORT	353,827.59	5,978,716.00	-	( 267,266.66)	6,065,276.93	5,635,090.30	87,172.71	343,013.92
<u>SUBSIDIES</u>								
<u>Hawaii Association for Retarded Children</u>								
Operating	-	336,000.00	-	-	336,000.00	-	-	-
Other current expenses	-	-	-	-	-	336,000.00	-	-
Total Hawaii Association for Retarded Children	-	336,000.00	-	-	336,000.00	336,000.00	-	-
<u>Special Education Center of Oahu</u>								
Operating	-	60,000.00	-	-	60,000.00	-	-	-
Other current expenses	-	-	-	-	-	60,000.00	-	-
Total Special Education Center of Oahu	-	60,000.00	-	-	60,000.00	60,000.00	-	-
TOTAL - SUBSIDIES	-	396,000.00	-	-	396,000.00	396,000.00	-	-
<u>CONTINUING EDUCATION</u>								
<u>Adult Education</u>								
Prior Year Accounts	75,897.70	-	-	( 56,686.50)	19,211.20	-	-	-
Personal services	-	-	-	-	-	14,643.30	-	-
Other current expenses	-	-	-	-	-	3,213.06	1,354.84	-
	75,897.70	-	-	( 56,686.50)	19,211.20	17,856.36	1,354.84	-
Operating	\$ -	\$ 953,554.00	\$ -	\$ 3,781.50	\$ 957,335.50	\$ -	\$ -	\$ 55,461.43
Personal services	-	-	-	-	-	833,158.07	164.00	-
Other current expenses	-	-	-	-	-	62,323.67	6,228.33	-
	-	953,554.00	-	3,781.50	957,335.50	895,481.74	6,392.33	55,461.43
Total Adult Education	75,897.70	953,554.00	-	( 52,905.00)	976,546.70	913,338.10	7,747.17	55,461.43
<u>Public Library Service</u>								
Prior Year Accounts	920,353.07	-	-	( 517,057.23)	403,295.84	-	-	-
Personal services	-	-	-	-	-	29,150.37	-	-
Other current expenses	-	-	-	-	-	374,145.11	.36	-
	920,353.07	-	-	( 517,057.23)	403,295.84	403,295.48	.36	-
Research and Development	-	98,953.00	-	-	98,953.00	-	-	17,382.24
Personal services	-	-	-	-	-	49,587.97	-	-
Other current expenses	-	-	-	-	-	24,987.66	6,995.13	-
	-	98,953.00	-	-	98,953.00	74,575.63	6,995.13	17,382.24

The contents included in Chapter 5 of the report are an integral part of the financial statements.

Table 5.1 (cont'd)  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION

GENERAL FUND

Statement of appropriations, allotments, expenditures and encumbrances  
for the year ended June 30, 1972

	Balance Forward	Appropriations	Appropriated Receipts	Transfers and Other Items	Total	Expenditures	Encumbrances	Lapsed Balance
Operating	-	4,879,452.00	-	116,569.00	4,996,021.00	-	-	421,766.08
Personal services	-	-	-	-	-	3,224,873.17	2,258.75	-
Other current expenses	-	-	-	-	-	799,156.85	547,966.15	-
	-	4,879,452.00	-	116,569.00	4,996,021.00	4,024,030.02	550,224.90	421,766.08
Total Public Library	920,353.07	4,978,405.00	-	( 400,488.23)	5,498,269.84	4,501,901.13	557,220.39	439,148.32
TOTAL - CONTINUING EDUCATION	996,250.77	5,931,959.00	-	( 453,393.23)	6,474,816.54	5,415,239.23	564,967.56	494,609.75
<u>OTHER PROGRAMS</u>								
<u>Support of Lahainaluna   School</u>								
Other current expenses	31,229.43	-	-	7,935.31	39,164.74	-	39,164.74	-
<u>Conference on High School   Student Leaders</u>								
Other current expenses	10,114.56	-	-	-	10,114.56	130.00	9,984.56	-
<u>Motor Vehicle Driver   Training</u>								
Other current expenses	30,327.47	-	-	-	30,327.47	-	-	30,327.47
<u>Progressive Neighborhood   Program</u>	\$ 108,496.13	\$ -	\$ -	\$ 147,262.80	\$ 255,758.93	\$ -	\$ 50,643.73	\$ -
Personal services	-	-	-	-	-	149,968.09	13,788.96	-
Other current expenses	-	-	-	-	-	33,753.45	7,604.70	-
	108,496.13	-	-	147,262.80	255,758.93	183,721.54	72,037.39	-
<u>Driver Education</u>								
Personal services	-	-	145,400.00	-	145,400.00	57,000.00	88,400.00	-
<u>Model Cities Projects</u>	32,629.94	-	488,762.45	-	521,392.39	-	-	-
Personal services	-	-	-	-	-	365,696.81	2,851.44	-
Other current expenses	-	-	-	-	-	145,696.57	7,147.57	-
	32,629.94	-	488,762.45	-	521,392.39	511,393.38	9,999.01	-
TOTAL - OTHER PROGRAMS	212,797.53	-	634,162.45	155,198.11	1,002,158.09	752,244.92	219,585.70	30,327.47
<u>STATE INSURANCE FUND</u>								
Stevenson Intermediate School	-	-	-	675.80	675.80	667.33	8.47	-
Lahainaluna High School	-	-	-	1,227.58	1,227.58	1,094.39	133.19	-
Kapunahala School	-	-	-	3,354.70	3,354.70	3,208.23	146.47	-
Kam III School	-	-	-	5,920.96	5,920.96	-	5,920.96	-
Kaimuki High School	1,748.66	-	-	-	1,748.66	-	-	-
Waipahu Intermediate School	21,407.97	-	-	-	21,407.97	2,677.69	18,730.28	-
Webbing Elementary School	4.16	-	-	-	4.16	-	-	4.16
Kawanakoa Intermediate School	425.17	-	-	-	425.17	425.17	-	-
Eleele School	.02	-	-	-	.02	-	-	.02
Hilo Library	501.10	-	-	-	501.10	501.10	-	-
Benjamin Parker School	27,531.65	-	-	-	27,531.65	14,597.96	12,933.69	-
Aiea Elementary School	8.26	-	-	-	8.26	-	8.26	-
TOTAL - STATE INSURANCE FUND	51,626.99	-	-	11,179.04	62,806.03	24,920.53	37,881.32	4.18

The contents included in Chapter 5 of the report are an integral part of the financial statements.

