DEPARTMENT OF EDUCATION
STATE OF HAWAII

Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

KPMG

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

March 30, 2012

Ms. Marion Higa
Office of the Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education

Dear Ms. Higa and the Board of Education:

This is our report on the financial audit of the Department of Education, State of Hawaii (Department), as of and for the year ended June 30, 2011. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Objectives of the Audit

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Department's financial statements as of and for the fiscal year ended June 30, 2011 and to comply with the requirements of OMB Circular A-133.

Scope of the Audit

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the Department for the fiscal year ended June 30, 2011.

Organization of the Report

This report is presented in six parts as follows:

- Part I – The basic financial statements and related notes of the Department as of and for the fiscal year ended June 30, 2011 and our opinion on the basic financial statements
- Part II – Our report on internal control over financial reporting and on compliance and other matters
- Part III – Our report on compliance with requirements applicable to each major program and on internal control over compliance
- Part IV – The schedule of findings and questioned costs
- Part V – Corrective action plan as provided by the Department
- Part VI – The summary schedule of prior audit findings

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

Very truly yours,

KPMG LLP

DEPARTMENT OF EDUCATION
STATE OF HAWAII

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DEPARTMENT OF EDUCATION
STATE OF HAWAII

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PART I

Financial Section

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

The Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Education, State of Hawaii (the Department), as of and for the year ended June 30, 2011, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's managements. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in note 1 to the financial statements, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, the respective budgetary statements for the general fund and federal fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2011, and the changes in its financial position for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Department, as of June 30, 2011, and the respective changes in financial position thereof, and, where applicable, the respective budgetary comparisons for the general fund and federal fund for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2, during fiscal year 2011, the Department adopted Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2012 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Department. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

March 30, 2012

The following management's discussion and analysis provides an overview of the Department of Education's (Department) financial activities for the fiscal year ended June 30, 2011. Readers should also review the basic financial statements and notes to enhance their understanding of the Department's financial performance.

These financial statements represent the combination of Department of Education (DOE), State Library (Library) and Public Charter Schools (PCS) where the DOE prepares entries, based on information provided by the Library and PCS, to combine financial data for the three departments, in aggregate known as the Department. While not legally separate, the DOE does not have fiscal or oversight authority for the Library or PCS. The DOE has determined that PCS balances are significant, but not material, and relies on financial information which have been audited by a third-party and coordinated by PCS.

Financial Highlights

Key government-wide financial highlights for Fiscal Year (FY) 2010-11 compared to the prior FY 2009-10 are as follows:

- Total FY 2010-11 revenues were $2.031 billion, an increase of 7% or $136 million from $1.895 billion in FY 2009-10. The increase was primarily due to federal funds received under the American Recovery and Reinvestment Act of 2009 (ARRA) totaling $32 million, and ARRA State Fiscal Stabilization Funds (SFSF) and Education Jobs Act funds, totaling $94 million, offset by lower state appropriations.
- Total FY 2010-11 expenses were $2.339 billion, an increase of 5% or $107 million from $2.232 billion in FY 2009-10. The increase in expenses was similarly due to the higher level of federal funds received under ARRA and SFSF grants mentioned above, offset by lower state appropriations available for expenditure.
- Of the total FY 2010-11 expenses of $2.339 billion, 93% or $2.177 billion, was spent for school-related expenditures. Of the total FY 2009-10 expenses of $2.232 billion, 92% or $2.052 billion, was spent for school-related expenditures.
- Total assets exceeded liabilities as of June 30, 2011 by $1.247 billion (net assets), compared to $1.163 billion as of June 30, 2010, an increase of 7%.
- Capital assets, net of accumulated depreciation, comprised 91% and 96% of total net assets as of June 30, 2011, and as of June 30, 2010, respectively.
- Effective July 1, 2010, the Department successfully implemented the new Government Accounting Standards Board (GASB) Statement No. 54 (GASB 54), *Fund Balance Reporting and Government Fund Type Definitions.* There were no net effects on the Department's net assets as a result of this change. Prior year information was reclassified for comparability to the current year fund balance financial statement presentation. Please refer to *note 2 – Fund Balance* for more information on GASB 54.

Overview of the Financial Statements

The financial statements consist of three sections: management's discussion and analysis (this section), basic financial statements and notes to the financial statements, and required supplementary information. These sections are described below.

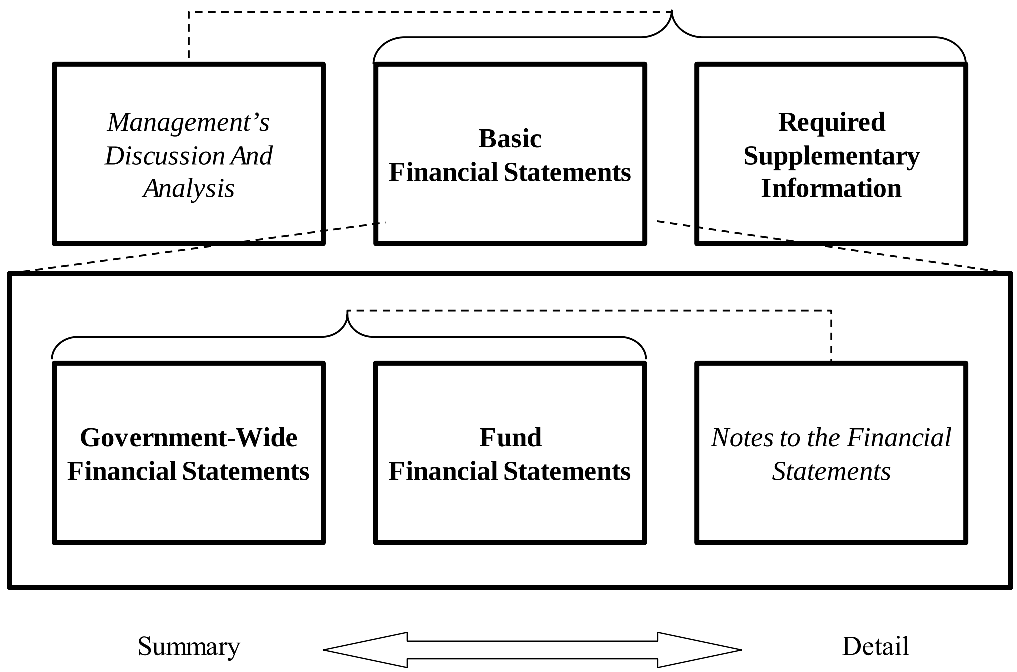
The basic financial statements include government-wide and fund financial statements, which provide different views of the Department:

- *Government-wide financial statements* provide both *long-term* and *short-term* information about the Department's *overall* financial position and results of operations. The statements are presented on an accrual basis of accounting and consist of the Statement of Net Assets and the Statement of Activities.
- *Fund financial statements* focus on *individual* parts of the Department and report operations in more detail than the government-wide statements. Governmental funds statements include most of the Department's programs and services such as instruction, support services, operation and maintenance of facilities, student transportation, and extracurricular activities and are presented on a modified accrual basis of accounting. Fiduciary funds statement report on agency funds (or local school funds as the term is used in our schools), which are held in a custodial capacity for students' school activities that take place outside of the formal class period and are not requirements for class work or credit. Certain activities, such as depreciation expense, are included in the government-wide financial statements but not the fund financial statements. These activities are highlighted in the financial statement's *Reconciliation of the Change in Fund Balances of Governmental Funds to the Statement of Activities*.

Notes are included in the financial statements to explain financial statement information and provide more detailed data. The basic financial statements are followed by a section of required supplementary information. This section further explains and supports the information in the financial statements.

Exhibit A-1 shows how the required parts of this annual report are arranged and related:

Exhibit A-1



Government-Wide Financial Analysis

The following discussion highlights management's understanding of the key aspects of the Department's financial activities. Certain reclassifications have been made to the FY 2009-10 financial statements to conform to the FY 2010-11 presentation. Such reclassifications had no effect on previously reported change in net assets.

Net Assets – the Department's largest portion of net assets is capital assets (e.g., land, buildings, equipment), which are unavailable for future spending. the Department's unrestricted net assets are available for future use to provide program services.

Exhibit A-2
Government-Wide
Statements of Net Assets
Fiscal years 2011 and 2010
(Amounts in millions)

		Governmental activities		2011 – 2010	
		2011	2010	Increase (decrease)	Percentage change
Assets:					
Current	$	452.6	353.8	98.8	28%
Noncurrent (capital assets, net of depreciation)		1,140.3	1,121.2	19.1	2
Total assets	$	1,592.9	1,475.0	117.9	8%
Liabilities:					
Current	$	247.3	216.5	30.8	14%
Noncurrent		98.4	95.9	2.5	3
Total liabilities		345.7	312.4	33.3	11
Net assets:					
Investment in capital assets		1,140.3	1,121.2	19.1	2
Unrestricted		106.9	41.4	65.5	158
Total net assets		1,247.2	1,162.6	84.6	7
Total liabilities and net assets	$	1,592.9	1,475.0	117.9	8%

Overall Financial Position – The Department's overall financial position has increased as of June 30, 2011 compared to the prior fiscal year-end.

Changes in Net Assets – Total government-wide net assets increased by $84.6 million, primarily due to the inclusion of charter school net assets and a higher investment in capital assets.

Exhibit A-3
Government-Wide
Changes in Net Assets
Fiscal years 2011 and 2010
(Amounts in millions)

	Governmental activities		2011 – 2010	
	2011	2010	Increase (decrease)	Percentage change
Revenues:				
Program revenues:				
Charges for services	$ 77.6	39.8	37.8	95%
Operating grants and contributions	471.8	310.7	161.1	52
General revenues:				
State allotted appropriations, net of lapses	1,480.1	1,542.1	(62.0)	(4)
Unrestricted investment earnings	1.3	2.8	(1.5)	54
Total	2,030.8	1,895.4	135.4	7
Transfers, net	392.4	390.6	1.8	—
Expenses:				
School-related	2,176.7	2,051.7	125.0	6
State and complex area administration	56.6	56.5	0.1	—
Public libraries	44.5	43.3	1.2	3
Capital outlay	60.9	80.7	(19.8)	(25)
Total	2,338.7	2,232.2	106.5	5
Change in net assets	$ 84.5	53.8	30.7	(57)%

Overall Results of Operations – As shown above, the Department's results of operations for FY 2010-11 have resulted in an increase in net assets of $84.5 million. Total revenues were $2.031 billion in FY 2010-11, an increase of $135 million from $1.895 billion in FY 2009-10. The increase was primarily due to federal funds received under the American Recovery and Reinvestment Act of 2009 (ARRA) totaling $32 million, and ARRA State Fiscal Stabilization Funds (SFSF) and Education Jobs Act funds, totaling $94 million, offset by lower state appropriations and Governor-imposed budget restrictions. Total expenses increased by $106.5 million, similarly due to the higher level of federal funds received under ARRA and SFSF grants mentioned above, offset by lower state appropriations available for expenditure.

Individual Funds – Within the "Governmental Funds" financial statements, for the various fund sources (including general, federal, capital projects, and other funds), FY 2010-11 has resulted in a net positive fund balance for the governmental funds as of June 30, 2011. In fiscal 2011, the Department implemented GASB 54.

(Continued)

This statement applies to governmental funds, and provides new fund balance classifications that comprise a hierarchy based primarily on the extent the Department is bound to honor constraints on the specific purposes for which amounts can be spent. The previous reserved and unreserved classifications have been replaced with restricted, committed, assigned, and unassigned. Please refer to *note 2 – Fund Balance* for more information on those fund balances. The Department does not expect these restrictions to significantly affect the availability of fund resources for future use.

Budget Results – Variations of "Final" compared to "Original" budgeted amounts as reported on the *Statements of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Fund* are primarily due to legislative appropriations due to collective bargaining compensation changes, as well as budget restrictions placed by the Governor. For the general fund, the Department is allowed to carry over up to 5% of any appropriation at the end of the fiscal year. As of June 30, 2011, general funds carried over totaled to $34.2 million, representing 3% of appropriations. For federal funds, since most grants stipulate a 27-month expenditure period, expenditures during a specific fiscal year may exceed revenues, due to the timing of expenditures compared to receipts. The Department expended $47.8 million more than it received in federal funds during FY 2010-11; this merely reflects the timing of expenditures versus grants that may have been received during the prior year.

Explanation of Major Departmental Programs

The State Budget is organized by major program areas. The Department's major programs are as follows (see *note 1(a) – Introduction*):

Program	Program title	Program description
EDN 100	School-Based Budgeting	Instructional services, curriculum programs, and at-risk programs
EDN 150	Comprehensive Student Support Services	Special needs assessment, special education services, school-based behavioral health services, and other related services required for a free and appropriate public education, autism services, and professional development
EDN 200	Instructional Support	Curriculum support, assessment, planning, information technology support, and school leadership training
EDN 300	State and Complex Administration	Board of Education, Superintendent, Complex Area Superintendents, budget, communications, civil rights compliance, internal audit, business services, human resources, and information technology
EDN 400	School Support	School food services, utilities, custodial services, repair and maintenance, and student transportation
EDN 407	Hawaii State Public Library System	The Hawaii State Public Library System is included in the Department of Education's combined financial statements since both the Library System and the DOE are administratively and legally supervised by the Hawaii State Board of Education

Program	Program title	Program description
EDN 500	School Community Services	After school care and adult education
EDN 600	Public Charter Schools	The public charter schools are included in the Department of Education's combined financial statements since they are legally established in the State's budget as part of "lower education"

Exhibit A-4 summarizes the Department's revenue. Revenues are primarily from state general funds (taxpayer monies). Other revenues are from federal grants, special funds to support specific programs such as cafeteria collections for school food services, and donations.

