

Financial statements and report of independent certified public accountants

**State of Hawaii, Department of Education**

June 30, 2003

State of Hawaii  
Department of Education

C O N T E N T S

	Page
I. INTRODUCTION	1
II. FINANCIAL SECTION	
Report of Independent Certified Public Accountants	3
Management’s Discussion and Analysis	5
Basic Financial Statements	
<b>Government-wide Financial Statements</b>	
Statement of Net Assets	13
Statement of Activities	14
<b>Governmental Fund Financial Statements</b>	
Balance Sheet	15
Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Statement of Revenues, Expenditures, and Fund Balances-Governmental Funds to the Statement of Activities	18
<b>Fiduciary Fund Financial Statements</b>	
Statement of Fiduciary Net Assets	19
Blank page	20
<b>Notes to Financial Statements</b>	21
Required Supplementary Information Other Than Management’s Discussion and Analysis	
Budgetary Comparison Schedule – General Funds	35
Notes to Required Supplementary Information – Budgetary Reporting	36
Schedule of Expenditures of Federal Awards	37
Notes to the Schedule of Expenditures of Federal Awards	44

State of Hawaii  
Department of Education

C O N T E N T S

	Page
III. COMPLIANCE AND INTERNAL CONTROL	
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	46
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	48
Schedule of Findings and Questioned costs	50
Corrective Action Plan (provided by Department of Education, State of Hawaii)	64
Summary Schedule of Prior Audit Findings (provided by Department of Education, State of Hawaii)	76

March 29, 2004

Mr. Russ Saito  
State Comptroller  
State of Hawaii

Dear Mr. Saito:

This is our report on the financial audit of the Department of Education (DOE), State of Hawaii, for the year ended June 30, 2003. 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*, and the *Compliance Supplement for Single Audits of State and Local Governments*.

## OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Department of Education, State of Hawaii's financial statements for the year ended June 30, 2003, and to comply with the requirements of OMB Circular A-133, which establishes audit requirements for state and local governments that receive federal financial assistance. More specifically, the objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the Department of Education, State of Hawaii's financial statements.
2. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the Department of Education, State of Hawaii, is entitled have been collected and accounted for in accordance with the laws, rules and regulations, administrative directives, policies, procedures of the State of Hawaii and the Federal Government.
3. To satisfy the audit requirements of OMB Circular A-133.
4. To determine whether the Department of Education, State of Hawaii, has complied with the provisions of the federal grant agreements and applicable laws, regulations and circulars with regard to grant activities.
5. To evaluate the adequacy of the DOE's internal controls in assuring that there is effective control over and proper accounting of revenues, expenditures, assets and liabilities.

Mr. Russ Saito  
State Comptroller  
State of Hawaii  
March 29, 2004

## **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 and *Government Auditing Standards*, as issued by the Comptroller General of the United States. The scope of our audit included tests of the transactions and accounting records of the Department of Education, State of Hawaii, for the year ended June 30, 2003. In addition, we reviewed the internal controls to provide us with a basis to report whether the Department of Education, State of Hawaii, had complied with the material terms and conditions of its federal grant agreements.

## **ORGANIZATION OF THE REPORT**

This report is presented as follows:

### Financial Section

The financial statements of the Department of Education, State of Hawaii, for the year ended June 30, 2003, and our opinion on the financial statements.

### Compliance and Internal Control

Our reports on compliance and internal control.

Schedule of Findings and Questioned Costs.

Corrective Action Plan.

Summary Schedule of Prior Audit Findings.

We wish to express our appreciation for the excellent cooperation and assistance extended by the officers and staff of the Department of Education, State of Hawaii.

Very truly yours,

*Grant Thornton LLP*

Report of Independent Certified Public Accountants

State Comptroller  
State of Hawaii

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, as of and for the year ended June 30, 2003, which collectively comprise the Department's basic financial statements as listed in the contents. These financial statements are the responsibility of the management of the Department of Education, State of Hawaii. Our responsibility is to express an opinion 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinion.

As discussed in note A, the financial statements of the Department of Education, State of Hawaii, are intended to present the financial position and changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Department of Education, State of Hawaii. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2003, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Education, State of Hawaii, as of June 30, 2003, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2004 on our consideration of the Department of Education, State of Hawaii's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with

State Comptroller  
State of Hawaii

*Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 5 to 12 and budgetary comparison schedules on pages 35 and 36 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion 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. Such information 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

*Grant Thornton LLP*

Honolulu, Hawaii  
February 27, 2004

State of Hawaii  
Department of Education

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2003

The following management's discussion and analysis provides an overview of the Department of Education's financial activities for the fiscal year ended June 30, 2003. Readers should also review the basic financial statements and notes to enhance their understanding of the Department's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for Fiscal Year 2003 are as follows:

- General revenues were \$1.434 billion. Program revenues, including federal fund grants, and program reimbursements totaled \$206 million.
- Total expenses were \$1.668 billion, of which 94% or \$1.564 billion, was spent for school-level services.
- Total assets exceeded liabilities by \$719 million (net assets). Land and depreciated capital assets (buildings and improvements, and equipment) comprise 98.2% of the net assets.
- Net assets decreased by \$28.1 million, primarily due to depreciation expense.
- For fiscal year 2003 the Department received an additional \$38.5 million for collective bargaining increases.
- The fringe benefit rate increased from 21.19 % in Fiscal Year 2002 to 32.22% in Fiscal Year 2003 resulting in more than 10 percent increase in employee benefits. The increase is primarily due to the increase in the pension accumulation from 0% to 8.87%.
- Debt service increased by \$4.67 million or 3.97% from the prior fiscal year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

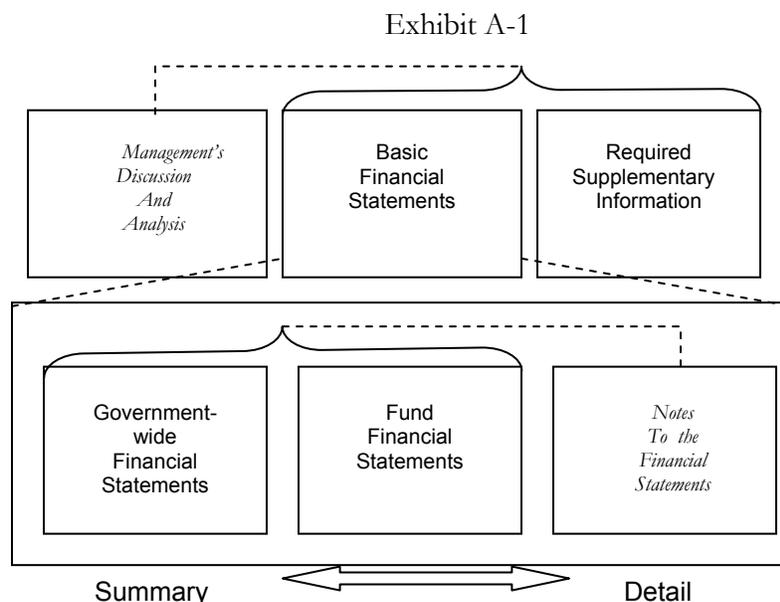
The financial statements consist of three sections: management’s discussion and analysis (this section), basic financial statements and notes, and required supplementary information. These sections are described below.

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 fund 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 statements report on trust funds, which are held in trust for students’ school activities that take place outside of the formal class period and are not requirements for class work or credit.

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 relate to one another.