Table 5.1 (cont'd)  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
GENERAL FUND

Statement of appropriations, allotments, expenditures and encumbrances  
for the year ended June 30, 1972

	Balance Forward	Appropriations	Appropriated Receipts	Transfers and Other Items	Total	Expenditures	Encumbrances	Lapsed Balance
<b>PRIOR YEARS' ACCOUNTS</b>								
Regular Education	1,947,158.85	-	-	( 697,165.45)	1,249,993.40	-	10,337.39	-
Personal services	-	-	-	-	-	267,404.26	47,207.07	-
Other current expenses	-	-	-	-	-	925,044.68	-	-
	<u>1,947,158.85</u>	<u>-</u>	<u>-</u>	<u>( 697,165.45)</u>	<u>1,249,993.40</u>	<u>1,192,448.94</u>	<u>57,544.46</u>	<u>-</u>
Special Education	\$ 476,057.62	\$ -	\$ -	\$( 429,931.78)	\$ 46,125.84	\$ -	\$ -	\$ -
Personal services	-	-	-	-	-	27,418.37	-	-
Other current expenses	-	-	-	-	-	18,707.47	-	-
	<u>476,057.62</u>	<u>-</u>	<u>-</u>	<u>( 429,931.78)</u>	<u>46,125.84</u>	<u>46,125.84</u>	<u>-</u>	<u>-</u>
Compensatory Education	347,733.09	-	-	( 293,355.40)	54,377.69	-	-	-
Personal services	-	-	-	-	-	273.72	-	-
Other current expenses	-	-	-	-	-	54,103.97	-	-
	<u>347,733.09</u>	<u>-</u>	<u>-</u>	<u>( 293,355.40)</u>	<u>54,377.69</u>	<u>54,377.69</u>	<u>-</u>	<u>-</u>
Instructional Support	80,874.53	-	-	( 37,613.92)	43,260.61	-	-	-
Other current expenses	-	-	-	-	-	43,260.61	-	-
	<u>80,874.53</u>	<u>-</u>	<u>-</u>	<u>( 37,613.92)</u>	<u>43,260.61</u>	<u>43,260.61</u>	<u>-</u>	<u>-</u>
Operational Requirements	765,260.22	-	-	( 626,881.41)	138,378.81	-	321.59	-
Other current expenses	-	-	-	-	-	133,057.22	5,000.00	-
	<u>765,260.22</u>	<u>-</u>	<u>-</u>	<u>( 626,881.41)</u>	<u>138,378.81</u>	<u>133,057.22</u>	<u>5,321.59</u>	<u>-</u>
Student Transportation	18,576.34	-	-	126,630.21	145,206.55	-	145,206.55	-
Curriculum Development and Evaluation	168,002.62	-	-	( 41,704.43)	126,298.19	-	61,449.35	-
Personal services	-	-	-	-	-	7,586.92	-	-
Other current expenses	-	-	-	-	-	57,261.92	-	-
	<u>168,002.62</u>	<u>-</u>	<u>-</u>	<u>( 41,704.43)</u>	<u>126,298.19</u>	<u>64,848.84</u>	<u>61,449.35</u>	<u>-</u>
Hawaii Curriculum Center	62,961.97	-	-	-	62,961.97	-	32,829.94	-
Personal services	-	-	-	-	-	11,906.00	-	-
Other current expenses	-	-	-	-	-	18,226.03	-	-
	<u>62,961.97</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,961.97</u>	<u>30,132.03</u>	<u>32,829.94</u>	<u>-</u>
<b>TOTAL - PRIOR YEARS' ACCOUNTS</b>	<u>3,866,625.24</u>	<u>-</u>	<u>-</u>	<u>(2,000,022.18)</u>	<u>1,866,603.06</u>	<u>1,564,251.17</u>	<u>302,351.89</u>	<u>-</u>
<b>CAPITAL IMPROVEMENTS - PRIOR YEARS' ACCOUNTS</b>								
Molokai High and Intermediate School	3,936.29	-	-	-	3,936.29	-	3,936.29	-
Planning for Statewide School Facilities	20,339.09	-	-	-	20,339.09	-	-	20,339.09
Hokulani Elementary School	\$ 2,351.53	\$ -	\$ -	\$ -	\$ 2,351.53	\$ -	\$ -	\$ 2,351.53
Kalihi-Kai Elementary School	1,722.32	-	-	-	1,722.32	-	-	1,722.32
School Land Acquisition, Planning and Minor Capital Funds	1,111.06	-	-	-	1,111.06	-	-	1,111.06
Portable Classrooms	31,759.89	-	-	-	31,759.89	-	31,759.89	-
<b>TOTAL - CAPITAL IMPROVEMENTS</b>	<u>61,220.18</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,220.18</u>	<u>-</u>	<u>35,696.18</u>	<u>25,524.00</u>

The contents included in Chapter 5 of the report are an integral part of the financial statements.

Table 5.1 (cont'd)  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION

GENERAL FUND

Statement of appropriations, allotments, expenditures and encumbrances  
for the year ended June 30, 1972

	Balance Forward	Appropriations	Appropriated Receipts	Transfers and Other Items	Total	Expenditures	Encumbrances	Lapsed Balance
<b>FEDERAL FUNDS</b>								
National Defense Education Act, Title III, P.L. 85-864	-	-	220,317.00	-	220,317.00	-	-	-
Personal services	-	-	-	-	-	13,333.00	-	-
Other current expenses	-	-	-	-	-	206,984.00	-	-
	-	-	220,317.00	-	220,317.00	220,317.00	-	-
Perceptual Language Disorder Project	1,115.03	-	-	-	1,115.03	-	-	-
Personal services	-	-	-	-	-	-	-	-
Other current expenses	-	-	-	-	-	1,115.03	-	-
	1,115.03	-	-	-	1,115.03	1,115.03	-	-
Assistance For Educational Agencies In Areas Affected by Federal Activities, P.L. 81-874	60,000.00	-	14,761,986.00	-	14,821,986.00	-	60,000.00	-
Personal services	-	-	-	-	-	14,761,986.00	-	-
Other current expenses	-	-	-	-	-	-	-	-
	60,000.00	-	14,761,986.00	-	14,821,986.00	14,761,986.00	60,000.00	-
Child Nutrition Act, P.L. 89-642	-	-	45,453.00	-	45,453.00	-	-	-
Other current expenses	-	-	-	-	-	45,453.00	-	-
	-	-	45,453.00	-	45,453.00	45,453.00	-	-
Adult Education - Civil Defense, Title III, Sec. 302(c), (15), P.L. 81-152, amended by P.L. 81-920	\$ 3,580.15	\$ -	\$ 19,547.70	\$ -	\$ 23,127.85	\$ -	\$ (5,597.48)	\$ -
Personal services	-	-	-	-	-	26,944.61	-	-
Other current expenses	-	-	-	-	-	1,780.72	-	-
	3,580.15	-	19,547.70	-	23,127.85	28,725.33	(5,597.48)	-
Manpower Development And Training MDTA, P.L. 87-415	5,031.33	-	-	-	5,031.33	-	5,031.33	-
Occupational Training And Retaining, RAR	578.07	-	-	-	578.07	-	578.07	-
Rural Library Services, P.L. 89-511, Title I, Title II - Construction Training of Professional Personnel In The Education Of Handicapped Children, P.L. 85-926	-	-	290,000.00	-	290,000.00	-	196,437.37	-
Personal services	-	-	-	-	-	17,052.20	-	-
Other current expenses	-	-	-	-	-	76,510.43	-	-
	-	-	290,000.00	-	290,000.00	93,562.63	196,437.37	-
Training Of Professional Personnel In The Education Of Handicapped Children, P.L. 85-926	32,840.45	-	42,000.00	-	74,840.45	-	5,636.96	-
Personal services	-	-	-	-	-	1,436.74	-	-
Other current expenses	-	-	-	-	-	67,766.75	-	-
	32,840.45	-	42,000.00	-	74,840.45	69,203.49	5,636.96	-

The contents included in Chapter 5 of the report are an integral part of the financial statements.