Exhibit A-4
Revenue: Where the Money Came From

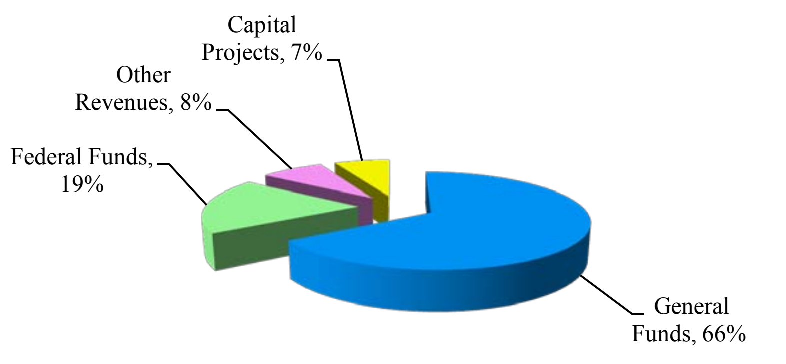
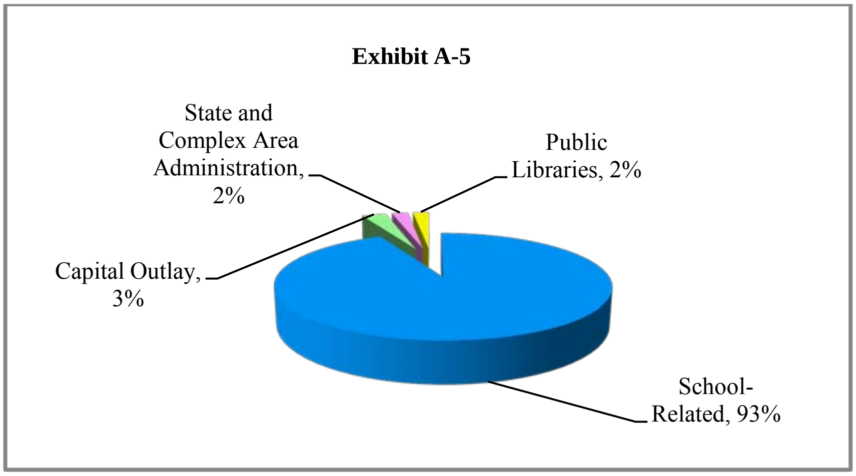


Exhibit A-5 summarizes the Department's expenses. A total of 93% of Department expenditures are for school-level instructional and related programs in EDN 100, 150, 400, 500, and 600, while only 2% are for State and Complex Area Administration.



General Fund Budgetary Highlights

The Department was appropriated general funds of $1.331 billion in FY 2010-11.

State law permits the Department to "carryover" up to 5% of general fund appropriations from one fiscal year to the next. The Department carried over $34.2 million in FY 2010-11 general fund appropriations for expenditures in FY 2010-11. Carryover funds enable schools to make long-range fiscal plans, save for major purchases for which single year funding may not be sufficient, and provide funds to start the next school year. Under the DOE's single school calendar, schools start their school year in July statewide, within weeks of the beginning of the fiscal year.

Agency Funds

Agency funds, or "local school funds," are held for students in a custodial capacity and do not require deposit into the State Treasury. The fund contains monies collected and maintained by schools for students. Examples include yearbook, newspaper fund, student government dues, physical education uniform sales, and excursions. The funds are used for school activities that take place outside formal class periods and are not required for class work or credit.

Agency fund net due to student group and others was $23.7 million in FY 2010-11 representing a 7% increase from the prior fiscal year.

Capital Asset and Debt Administration

The Department's capital improvement program (CIP) strives to provide facilities that are well-placed, sufficient in number, flexible, functional, and creatively designed to accommodate population changes, support educational programs, and promote health and safety of students, employees, and the public. The Departments of Accounting and General Services, Land and Natural Resources, and Budget and Finance assist the Department with various aspects of capital improvement.

Buildings, building improvements, and land improvements less than $100,000 are not reported as capital assets. This year's capital improvements are summarized as follows:

Representative Highlights of Major CIP Projects Completed

Major Buildings

Baldwin High School, Occupational Skills Classroom
Na`alehu Elementary School, 6-Classroom Building

Portable Classrooms (Quantity)

Waipahu Elementary School (1) New Portable; Fire Damage Replacement
Webling Elementary School (2)

Representative Highlights of Major Repair and Maintenance Work Completed

Multi-Component Repair and Maintenance Projects

Kohala Middle School, Building M, Renovate Kitchen
Stevenson Middle School, Renovate Administration Building

Electrical, Bell, and Fire Alarm Upgrades

Ele`ele Elementary School, Telecommunications, Electrical and Fire Alarm System Improvements
Hana High and Elementary School, Electrical Upgrade
Hilo High School, Fire Alarm System
Kualapu`u Elementary School, Electrical Upgrade

Reroofing

Aiea Intermediate School, Bus Stop Overhang
Kahalu`u Elementary School, Building A Replace Gutters/Reroof
Kohala Elementary School, Portables Reroof
Lihikai Elementary School, Building F Reroof
Nu`uanu Elementary School, Buildings B, D, E, and I Reroof
Pearl City Highlands Elementary School, Covered Walkway

Other Significant Work

Castle High School, Special Education FSC Room Improvements
Honowai Elementary School, Slope Stabilization
Kihei Elementary School, Various Buildings AC Systems, Phase 2 and 3
Leilehua High School, Football Field Improvements
Roosevelt High School, Cliff Stabilization

Repairs and Maintenance (R&M) funds were used to initiate projects that were procured through the Hawaii Electronic Procurement Program and through a formal bidding process. The bid amount for these projects ranged from $25,000 to major renovation work which costs several million dollars. Statewide, $92.2 million was expended in FY 2010-11 on R&M projects that were funded by CIP appropriations.

Whole School Classroom Renovations Statewide

Since the program's inception in FY 2007-08, a total of $170 million in funding has been allotted for whole classroom renovations. This includes renovation of the remaining 96 schools that are 25 years or older. To date, $169.6 million has been obligated, of which $169.6 million has been expended. A total of only $680,182 remains unencumbered.

Program status as of June 30, 2011 was as follows:

Schools completed prior to July 1, 2010	51
School completed in FY 2010-11	13
Under construction	26
Bidding completed, pending award, or notice to proceed	3
Design completed, pending bid phase	1
Deferred due to closure or change in school status	2
Total schools	96

The following whole school classroom renovation projects were completed during FY 2010-11:

Campbell High School
Hanalei Elementary School
Honoka`a Elementary School
Ka`ala Elementary School
Kanoelani Elementary School
Kilauea Elementary School
Lehua Elementary School
Maui High School
Moanalua Middle School
Pearl City High School
Salt Lake Elementary School
Waipahu Intermediate School

The Department's long-term debt is managed by the Department of Budget and Finance; however, general fund appropriations for interest payment and debt retirement are included in the Department of Budget and Finance's budget. Interest payments and debt retired were $194.9 million in FY 2010-11. Please refer to *note 5, Capital Assets*, for more information on capital assets.

Economic Factors and Next Year's Budget

Hawaii's economy is expected to have positive growth in 2012, based on the most recent developments in the national and global economy; the performance of Hawaii's tourism industry; the labor market conditions in the state; and growth of personal income and tax revenues.

The State of Hawaii Council on Revenues in January 2012, lowered the State's general fund tax revenue growth rate for fiscal year 2011-12 from 14.5% to 11.5%, while keeping the growth forecast for fiscal years 2012-13, 2013-4, and 2014-15 at 6.5%, 3.0%, and 5.0%, respectively. The growth rate for fiscal year 2015-16 was lowered from 5% to 3%.

Overall, Hawaii's economy measured by real Gross Domestic Product (GDP) is projected to show a 1.8% growth in 2012. The statewide seasonally adjusted unemployment rate for Hawaii was 6.6% for the month of December 2011, compared to the seasonally adjusted national unemployment rate of 9.4% for the same period. One year ago, the State's seasonally adjusted unemployment rate stood at 6.3%, while the seasonally adjusted national unemployment rate was 9.4%.

Cumulative Hawaii tax collections for the first five months of fiscal year 2011-12 were $1.9 billion, an increase of $108.6 million from the same period last fiscal year. This increase is net of an estimated $184 million of individual income tax refunds that were delayed and paid in early fiscal 2010-11. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, increased by 8.0%.

Because of the lower estimated general fund revenue growth in fiscal year 2011-12, the Governor imposed a 1.5% spending restriction on discretionary operating expenses of general funds for all departments and agencies of the Executive Branch.

Currently Known Facts That Will Financially Impact the DOE

The DOE continues its implementation of the weighted student formula, giving schools increased budgetary decision-making flexibility, authority, and accountability. The Committee on Weights, established by Statute, reviews the weighted student formula bi-annually, and makes recommendations to the Board of Education as to improvements or changes to the formula.

In accordance with the No Child Left Behind Act, the DOE has made substantial progress in reading and mathematics proficiencies, at levels consistent with the State's plan to meet full proficiencies by FY 2013-14.

The DOE's financial reporting goal is to provide its financial information to school-level personnel and the public in a transparent manner. There is a critical need for integrated human resources and financial systems, and more financial reports that are easily understood by nonfiscal personnel, and more easily used for resource management. Accordingly, the DOE has developed detailed specifications required to replace its aging computer systems. The DOE is working closely with the new State Chief Information Officer (CIO) on the State's proposed plans to procure and implement a new Enterprise Resource Management (ERP) system, over the next five years.

(Continued)

The American Recovery and Reinvestment Act (ARRA) of 2009 played a major role in maintaining education services during FY 2010-11. The Department received $16.4 million in ARRA – Individuals with Disabilities Education Act funds; $1.2 million in ARRA – Educational Technology funds; $14.6 million in ARRA – Title I grant funds; and, was able to draw down $93.9 million of ARRA – State Fiscal Stabilization and Education Jobs Funds.

ARRA also provided the U.S. Department of Education with $4.35 billion to be used for a competitive grant program, called "Race To The Top." More information is available at the U.S. Department of Education Website: www.ed.gov. This program is designed to encourage and reward states that are creating the conditions for education innovation and reform; achieving significant improvement in student outcomes, including making substantial gains in student achievement; closing achievement gaps; improving high school graduation rates, and ensuring student preparation for success in college and careers; and implementing ambitious plans in four (4) core education reform areas:

- Adopting standards and assessments that prepare students to succeed in college and the workplace and to compete in the global economy
- Building data systems that measure student growth and success, and inform teachers and principals about how they can improve instruction
- Recruiting, developing, rewarding, and retaining effective teachers and principals, especially where they are needed the most
- Turning around our lowest-achieving schools

On August 24, 2010, U.S. Secretary Arne Duncan announced that Hawaii was a Race to the Top Phase 2 winner. The federal government pledged to invest $75 million in Hawaii over four years and secured its investment with the commitment of educators and stakeholders to execute Hawaii's blueprint for education reform.

With the unprecedented collective support of educators, legislators, policy makers, and community partners, Hawaii continues to move forward with its plan to ensure that every child graduates college-and career-ready.

Hawaii's comprehensive five-point plan is focused on:

1. Tying high-quality college – and career-ready standards and assessments to a statewide curriculum;
2. Improving longitudinal data collection and use;
3. Cultivating, rewarding, and leveraging effective teaching and leading;
4. Providing targeted support to struggling schools and students; and
5. Aligning organizational functions to support reform outcomes.

On December 21, 2011, the U.S. Department of Education (U.S. DOE) placed the State of Hawaii's Race To The Top grant on "high-risk" status, expressing concerns about the state's progress on grant results. The U.S. DOE will be conducting an on-site visit in March 2012, to further evaluate the state's progress. The DOE has focused significant efforts, and has made improvements, to address the U.S. DOE's concerns.

Contacting the Department's Financial Management

The financial report is designed to provide the public with a general overview of the Department's finances and demonstrate the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Office of the Fiscal Services, Department of Education, P.O. Box 2360, Honolulu, Hawaii 96804. For general information about the Department, please refer to the Department of Education's Website at doe.k12.hi.us.

DEPARTMENT OF EDUCATION
STATE OF HAWAII

Statement of Net Assets

June 30, 2011

Assets		**Governmental activities**
Current assets:		
Cash	$	395,069,524
Receivables:		
Due from federal government		41,486,701
Due from other agencies		7,346,420
Accounts receivable		8,650,291
Total current assets		452,552,936
Capital assets, net of accumulated depreciation		1,140,321,413
Total assets	$	1,592,874,349
Liabilities and Net Assets		
Current liabilities:		
Vouchers and contracts payable	$	90,280,242
Accrued wages and employee benefits		125,136,603
Accrued compensated absences		16,796,614
Workers' compensation claims reserve		10,121,873
Due to State of Hawaii General Fund		5,000,000
Total current liabilities		247,335,332
Accrued compensated absences, less current portion		52,250,182
Workers' compensation claims reserve, less current portion		46,110,756
Total liabilities		345,696,270
Net assets:		
Invested in capital assets		1,140,321,413
Unrestricted		106,856,666
Total net assets		1,247,178,079
Total liabilities and net assets	$	1,592,874,349

See accompanying notes to basic financial statements.

DEPARTMENT OF EDUCATION
STATE OF HAWAII

Statement of Activities

Year ended June 30, 2011

Functions/programs	Expenses	Program revenues: Charges for services	Program revenues: Operating grants and contributions	Net revenue (expenses) and change in net assets: Governmental activities
Governmental activities:				
School-related	$ 2,176,742,558	73,784,337	469,907,192	(1,633,051,029)
State and complex area administration	56,621,132	1,718,492	594,311	(54,308,329)
Public libraries	44,540,155	2,105,481	1,379,861	(41,054,813)
Capital outlay	60,861,196	—	—	(60,861,196)
Total governmental activities	$ 2,338,765,041	77,608,310	471,881,364	(1,789,275,367)
General revenues:				
State allotted appropriations, net of lapses				1,480,126,818
Unrestricted investment earnings				1,275,747
Total general revenues				1,481,402,565
Other financing sources (uses):				
Transfers in				590,533,104
Transfers out				(198,149,778)
Net transfers				392,383,326
Change in net assets				84,510,524
Net assets at June 30, 2010				1,162,667,555
Net assets at June 30, 2011				$ 1,247,178,079

See accompanying notes to basic financial statements.