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Fiscal Year 2003 is the first year a comparative analysis of current and prior year balances will be included in accordance with Governmental Accounting Standards Board (GASB) Statement 34. The following discussion highlights management's understanding of the key aspects of the Department's financial activities.

**Net assets.** By far the largest portion of the Department's net assets (98.2%, \$705.8 million) reflects its investment in capital assets (e.g., land, buildings, equipment). (See Exhibit A-2.) The Department uses these capital assets to provide instructional and support services to students; consequently, these assets are not available for future spending. The unrestricted net assets of the Department are available for future use to provide program services.

### Exhibit A-2 Statement of Net Assets Fiscal Years 2003 and 2002 (Amounts in millions)

	Governmental Activities	
	2003	2002
	As restated	
Assets		
Cash	157.8	150.4
Receivables	43.5	38.5
Property and equipment (net of depreciation)	705.8	722.0
<b>TOTAL ASSETS</b>	<b>907.1</b>	<b>910.9</b>
Liabilities		
Current Liabilities	133.5	113.5
Accrued wages, employee benefits, workers' compensation claims	54.6	50.3
<b>TOTAL Liabilities</b>	<b>188.1</b>	<b>163.8</b>
Net Assets		
Investment in capital assets	705.8	722.0
Unrestricted	13.2	25.1
<b>Total Net Assets</b>	<b>719.0</b>	<b>747.1</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>907.1</b>	<b>910.9</b>

**Changes in net assets.** Total net assets decreased by \$28.1 million (see Exhibit A-3). However, it is important to note that the Department did not overspend available funds. The State's budget guidelines do not allow cash expenditures in excess of available funds. The decrease in investment in capital assets was primarily due to the inclusion of buildings and improvements less than \$100,000 that were previously included as capital assets in Fiscal Year 2002. This resulted in the restatement of the net assets at July 1, 2002 to decrease by \$31.8 million. Please refer to Note C for details of capital assets and depreciation by category.

For Fiscal Year 2003 the depreciation expense amounted to \$40.3 million. Depreciation expense does not require the use of cash; it is an accounting term that represents a process of allocation of the cost of assets over the estimated useful lives of the assets. This includes wear and tear, age, deterioration and obsolescence. Although depreciation is a commonly known term in commercial industry, GASB 34 requires all governmental agencies to record depreciation of capital assets, for the first time in history.

**Exhibit A-3**  
**Changes in Net Assets**  
**Fiscal Years 2003 and 2002**  
**(Amounts in millions)**

	Governmental Activities	
	2003	2002
		As restated
Revenues		
State Appropriations	1,434.0	1,349.2
Federal Funds	174.3	166.9
Other Revenues	31.6	37.2
Total Revenues	1,639.9	1,553.3
Expenditures		
School Level instruction and support	1,059.8	1,027.6
Comprehensive student support	304.6	259.3
Instructional support	38.0	37.5
State and district administration	29.9	30.9
School Support	176.6	168.5
School community service	23.0	19.4
Public Libraries	26.3	25.2
Capital outlay	3.3	1.6
Other	6.5	5.5
Total Governmental Activities	1,668.0	1,575.5
Change in Net Assets	(28.1)	(22.2)
Net Assets at – beginning as previously reported	747.1	802.8
Adjustment for capital assets	–	(33.5)
Net assets at – beginning as restated	747.1	769.3
Net Assets at – ending	719.0	747.1

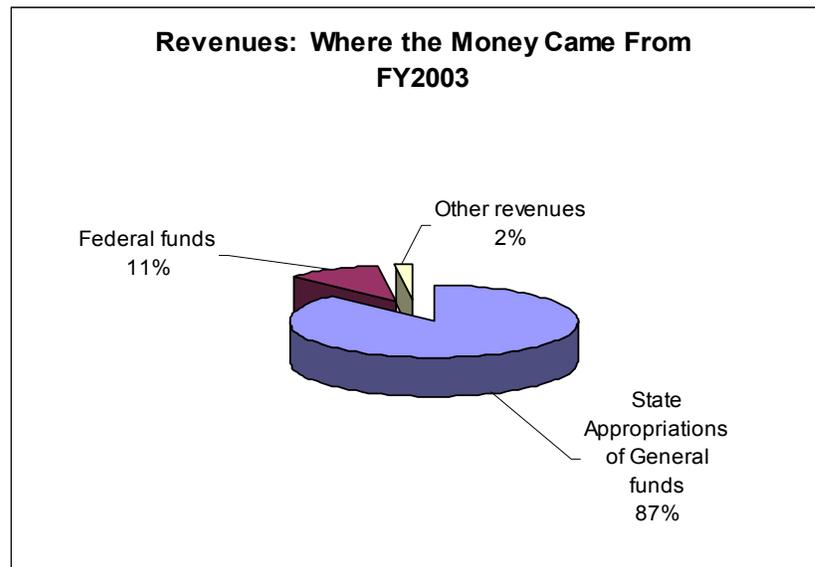
## EXPLANATION OF MAJOR DEPARTMENTAL PROGRAMS

The State Budget is organized by major program areas. The Department of Education's major programs are:

- EDN 100 – School-Based Budgeting (instructional services, curriculum programs, at-risk programs, fringe benefits, and debt service)
- 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, and information technology support)
- EDN 300 – State and District 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, student transportation)
- EDN 407 – Hawaii State Public Library System\*
- EDN 500 – School Community Services (after school child care, adult education)

Exhibit A-4 shows the revenues of the Department in summary form. Revenues primarily come from State General funds (State taxpayer monies). Other revenues come from federal grants, special funds to support specific programs such as cafeteria collections for school food services, and donations.

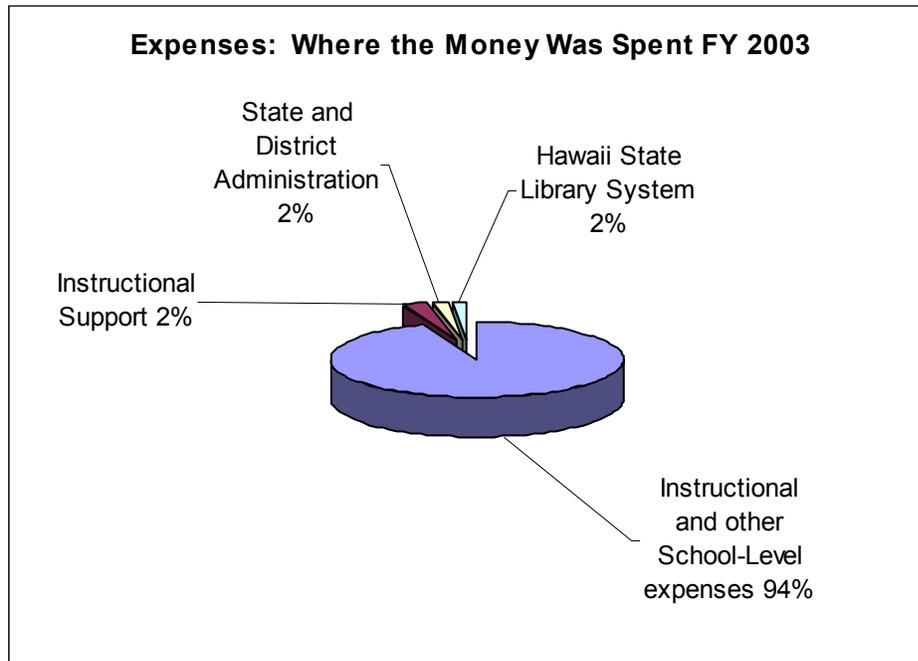
Exhibit A-4



\* Note: The Hawaii State Public Library System is included in the Department of Education's combined financial statements since both the Library System and the Department of Education are administratively and legally supervised by the Hawaii State Board of Education.