Table 5.1 (cont'd)  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
GENERAL FUND

Statement of appropriations, allotments, expenditures and encumbrances  
for the year ended June 30, 1972

	Balance Forward	Appropriations	Appropriated Receipts	Transfers and Other Items	Total	Expenditures	Encumbrances	Lapsed Balance
Economic Opportunity Act - Youth Program Work Training, Title I-B, P.L. 88-452 (NYC)	25,927.04	-	498,625.00	-	524,552.04	-	6,803.15	-
Personal services	-	-	-	-	-	509,158.37	-	-
Other current expenses	-	-	-	-	-	8,590.52	-	-
	<u>25,927.04</u>	<u>-</u>	<u>498,625.00</u>	<u>-</u>	<u>524,552.04</u>	<u>517,748.89</u>	<u>6,803.15</u>	<u>-</u>
Vocational Education Act Of 1963, P.L. 88-210	38,747.36	-	-	-	38,747.36	-	38,747.36	-
Economic Opportunity Act - Comm. Action Program, Title II-A, P.L. 88-452 (CAP)	\$ 52,143.53	\$ -	\$ 337,884.84	\$ -	\$ 390,028.37	\$ -	\$ 4,150.33	\$ -
Personal services	-	-	-	-	-	295,798.80	-	-
Other current expenses	-	-	-	-	-	90,079.24	-	-
	<u>52,143.53</u>	<u>-</u>	<u>337,884.84</u>	<u>-</u>	<u>390,028.37</u>	<u>385,878.04</u>	<u>4,150.33</u>	<u>-</u>
Adult Basic Education Act Of 1966, Title III, P.L. 89-750	24,626.34	-	257,969.00	-	282,595.34	-	(24,649.85)	-
Personal services	-	-	-	-	-	277,424.77	-	-
Other current expenses	-	-	-	-	-	29,820.42	-	-
	<u>24,626.34</u>	<u>-</u>	<u>257,969.00</u>	<u>-</u>	<u>282,595.34</u>	<u>307,245.19</u>	<u>(24,649.85)</u>	<u>-</u>
Special Program In Areas Having High Concentration Of Children In Low Income Families, ESEA Of 1965, Title I, P.L. 89-10	87,526.04	-	3,122,426.70	-	3,209,952.74	-	9,767.29	-
Personal services	-	-	-	-	-	2,224,845.54	-	-
Other current expenses	-	-	-	-	-	975,339.91	-	-
	<u>87,526.04</u>	<u>-</u>	<u>3,122,426.70</u>	<u>-</u>	<u>3,209,952.74</u>	<u>3,200,185.45</u>	<u>9,767.29</u>	<u>-</u>
School Library Resources, Textbooks And Other Instruc- tional Materials, ESEA Of 1965, Title II, P.L. 89-10	280,037.28	-	352,543.00	-	632,580.28	-	373,561.27	-
Personal services	-	-	-	-	-	44,929.12	-	-
Other current expenses	-	-	-	-	-	214,089.89	-	-
	<u>280,037.28</u>	<u>-</u>	<u>352,543.00</u>	<u>-</u>	<u>632,580.28</u>	<u>259,019.01</u>	<u>373,561.27</u>	<u>-</u>
Supplementary Educational Centers And Services, ESEA Of 1965, Title III, P.L. 89-10	240,041.30	-	559,025.00	-	799,066.30	-	77,251.44	-
Personal services	-	-	-	-	-	300,048.89	-	-
Other current expenses	-	-	-	-	-	421,765.97	-	-
	<u>240,041.30</u>	<u>-</u>	<u>559,025.00</u>	<u>-</u>	<u>799,066.30</u>	<u>721,814.86</u>	<u>77,251.44</u>	<u>-</u>
Strengthening State DOE, ESEA Of 1965, Title V, P.L. 89-10	\$ 31,544.47	\$ -	\$ 263,666.00	\$ ( 10,000.00)	\$ 285,210.47	\$ -	\$ 26,572.36	\$ -
Personal services	-	-	-	-	-	174,341.15	-	-
Other current expenses	-	-	-	-	-	84,296.96	-	-
	<u>31,544.47</u>	<u>-</u>	<u>263,666.00</u>	<u>( 10,000.00)</u>	<u>285,210.47</u>	<u>258,638.11</u>	<u>26,572.36</u>	<u>-</u>
Grants For Instruction In Humanities & The Arts, P.L. 89-209	3,839.67	-	-	-	3,839.67	-	3,839.67	-

The contents included in Chapter 5 of the report are an integral part of the financial statements.

Table 5.1 (cont'd)  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
GENERAL FUND

Statement of appropriations, allotments, expenditures and encumbrances  
for the year ended June 30, 1972