DEPARTMENT OF EDUCATION
STATE OF HAWAII

Balance Sheet – Governmental Funds

June 30, 2011

Assets		General	Federal	Capital projects	Other	Total
Cash	$	153,123,447	96,111,579	50,136,850	95,697,648	395,069,524
Receivables:						
Due from federal government		—	41,486,701	—	—	41,486,701
Due from other agencies		—	—	—	7,346,420	7,346,420
Accounts receivable		—	—	—	8,650,291	8,650,291
Total assets	$	153,123,447	137,598,280	50,136,850	111,694,359	452,552,936
Liabilities and Fund Balances (Deficit)						
Liabilities:						
Vouchers and contracts payable	$	44,130,081	17,849,795	23,688,865	4,611,501	90,280,242
Accrued wages and benefits payable		114,858,763	8,032,169	322,889	1,922,782	125,136,603
Due to State of Hawaii General Fund		5,000,000	—	—	—	5,000,000
Total liabilities		163,988,844	25,881,964	24,011,754	6,534,283	220,416,845
Fund balances (deficit):						
Restricted		—	91,744,934	—	—	91,744,934
Committed		50,753,606	19,971,382	354,151,175	12,132,728	437,008,891
Assigned		44,560,026	—	—	93,027,348	137,587,374
Unassigned		(106,179,029)	—	(328,026,079)	—	(434,205,108)
Total fund balances (deficit)		(10,865,397)	111,716,316	26,125,096	105,160,076	232,136,091
Total liabilities and fund balances (deficit)	$	153,123,447	137,598,280	50,136,850	111,694,359	452,552,936

See accompanying notes to basic financial statements.

DEPARTMENT OF EDUCATION
STATE OF HAWAII

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets

June 30, 2011

Total fund balances – governmental funds	$	232,136,091
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Capital assets		2,358,563,352
Less accumulated depreciation		(1,218,241,939)
		1,140,321,413
Accrued compensated absences liability is not due in the current period and, therefore, is not reported in the funds		(69,046,796)
Accrued workers' compensation liability is not due in the current period and, therefore, is not reported in the funds		(56,232,629)
Net assets of governmental activities	$	1,247,178,079

See accompanying notes to basic financial statements.

DEPARTMENT OF EDUCATION
STATE OF HAWAII

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) –
Governmental Funds

Year ended June 30, 2011

	General	Federal	Capital projects	Other	Total
Revenues:					
State allotments, net	$ 1,328,739,039	—	151,387,779	5,785,440	1,485,912,258
Intergovernmental revenues	—	389,995,813	—	3,367,588	393,363,401
Other revenues	—	—	—	151,616,580	151,616,580
	1,328,739,039	389,995,813	151,387,779	160,769,608	2,030,892,239
Expenditures:					
School-related	1,668,096,161	327,277,932	—	111,990,927	2,107,365,020
State and complex area administration	53,196,134	857,811	—	1,767,561	55,821,506
Public libraries	35,212,965	930,058	—	2,708,933	38,851,956
Capital outlay	—	—	149,771,635	—	149,771,635
	1,756,505,260	329,065,801	149,771,635	116,467,421	2,351,810,117
Excess (deficiency) of of revenues over expenditures	(427,766,221)	60,930,012	1,616,144	44,302,187	(320,917,878)
Other financing sources (uses):					
Transfers in	590,381,273	—	—	151,831	590,533,104
Transfers out	(194,855,477)	(151,831)	(642,470)	(2,500,000)	(198,149,778)
Net transfers	395,525,796	(151,831)	(642,470)	(2,348,169)	392,383,326
Net changes in fund balances (deficit)	(32,240,425)	60,778,181	973,674	41,954,018	71,465,448
Fund balances at June 30, 2010	21,375,028	50,938,135	25,151,422	63,206,058	160,670,643
Fund balances (deficit) at June 30, 2011	$ (10,865,397)	111,716,316	26,125,096	105,160,076	232,136,091

See accompanying notes to basic financial statements.

DEPARTMENT OF EDUCATION
STATE OF HAWAII

Reconciliation of the Change in Fund Balances
of Governmental Funds to the Statement of Activities

Year ended June 30, 2011

Net change in fund balances – total governmental funds	$	71,465,448
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives:		
Capital assets recorded in the current period		95,581,540
Loss on disposal of capital assets		(6,671,101)
Less current fiscal year depreciation		(69,807,118)
		19,103,321
Change in long-term compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		(2,827,127)
Change in workers' compensation liability reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported not expenditures in governmental funds		(3,231,118)
Change in net assets of governmental activities	$	84,510,524

See accompanying notes to basic financial statements.

DEPARTMENT OF EDUCATION
STATE OF HAWAII

Statement of Revenues and Expenditures –
Budget and Actual (Budgetary Basis) – General Fund

Year ended June 30, 2011

	Budgeted amounts		Actual on budgetary basis	Variance favorable (unfavorable)
	Original	Final		
Revenues:				
State allotments	$ 1,336,042,123	1,331,236,432	1,328,777,728	(2,458,704)
Expenditures:				
School-related	1,264,676,998	1,265,652,004	1,227,369,805	38,282,199
State and complex area administration	42,517,962	37,312,208	38,895,890	(1,583,682)
Public libraries	28,847,163	28,272,220	28,272,161	59
	1,336,042,123	1,331,236,432	1,294,537,856	36,698,576
Excess of revenues over expenditures	$ —	—	34,239,872	34,239,872

See accompanying notes to basic financial statements.

DEPARTMENT OF EDUCATION
STATE OF HAWAII

Statement of Revenues and Expenditures –
Budget and Actual (Budgetary Basis) – Federal Fund

Year ended June 30, 2011

		Budgeted amounts		Actual on budgetary basis	Variance favorable (unfavorable)
		Original	Final		
Revenues:					
Federal grants	$	314,277,327	517,979,364	358,556,757	(159,422,607)
Expenditures:					
School-related		312,877,081	512,684,702	308,374,741	204,309,961
State and complex area administration		35,001	3,329,418	1,357,463	1,971,955
Public libraries		1,365,245	1,965,244	990,661	974,583
		314,277,327	517,979,364	310,722,865	207,256,499
Excess of revenues over expenditures	$	—	—	47,833,892	47,833,892

See accompanying notes to basic financial statements.

DEPARTMENT OF EDUCATION
STATE OF HAWAII

Statement of Assets and Liabilities – Agency Funds

June 30, 2011

Assets		
Cash and cash equivalents	$	21,333,699
Investments		2,391,209
Total assets	$	23,724,908
Liabilities		
Due to student group and others	$	23,724,908
Total liabilities	$	23,724,908

See accompanying notes to basic financial statements.

(1) Financial Reporting Entity

(a) Introduction

The Department of Education of the State of Hawaii (the Department) administers the statewide system of public schools and public libraries. Additionally, the Department is responsible for administering state laws regarding regulation of private school operations through a program of inspection and licensing and the professional certification of all teachers for every academic and noncollege type of school. Federal grants received to support public school and public library programs are administered by the Department on a statewide basis.

These financial statements represent the combination of Department of Education (DOE), State Library (Library) and Public Charter Schools (PCS) where the DOE prepares entries, based on information provided by the Library and PCS, to combine financial data for the three departments, in aggregate known as the Department. While not legally separate, the DOE does not have fiscal or oversight authority for the Library or PCS. The DOE has determined that PCS balances are significant, but not material, and relies on financial information which have been audited by a third-party and coordinated by PCS.

The Department is a part of the executive branch of the State of Hawaii (the State). The financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2011, and the changes in its financial position for the year then ended, in conformity with U.S. generally accepted accounting principles (GAAP). The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State annually, which includes the Department's financial activities.

(b) Reporting Entity

The Department has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Department are such that exclusion would cause the Department's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. The Department has determined, based on the GASB criteria, that it has no component units.

(2) Significant Accounting Policies

The accompanying financial statements of the Department have been prepared in conformity with GAAP as prescribed by the GASB.

(a) Government-Wide and Fund Financial Statements

The government-wide financial statements report all assets, liabilities, and activities of the Department as a whole. The fiduciary funds are excluded from the government-wide financial statements because the Department cannot use those assets to finance its operations. Governmental activities are primarily supported by State allotments and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments are reported as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Department's policy to use restricted resources first, then unrestricted as they are needed.

Separate financial statements are provided for governmental funds and fiduciary funds. However, the fiduciary funds are not included in the government-wide statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are summarized into a single column.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end.

Principal revenue sources considered susceptible to accrual include federal grants. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with GAAP since they have been earned and are expected to be collected within sixty days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the Department.

(Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation and workers' compensation claims, which are recorded as an expenditure when utilized or paid. The amount of accumulated vacation and reserve for workers' compensation claims at June 30, 2011 has been reported only in the government-wide financial statements.

Fiduciary Funds

The financial statement of fiduciary funds is reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. Agency funds do not have a measurement focus and report only assets and liabilities.

(c) Fund Accounting

The financial transactions of the Department are recorded in individual funds that are reported in the fund financial statements and are described in the following sections. Each fund is considered a separate accounting entity. The operations of each are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The fund financial statements focus on major funds rather than reporting funds by type. Each major fund is reported in separate columns and nonmajor funds are combined in one column. Major funds are funds which have total assets, liabilities, revenues, or expenditures of the fund that are at least ten percent of the same element for all funds of its fund type or at least five percent of the same element for all governmental funds combined.

Governmental Funds

General Fund – The general fund is the main operating fund of the Department. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.

Federal Fund – The federal fund is used to account for federally funded programs for the Department's major activities. This fund is made up entirely by special revenue funds which account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. In this case, the expenditures are for activities authorized by the federal agency grantor.

Capital Projects Fund – The capital projects fund includes all amounts related to the Department's capital improvement program. It is used to account for financial resources used for the acquisition or construction of major capital facilities.

Other Fund – The other fund is used to account for all financial activities not required to be accounted for in another fund. It includes special revenue and trust funds which account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Fund Balance

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Effective July 1, 2010, the Department implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 provides clearer fund balance classifications and clarifies the existing governmental fund type definitions. The new hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include the following:

Restricted – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

Committed – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the state legislature.

Assigned – Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Residual balances that are not contained in the other classifications.

Fiduciary Fund Type

Agency Funds – Agency funds are used to account for assets held by the Department on behalf of outside parties, or on behalf of individuals. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations.

(d) Cash

Cash include certificates of deposit with original maturities of three months or less. It also includes amounts held in the State Treasury. The State Director of Finance (Director) is responsible for safekeeping of all moneys paid into the State Treasury (cash pool). The Director may invest any monies of the State, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or participates in the State Treasury Investment Pool system. Cash accounts that participate in the investment pool accrue interest based on the weighted average cash balances of each account.

The State's investment pool as of June 30, 2011 included auction rates securities collateralized by student loans. During 2008, a number of the auctions failed and companies without the ability to hold such securities until maturity have taken significant losses. As of June 30, 2011, the State recorded an adjustment for the increase in fair value of these investments. The Department's allocated share of the adjustment was approximately $939,000. This amount was recorded in the

(Continued)

government-wide financial statements as an increase in cash in the statement of net assets and unrestricted investment earnings in the statement of activities. In the governmental funds, this amount was recorded as an increase in cash in the balance sheet and other revenues in the statement of revenues, expenditures, and changes in fund balances – other funds.

Information relating to custodial credit risk of cash deposits and interest rate risk, credit risk, custodial risk, and concentration of credit risk of investments in the State Treasury is available on a statewide basis and not for individual departments or agencies.

(e) Capital Assets

Capital assets include land, improvements to land, buildings, building improvements, vehicles, machinery, equipment, and all other tangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

Capital assets are valued at cost where historical records are available and at estimated historical cost where no records exist. Donated capital assets are valued at their estimated fair value on the date received.

Improvements to capital assets that materially add to the value or extend the life of the assets are capitalized. Other repairs and normal maintenance are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation expense is recorded in the government-wide financial statements. The Department utilizes the straight-line method over the assets' estimated useful life. No depreciation is recorded for land. The Department has adopted the following capitalization policy:

Asset type	Minimum capitalization amount	Estimated useful life
Land	All	Not applicable
Land improvements	$ 100,000	15 years
Buildings and improvements	100,000	30 years
Furniture and equipment	5,000	7 years
Vehicles	5,000	5 years
Public library materials	All	5 years

(f) Accumulated Vacation

Employees are credited with vacation at the rate of 96 to 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net assets.

(g) Program Revenues

Program revenues are derived directly from the programs of the Department or from parties outside of the Department and are categorized as charges for services, operating grants and contributions, or capital grants and contributions.

Charges for services – Charges for services include revenues based on exchange or exchange-like transactions. These revenues arise from charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided. Revenues in this category include fees charged for meals served, educational classes, use of facilities, transportation services, and use of library materials.

Operating grants and contributions – Program-specific operating and capital grants and contributions include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Governmental grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred.

(h) Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the basic financial statements.

(i) Risk Management

The Department is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

(j) Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(3) Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration, and revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues and budgeted expenditures in the budgetary comparison schedules of the general and federal funds are derived primarily from acts of the State Legislature and from other authorizations contained in other specific appropriation acts in various Session Laws of Hawaii. To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations such as those related to the federal funds.

However, Section 37-41.5 of the Hawaii Revised Statutes allows the DOE to carryover up to five percent each of any appropriation at the end of the fiscal year except for appropriations to fund certain financing agreements. These carryover funds, to the extent not expended or encumbered, lapse at June 30 of the first fiscal year of the next fiscal biennium. As of June 30, 2011, general funds carried over amounted to approximately $34,240,000, representing less than 2.6% of appropriations.

For purposes of budgeting, the Department's budgetary fund structure and accounting principles differ from those utilized to present the fund financial statements in conformity with GAAP. The Department's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to (1) the encumbrances of purchase orders and contract obligations, (2) the recognition of certain receivables, and (3) special revenue funds operating grants accruals and deferrals. These differences represent a departure from GAAP.