Exhibit A-5 shows the expenses of the Department in summary form. A total of 94% of the Department's expenditures are for school-level instructional and support programs in EDNs 100, 150, 400, and 500. Only 2% of the Department budget was spent on State and District Administration.

Exhibit A-5



#### GENERAL FUND BUDGETARY HIGHLIGHTS

- The Department was appropriated and allotted \$1,433.4 million in Fiscal Year 2003, resulting in a \$90 million (7%) increase in appropriations from the prior year. Thirty-six percent of the increase or \$32.4 million is due to fixed costs for employers' share of fringe benefit cost, risk management insurance, and debt service costs. Additional expenses of \$28 million were incurred by the department for autistic spectrum disorders and developmental disabilities/mental retardation services that was transferred from the Department of Health last year.
- The law permits the Department to "carryover" up to 5% of appropriations, for school level instruction and comprehensive school support services, from one fiscal year to the next. The Department carried over \$17.6 million of the Fiscal Year 2003 general fund appropriation for expenditure in Fiscal Year 2004. This is reflected in the Budgetary Comparison Schedule (Required Supplementary Information) whereby expenditures for "school level instruction" and "comprehensive student support services" were lower than budget by \$17.6 million. Carry over 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, which occurs within weeks of the beginning of the fiscal year.

## FIDUCIARY FUNDS

Fiduciary funds are held in trust for the students for school activities that take place outside of the formal class period and are not required for class work or credit. The funds are called "local school funds," which include monies collected and maintained by the school for the students or other sources that do not require deposit into the State Treasury. Examples include yearbook, newspaper fund, student government dues, physical education uniform sales, and excursions.

Fiduciary fund assets were \$13.2 million in Fiscal Year 2003, resulting in a 5.0% increase from the prior fiscal year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

The Department's capital improvement program 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 & Finance assist the department with various aspects of capital improvement.

Buildings and improvements less than \$100,000 were included as capital assets in Fiscal Year 2002. For Fiscal Year 2003 assets less than \$100,000 were excluded. As a result of this restatement, net assets at July 1, 2002 decreased by \$31.8 million. Land, buildings and improvements, and equipment were \$705.7 million in Fiscal Year 2003, resulting in a 2.2% decrease from the prior fiscal year.

This year's capital improvements included the construction of thirteen new classrooms and a new athletic facility. Other projects are under construction, in the bid process, or are being designed. Please refer to Note C for details of capital assets.

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's budget. Interest payments and debt retired were \$54.4 million and \$66.7 million, respectively, in Fiscal Year 2003. This resulted in a \$14.4 million (36%) increase in interest payments and a \$13.7 million (26%) increase in debt retired from the prior fiscal year.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The unemployment rate for the State is currently 3.8%, which is a decrease of 0.6% from a year ago. This is the lowest unemployment rate since 1993.

General Fund tax revenues increased 4.4% for 2003. General excise collections, which are the largest source of revenue and a good measure of economic activity, showed a 11.2% increase for the same period. Additionally, transient accommodations tax revenue increased by 8.4%, showing the positive impact of overall visitor demand.

Inflation in Hawaii is increasing but still remains relatively low. Between the first half of 2002 and the first half of 2003, the Honolulu Consumer Price Index (CPI) for urban consumers increased by 1.7%. In comparison, the CPI for the U.S. increased at a 2.5% annual rate over the same period.

## FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE DEPARTMENT

The Board of Education and Department of Education are working with the State Legislature on the development and implementation of a weighted student formula (WSF) as a tool to allocate resources to schools based on students' needs. The proposed timeline includes:

- Development of weights in school year 2004-05, with refinements in 2005-06;
- A pilot program during school years 2004-05 and 2005-06;
- Intensive training in school years 2004-05 and 2005-06; and
- Full implementation by school year 2006-07.

These efforts will be directed towards strengthening the relationship of financial resources to the academic plans of each school, with the overall goal of improving student achievement

Responsibility for the provision of services to students with autism spectrum disorders (ASD) has been transferred to the Department of Education from the Department of Health effective July 1, 2002. The cost of this program has grown significantly in the past few years, and funds transferred from the Department of Health were insufficient to provide the required services, by at least \$10 million. In March 2003, the Governor approved an additional transfer of \$14.6 million from the Department of Health to the Department of Education to fulfill the financial requirements of the autism services for Fiscal Year 2003. The Governor requested the Legislature to appropriate the additional \$14.6 million to the Department in each of the next two years, Fiscal Year 2004 and Fiscal Year 2005.

The Federal No Child Left Behind Act is an under funded federal mandate. The Department estimates that as much as \$176 million in additional resources is needed for compliance in Fiscal Year 2004, and the amount will grow larger in Fiscal Year 2005 if Title I schools currently in need of improvement or corrective action do not make Adequate Yearly Progress (AYP) by 2005. Title I schools are those with the highest concentrations of poverty which are receiving federal fund support to help disadvantaged students meet the same high standards expected of all students. However, the performance goals specified by the Act call for the Department to implement the requirements for all students, not only Title I. The Act does not provide any funding to implement the requirements for non-Title I schools. Additional resources are needed to: recruit, train, and pay highly qualified professionals and paraprofessionals; provide extended school programs; provide student support services such as English for Second Language Learners (ESLL), special education, and high school reform; provide safe school environments; and implement the infrastructure required for testing, accountability analyses, and data collection. Due to the State's current economic uncertainty, it will be extremely difficult to comply with the requirements of the No Child Left Behind Act within the timelines defined, without substantial additional resources and funding.

## CONTACTING THE DEPARTMENT'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the Department's finances for the public, and to 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 Superintendent, Department of Education, P. O. Box 2360, Honolulu, Hawaii 96804.

State of Hawaii  
Department of Education

STATEMENT OF NET ASSETS

June 30, 2003

ASSETS	<u>Governmental Activities</u>
Current assets	
Cash (notes A7 and E)	\$ 157,805,180
Certificates of deposit (note A8)	10,764
Receivables	
Due from other agency	36,858,836
Due from federal government	6,216,420
Accounts receivable	<u>430,413</u>
Total current assets	201,321,613
Property and equipment (net of depreciation) (notes A6 and C)	<u>705,770,733</u>
TOTAL ASSETS	<u><u>\$ 907,092,346</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities	
Vouchers and contracts payable	\$ 15,801,060
Current portion of accrued wages and employee benefits (note A10)	52,702,437
Current portion of workers' compensation claims (note E)	7,184,402
Deferred revenues (note A9)	51,180,031
Due to State of Hawaii General Fund	5,791,884
Due to others	<u>806,977</u>
Total current liabilities	133,466,791
Accrued employee benefits (note A10)	28,220,906
Workers' compensation claims (note E)	26,400,969
Commitments and contingencies (note E)	-
Net assets	
Investment in capital assets	705,770,733
Unrestricted	<u>13,232,947</u>
Total net assets	<u>719,003,680</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 907,092,346</u></u>

The accompanying notes are an integral part of this statement.