	Balance Forward	Appropriations	Appropriated Receipts	Transfers and Other Items	Total	Expenditures	Encumbrances	Lapsed Balance
Education Of Handicapped Children In State Schools, P.L. 89-313	25,564.02	-	92,000.00	-	117,564.02	-	(1,893.17)	-
Personal services	-	-	-	-	-	65,513.00	-	-
Other current expenses	-	-	-	-	-	53,944.19	-	-
	<u>25,564.02</u>	<u>-</u>	<u>92,000.00</u>	<u>-</u>	<u>117,564.02</u>	<u>119,457.19</u>	<u>(1,893.17)</u>	<u>-</u>
Teacher Corps, Title V-B, Higher Education Act, P.L. 89-329 As Amended By National Teacher Corps - Higher Education of 1965	41,454.60	-	(25,977.17)	-	15,477.43	-	1,083.83	-
Personal services	-	-	-	-	-	11,543.07	-	-
Other current expenses	-	-	-	-	-	2,850.53	-	-
	<u>41,454.60</u>	<u>-</u>	<u>(25,977.17)</u>	<u>-</u>	<u>15,477.43</u>	<u>14,393.60</u>	<u>1,083.83</u>	<u>-</u>
Children In Institutions - For Neglected Or Delinquent Children, P.L. 89-750 as amended to P.L. 80-10	16,574.09	-	22,940.00	-	39,514.09	-	8,062.92	-
Personal services	-	-	-	-	-	19,793.88	-	-
Other current expenses	-	-	-	-	-	11,657.29	-	-
	<u>16,574.09</u>	<u>-</u>	<u>22,940.00</u>	<u>-</u>	<u>39,514.09</u>	<u>31,451.17</u>	<u>8,062.92</u>	<u>-</u>
Follow Through Project, Hoonau, Title I, P.L. 88-452	26,162.45	-	319,582.00	-	345,744.45	-	121,413.47	-
Personal services	-	-	-	-	-	137,451.00	-	-
Other current expenses	-	-	-	-	-	86,879.98	-	-
	<u>26,162.45</u>	<u>-</u>	<u>319,582.00</u>	<u>-</u>	<u>345,744.45</u>	<u>224,330.98</u>	<u>121,413.47</u>	<u>-</u>
Educational Improvement For Handicapped, Title VI, P.L. 89-750 as amended to P.L. 89-10	\$ 48,357.22	\$ -	\$ 74,000.00	\$ -	\$ 122,357.22	\$ -	\$ 1,210.63	\$ -
Personal services	-	-	-	-	-	68,270.20	-	-
Other current expenses	-	-	-	-	-	52,876.39	-	-
	<u>48,357.22</u>	<u>-</u>	<u>74,000.00</u>	<u>-</u>	<u>122,357.22</u>	<u>121,146.59</u>	<u>1,210.63</u>	<u>-</u>
Fisheries Training, Act 280, SLH 1967, P.L. 79-786	2,696.59	-	-	-	2,696.59	-	2,696.59	-
Library Services and Construction, Title III, Title IV-A, Title IV-B, P.L. 91-600	60,498.29	-	40,560.00	-	101,058.29	-	46,510.88	-
Personal services	-	-	-	-	-	54,547.41	-	-
Other current expenses	-	-	-	-	-	54,547.41	-	-
	<u>60,498.29</u>	<u>-</u>	<u>40,560.00</u>	<u>-</u>	<u>101,058.29</u>	<u>54,547.41</u>	<u>46,510.88</u>	<u>-</u>
National Highway Safety Act, P.L. 89-564	-	-	4,488.00	-	4,488.00	-	(39,469.87)	-
Personal services	-	-	-	-	-	39,469.87	-	-
Other current expenses	-	-	-	-	-	4,488.00	-	-
	<u>-</u>	<u>-</u>	<u>4,488.00</u>	<u>-</u>	<u>4,488.00</u>	<u>43,957.87</u>	<u>(39,469.87)</u>	<u>-</u>

The contents included in Chapter 5 of the report are an integral part of the financial statements.



Table 5.1 (cont'd)  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION

GENERAL FUND

Statement of appropriations, allotments, expenditures and encumbrances  
for the year ended June 30, 1972

	Balance Forward	Appropriations	Appropriated Receipts	Transfers and Other Items	Total	Expenditures	Encumbrances	Lapsed Balance
Educational Professional Development Act, Title V, P.L. 90-35	13,082.08	-	171,272.00	-	184,354.08	-	49,129.65	-
Personal services	-	-	-	-	-	-	-	-
Other current expenses	-	-	-	-	-	-	-	-
	<u>13,082.08</u>	<u>-</u>	<u>171,272.00</u>	<u>-</u>	<u>184,354.08</u>	<u>135,224.43</u>	<u>49,129.65</u>	<u>-</u>
Dropout Prevention Program, Title VIII, P.L. 90-247	15,098.79	-	-	-	15,098.79	-	15,098.79	-
Bilingual Education Program, Title VI, P.L. 89-10	15,264.77	-	-	-	15,264.77	-	15,264.77	-
Administration Funds, Title I, P.L. 89-10	\$ 63,378.62	\$ -	\$ 130,000.00	\$ -	\$ 193,378.62	\$ -	\$ 31,786.98	\$ -
Personal services	-	-	-	-	-	124,156.04	-	-
Other current expenses	-	-	-	-	-	37,435.60	-	-
	<u>63,378.62</u>	<u>-</u>	<u>130,000.00</u>	<u>-</u>	<u>193,378.62</u>	<u>161,591.64</u>	<u>31,786.98</u>	<u>-</u>
Vocational Education Amend- ment Of 1968, P.L. 90-576	220,800.70	-	666,993.74	-	887,794.44	-	81,793.94	-
Personal services	-	-	-	-	-	509,666.58	-	-
Other current expenses	-	-	-	-	-	296,333.92	-	-
	<u>220,800.70</u>	<u>-</u>	<u>666,993.74</u>	<u>-</u>	<u>887,794.44</u>	<u>806,000.50</u>	<u>81,793.94</u>	<u>-</u>
Career Opportunity Program, Title V, P.L. 89-329	8,280.00	-	-	-	8,280.00	-	8,280.00	-
Planning And Evaluation, Title IV, P.L. 90-247	36,168.33	-	165,000.00	-	201,168.33	-	86,885.75	-
Personal services	-	-	-	-	-	16,867.33	-	-
Other current expenses	-	-	-	-	-	97,415.25	-	-
	<u>36,168.33</u>	<u>-</u>	<u>165,000.00</u>	<u>-</u>	<u>201,168.33</u>	<u>114,282.58</u>	<u>86,885.75</u>	<u>-</u>
Drug Education Training Program, P.L. 90-35	13,554.16	-	-	-	13,554.16	-	6,524.47	-
Personal services	-	-	-	-	-	3,590.82	-	-
Other current expenses	-	-	-	-	-	3,438.87	-	-
	<u>13,554.16</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,554.16</u>	<u>7,029.69</u>	<u>6,524.47</u>	<u>-</u>
Vocational Rehabilitation Special Education And Operation Tangent, P.L. 89-333	22,650.42	-	-	-	22,650.42	-	(58,570.95)	-
Personal services	-	-	-	-	-	33,472.68	-	-
Other current expenses	-	-	-	-	-	47,748.69	-	-
	<u>22,650.42</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,650.42</u>	<u>81,221.37</u>	<u>(58,570.95)</u>	<u>-</u>
TOTAL - FEDERAL FUNDS	<u>1,517,163.19</u>	<u>-</u>	<u>22,432,301.81</u>	<u>( 10,000.00)</u>	<u>23,939,465.00</u>	<u>22,785,527.05</u>	<u>1,153,937.95</u>	<u>-</u>
TOTAL GENERAL FUND	\$7,499,190.66	\$129,836,070.00	\$23,071,129.26	\$ (5,485,993.70)	\$154,920,396.22	\$143,004,071.05	\$4,317,177.37	\$7,599,147.80

The contents included in Chapter 5 of the report are an integral part of the financial statements.