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the fiscal year ended June 30, 2011:

	General	Federal
Excess of revenues over expenditures – actual on a budgetary basis	$ 34,239,872	47,833,892
Reserved for encumbrances at fiscal year end	64,936,888	29,445,506
Expenditures for liquidation of prior fiscal year encumbrances	(121,927,699)	(28,037,007)
Net accrued revenues and expenditures	(9,489,486)	11,535,790
Excess (deficiency) of revenues over (under) expenditures – GAAP basis	$ (32,240,425)	60,778,181

(4) Cash

Cash at June 30, 2011 consisted of amounts held in State Treasury of approximately $353,196,000.

(a) Custodial Credit Risk

Cash and deposits with financial institutions are collateralized in accordance with State statutes. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

Cash held by charter schools was $36,023,989 at June 30, 2011. The DOE also maintains cash in banks, which is held separately from cash in the State Treasury. As of June 30, 2011, the carrying amount of total bank deposits was approximately $5,849,000 and the corresponding bank balances were approximately $35,720,000. Of this amount, the entire balance is insured by the Federal Deposit Insurance Corporation and collateralized with securities held by the DOE's agent.

(b) Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

(c) Credit Risk

The State's investment policy limits investments in State and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating.

(d) Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping, certain types of securities to collateralized repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

(e) Concentration of Credit Risk

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in anyone issuer, types of investment instruments, and position limits per issue of an investment instrument.

(Continued)

(f) Amounts Held in State Treasury

The State has an established policy whereby all unrestricted and certain restricted cash is invested in the State's investment pool. Section 36-21, Hawaii Revised Statutes, authorizes the State to invest in obligations of the State, the U.S. Treasury, agencies and instrumentalities, certificates of deposit, and bank repurchase agreements. At June 30, 2011, the amount reported as amounts held in State Treasury reflects the Department's relative position in the State's investment pool and amounted to approximately $353,196,000. The Department recorded an increase in its amounts held in State Treasury by approximately $939,000 during the year ended June 30, 2011.

The Director is responsible for the safekeeping of all moneys paid into the State Treasury (investment pool). The Director may invest any moneys of the State, which, in the Director's judgment, are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally insured financial institutions.

Information relating to individual bank balances, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Information regarding the carrying amount and corresponding bank balances of the State's investment pool and collateralization of those balances is included in the comprehensive annual financial report of the State. A portion of the bank balances is covered by federal deposit insurance, or by collateral held by the State Treasury, or by the State's fiscal agents in the name of the State. Other bank balances are held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

(Continued)

The Department's share of the State's investment pool, as summarized in the table below, is 23.9% at June 30, 2011 (amounts in thousands):

			Maturity (in years)	
	Fair value	**Less than 1**	**1 – 5**	**>5**
Investments – primary government:				
Student loan auction rate securities	$ 231,465	—	—	231,465
Certificates of deposit	169,148	169,148	—	—
U.S. government securities	382,808	298,590	76,562	7,656
Repurchase agreements	106,830	106,830	—	—
	$ 890,251	574,568	76,562	239,121
Investments – fiduciary funds:				
Student loan auction rate securities	$ 28,668	—	—	28,668
Certificates of deposit	20,950	20,950	—	—
U.S. government securities	47,412	36,982	9,482	948
Repurchase agreements	13,231	13,231	—	—
	$ 110,261	71,163	9,482	29,616

(5) Capital Assets

The changes in capital assets were as follows:

	Balance, June 30, 2010	Additions	Deductions	Balance, June 30, 2011
Governmental activities:				
Capital asset, not being depreciated:				
Land	$ 84,248,409	—	—	84,248,409
Construction in progress	110,072,907	68,299,474	(99,810,664)	78,561,717
Total capital assets not being depreciated	194,321,316	68,299,474	(99,810,664)	162,810,126
Capital assets, being depreciated:				
Land improvements	188,967,887	12,247,765	—	201,215,652
Buildings and improvements	1,746,912,283	82,251,958	—	1,829,164,241
Furniture and equipment	75,394,680	12,193,263	(3,419,347)	84,168,596
Vehicles	10,299,093	1,513,585	(1,128,317)	10,684,361
Public library materials	68,573,516	13,532,178	(11,585,318)	70,520,376
Total capital assets being depreciated	2,090,147,459	121,738,749	(16,132,982)	2,195,753,226
Less accumulated depreciation for:				
Land improvements	(82,841,992)	(9,543,312)	—	(92,385,304)
Buildings and improvements	(961,191,972)	(48,030,163)	—	(1,009,222,135)
Furniture and equipment	(54,339,046)	(6,627,347)	2,569,373	(58,397,020)
Vehicles	(8,483,570)	(773,181)	661,172	(8,595,579)
Public library materials	(56,394,103)	(4,833,115)	11,585,317	(49,641,901)
Total accumulated depreciation	(1,163,250,683)	(69,807,118)	14,815,862	(1,218,241,939)
Governmental activities, net	$ 1,121,218,092	120,231,105	(101,127,784)	1,140,321,413

Depreciation expense was charged to functions as follows:

		Governmental activities
School-related	$	63,326,316
State and complex area administration		731,987
Public libraries		5,748,815
Total additions to accumulated depreciation	$	69,807,118

(6) Long-Term Liabilities

The change in the long-term liabilities during the fiscal year ended June 30, 2011 was as follows:

		Accrued compensated absences	Workers' compensation claims
Balance at June 30, 2010	$	66,219,669	53,001,511
Additions		25,072,132	12,747,626
Reductions		(22,245,005)	(9,516,508)
Balance at June 30, 2011	$	69,046,796	56,232,629
Due within one year	$	16,796,614	10,121,873

The compensated absences and workers' compensation liabilities have been paid primarily by the general fund in the past.

(7) Lease Commitments

The Department leases equipment form third party lessors under various operating leases expiring through 2019. Future minimum lease rentals under noncancelable operating leases with terms of one year or more at June 30, 2011 were as follows:

		Amounts
Year ending June 30:		
2012	$	5,429,000
2013		3,913,000
2014		2,637,000
2015		1,680,000
2016		862,000
2017 – 2021		1,026,000
	$	15,547,000

Total rent expense related to the above leases for the year ended June 30, 2011 amounted to approximately $7,974,000.

(8) Retirement Benefits

(a) Employees' Retirement System (ERS)

Substantially all eligible employees of the Department are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the ERS of the State, a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement, survivor, and disability with multiple benefit structures known as the contributory, hybrid, and noncontributory plans. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to join the noncontributory plan. Qualified employees in the contributory and noncontributory plan were given the option of joining the hybrid plan effective July 1, 2006, or remaining in their existing plan. Starting July 1, 2006, all new employees covered by Social Security are required to join the hybrid plan.

The three plans provide a monthly retirement allowance equal to the benefit multiplier percentage (1.25% or 2.00%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation.

For postretirement increases, every retiree's original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5% the second year, 7.5% the third year, etc.).

The following summarizes the three plan provisions relevant to the general employees of the respective plan:

Contributory Plan

Employees in the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving five years of credited service. The Department may also make contributions for these members. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.00% for employees covered by Social Security.

Hybrid Plan

Employees in the hybrid plan are required to contribute 6.0% of their salary and are fully vested for benefits upon receiving five years of credited service. The Department may also make contributions for these members. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2.0%.

Noncontributory Plan

Employees in the noncontributory plan are fully vested upon receiving 10 years of credited service. The Department is required to make all contributions for these members. Employees may retire with full benefits at age 62 years and 10 years of credited service or age 55 and 30 years of credited service or age 55 years and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability. Employers contribute 15.75% for police officers and firefighters, and 13.75% for all other employees. These rates increase, as of July 1, 2008, to 19.700% for police officers and firefighters, and 15.00% for all other employees. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

The pension contributions made by the Department for the years ended June 30, 2011, 2010, and 2009 of $178,738,000, $174,290,000, and $187,907,000, respectively, were equal to the required contributions for each year. The contribution rate for the fiscal years ended June 30, 2011, 2010, and 2009 was 15%. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Department.

The ERS issues a comprehensive annual financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, HI 96813

(b) Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, is a participating employer in a cost-sharing, multiple-employer defined benefit plan providing certain healthcare and life insurance benefits to all qualified employees and retirees. The Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer medical, prescription, drug, dental, vision, chiropractic, dual-coverage medical and prescription, and group life benefits.

For employees hired before July 1, 1996, the State pays the entire monthly healthcare premium for employees retiring with 10 or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than 10 years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium. For those retiring with over 25 years of service, the State pays the entire healthcare premium.

For employees hired after June 30, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium based on the self plan. For employees hired after June 30, 2001, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium, for those retiring with over 25 years of service, the State pays the entire healthcare premium.

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the Airports Division. The State allocates the ARC to the State component units and proprietary funds based upon a systematic methodology.

For active employees, the employee's contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

The Department's general fund and special federal fund share of the expense for post-retirement health care and life insurance benefits for the fiscal year ended June 30, 2011 were approximately $88,873,000 and $5,978,000, respectively. The total expense of approximately $94,851,000, which was paid by the Department, is included in the basic financial statements.

The Department's share of the expense for post-retirement health care and life insurance benefits for the fiscal years ended June 30, 2010 and 2009 were approximately $92,838,000 and $74,537,000, respectively.

The EUTF issues a financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Hawaii Employer-Union Health Benefits Trust Fund
P.O. Box 2121
Honolulu, HI 96805-2121

(c) Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's or the Department's basic financial statements.

(9) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1,000,000 per occurrence minimum. The policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is $225,000,000, except for flood and earthquake, which individually is a $225,000,000 aggregate loss and terrorism, which is $50,000,000 per occurrence and a $50,000 deductible.

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage, which has a $100,000 limit per occurrence and a $1,000 deductible. Losses not covered by insurance are paid from legislative appropriations or the State's General Fund.

General liability claims under $ 10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $10,000,000. Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

The State's community hospitals included in the Hawaii Health Systems Corporation are insured by a comprehensive hospital professional liability policy. This policy covers losses from personal injury, professional liability, patient property damage, and employee benefit. This policy covers up to a limit of $25,000,000 per occurrence and $29,000,000 in aggregate.

The Department is self-insured for workers' compensation and automobile claims. The Department's estimated reserve losses and loss adjustment costs include the accumulation of estimates for losses and claims reported prior to fiscal year end, estimates (based on projections of historical developments) of claims incurred but not reported, and estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The Department believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves are adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonable estimable.

(10) Commitments and Contingencies

(a) Construction Contracts

The Department is committed under contracts awarded and orders placed for construction, repairs and maintenance, expenses, supplies, etc. These commitments amounted to approximately $236,069,000 as of June 30, 2011.

(b) Litigation

The Department is a party to various legal proceedings. Although the Department and its counsel are unable to express opinions as to the outcome of the litigation, it is their opinion that any potential liability arising there from will not have a material adverse effect on the financial position of the Department because any judgments against the Department are judgments against the State and would be paid by the legislative appropriation of the State General Fund and not by the Department.

(Continued)

(11) Food Distribution Program

U.S. Department of Agriculture (USDA), Food and Nutrition Service (FNS), has delegated to the Office of Hawaii Child Nutrition Programs (OHCNP) the administrative responsibility of the Food Distribution Program. OHCNP is the State Agency that distributes USDA foods to schools (public, private and charter), institutions and organizations that participate in the National School Lunch Program (NSLP) and Summer Food Service Program (SFSP). Hawaii's entitlement is determined in part by the number of lunches served under the NSLP and meals in SFSP of each year. The amount charged to the Department entitlement is based upon the FNS estimated cost to purchase the commodities. The estimated commodity prices can be found by referring to: http://www.fns.usda.gov/fdd/pcims/Nov15CommodityFiles.htm – FNS November 15 Commodity File Report for the SY 2011 Prices. Bonus commodities are USDA foods that are additional to Hawaii's entitlement balance.

The Department received $4,343,073 under this program to purchase commodities for the fiscal year ended June 30, 2011. No bonus commodities were received for the fiscal year ended June 30, 2011.

(12) Transfers

Transfers between funds occur when a fund receiving resources transfers resources to a fund where resources are to be expended, or when nonrecurring or nonroutine transfers of equity between funds occur.

Act 180, Session Laws of Hawaii (SLH) 2010, Section 3 provides a general fund appropriation to pay for debt service on general obligation bonds issued for the Department for the fiscal years ended June 30, 2011 and 2012. The payments are budgeted directly to the Department of Budget and Finance for the Department's share of debt service. The total amount of the debt service appropriated for the fiscal years 2011 and 2012 are $194,855,477 and $222,989,025, respectively.