State of Hawaii  
Department of Education  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2003

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Net (expense) revenue and changes in net assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities				
School level instruction and support	\$ 1,059,761,167	\$ 2,326,789	\$ 76,705,354	\$ (980,729,024)
Comprehensive student support	304,639,271	-	27,923,509	(276,715,762)
Instructional support	38,001,751	1,623,309	20,513,083	(15,865,359)
State and district administration	29,865,220	717,698	2,387,906	(26,759,616)
School support	176,631,990	18,800,290	44,137,297	(113,694,403)
School community service	23,037,232	2,006,025	2,035,014	(18,996,193)
Public libraries	26,325,713	1,862,424	615,104	(23,848,185)
Capital outlay	3,309,625	-	-	(3,309,625)
Other	6,448,290	850,000	3,404,159	(2,194,131)
Total governmental activities	<u>\$ 1,668,020,259</u>	<u>\$ 28,186,535</u>	<u>\$ 177,721,426</u>	(1,462,112,298)
General revenues				
State allotted appropriations, net of lapses				<u>1,433,969,407</u>
Total general revenues				<u>1,433,969,407</u>
Change in net assets				(28,142,891)
Net assets at July 1, 2002				778,918,977
Adjustment for capital assets (Note C)				<u>(31,772,406)</u>
Net assets at July 1, 2002 as restated				<u>747,146,571</u>
Net assets at June 30, 2003				<u>\$ 719,003,680</u>

The accompanying notes are an integral part of this statement.

State of Hawaii  
Department of Education

GOVERNMENTAL FUNDS  
BALANCE SHEET

June 30, 2003

ASSETS	<u>General</u>	<u>Other Funds</u>	<u>Total Governmental</u>
Cash	\$ 71,884,190	\$ 85,920,990	\$ 157,805,180
Certificates of deposit	-	10,764	10,764
Receivables			
Due from other agency	36,684,891	173,945	36,858,836
Due from federal government	-	6,216,420	6,216,420
Accounts receivable	-	430,413	430,413
	<u>\$ 108,569,081</u>	<u>\$ 92,752,532</u>	<u>\$ 201,321,613</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities			
Vouchers and contracts payable	\$ 11,776,044	\$ 4,025,016	\$ 15,801,060
Accrued wages and employee benefits	41,220,087	4,427,124	45,647,211
Deferred income	-	51,180,031	51,180,031
Due to State of Hawaii General Fund	5,791,884	-	5,791,884
Due to others	-	806,977	806,977
	<u>58,788,015</u>	<u>60,439,148</u>	<u>119,227,163</u>
Fund balances			
Reserved for encumbrances	32,160,848	7,975,400	40,136,248
Reserved for continuing appropriations	17,620,218	1,528,356	19,148,574
Unreserved, reported in			
Special revenue funds	-	21,886,130	21,886,130
Capital projects funds	-	923,498	923,498
	<u>49,781,066</u>	<u>32,313,384</u>	<u>82,094,450</u>
	<u>\$ 108,569,081</u>	<u>\$ 92,752,532</u>	<u>\$ 201,321,613</u>

The accompanying notes are an integral part of this statement.

State of Hawaii  
Department of Education

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE  
TO THE STATEMENT OF NET ASSETS

June 30, 2003

Total fund balance - governmental funds		\$ 82,094,450
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 not reported in the funds.	\$ 705,770,733	
Compensated absences reported in the statement of net assets do not require the use of current financial resources and therefore not reported in the governmental funds	(35,276,132)	
Workers' compensation liability reported in the statement of net assets do not require the use of current financial resources and therefore not reported in the governmental funds	<u>(33,585,371)</u>	<u>636,909,230</u>
Net assets of governmental activities		<u><u>\$ 719,003,680</u></u>

The accompanying notes are an integral part of this statement.

State of Hawaii  
Department of Education

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

June 30, 2003

	General	Other Funds	Total Governmental
<b>Revenues</b>			
State allotments, net	\$1,431,518,592	\$ 2,450,815	\$1,433,969,407
Federal funds	-	174,317,267	174,317,267
Other revenues	-	31,590,694	31,590,694
	1,431,518,592	208,358,776	1,639,877,368
<b>Expenditures</b>			
School level instruction	964,749,483	77,546,999	1,042,296,482
Comprehensive student support	276,743,781	27,971,671	304,715,452
Instructional support	17,032,168	20,964,970	37,997,138
State and district administration	26,266,159	2,989,686	29,255,845
School support	116,138,131	59,532,969	175,671,100
School community service	15,344,798	7,684,615	23,029,413
Public libraries	23,805,259	1,631,851	25,437,110
Capital outlay	-	3,069,091	3,069,091
Other	1,210,101	5,238,189	6,448,290
	1,441,289,880	206,630,041	1,647,919,921
Net change in fund balances	(9,771,288)	1,728,735	(8,042,553)
Fund balances at July 1, 2002	59,552,354	30,584,649	90,137,003
Fund balances at June 30, 2003	\$ 49,781,066	\$ 32,313,384	\$ 82,094,450

The accompanying notes are an integral part of this statement.

State of Hawaii  
Department of Education

RECONCILIATION OF THE CHANGE IN FUND  
BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

June 30, 2003

Net change in fund balances - total governmental funds		\$ (8,042,553)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays during the year.	\$ (16,221,662)	
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	(1,881,547)	
Workers' compensation liability 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	<u>(1,997,129)</u>	<u>(20,100,338)</u>
Change in net assets of governmental activities		<u><u>\$ (28,142,891)</u></u>

The accompanying notes are an integral part of this statement.

State of Hawaii  
Department of Education

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS

June 30, 2003

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 13,199,810</u>
Total assets	<u><u>\$ 13,199,810</u></u>
LIABILITIES	
Due to student group and others	<u>\$ 13,199,810</u>
Total liabilities	<u><u>\$ 13,199,810</u></u>

The accompanying notes are an integral part of this statement.

This page left blank.

State of Hawaii  
Department of Education

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

1. Introduction

The Department of Education (DOE), State of Hawaii (State), administers the statewide system of public schools and public libraries. Additionally, the DOE 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 non-college type of school. Federal grants received to support public school and public library programs are administered by the DOE on a statewide basis.

The accompanying financial statements of the DOE have been prepared in conformity with accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board (GASB).

The DOE is part of the executive branch of the State. The financial statements of the DOE, are intended to present the financial position and changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the DOE. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2003, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which includes the DOE's financial activities.

2. Reporting Entity

The DOE 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 DOE are such that exclusion would cause the DOE's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. The DOE has determined, based on the GASB criteria, that it has no component units.

3. Government-Wide and Fund Financial Statements

The government-wide financial statements, the statement of net assets and the statement of activities, report information of all of the non-fiduciary activities of the DOE. Governmental activities are normally supported by State allotments and intergovernmental revenues.

State of Hawaii  
Department of Education

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Government-Wide and Fund Financial Statements (continued)

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 not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues. The DOE does not allocate general government indirect expenses to other functions.

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 DOE's policy to use restricted resources first, then unrestricted resources 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. Non-major funds are summarized into a single column.

4. Measurement Focus, Basis of Accounting and Financial Statement Presentation

a. 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.

b. 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

State of Hawaii  
Department of Education

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

b. Governmental Fund Financial Statements (continued)

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 DOE 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 generally accepted accounting principles 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 DOE.

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, 2003 has been reported only in the government-wide financial statements.

c. Fiduciary Funds

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.