Table 5.2  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
STATE OF HAWAII GENERAL FUND  
Statement of revenue  
for the year ended June 30, 1972

	<u>Estimated Revenue</u>	<u>Actual Revenue</u>	<u>Actual Revenue Over (Under) Estimate</u>
FEDERAL GRANTS-IN-AID:			
National Defense Education Act, Title III, P.L. 85-864	\$ 12,550	\$ 220,317	\$ 207,767
Assistance For Educational Agencies Affected By Federal Activities, P.L. 81-874	8,500,000	14,761,986	6,261,986
Child Nutrition Act, P.L. 89-642	69,944	45,453	( 24,491)
Adult Education - Civil Defense, Title III, Sec. 302 (c) P.L. 81-152 amended by P.L. 81-920	31,309	19,548	( 11,761)
Rural Library Services, Title I, Title II - Construction Training Of Professional Personnel In The Education Of Handicapped Children, P.L. 85-926, P.L. 89-511	250,162	290,000	39,838
Training Of Professional Personnel In The Education Of Handicapped Children, P.L. 85-926	62,788	42,000	( 20,788)
Economic Opportunity Act - Youth Program Work Training, Title I-B, P.L. 88-452 (NYC)	643,738	498,625	(145,113)
Economic Opportunity Act - Community Action Program, Title II-A, P.L. 88-452 (CAP)	399,383	337,885	( 61,498)
Adult Basic Education Act Of 1966, Title III, P.L. 89-750	289,870	257,969	( 31,901)
Special Programs In Areas Having High Concentration Of Children In Low Income Families, ESEA Of 1965, Title I, P.L. 89-10	2,798,820	3,122,427	323,607
School Library Resources, Textbooks, And Other Instructional Materials, ESEA Of 1965, Title III, P.L. 89-10	286,903	352,543	65,640
Supplementary Educational Centers And Services, ESEA Of 1965, Title III, P.L. 89-10	890,246	559,025	(331,221)
Strengthening State DOE, ESEA Of 1965, Title V, P.L. 89-10	280,691	263,666	( 17,025)
Education Of Handicapped Children In State Schools, P.L. 89-313	152,393	92,000	( 60,393)

The contents included in Chapter 5 of the report are an integral part of the financial statements.

Table 5.2 (cont'd)  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
STATE OF HAWAII GENERAL FUND  
Statement of revenue  
for the year ended June 30, 1972

	<u>Estimated Revenue</u>	<u>Actual Revenue</u>	<u>Actual Revenue Over (Under) Estimate</u>
Teacher Corps, Title V-B, Higher Education Act, P.L. 89-329 As Amended By P.L. 90-35, National Teachers Corps - Higher Education Act Of 1965	\$ -	\$ (25,977)	\$ ( 25,977)
Children In Institutions For Neglected Or Delinquent Children, P.L. 89-750 As Amended By P.L. 80-10	15,808	22,940	7,132
Follow Through Project, Hoomau, Title I, P.L. 88-452	241,817	319,582	77,765
Educational Improvement For Handicapped, Title VI, P.L. 89-750 As Amended To P.L. 89-10	200,000	74,000	(126,000)
Library Services And Construction, Title III, Title IV-A, Title IV-B, P.L. 91-600	-	40,560	40,560
National Highway Safety Act, P.L. 89-564	45,000	4,488	( 40,512)
Educational Professional Development Act, P.L. 90-35	187,741	171,272	( 16,469)
Bilingual Education Program, Title VII, P.L. 89-10	56,280	-	( 56,280)
Administrative Funds, Title I, P.L. 89-10	-	130,000	130,000
Vocational Education Amendment Of 1968, P.L. 90-576	595,541	666,994	71,453
Planning And Evaluation, Title IV, P.L. 90-247	96,245	165,000	68,755
Veterans Training	<u>17,551</u>	<u>-</u>	<u>( 17,551)</u>
TOTAL - FEDERAL GRANTS-IN-AID	<u>16,124,780</u>	<u>22,432,303</u>	<u>6,307,523</u>
GRANTS FROM COUNTIES AND OTHER LOCAL UNITS:			
Model Cities Programs	<u>11,046</u>	<u>502,513</u>	<u>491,467</u>
TOTAL - GRANTS FROM COUNTIES AND OTHER LOCAL UNITS	<u>11,046</u>	<u>502,513</u>	<u>491,467</u>
EDUCATION:			
Education Division -			
Sale of agricultural products	-	8,702	8,702
Fees, use of buildings, rooms or grounds	14,545	31,541	16,996

The contents included in Chapter 5 of the report are an integral part of the financial statements.

Table 5.2 (cont'd)  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
STATE OF HAWAII GENERAL FUND  
Statement of revenue  
for the year ended June 30, 1972

	<u>Estimated Revenue</u>	<u>Actual Revenue</u>	<u>Actual Revenue Over (Under) Estimate</u>
Fines, school libraries	\$ 2,000	\$ 2,584	\$ 584
Driver training fees	57,000	49,223	( 7,777)
Licenses to operate private schools	250	499	249
Telephone commissions	-	3,851	3,851
Witness or juror fees	-	657	657
Sale of equipment and other property	-	3,734	3,734
Refunds and reimbursements - prior periods	-	6,708	6,708
Miscellaneous	-	1,738	1,738
Total Education Division	<u>73,795</u>	<u>109,237</u>	<u>35,442</u>
Libraries Division -			
Rentals, books, films and records	5,350	2,731	( 2,619)
Fines	78,000	99,293	21,293
Miscellaneous	550	507	( 43)
Total Libraries Division	<u>83,900</u>	<u>102,531</u>	<u>18,631</u>
TOTAL - EDUCATION	<u>157,695</u>	<u>211,768</u>	<u>54,073</u>
GRAND TOTALS - REVENUE	<u>\$16,293,521</u>	<u>\$23,146,584</u>	<u>\$6,853,063</u>

The contents included in Chapter 5 of the report are an integral part of the financial statements.

Table 5.3  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SPECIAL FUNDS\*

Combined balance sheet - June 30, 1972

	Adult Education Fund	Hawaiian Homes Educational Project Fund	Private Donation For Distributive Education Fund	State School Revolving Fund	Summer School Revolving Fund	Total
<u>ASSET</u>						
Cash with treasury	\$45,839.52	\$69,036.97	\$2,243.64	\$644.14	\$441,334.97	\$559,099.24
<u>RESERVE AND FUND BALANCE</u>						
Reserve for encumbrances	\$ 908.08	\$24,330.43	\$ -	\$ 49.00	\$ 789.80	\$ 26,077.31
Fund balance (Schedule)	44,931.44	44,706.54	2,243.64	595.14	440,545.17	533,021.93
	\$45,839.52	\$69,036.97	\$2,243.64	\$644.14	\$441,334.97	\$559,099.24

\* Does not include Special School Lunch Fund.

The contents included in Chapter 5 of the report are an integral part of the financial statements.