SUPPLEMENTARY INFORMATION

DEPARTMENT OF EDUCATION
STATE OF HAWAII

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Federal grantor/pass-through grantor/program title	CFDA number[1]	Pass-through entity identifying number	Federal expenditures	Amount provided to subrecipient
U.S. Department of Agriculture:				
Child Nutrition:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	———	$ 9,751,613	528,686
National School Lunch Program:	10.555			
Cash assistance		———	37,273,412	1,770,791
Cash assistance (commodities)		———	4,343,073	—
Subtotal – National School Lunch Program			41,616,485	1,770,791
Special Milk Program for Children	10.556	———	1,719	1,719
Summer Food Service Program for Children:	10.559			
Cash assistance		———	1,426,596	687,357
State Administrative Expense for Child Nutrition		———	56,251	—
Subtotal – Summer Food Service Program for Children			1,482,847	687,357
Subtotal – Child Nutrition Cluster			52,852,664	2,988,553
Child and Adult Care Food Program:	10.558			
Cash assistance		———	5,843,797	343,237
State Administrative Expense for Child Nutrition		———	43,502	—
Subtotal – Child and Adult Care Food Program			5,887,299	343,237
State Administrative Expense for Child Nutrition	10.560	———	502,374	—
Equipment Assistance Grant	10.579	———	7,819	—
Fresh Fruit and Vegetable Program	10.582	———	211,410	119,069
Total – Child Nutrition			59,461,566	3,450,859
Passed-through State Department of Health:				
FSNE Program – Waimanalo	10.561	ASO Log No. 11-077	29,200	—
Total – U.S. Department of Agriculture			59,490,766	3,450,859
U.S. Department of Commerce:				
Coastal Services Center Program:	11.473			
Kauai Watershed Project		———	3,123	—
Integrated Science Curriculum Grant		———	167,470	—
National Oceanic & Atmospheric Admin			36,177	—
Total – Coastal Services Center Program			206,770	—
Total – U.S. Department of Commerce			206,770	—
U.S. Department of Defense:				
National Defense Authorization Act P.L. 110-417	12.558	———	3,385,824	—
Thinking Through Science	12.030	———	593,085	—
Bridging the Mathematical Continuum	650109	———	52,498	—
Passed-through U.S. Pacific Command:				
Joint Venture Education Forum	000913	99-0266482	3,417,192	—
Total – U.S. Department of Defense			7,448,599	—
U.S. Department of Education:				
Adult Education – State Grant Program	84.002	———	2,055,964	—
Title I, Part A Cluster:				
Title I – Grants to Local Educational Agencies	84.010	———	41,336,275	—
Title I – Grants to Local Educational Agencies – ARRA	84.389	———	14,613,599	—
Total – Title I, Part A Cluster			55,949,874	—
Migrant Education – State Grant Program	84.011	———	930,367	—
Title I – Program for Neglected and Delinquent Children	84.013	———	337,993	—

(Continued)

DEPARTMENT OF EDUCATION
STATE OF HAWAII

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Federal grantor/pass-through grantor/program title	CFDA number[1]	Pass-through entity identifying number	Federal expenditures	Amount provided to subrecipient
Special Education Cluster:				
Grants to States	84.027	———	$ 33,503,143	—
Preschool Grants	84.173	———	1,159,242	—
Grants to States – ARRA	84.391	———	15,852,725	—
Preschool Grants – ARRA	84.392	———	552,858	—
Total – Special Education Cluster			51,067,968	—
Impact Aid	84.041	———	12,784,838	—
MEP Consortium	84.144	———	217,953	—
NCLB – SDFSC – Readiness and Emergency Management	84.184	———	287,758	—
Byrd Honors Scholarships	84.185	———	141,500	—
Safe and Drug-Free School and Communities – State Grants	84.186	———	828,123	—
Education for Homeless Children and Youth Cluster:				
Education for Homeless Children and Youth	84.196	———	241,654	—
Education for Homeless Children and Youth – ARRA	84.387	———	82,020	—
Even Start – State Educational Agencies	84.213	———	349,299	—
Even Start – Migrant Education	84.214	———	149,267	—
Fund for the Improvement of Education	84.215	———	3,311,044	—
Hybrid Model of Public Charter School Education Choice	84.282	———	65,465	—
Twenty-First Century Community Learning Centers	84.287	———	5,034,876	—
Foreign Language Assistance	84.293	———	239,869	—
Education Technology State Grants Cluster:				
Education Technology State Grants	84.318	———	1,516,280	—
Education Technology State Grants – ARRA	84.386	———	1,155,686	—
Total – Education Technology State Grants Cluster			2,671,966	—
Advanced Placement Program	84.330	———	63,311	—
Reading First State Grants	84.357	———	524,379	—
Native Hawaiian Education	84.362	———	2,949,642	—
English Language Acquisition Grants	84.365	———	2,488,533	—
Mathematics and Science Partnerships	84.366	———	1,154,564	—
Improving Teacher Quality State Grants	84.367	———	17,224,735	—
Grants for State Assessments and Related Activities	84.369	———	5,368,320	—
Statewide Longitudinal Data Systems	84.372	———	506,814	—
School Improvement Grants Cluster:				
School Improvement Grants	84.377	———	1,265,522	—
School Improvement Grants – ARRA	84.388	———	302,350	—
Total – School Improvement Grants Cluster			1,567,872	—
Common Core of Data Survey Project	500000	———	11,381	—
NAEP State Coordinator	650140	———	159,367	—
			168,766,716	—
Passed-through Office of the State Director for Vocational Education:				
Career and Technical Education – Basic Grants to States	84.048	V048A090011 V048A100011	3,046,862	—

(Continued)

DEPARTMENT OF EDUCATION
STATE OF HAWAII

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Federal grantor/pass-through grantor/program title	CFDA number[1]	Pass-through entity identifying number	Federal expenditures	Amount provided to subrecipient
Passed-through State Department of Human Services:				
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	H126A70015	$ 37,840	—
Passed-through Alu Like, Inc.:				
Native Hawaiian Career and Technical Education	84.259	VE1011-81-02-2.3	214,379	—
Passed-through University of Hawaii:				
Gear Up Hawaii	84.334	P334S050013	832,658	—
		P334A080046	20,899	—
			853,557	—
Native Hawaiian Special Education	84.362A	S362A090024	666,647	—
Total – passed-through University of Hawaii			1,520,204	—
Passed-through National Center of Education, University of Minnesota:				
General Supervision Enhancement Grant	84.373	H373X070021	24,581	—
Passed-through Office of the Governor:				
State Fiscal Stabilization Fund, Part A & B – ARRA	84.394	S394A090012	82,999,272	—
State Fiscal Stabilization Fund, Race-to-the-Top – ARRA	84.395	S394A100051	953,317	—
Education Jobs Fund – ARRA	84.410	S410A100012	9,909,369	—
Total – passed-through Office of the Governor			93,861,958	—
Passed-through Research Corporation of the University of Hawaii:				
Ulu Pono – McKinley CSA-KCC FY 09	650740	CB-18240-09-60-A-15	104,361	—
Research in Special Education	84.324	IEP	25,000	—
Total – passed-through Research Corporation of the University of Hawaii			129,361	—
Total – U.S. Department of Education			267,601,901	—
U.S. Department of Health and Human Services:				
Cooperative Agreements to Support:				
Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	———	225,216	—
Passed-through State Department of Health:				
Peer Education Counselors PEP	93.243	09-128	82,235	—
Passed-through Research Corporation of the University of Hawaii:				
Teen Prevention Program – Tier 2	93.297	Pono Choices	6,701	—
Passed-through State Department of Human Services:				
Child Care and Development Block Grant	93.575	DHS-11-CCPO	277,273	—
TANF Cluster:				
DHS A+ Subsidy	93.558	DHS-10-ETPO-145	1,967,059	—
Teen Pregnancy Prevention Training – DHS FY 10	93.558	DHS-10-ETPO-145	20,894	—
Middle School Uplink Program	93.558	DHS-10-ETPO-145	2,757,488	—
Emergency Contingency Fund – ARRA	93.714	DHS-10-FAP-196	445,122	—
Total – Temporary Assistance for Needy Families Programs			5,190,563	—
Total – U.S. Department of Health and Human Services			5,781,988	—
U.S. Department of Transportation:				
Passed-through State Department of Transportation:				
State and Community Highway Safety	20.600	SA11-08-(05-S-01) OP11-05-(08-S-01)	14,134	—
Total – U.S. Department of Transportation			14,134	—

(Continued)

DEPARTMENT OF EDUCATION
STATE OF HAWAII

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Federal grantor/pass-through grantor/program title	CFDA number[1]	Pass-through entity identifying number	Federal expenditures	Amount provided to subrecipient
Corporation for National and Community Service:				
Learn and Serve America – School and Community Based Programs	94.004	———	$ 111,586	—
Total – Corporation for National and Community Service			111,586	—
Environmental Protection Agency:				
Passed-through State Department of Health:				
2008 – State Clean Diesel Grant Program – ARRA	66.040	2D-00T06701-0	1,034,733	—
Total – Environmental Protection Agency			1,034,733	—
Grand total			$ 341,690,477	3,450,859

[1] Other identifying number used if no CFDA number available.

See accompanying independent auditors' report and note to schedule of expenditures of federal awards.

DEPARTMENT OF EDUCATION
STATE OF HAWAII

Note to Schedule of Expenditures of Federal Awards

June 30, 2011

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Department of Education, State of Hawaii, and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirement of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

PART II

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Education of the State of Hawaii (the Department), as of and for the fiscal year ended June 30, 2011, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 30, 2012. As discussed in note 2 to the financial statements, during fiscal year 2011, the Department adopted Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Balance Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Managements of Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and that are described in the accompanying schedule of findings and questioned costs. We consider the deficiency described in item 2011-01 in the accompanying schedule of findings and questioned costs to be a significant deficiency. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Office of the Auditor, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 30, 2012

PART III

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education:

Compliance

We have audited the Department of Education of the State of Hawaii's (the Department) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct or material effect on each of the Department's major federal programs for the year ended June 30, 2011. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's managements. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

As described in items 2011-03, 2011-06, and 2011-07 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding the Cash Management compliance requirements that are applicable to its Title I – Grants to Local Educational Agencies, Special Education Cluster, Fund for the Improvement of Education, Twenty-First Century Community Learning Centers, Improving Teacher Quality State Grants, Grants for State Assessments and Related Activities, and Career and Technical Education – Basic Grants to States and did not comply with the requirements of Procurement, Suspension, and Debarment compliance requirements that are applicable to its Title I – Grants to Local Educational Agencies, Special Education Cluster, Career and Technical Education – Basic Grants to States, Joint Venture Education Forum, Twenty-First Century Community Learning Centers, Education Technology State Grants, Grants for State Assessments and Related Activities, Temporary Assistance for Needy Families, and National Defense Authorization Act, P.L. 110-417 programs, and did not comply with Special Tests and Provisions compliance requirements that are applicable to Title I –

Grants to Local Educational Agencies. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct or material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-02 to 2011-08.

Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-03, 2011-06, and 2011-07 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-02 and 2011-08 to be significant deficiencies.

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Department's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Office of the Auditor, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 30, 2012

PART IV

Schedule of Findings and Questioned Costs

(1) Summary of Auditors' Results

(a) The type of report issued on the financial statements: **Unqualified opinion for the governmental activities, each major fund and the aggregate remaining fund information of the Department of Education, State of Hawaii (the Department), which collectively comprise the Department's basic financial statements.**

(b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **Yes, see finding 2011-01**

Material weaknesses: **None noted.**

(c) Noncompliance, which is material to the financial statements: **None noted.**

(d) Significant deficiencies in internal control over major programs: **Yes, see Findings 2011-02 and 2011-08**

Material weaknesses: **Yes, see Findings 2011-03, 2011-06, and 2011-07**

(e) The type of report issued on compliance for major programs: **Unqualified for all major programs, except for U.S. Department of Education – Title I – Grants to Local Education Agencies, Fund for the Improvement of Education Cluster, Special Education Cluster, Fund for the Improvement of Education, Twenty-First Century Community Learning Centers, Improving Teacher Quality State Grants, Grants for State Assessments and Related Activities, Career and Technical Education-Basic Grants to States, Education Technology State Grants; U.S. Department of Defense – National Defense Authorization Act, P.L. 110-417; U.S. Department of Health and Human Services – Temporary Assistance for Needy Families, which were qualified**

(f) Audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes, see Findings 2011-02 to 2011-08**

(g) Major programs:

U.S. Department of Agriculture:
Child Nutrition Cluster:
School Breakfast Program – CFDA No. 10.553
National School Lunch Program – CFDA No. 10.555
Special Milk Program for Children – CFDA No. 10.556
Summer Food Service Program for Children – CFDA No. 10.559

Child and Adult Care Food Program – CFDA No. 10.558

U.S. Department of Defense:
National Defense Authorization Act P.L. 110-417 – CFDA No. 12.558
Joint Venture Education Forum - #000913

U.S. Department of Education:
Title I – Grants to Local Educational Agencies – CFDA No. 84.010
Title I – Grants to Local Educational Agencies – ARRA – CFDA No. 84.389

Special Education Cluster:
Grants to States – CFDA No. 84.027
Preschool Grants – CFDA No. 84.173
Grants to States – ARRA – CFDA No. 84.391
Preschool Grants – ARRA – CFDA No. 84.392

Fund for the Improvement of Education – CFDA No. 84.215

Twenty-First Century Community Learning Center – CFDA No. 84.287

Education Technology State Grants – CFDA No. 84.318
Education Technology State Grants – ARRA – CFDA No. 84.386

Improving Teacher Quality State Grants – CFDA No. 84.367

Grants for State Assessments and Related Activities – CFDA No. 84.369

Career and Technical Education – Basic Grants to States – CFDA No. 84.048

Education Jobs Fund – ARRA – CFDA No. 84.410

State Fiscal Stabilization Fund, Part A – ARRA – CFDA No. 84.394

U.S. Department of Health and Human Services:
Passed through State of Hawaii Department of Human Services
TANF Cluster:
Temporary Assistance for Needy Families – CFDA No. 93.558
Emergency Contingency Fund – ARRA – CFDA No. 93.714

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$3,000,000**

(i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

(Continued

(2) Financial Statement Findings

Finding 2011-01 – Agency Fund – Local Schools Funds

Specific Requirements/Criteria

Agency funds are used to account for assets held by the DOE on behalf of outside parties or on behalf of individuals. These funds are also known as local school funds.

Processing Disbursements

According to the Financial Management System (FMS) User Policy and Process Flow Guide, purchase orders shall be used as a document that authorizes the purchase of materials, supplies, and services. The purchase order shall be submitted to the principal for review and approval prior to the purchase. Reimbursements of local school funds may be made to individuals who receive prior approval from the principal or designee to make the purchase.

The FMS User Policy and Process Flow Guide further states that the following procedures should be performed when processing invoices for payment:

1. All goods received must be checked immediately by authorized personnel for quantity of items ordered, serviceability, and damage.
2. Affix approval to pay stamp of the original invoice.
3. Enter date invoice received and date goods/services received.
4. Check unit prices/extensions and totals.
5. Check off items as received on the school's copy of purchase order.

Processing Receipts

According to the FMS User Policy and Process Flow Guide, a cash receipt book must be maintained by each school that receives monies. An official receipt must be completed including information as to date, name of payee, purpose of collection, amount, method of payment, and reference to organization.

Section 302A-1122 of the Hawaii Revised Statutes (HRS) allows the DOE to receive and manage appropriate gifts, grants, and bequests for the purpose of public education. The FMS User Policy and Process Flow Guide requires that the schools maintain a report of all gifts, grants, and bequests by date, name of donor, description, purpose, and amount for which it is to be used. The revised Form 434, Rev. 9/94 is used for this purpose. In addition, any such amounts greater than $500 must be presented to and accepted by the Superintendent. The schools are required to maintain a file of letters, memorandums, or copies of checks for all gifts, grants, and bequests by the school.