5. Fund Accounting

The financial activities of the DOE are recorded in individual funds, each of which is deemed to be a separate accounting entity. The DOE uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

State of Hawaii  
Department of Education

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Fund Accounting (continued)

a. Governmental Funds

General Fund – The general fund is the general operating fund of the DOE. It is used to account for all financial activities except those required to be accounted for in another fund. 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.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Fund – Capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The DOE reports the General Fund as a major governmental fund. The non-major funds are combined in a column in the fund financial statements.

b. Fiduciary Funds

The DOE presents as Fiduciary Funds those activities that account for assets held in a trustee capacity or as an agent for individuals, private organizations, or other governmental units.

6. Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental activities in the government-wide financial statements. Capital assets are defined by the State as land and those assets with estimated useful lives greater than one year with an acquisition cost greater than:

Land	All capitalized
Land improvements	\$100,000
Buildings and building improvements	100,000
Furniture and equipment	5,000
Motor vehicles	5,000

State of Hawaii  
Department of Education

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Capital Assets (continued)

Purchased and constructed capital assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

Depreciation expense is recorded in the government-wide financial statements. The DOE utilizes the straight-line method over the assets' estimated useful life. No depreciation is recorded for land. Generally, the useful lives are as follows:

Buildings and building improvements	30 years
Land improvements	15 years
Furniture and equipment	7 years
Motor vehicles	5 years

7. Cash

Cash and cash equivalents 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 is responsible for safekeeping of all moneys paid into the State Treasury (cash pool). The Director of Finance 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 average weighted cash balances of each account.

The State requires that the depository banks pledge, as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

8. Certificates of Deposit

Certificates of deposit are stated at cost, which approximates market. Certificates of deposit have original maturities that are greater than three months from the date of purchase.

9. Deferred Revenues

Deferred revenues at the fund level and government-wide level arise when the DOE receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition

State of Hawaii  
Department of Education

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Deferred Revenues

criteria is met, or when the DOE has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and revenue is recognized. Deferred revenues at June 30, 2003 consists primarily of Federal grant funds.

10. Compensated Absences

Employees hired on or before July 1, 2001 earn vacation at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001 earn vacation at rates ranging between 1 and 2 working days for each month of service, depending upon the employee's years of service and job classification. Vacation days may be accumulated to a maximum of 90 days at calendar year end. Employees are entitled to receive cash payment for accumulated vacation upon termination. The governmental fund financial statements record expenditures when employees are paid for vacation. The government-wide financial statements present the cost of accumulated unpaid vacation as a liability.

Balance at July 1, 2002	\$33,394,585
Vacation earned	9,823,800
Vacation leave payments	<u>(7,942,253)</u>
Balance at June 30, 2003	35,276,132
Less current portion	<u>(7,055,226)</u>
	<u><u>\$28,220,906</u></u>

Employees hired on or before July 1, 2001 also earn sick leave credits at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001 earn sick leave credits at the rate of one and one-quarter or one and three-quarters working days for each month of service, depending upon the employee's years of service and job classification. Sick leave credits may be accumulated without limit. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for unpaid sick leave credits is reported in the accompanying financial statements. However, a DOE employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii. Accumulated sick leave as of June 30, 2003 relating to the DOE approximated \$473,000,000.

State of Hawaii  
Department of Education

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – BUDGETING AND BUDGETARY CONTROL

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Budgeted expenditures are derived primarily from acts of the State Legislature and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes and 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 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.

However, Section 37-41.5 of the Hawaii Revised Statutes allows the DOE to carryover up to five percent of any appropriation for the school-based budgeting program and up to five percent of any appropriation for the comprehensive support services program at the end of a fiscal year. 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, 2003, general funds carried over from both programs stated above amounted to \$17,620,218.

For purposes of budgeting, the DOE's budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP). Encumbrances represent executed but unperformed purchase orders or contracts. In the accompanying financial statements, encumbrances are recorded as expenditures for budgetary purposes and as reservations of fund balance for GAAP purposes. Since budgetary basis differs from GAAP, budget and actual amounts in the accompanying Required Supplementary Information – Budgetary Schedule is presented on the budgetary basis. A reconciliation of revenues in excess of (less than) expenditures and other financing sources (uses) on a budgetary basis at June 30, 2003, to revenues in excess of (less than) expenditures and other financing sources (uses) presented in conformity with GAAP is set forth in the Notes to the Required Supplementary Information.

State of Hawaii  
Department of Education

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE C – CAPITAL ASSETS

Capital assets as of July 1, 2002 have been restated due to a misapplication by the DOE of the capitalization policy. As a result of the restatement, capital assets and net assets as of July 1, 2002 decreased by \$31,772,406 and the change in net assets for 2002 increased by \$1,778,186.

	July 1, 2002 balance as previously reported	Prior-period adjustment	July 1, 2002 Balance as restated	Increases	Decreases	June 30, 2003 Balance
Governmental activities						
Capital assets, not being depreciated						
Land	\$ 41,410,285	\$ –	\$ 41,410,285	\$ –	\$ –	\$ 41,410,285
Total capital assets not being depreciated	41,410,285	–	41,410,285	–	–	41,410,285
Capital assets, being depreciated						
Building and improvements	1,278,812,751	(69,621,012)	1,209,191,739	18,263,926	12,903,846	1,214,551,819
Furniture and equipment	50,180,228	–	50,180,228	8,602,992	5,487,321	53,295,899
Total capital assets being depreciated	1,328,992,979	(69,621,012)	1,259,371,967	26,866,918	18,391,167	1,267,847,718
Less accumulated depreciation for:						
Building and improvements	582,282,799	37,848,606	544,434,193	35,967,782	10,310,979	570,090,996
Furniture and equipment	34,355,664	–	34,355,664	4,367,327	5,326,717	33,396,274
Total accumulated depreciation	616,638,463	37,848,606	578,789,857	40,335,109	15,637,696	603,487,270
Governmental activities, net	<u>\$ 753,764,801</u>	<u>\$(31,772,406)</u>	<u>\$ 721,992,395</u>	<u>\$(13,468,191)</u>	<u>\$ 2,753,471</u>	<u>\$ 705,770,733</u>

Depreciation expense by function is as follows:

Governmental activities	
School level instruction	\$37,442,532
Comprehensive student support	196,147
Instructional support	566,847
State and district administration	473,021
School support	1,080,505
School community service	44,066
Public libraries	525,769
Other	6,222
	<hr/>
Total depreciation expense – governmental activities	<u>\$40,335,109</u>

State of Hawaii  
Department of Education

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE D – RETIREMENT BENEFITS

Employees' Retirement System

Plan Description

All eligible employees of the State and Counties are required by Chapter 88 of the Hawaii Revised Statutes to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for ERS. That report may be obtained from them.

The ERS consists of a contributory plan and a noncontributory plan. 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, who are covered by Social Security, are generally required to join the noncontributory plan. Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). 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. Vesting requirements for the contributory and noncontributory plans are five years and ten years, respectively. All contributions, benefits and eligibility requirements are governed by Chapter 88.

Funding Policy

Most covered employees of the contributory plan are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the department of the prosecuting attorney and the attorney general, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The actuarial cost or funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Under this method, the total employer contributions to the ERS is comprised of normal cost plus level annual payments required to amortize the unfunded actuarial accrued liability over the closed period ending June 30, 2029.

The contribution requirement for all employers as of June 30, 2003, 2002, 2001, 2000 and 1999 were approximately \$191 million (100% contributed), \$167 million (100% contributed), \$164 million (5% contributed), \$172 million (13% contributed) and \$185 million (83% contributed), respectively.