Table 5.4  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
SPECIAL FUNDS\*

Combined statement of revenue, expenditures, transfers and fund balance  
for the year ended June 30, 1972

	Adult Education Fund	Hawaiian Homes Educational Project Fund	Private Donation For Distributive Education Fund	State School Revolving Fund	Summer School Revolving Fund	Total
<b>REVENUE:</b>						
Tuition and other fees	\$109,161.60	\$ -	\$ -	\$ -	\$526,509.81	\$635,671.41
Book sales	-	-	-	41,546.81	-	41,546.81
Other	-	22,623.69	-	-	-	22,623.69
Total revenue	109,161.60	22,623.69	-	41,546.81	526,509.81	699,841.91
<b>EXPENDITURES:</b>						
Personal services	96,209.63	271,437.92	-	-	437,675.39	805,322.94
Other current expenses	(8,144.80)	49,099.55	-	44,947.98	43,411.99	129,314.72
Total expenditures	88,064.83	320,537.47	-	44,947.98	481,087.38	934,637.66
Excess revenue over expenditures (expendi- tures over revenue)	21,096.77	(297,913.78)	-	(3,401.17)	45,422.43	(234,795.75)
<b>TRANSFERS FROM OTHER STATE FUNDS</b>						
	-	287,700.00	-	-	-	287,700.00
Excess revenue and transfers over expendi- tures (expenditures over revenue and transfers)	21,096.77	(10,213.78)	-	(3,401.17)	45,422.43	52,904.25
<b>FUND BALANCE, JULY 1, 1971</b>						
Add reserve for encumbrances of prior year	20,776.51	35,015.11	2,243.64	4,045.31	395,912.54	457,993.11
Deduct reserve for encumbrances, end of year	3,966.24	44,235.64	-	-	-	48,201.88
	( 908.08)	(24,330.43)	-	( 49.00)	(789.80)	( 26,077.31)
<b>FUND BALANCE, JUNE 30, 1972</b>	<b>\$ 44,931.44</b>	<b>\$ 44,706.54</b>	<b>\$2,243.64</b>	<b>\$ 595.14</b>	<b>\$440,545.17</b>	<b>\$533,021.93</b>

\* Does not include Special School Lunch Fund.

The contents included in Chapter 5 of the report are an integral part of the financial statements.

Table 5.5  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
TRUST FUNDS\*

Combined balance sheet - June 30, 1972

	Donations - Education	Temporary Deposits - Education	TEMPORARY DEPOSITS - PUBLIC LIBRARIES				DONATIONS AND GIFTS - PUBLIC LIBRARIES				Foundations and Other Grants	Private Monies and Gifts	Donations For Transcribing Services	Total
ASSET			State	Mau	Hawaii	Kauai	State	Mau	Hawaii	Kauai				
CASH:														
With Treasury	\$61,546.70	\$124,861.28	\$2,377.72	\$473.90	\$5.00	\$340.47	\$33,924.29	\$21.29	\$594.86	\$400.89	\$351.33	\$9,893.44	\$5,291.03	\$240,082.20
Time certificate of deposit	8,000.00	-	-	-	-	-	-	-	-	-	-	-	-	8,000.00
	<u>\$69,546.70</u>	<u>\$124,861.28</u>	<u>\$2,377.72</u>	<u>\$473.90</u>	<u>\$5.00</u>	<u>\$340.47</u>	<u>\$33,924.29</u>	<u>\$21.29</u>	<u>\$594.86</u>	<u>\$400.89</u>	<u>\$351.33</u>	<u>\$9,893.44</u>	<u>\$5,291.03</u>	<u>\$248,082.20</u>
LIABILITIES AND RESERVES														
DUE TO STATE GENERAL FUND	\$ -	\$ 4,094.60	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,094.60
RESERVES:														
For land improvements	-	119,875.00	-	-	-	-	-	-	-	-	-	-	-	119,875.00
For temporary deposits	-	891.68	2,377.72	473.90	5.00	340.47	-	-	-	-	-	-	-	4,088.77
For school purposes	69,546.70	-	-	-	-	-	-	-	-	-	-	9,893.44	5,291.03	84,731.17
For library purposes	-	-	-	-	-	-	33,924.29	21.29	594.86	400.89	-	-	-	34,941.33
Other	-	-	-	-	-	-	-	-	-	-	351.33	-	-	351.33
	<u>\$69,546.70</u>	<u>\$124,861.28</u>	<u>\$2,377.72</u>	<u>\$473.90</u>	<u>\$5.00</u>	<u>\$340.47</u>	<u>\$33,924.29</u>	<u>\$21.29</u>	<u>\$594.86</u>	<u>\$400.89</u>	<u>\$351.33</u>	<u>\$9,893.44</u>	<u>\$5,291.03</u>	<u>\$248,082.20</u>

\* Does not include State Schools Athletic Fund.

Table 5.6  
STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
TRUST FUNDS\*

Combined statement of cash receipts and disbursements  
for the year ended June 30, 1972

	Donations - Education	Temporary Deposits - Education	TEMPORARY DEPOSITS - PUBLIC LIBRARIES				DONATIONS AND GIFTS - PUBLIC LIBRARIES				Foundations and Other Grants	Private Monies and Gifts	Donations For Transcribing Services	Total
			State	Mau	Hawaii	Kauai	State	Mau	Hawaii	Kauai				
CASH BALANCE - JULY 1, 1971	\$37,555.51	\$124,679.27	\$2,790.52	\$738.90	\$29.86	\$535.67	\$19,463.03	\$32.94	\$ -	\$275.89	\$351.33	\$9,893.44	\$5,552.49	\$201,898.85
ADDITIONS:														
Temporary deposits	-	1,020.00	122.20	160.00	20.00	80.00	-	-	-	-	-	-	-	1,402.20
Donations and gifts	65,894.82	-	-	-	-	-	25,484.73	-	600.00	125.00	-	-	-	92,656.55
	<u>65,894.82</u>	<u>1,020.00</u>	<u>122.20</u>	<u>160.00</u>	<u>20.00</u>	<u>80.00</u>	<u>25,484.73</u>	<u>-</u>	<u>600.00</u>	<u>125.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,058.75</u>
	<u>103,450.33</u>	<u>125,699.27</u>	<u>2,912.72</u>	<u>898.90</u>	<u>49.86</u>	<u>615.67</u>	<u>44,947.76</u>	<u>32.94</u>	<u>600.00</u>	<u>400.89</u>	<u>351.33</u>	<u>9,893.44</u>	<u>6,104.49</u>	<u>295,957.60</u>
DEDUCTIONS:														
Personal services	1,968.00	-	-	-	-	-	-	-	-	-	-	-	-	1,968.00
Other current expenses and reimbursements	31,935.63	837.99	535.00	425.00	44.86	275.20	11,023.47	11.65	5.14	-	-	-	813.46	45,907.40
	<u>33,903.63</u>	<u>837.99</u>	<u>535.00</u>	<u>425.00</u>	<u>44.86</u>	<u>275.20</u>	<u>11,023.47</u>	<u>11.65</u>	<u>5.14</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>813.46</u>	<u>47,875.40</u>
CASH BALANCE - JUNE 30, 1972	<u>\$69,546.70</u>	<u>\$124,861.28</u>	<u>\$2,377.72</u>	<u>\$473.90</u>	<u>\$ 5.00</u>	<u>\$340.47</u>	<u>\$33,924.29</u>	<u>\$21.29</u>	<u>\$594.86</u>	<u>\$400.89</u>	<u>\$351.33</u>	<u>\$9,893.44</u>	<u>\$5,291.03</u>	<u>\$248,082.20</u>

\* Does not include State Schools Athletic Fund.

