

REVISED

Date: 03/09/2010

Committee: House Education
House Higher Education

Department: Education

Person Testifying: Kathryn Matayoshi, Interim Superintendent of Education

Title of Bill: SB 2115, SD1 RELATING TO PREAUDITS FOR PROPOSED
PAYMENTS.

Purpose of Bill: Clarifies that the department of education is required to preaudit proposed payments of \$10,000 or more. Allows the University of Hawaii and the department of education to preaudit sample populations for proposed payments of less than \$10,000 to determine the propriety of expenditures and compliance with applicable laws, executive orders, and rules, as their respective chief financial officers determine to be appropriate. Extends the date until which the University of Hawaii and the department of education shall have autonomous authority over their accounting systems and other purchasing responsibilities and duties.

Department's Position: The Department of Education strongly supports this measure. Current statute allows the University of Hawaii the authority to pre-audit all proposed payments of \$10,000 or more. This proposed measure merely expands that authority to the Department of Education. With the state's resources strained to meet basic governmental costs, it is highly ineffective for the Department of Education's pre-audit clerical staff to fully examine and pre-audit all transactions regardless of dollar amount. This \$10,000 threshold has been established previously in law for the University of Hawaii, and should be applicable to the Department of Education as well. This measure also does not ignore the value of pre-auditing other

smaller transactions, but it is prudent to do this on a sample basis, as the measure has been currently drafted, with the authorities of the chief financial officers of the University of Hawaii and Department of Education to determine the propriety of expenditures and compliance with applicable laws, orders and rules. In a detailed analysis of its operations, the Department of Education has determined that a large percentage of its transactions comprise of items less than \$10,000. Accordingly, if this measure is implemented, resources can be more efficiently restructured to meet other demands, such as automating the current manually prepared salaried payroll.

SB 2115, SD1 specifies a percentage of the preaudit sample. We recommend this sample percentage to be five (5) percent, as a minimum.

SB 2115, SD1, in the Report Title and Description, refers to fiscal autonomy, extending the date until which the University of Hawaii and Department of Education shall have autonomous authority over their accounting systems and other purchasing responsibilities and duties. This pertains to HRS Section 40-2. We recommend that SB 2115, SD1 be amended to include the pertinent change to HRS Section 40-2. We have attached a proposed date for this extension.

Please note that there is a defective date of June 29, 2050 that must be changed to make this proposed bill useful as intended to the Department, the Department of Accounting and General Services, and the University of Hawaii. The Department recommends July 1, 2010.

Proposed edit to Section 40-2, Hawaii Revised Statutes:

§40-2 Accounting systems and internal control; enforcing the use of and inspection of the same. The accounting system installed by the commission on public accountancy under Act 181, Session Laws of Hawaii 1923, as amended by Act 220, Session Laws of Hawaii 1925, for use in the offices of the comptroller, director of finance, departmental and agency services of the State, and the auditors, treasurers, departmental and agency services of the several counties shall be the accounting and reporting systems of the State and counties; provided that the University of Hawaii, until June 30, 2011, may install a different accounting system which shall be in conformity with generally accepted accounting principles as applied to colleges and universities; and provided further that the department of education, until June 30, ~~2011~~2020, may install a different accounting system which shall be in conformity to generally accepted accounting principles. The comptroller shall make such changes and modifications in the accounting system as shall from time to time appear to be in the best interest of the State and counties.

The departments and agencies of the executive branch are respectively charged with the responsibility to maintain an adequate system of internal control and with the further responsibility to see that the internal control system continues to function effectively as designed. The comptroller shall make such investigations and audits from time to time to enforce the use of the accounting system and internal control systems in the executive branch.

The judiciary, the legislature, and each county shall be responsible for the establishment and maintenance of its respective internal control system.