Contributions for employees accounted for in DOE's general fund are paid from the State General Fund and are not reflected in the accompanying financial statements. The portion of the contributions related to DOE's special revenue funds are recorded as an expenditure of the special revenue funds in the financial statements.

State of Hawaii  
Department of Education

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE D – RETIREMENT BENEFITS (continued)

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all employees hired prior to July 1, 1996 who retire from State employment on or after attaining age 62 with at least ten years of service or age 55 with at least thirty years of service under the noncontributory plan and age 55 with at least five years of service under the contributory plan. Retirees credited with at least ten years of service excluding sick leave credit qualify for free medical insurance premiums; however, retirees with less than ten years must assume a portion of the monthly premiums. All service-connected disability retirees who retired after June 30, 1984, with less than ten years of service also qualify for free medical insurance premiums. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement of a portion of the basic medical coverage premiums.

For employees hired after July 1, 1996 and retire with fewer than twenty-five years of service, the State shall pay to a fund a monthly contribution equal to one-half of the retired employee's monthly Medicare or non-Medicare premium for certain medical benefits for retired employees with ten or more years of service; and seventy-five percent of the retired employee's monthly Medicare or non-Medicare premium for retired employees with at least fifteen but fewer than twenty-five years of service.

For active employees, the employer's contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. The DOE's general fund share of the post-retirement benefits expense for the year ended June 30, 2003 was approximately \$234,000,000. The DOE's special revenue fund share of the post-retirement benefits expense for the year ended June 30, 2003 was approximately \$3,800,000 and is included in the financial statements.

NOTE E – COMMITMENTS AND CONTINGENCIES

Insurance

Insurance coverage is maintained at the State level. The State is substantially self-insured for all perils including workers' compensation. Expenditures for workers' compensation and other insurance claims are appropriated annually from the State General Fund.

The DOE settles all claim settlements and judgments for DOE employees injured from its general fund resources. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities will be reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

State of Hawaii  
Department of Education

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE E – COMMITMENTS AND CONTINGENCIES (continued)

Insurance (continued)

These liabilities are the DOE's best estimate based on available information. A reconciliation of changes in aggregate liabilities for claims are as follows:

Balance at July 1, 2002	\$ 31,588,242
Increase in reserve	12,047,824
Payments on claims	<u>(10,050,695)</u>
Balance at June 30, 2003	33,585,371
Less current portion	<u>(7,184,402)</u>
	<u><u>\$ 26,400,969</u></u>

Deferred Compensation Plan

In 1983, the State established a deferred compensation plan which enables state employees to defer a portion of their compensation. The State Department of Human Resources Development has the fiduciary responsibility of administering the plan. The deferred compensation is not available to beneficiaries until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject to the claims of the State's general creditors. Participants' rights under the plan are equal to those of the State's general creditors in an amount equal to the fair market value of the deferred account for each participant.

State of Hawaii  
Department of Education

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE E – COMMITMENTS AND CONTINGENCIES (continued)

Leases

The DOE leases equipment and office facilities on a long-term basis that are reported in the general and special revenue funds. The following is a schedule of minimum future rentals on noncancelable operating leases for the five years subsequent to June 30, 2003.

Fiscal year ending June 30,	<u>Amount</u>
2004	\$1,792,000
2005	1,624,000
2006	1,387,000
2007	1,113,000
2008	<u>446,000</u>
	<u>\$6,362,000</u>

Total rent expense for the year ended June 30, 2003 was approximately \$1,574,000.

Litigation

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

Concentrations of Credit Risk

The DOE maintains cash in the State Treasury as well as in a financial institution. Cash held in the financial institution totaled \$12,319,951 at June 30, 2003. Of this amount, \$4,975,212 is insured by the Federal Deposit Insurance Corporation and collateralized with securities held by DOE's agent. The uncollateralized balance at June 30, 2003 is \$7,344,739.

NOTE F – FOOD DISTRIBUTION PROGRAM

The DOE receives food commodities from the U.S. Department of Agriculture, Food and Nutrition Service (FNS), under the Federal Food Distribution Program. The DOE School Food Services Branch distributes the food to qualifying schools, charitable organizations, and nonprofit summer camps for children. The total value of the amount of food which the DOE is entitled to receive is determined in part by the number of meals served under the National School Lunch Program. The DOE's allocation balance is reduced as the DOE receives the food commodities. The amount charged to the DOE

State of Hawaii  
Department of Education

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE F – FOOD DISTRIBUTION PROGRAM (continued)

allocation balance is based upon the FNS’s cost to purchase the commodities. In addition to this allocation, the DOE may also receive “bonus” food commodities. The bonus commodities do not reduce the DOE’s allocation balance.

The following is a summary of the value of the food commodities received by the DOE during the year ended June 30, 2003. The value of the bonus commodities is based upon the estimated costs provided by the FNS in the *Current Commodity File* report dated June 30, 2003.

	<u>Amount</u>
Basic allocation	\$3,538,413
Bonus commodities	<u>273,475</u>
	<u><u>\$3,811,888</u></u>

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS

State of Hawaii  
Department of Education

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUNDS

June 30, 2003

	<u>Budgeted amounts</u>		Actual amounts (budgetary basis) (note A)
	<u>Original</u>	<u>Final</u>	
Revenues			
State allotted appropriations	<u>\$ 1,324,683,947</u>	<u>\$ 1,433,365,121</u>	<u>\$ 1,433,365,121</u>
Total revenues	1,324,683,947	1,433,365,121	1,433,365,121
Expenditures			
School level instruction	912,376,132	956,988,968	939,493,436
Comprehensive student support services	221,060,594	274,259,347	274,134,437
Instructional support	18,063,031	18,754,497	18,533,014
State and district administration	29,092,339	28,676,995	25,245,608
School support	107,276,815	113,610,815	113,628,564
School community service	13,161,883	15,753,777	15,442,470
Public libraries	21,290,925	23,558,494	23,558,004
Other	<u>2,362,228</u>	<u>1,762,228</u>	<u>1,476,528</u>
Total expenditures	<u>1,324,683,947</u>	<u>1,433,365,121</u>	<u>1,411,512,061</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,853,060</u>

The accompanying notes are an integral part of this statement.

State of Hawaii  
Department of Education

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY REPORTING

June 30, 2003

NOTE A – EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY ACTUAL  
AND GAAP REVENUES AND EXPENDITURES

Excess of revenues over expenditures and other sources and uses – actual on budgetary basis	\$ 21,853,060
Reserve for encumbrances at year end	32,160,848
Expenditures for liquidation of prior year's encumbrances	(67,352,591)
Accrual adjustments and other	<u>3,567,395</u>
 EXCESS OF EXPENDITURES OVER REVENUES AND OTHER SOURCES AND USES – US GAAP BASIS	   <u><u>\$ (9,771,288)</u></u>

State of Hawaii  
Department of Education

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of Agriculture (USDA):				
Direct Programs				
Food Donation	10.550	-	\$ 3,811,888	\$ -
Child Nutrition Cluster:				
School Breakfast Program	10.553	-	6,333,207	246,481
National School Lunch Program	10.555	-	26,635,844	778,143
Special Milk Program for Children	10.556	-	6,192	6,192
Summer Food Service Program for Children	10.559	-	704,220	714,220
			<u>33,679,463</u>	<u>1,745,036</u>
Child and Adult Care Food Program	10.558	-	4,835,094	4,835,094
State Administrative Expenses	10.560	-	<u>579,202</u>	<u>-</u>
<i>Total U.S. Department of Agriculture (USDA)</i>			42,905,647	6,580,130
U.S. Department of Defense:				
Direct Programs				
National Defense Authorization Act P.L. 102-484	N.A.		1,392,343	-
Troops To Teachers - DoD FY03	N.A.	-	<u>37,601</u>	<u>-</u>
Subtotal Direct Programs			1,429,944	-
Passed Through from Department of Defense				
Joint Venture ED Forum	N.A.		<u>1,864,798</u>	<u>-</u>
<i>Total U.S. Department of Defense</i>			\$ 3,294,742	\$ -

The accompanying notes on page 44 are an integral part of this schedule.