The contents included in Chapter 5 of the report are an integral part of the financial statements.



### **PART III RESPONSE OF THE DEPARTMENT OF EDUCATION**

A preliminary draft of this audit report was transmitted to the department of education in March 1973 for its comments on our findings and recommendations. A copy of the transmittal letter is attached as attachment no. 1. The response of the superintendent of education is attached as attachment no. 2.

In general, the superintendent has responded positively to our recommendations. He has indicated that instructions have been issued to the department's administrative officers to institute corrective actions. We are hopeful that such actions will be forthcoming promptly. The deficiencies in the department's financial recordkeeping and fiscal management pointed out in our report are of sufficient gravity as to command immediate attention. The inability of the auditors to render an opinion on the accuracy of the department's general fund financial statement attests to the seriousness of the deficiencies.

The superintendent's statement concerning the department's budgetary system deserves some comment. In our report we noted that the current method of assigning personnel and other costs to the various programs requires improvements, if the DOE's records are to reflect the true costs of the programs. We stated that currently these costs are being allocated to the various programs by the use of a formula derived in a questionable manner. The superintendent in his response states that "the year of the audit 1971-72, was the first year of implementing PPBS under Act 185, SLH 1970," and that

"The budget format for 1971-72 was jointly developed with the Legislative Interim Committee, Legislative Auditor's Office, and the Department of Education. At that time, we all agreed that for the initial run the program costs, as reflected in the budget, will not be truly indicative of true costs."

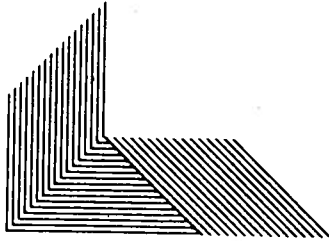
Full implementation of Act 185 for the State as a whole became effective with the 1973-75 biennial budget submission. For the fiscal biennium 1971-73, all State agencies were required (but did not fully comply with the requirement) to submit their biennial budgets in two forms, one under Act 185 and another in the traditional format. However, so far as the DOE is concerned, its PPB efforts date back to 1967. Since that year, the DOE has been submitting to the legislature, in supplemental form, program information in accordance with

PPB. It is correct that the legislative interim committee, this office, and the DOE agreed that "for the initial run," the program costs would "not be truly indicative of true costs," since the DOE was lacking in program cost data. We believe, however, that with several years of experience in PPB, the DOE should be in a position to produce more precise program cost information.

The superintendent also states that "the Department has taken steps to improve the system by revising the methodology used in the allocation of teachers' salaries and other operating costs." He has attached to his response a paper on the rationale used by the DOE to allocate costs to subject disciplines. The methodology contained in the paper is precisely the method which our audit found to be wanting.

ATTACHMENT NO. 1

THE OFFICE OF THE AUDITOR  
STATE OF HAWAII  
STATE CAPITOL  
HONOLULU, HAWAII 96813



CLINTON T. TANIMURA  
AUDITOR

YUKIO NAITO  
DEPUTY AUDITOR

March 27, 1973

Dr. Shiro Amioka, Superintendent  
Department of Education  
State of Hawaii  
Honolulu, Hawaii

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Dear Dr. Amioka:

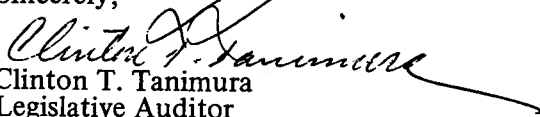
Enclosed is a copy of our preliminary report of the *Financial Audit of the Department of Education*. The term "preliminary" indicates that the report has not been released for general distribution. However, copies of this report have been forwarded to the governor and the presiding officers of both houses of the legislature. In addition, we have forwarded a copy of the report to the chairman of the board of education.

The report contains a number of recommendations. I would appreciate receiving your written comments on them, including information as to the specific actions that have been taken or will be taken with respect to the recommendations. Please have your written comments submitted to us by April 3, 1973. Your comments will be incorporated into the report and the report will be finalized and released shortly thereafter.

If you wish to discuss the report with us, we will be pleased to meet with you, at our office, on or before March 30, 1973. Please call our office to fix an appointment. A "no call" will be assumed to mean that a meeting is not required.

We appreciate the assistance and cooperation extended by your department's staff to our auditors.

Sincerely,

  
Clinton T. Tanimura  
Legislative Auditor  
Enclosure



STATE OF HAWAII  
Department of Education  
P. O. Box 2360  
Honolulu, Hawaii 96804

Office of the Superintendent

April 2, 1973

*COPY*

Mr. Clinton T. Tanimura  
Legislative Auditor  
State of Hawaii  
State Capitol  
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

Thank you for the opportunity to review your preliminary report of the Financial Audit of the Department of Education, dated March 27, 1973. Because of the many pending concerns that will need attention—final days of the Legislature and the teacher strike—, we will not be able to make specific comments to your 25 recommendations by April 3, 1973.

However, our analysis of your 25 recommendations indicates that they may be categorized into the following four major categories:

1. Develop a budgetary system which, when implemented, would reflect true costs of each program in the Planning-Programming-Budgeting System (PPBS) structure and the control of such expenditures on a quarterly basis. (2 recommendations)

The Department has taken steps to improve the system by revising the methodology used in the allocation of teachers' salaries and other operating costs (see attachment).

It should be noted that the year of the audit, 1971–72, was the first year of implementing PPBS under Act 185, SLH 1970. The budget format for 1971–72 was jointly developed with the Legislative Interim Committee, Legislative

Auditor's Office, and the Department of Education. At that time, we all agreed that for the initial run the program costs, as reflected in the budget, will not be truly indicative of true costs. The problem of cost allocation and the corresponding questions of significance and materiality are always open to differences of professional opinion.

2. Improve internal controls in the accounting system. (5 recommendations)

We have instructed the Assistant Superintendent of Business Services to personally review the recommendations and institute corrective actions. We are giving him the authority to make any internal adjustments, such as redeployment, in his office to effectuate any corrective actions necessary.

3. Provide standardization of equipment specifications and guides to facilities search to effect rental savings. (3 recommendations)

The Assistant Superintendent of Business Services is instructed to personally review the recommendations and institute corrective actions under the authority given him to make any internal adjustments, such as redeployment, in his office to effectuate any corrective actions necessary.

4. Ensure compliance to Department and State policies and procedures by the various expending units within the Department of Education. (15 recommendations)

We have instructed all District and Assistant Superintendents to have their staff follow up on the non-compliances cited in your report. The Assistant Superintendent of Business Services has also been instructed to recommend changes to Department of Education procedures and guidelines when such procedures and guidelines are not reflective of the practical working conditions.