(Continued

Condition

Processing Disbursements

During our testing of a sample of 50 local school fund disbursements, we noted the following:

- One (1) instances where there was no invoice.
- Three (3) instances where there was no approval-to-pay stamp or signature.

Processing Receipts

During our testing of a sample of 50 local school fund receipts, we noted the following:

- Ten (10) instances where there was no support for the receipt.
- Three (3) instances where the receipt represented a donation greater than $500 and there was no support the donation was presented to the Superintendent or no Form 434 was completed.

Cause

The above findings were caused primarily by a lack of management oversight. The decentralized nature of processing these transactions and turnover of personnel may also contribute to these findings.

Effect

One of the purposes of the FMS User Policy and Process Flow Guide is to establish standard guidelines in the processing of disbursements and receipts of the local school funds. Inconsistencies in the reporting of these transactions could result in inaccurate reporting and increases the probability of funds being lost, unrecorded, or misused.

Recommendation

We recommend that all disbursements and receipts be properly processed and approved and that all required documentation be maintained in accordance with the FMS User Policy and Process Flow Guide.

Views of Responsible Officials and Planned Corrective Action

Refer to the Response of Affected Agency.

(Continued

(3) Federal Award Findings and Questioned Costs

Finding 2011-02 – Eligibility

Information on Federal Programs

U.S. Department of Health and Human Services, Passed-through State of Hawaii Department of Human Services, A+ Program Subsidy – CFDA No. 93.558; Award Year: July 1, 2010 to June 30, 2011, Grant No. DHS-08-BESSD-5026.

Specific Requirements/Criteria

In accordance with the A+ Program agreement (DHS-08-BESSD-5026), Exhibit E, the DOE is responsible for retaining all records related to their performance of services under this agreement for at least three years after the date of submission of the DOE's final expenditure report.

Condition

Out of a sample of 65 student applications, we identified three instances where the application documents for the 2010-2011 school year were not retained.

Cause

The above conditions were primarily caused by a lack of management oversight.

Effect

The absence of the application documents results in a lack of evidence to support the eligibility of the students enrolled in the A+ Program.

Questioned Costs

None

Systemic or Isolated

Systemic

Recommendation

We recommend that the A+ Program site coordinators ensure that records are retained in accordance with the guidance stated in the A+ Program agreement.

Views of Responsible Officials and Planned Corrective Action

Refer to the Response of Affected Agency

(Continued

Finding 2011-03– Cash Management

Information on Federal Programs

U.S. Department of Education:

Title I, Part A Cluster: CFDA No. 84.010, Grants to Local Educational Agencies; Award Years: July 1, 2008 to September 30, 2010, July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012, Grant Nos. S010A080011A, S010A090011A, S010A100011A, respectively; CFDA No. 84.389, Title I – Grants to Local Educational Agencies – ARRA; Award Year: February 17, 2009 to September 30, 2011, Grant No. S389A09001.

CFDA No. 84.215, Fund for the Improvement of Education; Award Years: June 1, 2009 to May 31, 2010, July 1, 2007 to June 30, 2011, July 26, 2010 to July 25, 2011, July 10, 2008 to July 9, 2011, October 1, 2010 to September 30, 2012, July 1, 2005 to September 10, 2010, Federal Award Nos.: Q215F070058, U215X070265, U215K10045, S215L080728, S215L100057, V215L052307, respectively.

CFDA No. 84.287, Twenty-First Century Community Learning Centers; Award Years: July 1, 2008 to September 30, 2010, July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012, Federal Award Nos. S287C08011, S287C090011, S287C100011, respectively.

CFDA No. 84.367, Improving Teacher Quality State Grants; Award Years: July 1, 2008 to September 30, 2010, July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012, Federal Award Nos. S367A080010, S367A090010, S367A100010, respectively.

Special Education Cluster: CFDA No. 84.027, Grants to States; CFDA No. 84.173, Preschool Grants; CFDA No. 84.391, Grants to States – ARRA; CFDA No. 84.392, Preschool Grants – ARRA; Award Years: July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012, July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012, February 1, 2009 to September 30, 2011, February 1, 2009 to September 30, 2011; Federal Award Nos. H027A090026, H027A100026, H173A090083, H173A100083, H391A090026, H392A090083, respectively.

CFDA No. 84.369, Grants for State Assessments and Related Activities; Award Years: July 1, 2008 to September 30, 2010, July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012; Federal Award Nos. S369A080012, S369A090012, S369A100012, respectively.

Passed-through Office of the State Director for Vocational Education: Career and Technical Education – Basic Grants to States, CFDA No. 84.048, Award Years: July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012; Federal Award Nos. FY10 Grant Award, FY11 Grant Award.

(Continued

Specific Requirements/Criteria

In accordance with 31 CFR Part 205.12, "reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes."

Condition

During our test work over cash management, we noted the following for U.S. Department of Education programs:

For Title I, Part A Cluster: CFDA No. 84.010, Grants to Local Educational Agencies; CFDA No. 84.389, Title I – Grants to Local Educational Agencies – ARRA, of 25 cash reimbursements draw down requests, 25 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

For CFDA No. 84.215, Fund for the Improvement of Education, of 65 cash reimbursements draw down requests, 56 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

For CFDA No. 84.287, Twenty-First Century Community Learning Centers, of 25 cash reimbursements draw down requests, 25 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

For CFDA No. 84.367, Improving Teacher Quality State Grants, of 25 cash reimbursements draw down requests, 25 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

For Special Education Cluster: CFDA No. 84.027, Grants to States; CFDA No. 84.173, Preschool Grants; CFDA No. 84.391, Grants to States – ARRA; CFDA No. 84.392, Preschool Grants – ARRA of 25 cash reimbursements draw down requests, 24 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

For CFDA No. 84.369, Grants for State Assessments and Related Activities of 25 cash reimbursements draw down requests, 6 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

For Passed-through Office of the State Director for Vocational Education: Career and Technical Education – Basic Grants to States, CFDA No. 84.048 of 5 cash reimbursements draw down requests, 5 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

Cause

The above conditions were primarily caused by a lack of management oversight.

(Continued

Effect

Failure to comply with federal regulations may impact the amount of federal funding received. In addition, the DOE could incur an interest liability during periods where the draw downs are in excess of the related federal expenditures and do not minimize the time elapsing between the transfer of funds and disbursement by the DOE.

Questioned Costs

None

Systemic or Isolated

Systemic

Recommendation

We recommend that DOE management reinforce the internal controls over the cash management process to ensure that the federal expenditure amounts are properly calculated and that reimbursement draw downs including only those that are expended prior to receipt of Federal reimbursement.

Views of Responsible Officials and Planned Corrective Action

Refer to the Response of Affected Agency.

(Continued

Finding 2011-04 – Subrecipient Monitoring

Information on Federal Programs

U.S. Department of Agriculture, Child Nutrition Cluster – School Breakfast Program, National School Lunch Program, Special Milk Program, and Summer Food Services Program – CFDA Nos. 10.553, 10.555, 10.556, and 10.559, respectively; Award Years: October 1, 2009 to September 30, 2010, October 1, 2010 to September 30, 2011; Federal Award Nos. 7H1310HI3 FY10, 7H1310HI3 FY11, respectively.

U.S. Department of Agriculture, Child and Adult Care Food Program – CFDA No. 10.558; Award Year: October 1, 2010 to September 30, 2011; Federal Award No. 7HI300HI3.

Specific Requirements/Criteria

Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 3 M. *Subrecipient Monitoring* states that, "A pass-through entity is responsible for *Subrecipient Audits* – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133, and that the required audits are completed within 9 months of the end of the subrecipient's audit period.

Condition

Based on our test work over the subrecipient monitoring compliance requirement for the Child Nutrition Cluster (CNC) and Child and Adult Care Food Program (CACFP) programs, we noted the following:

- For the CNC program, out of the two subrecipients that had federal expenditures in excess of $500,000, one audit report was submitted after the submission deadline
- For the CACFP, out of the 8 subrecipients tested that had federal expenditures in excess of $500,000, two audit reports were submitted after the respective submission deadline.

Cause

The above conditions were primarily due to lack of consequence to the subrecipients for failure to file on a timely basis.

Effect

Management is unable to ensure that its subrecipients are in compliance with federal regulations if it does not obtain and review the required audit reports pursuant to OMB Circular A-133.

Questioned Costs

None

Systemic or Isolated

Systemic

(Continued

Recommendation

We recommend that management continue its efforts to ensure that audit reports are obtained from its subrecipients and reviewed for compliance on a timely basis.

Views of Responsible Officials and Planned Corrective Action

Refer to the Response of Affected Agency.

Finding 2011-05 – Equipment and Real Property Management – Annual Certification of Inventory

Information on Federal Programs

U.S. Department of Education, Title I – Grants to Local Educational Agencies – CFDA No. 84.010, Title I – Grants to Local Educational Agencies-ARRA – CFDA No. 84.389; Award Years: July 1, 2008 to September 30, 2010, July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012, February 17, 2009 to September 30, 2011; Federal Award Nos. S010A080011A, S010A090011A, S010A100011A, S389A090011, respectively.

U.S. Department of Education, Special Education Cluster, Grants to States – CFDA No. 84.027, No. 84.173, No. 84.391, No. 84.392; Award Years: July 1, 2009 to September 20, 2011, July 1, 2010 to September 30, 2012, July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012, February 1, 2009 to September 30, 2011, February 1, 2009 to September 30, 2011; Federal Award Nos. H027A090026, H027A100026, H173A090083, H173A100083, H391A090026, H392A090083, respectively.

U.S. Department of Education, Passed-through Office of the State Director for Vocational Education: Career and Technical Education – Basic Grants to States – CFDA No. 84.048; Award Years: July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012; Federal Award Nos. FY10 Grant Award, FY11 Grant Award, respectively.

U.S. Department of Education, Passed-through Office of the Governor: Education Jobs Fund – ARRA, CFDA No. 84.410; Award Years: August 10, 2010 to September 30, 2011; Federal Award No. S410A100012.

U.S. Department of Education, Twenty-First Century Community Learning Centers, CFDA No. 84.287; Award Years: July 1, 2008 to September 20, 20110, July 1, 2009 to September 20, 2011, July 1, 2010 to September 30, 2012; Federal Award Nos. S287C080011, S287C090011, S287C100011, respectively.

U.S. Department of Defense, Passed-through U.S. Pacific Command: Joint Venture Education Forum; Award Year: October 1, 2009 to June 30, 2012; Federal Award No. 000913.

Specific Requirements/Criteria

Pursuant to Hawaii Revised Statutes, Section 103D-1206, the administrative heads of executive departments, shall prepare and file with the administrator of the state procurement office before September 16th of each year, an annual inventory of state property in the possession, custody, control, or use of the department of the government over which the department head presides.

Condition

To ensure that the schools are performing annual physical inventory counts, each school is required to complete and submit an Annual Certification of Inventory to the assistant superintendent and chief financial officer of the DOE, which is approved by the school's principal. We noted that four schools did not submit the Annual Certification of Inventory within the stipulated deadline.

(Continued

Cause

The late submissions of Annual Certifications of Inventory were due to a lack of management oversight.

Effect

The untimely submission of documentation supporting the annual physical inventory counts may lead to inaccurate reporting of capital assets in violation of the Hawaii Revised Statutes.

Questioned Costs

None

Systemic or Isolated

Systemic

Recommendation

We recommend that the DOE continue its efforts to diligently obtain timely supporting documentation evidencing physical inventory counts by each school.

Views of Responsible Officials and Planned Corrective Action

Refer to the Response of Affected Agency.

(Continued

Finding 2011-06 – Procurement, Suspension, and Debarment

Information on Federal Programs

U.S. Department of Education, Title I – Grants to Local Educational Agencies – CFDA No. 84.010, Title I – Grants to Local Educational Agencies-ARRA – CFDA No. 84.389; Award Years: July 1, 2008 to September 30, 2010, July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012, February 17, 2009 to September 30, 2011; Federal Award Nos. S010A080011A, S010A090011A, S010A100011A, S389A090011, respectively.

U.S. Department of Education, Special Education Cluster, Grants to States – CFDA No. 84.027, Preschool Grants – CFDA No. 84.173; Grants to States ARRA – CFDA No. 84.391, Preschool Grants ARRA – CFDA No. 84.392; Award Years: July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012, July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012, February 1, 2009 to September 30, 2011, February 1, 2009 to September 30, 2011; Federal Award Nos. H027A090026, H027A100026, H173A090083, H173A100083, H391A090026, H392A090083, respectively.

U.S. Department of Education, Passed-through Office of the State Director for Vocational Education: Career and Technical Education – Basic Grants to States, CFDA No. 84.048; Award Years: July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012; Federal Award Nos. FY10 Grant Award, FY11 Grant Award, respectively.

U.S. Department of Education, Grants for State Assessments and Related Activities, CFDA No. 84.369; Award Years: July 1, 2008 to September 30, 2010, July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012; Federal Award Nos. S369A080012, S369A090012, S369A100012, respectively.

U.S. Department of Education, Education Technology State Grants Cluster, Education Technology State Grants, CFDA No. 84.318; Education Technology State Grants – ARRA, CFDA No. 84.386; Award Years: July 1, 2008 to September 30, 2010, July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012, February 17, 2009 to September 30, 2011; Federal Award Nos. S318X080011, S318X090011, S318X100011, S386A090011, respectively.

U.S. Department of Education – Twenty-First Century Community Learning Centers, CFDA No. 84.287; Award Years: July 1, 2008 to September 30, 2011, July 1, 2009 to September 20, 2011, July 1, 2010 to September 30, 2012; Federal Award Nos. S287C080011, S287C090011, S287C100011, respectively.

U.S. Department of Defense, Passed-through U.S. Pacific Command: Joint Venture Education Forum, CFDA No. 12.unk; Award Year: October 1, 2009 to June 30, 2012; Federal Award No. 000913.