State of Hawaii  
Department of Education

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of the Interior:				
Passed Through from State Governor's Office				
Compact of Freely Associated States - ESLL	15.875	GR 270 094	\$ 560,640	\$ -
<i>Total U.S. Department of the Interior</i>			560,640	-
U.S. Department of Justice:				
Passed Through from Department of Human Services				
Lanakila Learning Center	16.549	00-JE-FX-0015	15,763	-
<i>Total U.S. Department of Justice</i>			15,763	-
U.S. Department of Labor (DOL):				
Direct Program				
School To Work Opportunity	17.249	-	483,614	-
Passed Through from State Department of Labor				
Workforce Development Project	17.255	G0100HICCD2	121	-
Passed Through from City & County				
Workforce Investment Board FY02	N.A.	C87572 C87582 C01243	154,874	-
<i>Total U.S. Department of Labor (DOL)</i>			638,609	-
U.S. Department of Transportation:				
Passed Through from State of Hawaii – Department of Transportation				
Safe Community Youth Activity	20.600	AL02 02(04-S-01) AL03 02(06-0-01)	114,715	-
<i>Total U.S. Department of Transportation</i>			\$ 114,715	\$ -

The accompanying notes on page 44 are an integral part of this schedule.

State of Hawaii  
Department of Education

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
National Endowment for the Humanities:				
Direct Program				
Library Services and Technology Act	45.310	-	\$ 946,653	\$ -
Passed Through from State Foundation on Culture and the Arts				
Artists-in-the-Schools	45.007	FY00-0082 FY02-002 FY02-002	53,010	-
<i>Total National Endowment for the Humanities</i>			999,663	-
National Science Foundation:				
Passed Through from Maui Economic Development Board				
Hands-On Science for Maui (Project SEED)	N.A.	ESI-9253304	3,653	-
<i>Total National Science Foundation</i>			3,653	-
Environmental Protection Agency:				
Passed Through from State Department of Health				
Water Quality Monitoring Program	66.460	C9989785-01-0	63,679	-
<i>Total Environmental Protection Agency</i>			\$ 63,679	\$ -

The accompanying notes on page 44 are an integral part of this schedule.

State of Hawaii  
Department of Education

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of Education:				
Direct Programs				
FEMA - Volcanic Gases Project	N.A.		\$ 35,904	
Adult Education – State Administered Basic Grant Program	84.002A	–	1,735,954	-
Title I Grants to Local Education Agencies	84.010A	–	27,155,074	-
Migrant Education	84.011A	–	918,619	-
Consortium Incentive Grant	84.011B	–	39,267	-
Title I Program for Neglected and Delinquent Children	84.013A	–	47,312	-
Special Education Cluster:				
Special Education – State Grants, IDEA Part B	84.027A	–	19,995,733	
Special Education – Preschool Grants, IDEA Preschool	84.173A	–	1,040,074	
			<u>21,035,807</u>	-
Impact Aid – Maintenance and Operation	84.041	–	33,273,005	-
Public Library Construction (LSCA Title II)	84.154	–	261,544	-
Emergency Immigrant Education	84.162A	–	328,986	-
NCLB - SDFSC Community Service for Expelled/Suspended Students	84.184C	–	513	-
Safe & Drug Free Learning Environment	84.184L	–	1,080,815	-
Robert C. Byrd Honors Scholarship	84.185A	–	165,000	-
Safe and Drug-Free Schools & Communities – State Grants	84.186A	–	1,659,720	-
State Educational Agency Bilingual	84.194Q	–	47,720	-
Training For All Teachers	84.195B	–	397,530	-
Education for Homeless Children and Youth – Grants for State and Local Activities	84.196A	–	146,748	-
Even Start Program	84.213C	–	1,131,001	-
Even Start Program-Migrant Education	84.214A	–	374,543	-
Smaller Learning Communities (OVAE)	84.215L	–	51,167	-
Christa McAuliffe Fellowship Program	84.215U	–	11,980	-
Partnership in Character Education	84.215V	–	44,057	-
Teaching American History	84.215X	–	12,421	-
Native Hawaiian Special Education	84.221A	–	116,618	-
Goals 2000: Educate America Act – Development	84.276A	–	<u>465,203</u>	-
Subtotal Direct Programs carried forward			\$ 90,536,508	\$ -

The accompanying notes on page 44 are an integral part of this schedule.

State of Hawaii  
Department of Education

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
Subtotal Direct Programs brought forward			\$ 90,536,508	\$ -
Eisenhower Mathematics and Science Education – State Grants	84.281A	–	1,101,672	-
Eisenhower - Stds, Assmt, Accountability	84.281C	–	137,222	-
Public Charter Schools	84.282A	–	3,622,844	3,440,785
After School Learning Center	84.287	–	4,281,523	-
Bilingual Education Cluster:				
Bilingual Education Project – Program Development and Implementation Grants	84.288S	–	175,959	
Bilingual Education Project Ho’olokahi	84.290U	–	252,242	
			<u>428,201</u>	-
All Can Learn Japanese Together	84.293B	–	47,893	-
Native Hawaiian Community Based Education Learning Centers	84.296A	–	492,391	-
Native Hawaiian Curriculum Development	84.297A	–	456,831	-
ESEA Title VI – Innovative Education Program Strategies	84.298A	–	1,911,276	-
National Challenge Grants for Technology in Education	N.A.	–	353,561	-
Technology Challenge Grants - Earmark	84.303K	–	108,531	-
Even Start-Statewide Family Literacy Program	84.314B	–	228,606	-
Technology Literacy Challenge Fund	84.318X	–	1,360,614	-
State Program Improvement Grant IDEA	84.323A	–	758,033	-
School-Wide Behavior Support	84.325X	–	2,407	-
Deaf Blind Centers, P.L. 105-17	84.326C	–	83,897	-
SPED-TA & Dissemination/ST Tech Assist	84.326X	–	55,996	-
Comprehensive School Reform Demo Project	84.332A	–	1,064,166	-
Teacher Quality Enhancement Grants	84.336C	–	269,742	-
Reading Excellence Act	84.338A	–	6,000,790	-
Class Size Reduction	84.340A	–	1,594,979	-
Title I Accountability	84.348A	–	428,851	-
School Renovation, IDEA & Technology	84.352A	–	1,199,202	-
NCLB Reading First	84.357A	–	3,885	-
NCLB English Language Acquisition	84.365A	–	659,552	-
NCLB Improving Teacher Quality	84.367A	–	511,564	-
NCLB Assessment FY03	84.369A	–	70,746	-
FEMA - 1348-DR-HI	83.516	–	17,309	-
Hawaii Network Learning Communities	47.076	–	924,794	-
Common Core Data Survey Basic	84.UNK	–	70,598	-
NAEP State Coordinator	902.00	–	<u>76,877</u>	-
Subtotal Direct Programs carried forward			\$ 118,861,061	\$ 3,440,785

The accompanying notes on page 44 are an integral part of this schedule.

