



STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

Date: 01/30/2013

Committee: House Education

Department: Education

Person Testifying: Kathryn S. Matayoshi, Superintendent of Education

Title of Bill: HB 0318 RELATING TO AUDITING THE DEPARTMENT OF EDUCATION.

Purpose of Bill: Mandates a periodic financial and management audit of the administration of the department of education.

Department's Position:

The Department of Education (Department) appreciates the intent of HB 0318 and wishes to apprise the committee of the oversight structure and current audit activities already in place:

The Department takes its responsibilities very seriously, and the Board of Education (BOE) as the governing body over the Department, shares that sentiment. For example, the BOE has created an Audit Committee as a standing committee of the BOE, and the Department has developed, with an external audit firm, an Internal Audit Plan.

In addition, there are several management, financial, compliance, and other audits and reviews that are conducted throughout each year over the various offices of the Department, of which some are listed below:

- The Department has submitted a compilation of its Financial Management Audits from FYE 2006 through 2012 in a matrix form. It summarizes and timelines the pertinent findings, recommendations and corrective actions as a result of these audits/reviews, as well as the current status of these corrective actions.
- The Department is required by OMB Circular A-133 to conduct a single audit each year. The Department also has a financial audit performed at the same time by an external CPA firm contracted by the State Auditor's Office.
- The Internal Audit Office performed a department-wide risk assessment and identified high risk areas were placed into an Audit Plan that was approved by the Board of Education's Audit

Committee (BOE AC).

- Section 40-83, Hawaii Revised Statutes requires that "the comptroller shall cause to be examined and audited books of accounts kept by any public school in connection with school fees and all other moneys collected by these schools." Since 2001, over 377 Local School Fund Audits (LSF) have been performed by the DAGs Audit Division and the Department's Internal Audit Office.
- The Department continues to have numerous audits and reviews performed from Federal as well as State agencies. Some of these include the 78 audits since 1984 by the **State Auditor**, over 25 program and fiscal management evaluations of the Office of Hawaii Child Nutrition Programs by the Western Regional Office of the **USDA**, numerous audits of the **USDOE** on various federal programs in the Office of Curriculum, Instruction and Student Support (OCISS), and 184 program and fiscal evaluations performed by the **Systems Accountability Office**, System Planning and Improvement Section, as directed by the Board of Education.

DOE leadership has shown its commitment to promoting excellence in Hawaii's public school system and is committed to making improvements and addressing the recommendations of the audits that have already been conducted.



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**TESTIMONY FOR HOUSE BILL 318, RELATING TO AUDITING THE DEPARTMENT
OF EDUCATION**

**House Committee on Education
Hon. Roy M. Takumi, Chair
Hon. Takashi Ohno, Vice Chair**

**Wednesday January 30, 2013, 2:00 PM
State Capitol, Conference Room 309**

Honorable Chair Takumi and committee members:

I am Kris Coffield, representing the IMU Alliance, a nonpartisan political advocacy organization that currently boasts over 150 local members. On behalf of our members, we offer this testimony in support of HB 318, relating to auditing the Department of Education.

In recent years, the state auditor and internal departmental audits have found a number of fiscal and procedural faults with the Department of Education, including the following:

- ⤴ There have been no competitive bids on school bus transportation contracts in recent years.
- ⤴ Transportation bids have risen by as much as 259 percent.
- ⤴ The DOE compensated contractors for their general excise tax encumbrance.
- ⤴ Small purchases (\$25,000 or less) completed at the school and office level lack accountability and oversight. Such purchases account for \$789 million in DOE spending.
- ⤴ Schools and offices that fail to uphold procurement and contracting guidelines face no consequences.
- ⤴ The department lacks standardized procedures for making bank reconciliations and error corrections.
- ⤴ The department does not comply with state procurement protocols in 1 out of every 15 procurements.

- ⤴ The department does not record compensated absences in a consistent manner and may be overstating sick leave and vacation balances.

In the state auditor's report on the implementation of its 2009 recommendations, released in August of last year, then auditor Marion Higa stated the following:

“In *Procurement Audit of the Department of Education: Part 1*, Report No. 09-03, we found no evidence that the department has the mechanisms and functions to monitor and review procurement compliance on a regular basis. Even though our audit was based on a relatively small sample size, we uncovered numerous instances of non-compliance and violations of procurement rules and regulations. In addition to the high volume of violations, we also identified several risk factors and indications of potential fraud, which compelled us to expand the scope of our work...The second phase of our audit, *Procurement Audit of the Department of Education: Part 2*, Report No. 09-04, revealed an organizational culture of disregard for procurement rules in the Office of School Facilities and Support Services (OSFSS). That culture had allowed office directors, managers, and staff to believe they had the discretion to unilaterally determine whether compliance with procurement laws and rules was in the best interest of the department. As a result, non-compliant procurement practices were tolerated and, more importantly, unethical and possibly fraudulent behavior has been allowed to thrive...The response to our audit from the Department of Education (DOE) was swift. On February 19, 2009, the then-superintendent wrote us a letter in which she indicated that the department had rescinded the delegation of procurement authority for construction projects given to the facilities office, and returned it to the Procurement and Contracts Branch (PCB) under the chief financial officer. In addition, four months after the release of our reports, the Board of Education adopted, among other measures, an “Employee, Contractor, and Volunteer Ethics and Conflict of Interest Policy” to guide management, fiscal, and professional behavior to ensure ethical conduct. The department also hired an independent investigator to determine whether specific DOE employees had acted inappropriately and engaged in misconduct by failing to follow department policies, procedures, rules, and/or processes. However, five months after the then-superintendent rescinded OSFSS’s procurement authority, the then-deputy superintendent restored it, claiming that the office’s procurement process had slowed down. In addition, despite the findings of our audits and its own independent investigator, the department did not take strong disciplinary measures against two of the three OSFSS employees who were found to have committed multiple procurement violations. Today, two of the employees remain in their same jobs as heads of their respective OSFSS branches, which have been given even greater procurement authority with limited, if any, oversight by the Procurement and Contracts Branch. These and other department actions are contradictory and troubling. While the department took quick and seemingly decisive measures to respond to the findings and recommendations of our reports, its actions do not fully address our overall message that unethical behavior and non-compliance with rules and procedures will not be tolerated and that violations will have consequences. As a result, the risk of ethical misconduct in the OSFSS remains high, which creates a public perception that the department has done little to address the issues.”

The auditor further noted that findings of fraudulent activity were forwarded to the Attorney General's Criminal Justice Division, but were not prosecuted because the statute of limitations on the alleged acts had expired. As a result, the Criminal Justice Division “said all DOE procurement fraud cases were closed in July 2011, not due to a lack of evidence, but because the period when it could take any possible action had run out.”

We believe that the department is aware of and working hard to correct these flaws. We also believe that these criticisms, which have come from auditors both within and external to the department, do not necessarily reflect systemic discrepancies that imperil the functioning of the DOE or its ability to provide a quality education to students. At the same time, inefficiencies and potentially underhanded activity are likely to exacerbate without proper accountability and enforcement, leaving taxpayers holding the bill for departmental waste and fraud. To ensure that DOE dollars are optimized and directed toward bettering our children's learning experience, we urge the committee to pass this bill, which mandates periodic audits of the DOE. We also urge your colleagues to give the state auditor the resources necessary to perform such audits on a regular basis.

Mahalo for the opportunity to testify in support of this bill.

Sincerely,
Kris Coffield
Legislative Director
IMUAlliance