U.S. Department of Defense, National Defense Authorization Act, P.L. 110-417, CFDA No. 12.558; Award Year: October 1, 2009 to September 30, 2010.

U.S. Department of Health and Human Services, Temporary Assistance for Needy Families Programs: DHS A+ Subsidy, CFDA No. 93.558; Teen Pregnancy Prevention Training – DHS FY 10, CFDA No. 93.558; Middle School Uplink Program, CFDA No. 93.558; Emergency Contingency Fund – ARRA, CFDA No. 93.714; Award Years: July 1, 2010 to June 2011, July 1, 2009 to June 30, 2010, October 1, 2009 to September 30, 2011, May 19, 2010 to September 30, 2010; Federal Award Nos. DHS-08-BESSD-5026, DHS-10-ETPO-145, DHS-10-ETPO-156, TANF-ACF-PA-2009-01, respectively.

Specific Requirements/Criteria

In accordance with 34 CFR 80.46 "When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds." HRS 103D; HAR 3-120-4 and 3-122-75.

Pursuant to HRS and HAR, the DOE is required to obtain no less than three quotes for purchases between $5,000 to $15,000; for purchases between $15,000 and $50,000, the three quotes must be written.

Pursuant to the HAR 3-120-4 and 3-120-5, when a procurement is made that is exempt to the procurement code, the request for the exemption must be approved by the chief procurement officer.

Condition

We noted certain internal control and compliance issues related to the procurement process as follows:

- Of a sample of 32 tested for the U.S. Department of Education, Title I, we noted three instances where there was no documentation supporting that quotations were solicited for these goods and services.
- Of a sample of 35 that was tested for the Special Education Cluster, Grants to States, we noted two instances where there was no documentation supporting that quotations were solicited for these goods and services.
- Of a sample of 42 that was tested for the Career and Technical Education – Basic Grants to States, we noted four instances where there was no documentation supporting that quotations were solicited.
- Of a sample of 59 that was tested for the Grants for State Assessments and Related Activities, we noted one instance where there was no documentation supporting that quotations were solicited.
- Of a sample of 36 that was tested for the Education Technology State Grants Cluster, we noted one instance where there was no documentation supporting that quotations were solicited.
- Of a sample of 24 that was tested for the Twenty-First Century Community Learning Centers, we noted one instance where there was no documentation supporting that quotations were solicited for these goods and services.
- Of a sample of 65 that was tested for the Joint Venture Education Forum, we noted one instance where there was no documentation supporting that quotations were solicited for these goods and services.
- Of a sample of 52 that was tested for the National Defense Authorization Act, we noted two instances where there was no documentation supporting that quotations were solicited for these goods and services.

- Of a sample of 33 that was tested for the Temporary Assistance for Needy Families Programs, we noted four instances where there was no documentation supporting that quotations were solicited for these goods and services.

Cause

The above conditions were primarily caused by a lack of management oversight.

Effect

The Hawaii Procurement Code, HRS 103D, was developed in part to ensure that public money is expended in the best interests of the public and that funds are expended in an equitable manner. The conditions noted above resulted in noncompliance with HRS 103D.

Questioned Costs

None

Systemic or Isolated

Systemic

Recommendation

We recommend that the DOE be more diligent in complying with applicable procurement requirements. This may include additional training and workshops where necessary. Also, school-level administrators where purchases originate should ensure that all required documents are obtained and included in the procurement file prior to authorizing the purchase. All exceptions to HRS 103D and applicable HAR should be clearly noted on the applicable purchase orders.

Views of Responsible Officials and Planned Corrective Action

Refer to the Response of Affected Agency.

Finding 2011-07 – Special Tests and Provisions

Information on Federal Programs

U.S. Department of Education, Title I – Grants to Local Educational Agencies – CFDA No. 84.010, Title I – Grants to Local Educational Agencies-ARRA – CFDA No. 84.389; Award Years: July 1, 2008 to September 30, 2010, July 1, 2009 to September 30, 2011, July 1, 2010 to September 30, 2012, February 17, 2009 to September 30, 2011; Federal Award Nos. S010A080011A, S010A090011A, S010A100011A, S389A090011, respectively.

Specific Requirements/Criteria

In accordance with the Title II A Highly Qualified Teacher Guidelines (updated May 2010), the principal or designee must submit highly qualified documentation annually to the Highly Qualified Teachers (HQT) Office. For teachers of core academic subjects for which they have not yet been designated highly qualified, a Highly Qualified Professional Development Plan must be submitted on an annual basis to outline the steps that will lead to attainment of the highly qualified designation.

Condition

Based on our test work over the highly qualified teachers and paraprofessionals compliance requirement for the Title I program, we noted that for the teachers who have not yet been designated as highly qualified, out of the fourteen teachers selected for test work, there were six instances where the Highly Qualified Professional Development Plan was not maintained.

Cause

The above condition was primarily caused by a lack of oversight by the school principals.

Effect

Failure to maintain adequate documentation may increase the risk that unqualified teachers, who do not meet the required criteria, are hired at Title I schools.

Questioned Costs

None

Systemic or Isolated

Systemic

Recommendation

We recommend that the school principals ensure that the Highly Qualified Professional Development Plan and any other required documentation are properly retained for teachers who have not yet been designated as highly qualified.

(Continued

Views of Responsible Officials and Planned Corrective Action

Refer to the Response of Affected Agency

Finding 2011-08 – Reporting

Information on Federal Programs

U.S. Department of Education, Fund for the Improvement of Education, CFDA No. 84.215; Award Years: June 1, 2009 to May 31, 2010, July 1, 2007 to June 30, 2011, July 26, 2010 to July 25, 2011, July 10, 2008 to July 9, 2011, October 1, 2010 to September 30, 2012, July 1, 2005 to September 10, 2010; Federal Award Nos. Q215F070058, U215X070265, U215K100045, S215L080728, S215L100057, V215L052307, respectively.

Specific Requirements/Criteria

As required by the U.S. Education Department General Administrative Regulations for direct grant programs (34 CFR 75), annual performance reports and reporting on performance measures are required as part of the submittal of Form ED 524B.

Condition

We identified that the annual performance report for the Teaching American History Grant Program for the performance period ended June 30, 2011 had not been prepared and submitted to the U.S. Department of Education. The due date of the report was September 1, 2011.

Cause

The above condition was primarily caused by a lack of management oversight.

Effect

Failure to comply with federal regulations may impact the amount of federal funding received.

Questioned Costs

None

Systemic or Isolated

Isolated

Recommendation

We recommend that the DOE reinforce its internal controls over the federal reporting process to ensure timely submission of reports to federal grantor agencies.

Views of Responsible Officials and Planned Corrective Action

Refer to the Response of Affected Agency

PART V

Corrective Action Plan
(Provided by the Department of Education, State of Hawaii)

NEIL ABERCROMBIE
GOVERNOR

KATHRYN S. MATAYOSHI
SUPERINTENDENT

STATE OF HAWAI'I
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAI'I 96804

OFFICE OF THE SUPERINTENDENT

March 30, 2012

KPMG LLP
Pauahi Tower, Suite 2100
1003 Bishop Street
Honolulu, HI 96813-3421

Ladies and Gentlemen:

The Single Audit of the State of Hawaii Department of Education (HIDOE) for the fiscal year ended June 30, 2011 was completed by the March 31, 2012 Federal deadline. The number of audit findings has decreased from 14 for FY 2010 to eight (8) for FY 2011. HIDOE will continue it's efforts to decrease the audit findings even further.

We are pleased that HIDOE received an unqualified opinion on its financial statements. The previous year's audit concern regarding public charter school financial records has been resolved.

We have reviewed your audit findings and recommendations and corrective action plans have been prepared. In accordance with OMB Circular A-133, the following pages contain the **Corrective Action Plan** for the year ended June 30, 2011 and the **Summary Schedule of Prior Audit Findings** for the year ended June 30, 2010.

Very truly yours,

Kathryn S. Matayoshi
Superintendent

KSM:dy

Attachments

c: Internal Audit Office

STATE OF HAWAII DEPARTMENT OF EDUCATION
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2011

FINANCIAL STATEMENT FINDING

2011-01 *Agency Fund – Local Schools Funds* *(Pages 55 to 56)*

Corrective Action Plan

Beginning with school year 2007-08, the DOE's Internal Audit Office (IA) implemented an Annual Checklist for Compliance of Local School Fund Procedures for all schools as part of its monitoring efforts. Each school is required to certify that specific steps have been completed, such as:

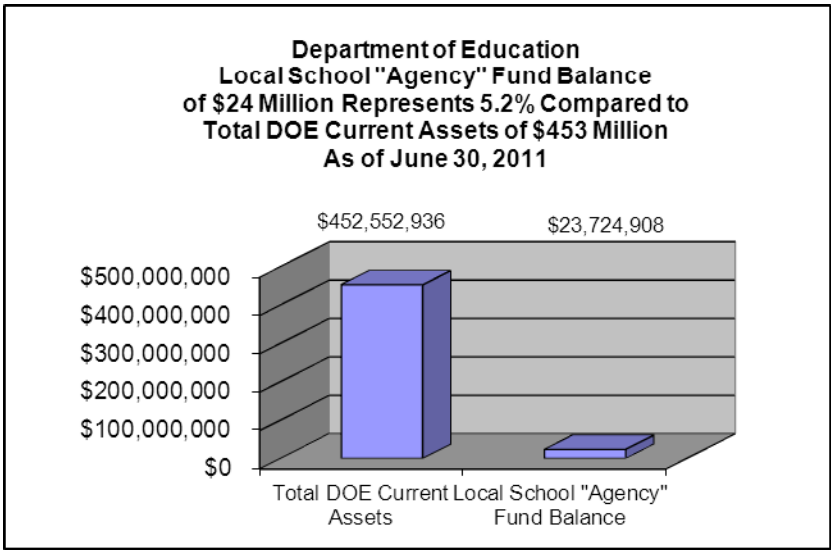
- *Bank reconciliations completed;*
- *Annual Principal Financial Report completed and signed;*
- *Administrator's Checklist completed and signed;*
- *Money Raising and Donations are summarized and accounted for;*
- *Training sessions attended;*
- *Cash receipts and disbursements are accounted for;*
- *Petty cash accounted for; and*
- *Fixed assets inventory updated.*

This Checklist is required to be submitted to the DOE's IA by August 15 of every year. Schools that do not submit copies of the completed Checklists are placed on a site visit list. IA visits those schools on a random basis, to investigate the reasons for the non-response, and performs a local school fund audit at that time. IA also performs random site visits of other schools to assess compliance (post-audit), as well as to review corrective action plans from prior audits. These procedures have resulted in strengthened internal controls, and have resulted in substantial reductions in the occurrences of these local school fund audit findings.

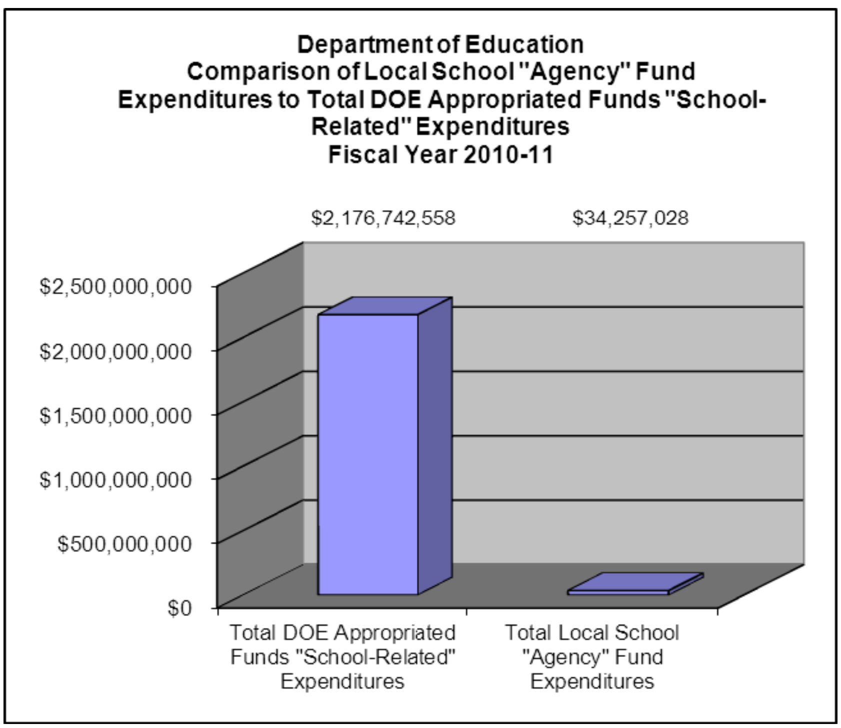
In addition, the DOE now has Complex Area Business Managers (CABMs) in each of the fifteen (15) complex areas. The CABMs assist the Complex Area Superintendents in monitoring all 257 schools across the State of Hawaii, and they assist schools to comply with fiscal procedures, including the local school funds.

Contextual information
The DOE appreciates the auditor's findings pertaining to the local school "agency" funds. Since those are "liquid" assets, they are of "high risk" and the findings must be given immediate attention. In addition, since these "agency" funds are held by schools on behalf of student activity transactions, the DOE recognizes that it has a fiduciary responsibility to account for these transactions properly. Concurrently, however, we also believe the findings should be considered in appropriate context, in comparison to the total DOE current assets, and expenditures under its purview.