Mr. Clinton T. Tanimura  
April 2, 1973  
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You can be assured that we will use your recommendations, wherever feasible, as a catalyst for improving our financial accounting, budgetary system, and in revising the departmental procedures.

Sincerely,

*/s/ Shiro Amioka*

SHIRO AMIOKA  
Superintendent

Attachment

cc: Mr. Hiroshi Yamashita, Chairman  
Board of Education

RATIONALE FOR COST ASSIGNMENTS TO SUBJECT DISCIPLINES

The assignment of our instructional and curriculum costs represent the largest single block of expenditures within our DOE budget. (About 80 percent of our budget.) To assign these costs to the program categories specified by our program structure, that is, language arts, math, etc., represented a task larger than it appeared on the surface. This was especially true of the elementary schools where, in most instances, our teachers operate as generalists, teaching the entire range of subjects.

To establish a sound rationale for the assignment of our instructional budgets to the subject disciplines, we undertook a time-allocation survey. On a random basis, we sampled 20 percent of all the public schools in the State and surveyed the amount of time every teacher spent teaching the various subjects. Based on this study, we developed a formula or percentage allocation for each subject.

For the preparation of the 1971-73 biennial budget, we used this formula to prorate all curriculum and instruction costs. For the 1973-75 biennium, we undertook a follow-up survey to validate the rationale for our formula allocation. As a result of the second, more recent study, we made an adjustment to our formula by developing two bases for allocating costs, one for salaries and one for supplies and equipment. It was revealed in this second study that these two categories of resources had a significantly different allocation base. Furthermore, unlike the first effort at assigning costs, where we applied the same formula for each and every cost on instruction and curriculum, this time we took another approach. First, we assigned all costs that appeared to be more cleanly allocable to a specific subject discipline. For example, the Artmobile and Artist-In-School Programs were assigned totally to the Art program category. It was only after certain budget items were cleanly assigned, that we used the formula to prorate the balance of the instructional costs. This approach, we believe, not only make the cost assignments more realistic, but also facilitated the identification of specific program funds, and ultimately, the execution of the budget. It is noted, that this change in the formula and basic approach to assigning costs explain, to a large degree the reason for the differences in money amounts between the two (1971-73 and 1973-75) bienniums.

The formula used and the specific assignment of instructional and curriculum resources to the various subject disciplines are all detailed out on the following pages.

## INSTRUCTIONAL SERVICES

### SUBJECT AREAS

(Use formula to assign cost to subject programs :)

1. District Administration (Curriculum Staff, Special Services, Intramural Supervisors and Lay Readers)
2. Regular Education
  - a. Substitute Teachers
  - b. Sabbatical Leaves
  - c. Beginning Teacher Supervisors
  - d. Regular Teachers
  - e. Prep. Period Teachers
  - f. Educational Assistants
  - g. Differential – Grade Level & Dept. Heads
  - h. 3 on 2
  - i. Special Education Teachers
  - j. Special Education Educational Assistants
  - k. Classroom Supplies
  - l. Classroom Equipment
  - m. Textbooks
3. Teacher Assist Center
4. School Library and Instructional Materials (State Office)
5. Office of Instructional Services
6. Hawaii Curriculum Center

	<u>% for A</u>	<u>% for B &amp; C</u>
Math	12	9
Language Arts	33	34
Science	7	10
Foreign Language	2	2
Health	6	2
Music	5	6
Art	4	7
Physical Education	6	4
Social Studies	15	11
Student Affairs	3	1
Vocational-Technical	2	4
Practical Arts	5	10
	<hr/>	<hr/>
	100%	100%

### MATH

1. PPB – Math

### LANGUAGE ARTS

1. Librarians
2. PPB – English
3. Library Books
4. Kailua Flexible
5. TESOL
6. Bilingual
7. Hawaii English Program
8. ESEA – Title II
9. ESEA – Title I
10. CAP
11. Project Follow Through
12. Special Education:



1. Special Ed (89-313)
2. Children in School for the Handicapped
3. Education for the Handicapped
4. Hawaii School for the Deaf and Blind
5. Home/Hospital Instruction
6. Hospital Schools
7. Linekona School
8. Pohukaina School
9. Training of Teachers for the Handicapped
10. Children in School for Delinquents

13. Audio Visual
14. Cooperative Training Center

#### **FOREIGN LANGUAGE**

1. Intensive Language

#### **MUSIC**

None

#### **HEALTH**

1. PPB — Health

#### **ART**

1. PPB — Art
2. Artmobile
3. Artist-in-the-School

#### **SCIENCE**

1. PPB — Science

### SOCIAL STUDIES

1. PPB -- Social Studies
2. Environmental Studies

### PHYSICAL EDUCATION

1. ROTC

### STUDENT AFFAIRS

1. Counsellors
2. Driver Education
3. PPB
4. Athletics
5. Statewide Dropout Program
6. Work Study Center Project -- TOP
7. NYC
8. Vocational Work Study
9. Student Activities Coordinator
10. Student Conference

### VOCATIONAL TECHNICAL

1. PPB -- Voc-Tech
2. Lahainaluna Boarding Dept.
3. Olomana School

### PRACTICAL ARTS

1. PPB -- Practical Arts

### STATE ADMINISTRATION

1. Advisory Councils -- Commission (A,B,C)
2. Board of Education (A,B,C)
3. Office of the Superintendent (A,B,C)

### REPAIR & MAINTENANCE

1. Custodial Services (A,B,C,M) (School Level Only)
2. Facilities Branch

### SCHOOL LUNCH

1. School Lunch Services (A,B,C,M)

### ADULT EDUCATION

1. Adult Education (State Level)
2. Adult Education (District Level)
3. Adult Education (School Level) (A,B,C)

### PUBLIC LIBRARIES

1. Administration
2. Centralized Processing
3. Public Libraries (A,B,C)

### CIVIL DEFENSE

1. Civil Defense (A,B,C)

### ACCREDITATION

1. Accreditation & Private School Licensing (A,B,C)

### DISTRICT/SCHOOL ADMINISTRATION

1. District Administration  
Honolulu, Central, Leeward, Windward, Hawaii, Maui, Kauai  
  
(All except TSR positions, Special Services, Intramural & Lay Readers)

2. Regular Schools

- a. Principals
- b. Vice Principals
- c. School Secretaries
- d. Account Clerks
- e. Typists
- f. Stenos, Clerks, Clerk-Stenos
- g. Registrars
- h. Armored Car Service
- i. Telephone Tolls and Charges
- j. Non-Classroom Supplies
- k. Library Supplies
- l. Non-Classroom Equipment
- m. Library Equipment

3. District Complexes (Leeward, Hawaii, Maui, Kauai)

STAFF SERVICES

- 1. Office of Business Services (A,B,C) (Excluding Facilities Branch)
- 2. Office of Personnel (A,B,C)
- 3. Office of Research and Planning (A,B,C)



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**LEGISLATIVE AUDITOR  
STATE CAPITOL  
HONOLULU, HAWAII 96813**