The DOE's local school "agency" fund balance of $24 million represents 5.4 percent, compared to the total DOE current assets of $453 million as follows:



In addition, the DOE's local school "agency" fund expenditures of $34 million represents 1.6 percent, compared to the total DOE appropriated fund "school-related" expenditures of $2.2 billion, as follows:



The Complex Area Business Managers (CABMs) at each of the fifteen (15) complex areas, have made concentrated efforts at their schools to ensure that proper procedures are being followed for local school funds. Due to their school visits, training and *technical assistance, in addition to the Administrative Services Assistants (ASAs) at each of the 42 complexes, there have been improvements at their schools. This has contributed to the current fiscal year auditors' determination that this finding is no longer a "material weakness." We appreciate the CABMs and ASAs for their diligence and continued efforts to improve the fiscal procedures at our schools.*

Based on the auditor's sample, the specific schools cited in this finding are listed below. The CABMs for those schools have taken corrective action at those schools to ensure that those specific findings have been remedied:

School	***Complex Area Business Manager***
Kaimuki High School	*Elden Nakamura*
McKinley High School	*Elden Nakamura*
Hickam Elementary School	*Gail Morimoto*
Aiea High School	*Gail Morimoto*

Contact Persons:

Complex Area	***Complex Area Business Manager***
Farrington-Kaiser-Kalani	*May K. Price*
Kaimuki-McKinley-Roosevelt	*Elden Nakamura*
Aiea-Moanalua-Radford	*Gail Morimoto*
Leilehua-Mililani-Waialua	*Lynn Kitaoka*
Campbell-Kapolei	*Michael N. Tanaka*
Pearl City-Waipahu	*Lawrence Suan*
Nanakuli-Waianae	*Earlyne Harada*
Castle-Kahuku	*Cindi Ahuna*
Kailua-Kalaheo	*Curtis Chang*
Hilo-Laupahoehoe-Waiakea	*Adri Wilson*
Kau-Keaau-Pahoa	*Karie Klein*
Honokaa-Kealakehe-Kohala-Konawaena	*Scott Jeffrey*
Baldwin-Kekaulike-Maui	*Kevin Drake*
Hana-Lahainaluna-Lanai-Molokai	*Frances Pitzer*
Kapaa-Kauai-Waimea	*Gail Nakaahiki*

Anticipated Completion Dates: *June 30, 2012 and ongoing.*

FEDERAL AWARD FINDINGS

2011-02 Eligibility *(Page 57)*

Corrective Action Plan

Prior to my becoming Principal at Kamaile Academy in June 2011, the school packed up many files to be put into storage as the entire campus was going to be painted over the summer. At this point, we are unable to locate the A+ file being requested by KPMG.

As a result, we have implemented a new filing system. We have organized our filing systems to hold our A+ application documents and will be able to access them easily. This way, we will be able to produce the requested documents in the future so as to support our eligibility of the students enrolled in our A+ Program.

Contact Person: *Emma Weiss, Principal*
Paul Kepka, A+ Coordinator
Kamaile Academy
Public Charter School - Leeward Oahu District

Anticipated Completion Date: *Completed March 2012*

2011-03 ***Cash Management*** *(Pages 58 to 60)*

Corrective Action Plan

The DOE records expenditures at the time payments are posted to our Financial Management System (FMS) by all 257 schools and 30+ state administrative offices. As standard procedures, our Vendor Payment Unit verifies the posted payments before issuing checks to vendors. By definition, this results in a period of time between payment posting and check issuance.

Our Accounting Section draws federal funds based on the payment-posted expenditures in our FMS system. The auditor has raised concerns that time has elapsed between the payment posting dates, and the dates that checks are issued to the vendors.

Our Accounting Section will change its procedures for drawing of federal funds to ensure that checks have been issued prior to the drawdowns.

Contact Person: Edwin Koyama, Accounting Director
Accounting Services Branch
Office of Fiscal Services

Anticipated Completion Date: July 1, 2012

2011-04 <u>Subrecipient Monitoring</u> *(Pages 61 to 62)*

<u>Corrective Action Plan</u>

Office of Hawaii Child Nutrition Programs (OHCNP) has developed internal procedures to ensure that A-133 audit reports are filed on a timely basis, that required corrective action plans are submitted when due, and that the management decision letter is issued by OHCNP by the deadline specified in OMB Circular A-133.

The internal policy and procedure (IPP) will be refined as follows:

Proof of timely completion of A-133 audits shall be OHCNP's confirmation that a Data Collection Report (DCR) has been filed with the Federal Automated Clearinghouse (FAC). A copy of the DCR shall be printed and retained for the files. The date that the report is printed shall be logged in the OHCNP A-133 Documentation Log. In addition to confirming the filing of the audit report with the FAC, OHCNP may request the A-133 audit report at its option.

The exception would be for auditees whose schedule of findings and questioned costs disclosed audit findings or whose summary schedule of prior audit findings reported on any finding relating to federal awards that OHCNP provided. Then OHCNP shall obtain a copy of the A-133 audit report in addition to the DCR.

In the event that an auditee fails to comply with A-133 requirements, OHCNP shall sanction the auditee by denying their application or renewal to participate in the respective child nutrition program. Until that point, OHCNP shall conduct follow up to obtain the report. This policy can be consistently applied across the board to all programs and there are no plans to change this policy.

Contact Person: Sue Uyehara RD, MPH, Director
Office of Hawaii Child Nutrition Programs
Federal Compliance and Project Management Office
Office of the Superintendent

Anticipated Completion Date: Completed March 2012

2011-05 Equipment and Real Property Management – Annual Certification of Inventory

(Pages 63 to 64)

Corrective Action Plan

The finding noted that four Annual Certifications of Inventory ("Certifications") were not submitted by the school/office to the DOE Office of Fiscal Services, Accounting Section ("Accounting Section") by the State of Hawaii's stipulated deadline.

To address the finding, the following actions will be taken:

The Accounting Section will improve its monitoring of the completion and submission of all Certifications. Immediately following the DOE internal deadline, Accounting Section will compile a list of all schools/offices that did not submit the Certification by this internal deadline and follow up as necessary, to ensure receipt by the State's deadline.

Contact Person: Trisha Kaneshiro, Fiscal Specialist
Accounting Services Branch
Office of Fiscal Services

Anticipated Completion Date: September 16, 2012

2011-06 – <u>Procurement, Suspension, and Debarment</u> *(Pages 65 to 67)*

<u>Corrective Action Plan</u>

The DOE, Office of Fiscal Services, Procurement and Contracts Branch (PCB) acknowledges room for improvement in our procurement processes.

PCB continues to provide training workshops on procurement and contracts issues annually. The workshops and training are provided to a target audience of school/program administrators, school administrative services assistants (SASAs), account clerks, administrative services assistants (ASAs), and complex area business managers (CABMs). The training by PCB has been provided as stand-alone workshops or as requested by complex area superintendents, program managers, and state offices. [Please note: Plans to develop an online procurement and contracts training module to provide greater access to the information and requirements without impacting school time and resources have been approved; however, the actual development and implementation timelines are subject to funding considerations.]

The training covers the various procurement methods, including price lists, vendor lists, small purchase and exempt procurement for goods and services ($0 - $24,999), *exempt, sole source, IFB, RFP, professional services, emergency procurement, and MOA/MOU procurements ($25,000 and above). PCB also maintains a database of procurement and contracting flowcharts, checklists, forms, and instructions/guidelines and is available to all DOE employees as necessary for review and reference. DOE employees are also encouraged to contact PCB if there are further questions that may arise or to seek additional assistance.*

PCB will continue to provide training via workshops and through an "opening of school/office" memo to remind all administrators and support staff of procurement and contracts requirements. PCB will continue to work with the CABMs to perform reviews of school level procurement transactions to ensure on-going compliance. We have developed and will continue to provide additional tools and/or checklists for schools/offices to utilize to ensure that proper procurement / contract documentation is placed in the procurement file. PCB will continue to work with Federal program managers who will assist their program participants with compliance to the procurement code, whether for federal or general fund procurement transactions. We have developed and will continue to provide for our federal program managers procurement / contracting audit tools and/or checklists for their use in monitoring their programs. Finally, school level administrators and support staff must be more diligent in complying with applicable procurement requirements, as outlined in training and notifications to the federal program participants.

Contact Person: Andrell Beppu Aoki, Director
Procurement and Contracts Branch
Office of Fiscal Services

Anticipated Completion Date: December 31, 2012

2011-07 <u>Special Tests and Provisions</u> *(Pages 68 to 69)*

<u>Corrective Action Plan</u>

The Personnel Management Branch of the DOE has developed a monitoring and follow-up plan to ensure that principals submit highly qualified documentation annually to the Highly Qualified Teachers (HQT) unit. Teachers of core academic subjects for which they have not yet been designated as highly qualified, a Highly Qualified Professional Development Plan (HQPDP) must be submitted on an annual basis. The plan outlines the activities that the teacher will do to attain the highly qualified designation. A list of these teachers is now sent monthly to the Complex Area Superintendents (CAS) of the schools for follow-up.

As of March 1, 2012, only 181 teachers out of 675 (26.8%) have not submitted their HQPDP. For the fiscal year being audited, 218 teachers out of 665 (32.8%) did not submit their HQPDP. We are confident that our new monitoring plan will increase compliance with the Title II Highly Qualified Teacher Guidelines as evidenced by this comparison.

Contact Person: *Everett Urabe, Personnel Specialist*
Highly Qualified Teacher Unit
Recruitment Section
Personnel Management Branch
Office of Human Services

Anticipated Completion Date: *Completed November 1, 2011*

2011-08 ***Reporting*** *(Page 70)*

Corrective Action Plan

The Annual Performance Report (APR) for the Teaching American History (TAH) Grant Program for the performance period that ended on September 30, 2011 will be submitted by April 9, 2012.

The APR was due 90 days after the close of the grant. The APR was not submitted by December 30, 2011 due to longer-than-anticipated time required for the gathering of all pertinent documents for grant reporting. This was the last year for the TAH Grant Program. The United States Department of Education (USDOE) TAH Grant Manager, Ms. Mia Howerton, (Office of Innovation and Improvement, Teaching American History TAH Grant Program) has been notified of the delay and is aware that this report will be submitted by April 9, 2012.

For any future grants that may be awarded, annual performance reports will be submitted in a timely manner.

Contact Person: *Rosanna Fukuda, Program Manager*
Teaching American History Grant
Curriculum and Instruction Branch
Office of Curriculum, Instruction and Student Support

Anticipated Completion Date: *April 9, 2012*

PART VI

Summary Schedule of Prior Audit Findings
(Provided by the Department of Education, State of Hawaii)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Prior Fiscal Year Ended June 30, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS

2010-01 ***Agency Fund – Local Schools Funds***

(Pages 51 to 52 of the Prior Year June 30, 2010 Report)
(Pages 64 to 67 of the June 30, 2009 Report)
(Pages 64 to 66 of the June 30, 2008 Report)
(Pages 68 to 69 of the June 30, 2007 Report)
(Pages 57 to 58 of the June 30, 2006 Report)

Status -- *Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Financial Statement Finding No. 2011-01.*

2010-02 ***Public Charter Schools***

(Page 53 of the Prior Year June 30, 2010 Report)

Status -- *Corrective action has been taken to the extent that this finding no longer appears in the Financial Statement Findings.*

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2010-03 Activities Allowed/Allowable Costs - Payroll Certifications

(Pages 54 to 55 of the Prior Year June 30, 2010 Report)
(Pages 74 to 75 of the June 30, 2009 Report)
(Pages 72 to 73 of the June 30, 2008 Report)
(Pages 74 to 75 of the June 30, 2007 Report)
(Pages 61 to 62 of June 30, 2006 Report)

Status *-- Corrective action has been taken to the extent that this finding no longer appears in the Federal Award Findings and Questioned Costs.*

2010-04 Activities Allowed/Allowable Costs - Payroll Costs Allowability

(Pages 56 to 57 of the Prior Year June 30, 2010 Report)

Status *-- Corrective action has been taken to the extent that this finding no longer appears in the Federal Award Findings and Questioned Costs.*

2010-05 Activities Allowed/Allowable Costs – Internal Controls over Payroll

(Pages 58 to 59 of the Prior Year June 30, 2010 Report)

Status *-- Corrective action has been taken to the extent that this finding no longer appears in the Federal Award Findings and Questioned Costs.*

2010-06 Cash Management

(Pages 60 to 61 of the Prior Year June 30, 2010 Report)
(Pages 76 to 77 of the June 30, 2009 Report)
(Pages 74 to 76 of the June 30, 2008 Report)
(Pages 71 to 73 of the June 30, 2007 Report)
(Page 69 of the June 30, 2006 Report)

Status *-- Corrective action and monitoring is in progress. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2011-03.*

2010-07 Eligibility

(Pages 62 to 63 of the Prior Year June 30, 2010 Report)

Status *-- Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2011-02.*

2010-08 Equipment and Real Property Management – Annual Certification of Inventory
(Pages 64 to 65 of the Prior Year June 30, 2010 Report)

Status *-- Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2011-05.*

2010-09 Equipment and Real Property Management – Inventory Records
(Pages 66 to 67 of the Prior Year June 30, 2010 Report)
(Page 83 of the June 30, 2009 Report)
(Page 81 of the June 30, 2008 Report)

Status *-- Corrective action has been taken to the extent that this finding no longer appears in the Financial Statement Findings.*

2010-10 Earmarking – Special Education Cluster
(Pages 68 to 69 of the Prior Year June 30, 2010 Report)

Status *-- Corrective action has been taken to the extent that this finding no longer appears in the Federal Award Findings and Questioned Costs.*

2010-11 Earmarking – Education Technology State Grants
(Page 70 of the Prior Year June 30, 2010 Report)

Status *-- Corrective action has been taken to the extent that this finding no longer appears in the Federal Award Findings and Questioned Costs.*

2010-12 Procurement, Suspension, and Debarment
(Pages 71 to 73 of the Prior Year June 30, 2010 Report)
(Pages 84 to 85 of the June 30, 2009 Report)
(Pages 84 to 85 of the June 30, 2008 Report)
(Pages 78 to 80 of the June 30, 2007 Report)

Status *-- Corrective action and monitoring is in progress. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2011-06.*

2010-13 <u>Subrecipient Monitoring</u>
(Pages 74 to 75 of the Prior Year June 30, 2010 Report)
(Pages 93 to 95 of the June 30, 2009 Report)

<u>Status</u> *-- Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2011-04.*

2010-14 <u>Special Tests and Provisions</u>
(Pages 76 to 77 of the Prior Year June 30, 2010 Report)

<u>Status</u> *-- Corrective action and monitoring is in progress. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2011-07.*