State of Hawaii  
Department of Education

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
Subtotal Direct Programs brought forward			\$ 118,861,061	\$ 3,440,785
Passed Through from Office of the State Director for Vocational Education				
Vocational Education – Basic Grant to States	84.048	V048A990011 V048A000011A V048A010011A V048A020011A	2,832,277	-
Non-traditional Training & Employment	84.048	V048A010011A V048A010011A	73,888	-
Vocational Education – Tech Prep	84.243A	V243A000011 V243A010011 V243A020011A	403,592	-
Passed Through from State Department of Human Services				
Rehabilitation Services – Basic Support	84.126A	MOA-DHHS	84,042	-
Passed Through from Alu Like				
Alu Like – Project Laulima	84.259A	VE-01-03		
Alu Like – Project Laulima	84.259A	VE-02-03		
Alu Like – Project Ola Pono	84.259A	VE-02-03		
Alu Like – Project Keoki FY02	84.259A	VE-01-11		
Alu Like – Project Waveriders FY01	84.259A	VE-01-04		
Alu Like – Business, Arts and Communication Center	84.259A	VE-00-02		
Alu Like – Hawaii Alive Project	84.259A	UAF/HAP 46-50-001		
Alu Like – Malama No Ka Ike O Ka Aina	84.259A	VE-02-04	372,507	-
Passed Through from University of Hawaii				
Gear Up Hawaii	84.334	P334S000195-01	417,590	
Native Hawaiian Special Education	84.221A	CO10147	1,513,380	-
<i>Total U.S. Department of Education</i>			\$ 124,558,337	\$ 3,440,785

The accompanying notes on page 44 are an integral part of this schedule.

State of Hawaii  
Department of Education

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of Health and Human Services (HHS):				
Passed Through from State Department of Health				
Preparing For the Drug Free Years (PDFY)	93.359	MOA - DOH ASO Log No Y0-267	\$ - 80,805	\$ -
Passed Through from State Department of Human Services				
Administration for Children and Families/Child Care and Development Block Grant	93.575	G0100HICCD2	264,412	-
Felix Training – Title IV – E Foster Care Program	93.658	9701HI1401	<u>158,298</u>	<u>-</u>
<i>Total U.S. Department of Health and Human Services (HHS)</i>			503,515	-
Corporation for National and Community Service:				
Direct Programs				
State Local & Community Health Program	93.938	-	<u>212,935</u>	<u>-</u>
Subtotal Direct Programs			212,935	-
Passed Through from State Department of Labor				
Nat'l & Comm Service-Serve America	94.004	00LSFHI101 00LSFHI101 00LSFHI101	72,972	-
Hawaii Service Learning Initiative-DLIR	94.004	00LCSH1012	<u>136,641</u>	<u>-</u>
<i>Total Corporation for National and Community Service</i>			<u>422,548</u>	<u>-</u>
<b>TOTAL FEDERAL GRANT FUND EXPENDITURES</b>			<u><u>\$ 174,081,511</u></u>	<u><u>\$ 10,020,915</u></u>

The accompanying notes on page 44 are an integral part of this schedule.

State of Hawaii  
Department of Education

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2003

NOTE 1 – 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 requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the combined financial statements.

NOTE 2 – NON-CASH ASSISTANCE

Expenditures for the Food Donation Program (CFDA No. 10.550) are based on the value of food commodities received.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

STATE OF HAWAII  
DEPARTMENT OF EDUCATION

June 30, 2003

Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance  
With Government Auditing Standards

State Comptroller  
State of Hawaii

We have audited the basic financial statements of the Department of Education, State of Hawaii, as of and for the year ended June 30, 2003, and have issued our report thereon dated February 27, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Department of Education, State of Hawaii's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including applicable provisions of Hawaii Public Procurement Code (Chapter 103D of 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of the Department of Education, State of Hawaii, in a separate letter dated February 27, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of Education, State of Hawaii's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be significant deficiencies. Significant deficiencies involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department of Education, State of Hawaii's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

State Comptroller  
State of Hawaii

Significant deficiencies are described in Section II of the accompanying schedule of findings and questioned costs as items 2003-1, 2003-2, 2003-3, 2003-4, 2003-5, and 2003-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of the Department of Education, State of Hawaii, in a separate letter dated February 27, 2004.

This report is intended solely for the information and use of the management of the Department of Education, State of Hawaii, the State Procurement Office, State of Hawaii, and 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.

*Grant Thornton LLP*

Honolulu, Hawaii  
February 27, 2004

Report on Compliance With Requirements Applicable  
to Each Major Program and Internal Control Over  
Compliance in Accordance With OMB Circular A-133

State Comptroller  
State of Hawaii

Compliance

We have audited the compliance of the Department of Education, State of Hawaii, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Department of Education, State of Hawaii's major federal programs are identified in the summary of auditors' 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 of Education, State of Hawaii's management. Our responsibility is to express an opinion on the Department of Education, State of Hawaii'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 of Education, State of Hawaii'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 on the Department of Education, State of Hawaii's compliance with those requirements.

In our opinion, the Department of Education, State of Hawaii, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in Section III of the accompanying schedule of findings and questioned costs as items 2003-7, 2003-12, 2003-14, 2003-15, and 2003-17.

State Comptroller  
State of Hawaii

### Internal Control Over Compliance

The management of the Department of Education, State of Hawaii, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department of Education, State of Hawaii's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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 A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be significant deficiencies. Significant deficiencies involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department of Education, State of Hawaii's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Significant deficiencies are described in Section III of the accompanying schedule of findings and questioned costs as items 2003-7, 2003-8, 2003-9, 2003-10, 2003-11, 2003-12, 2003-13, 2003-14, 2003-15, 2003-16, and 2003-17.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

This report is intended solely for the information and use of the management of the Department of Education, State of Hawaii, the State Procurement Office, State of Hawaii, and 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.

*Grant Thornton LLP*

Honolulu, Hawaii  
February 27, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATE OF HAWAII  
DEPARTMENT OF EDUCATION

June 30, 2003



State of Hawaii  
Department of Education

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

June 30, 2003

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
10.550	Food Donation
	Child Nutrition Cluster:
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
84.002	Adult Education – State Administered Basic Grant
84.010	Title I
	Special Education Cluster:
84.027	Special Education – State Grants, IDEA Part B
84.173	Special Education – Preschool Grants, IDEA Preschool
84.186	Safe and Drug-Free Schools and Communities – State Grants
84.282	Public Charter Schools
84.287	21 <sup>st</sup> Century Learning Center
84.338	Reading Excellence Act

Dollar threshold used to distinguish between type A and type B programs:

\$3,000,000

Auditee qualified as low-risk auditee?

— yes      √ no

---

Section II – Financial Statement Findings

---

2003-1    Local School Fund Bank Reconciliations

Chapter 9 of the FMS User Policy and Process Flow Guide requires schools to reconcile the bank statement with the school’s check register on a monthly basis. The appropriate school personnel should review and investigate reconciling items.

State of Hawaii  
Department of Education

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

June 30, 2003

Monthly bank reconciliations are essential in maintaining an accurate cash balance. The bank reconciliation may also uncover possible bank and/or bookkeeping errors. Furthermore, failure to timely resolve reconciling items increases the chances of misstating the school's funds.

Of the 258 schools, we selected 138 local school fund account bank reconciliations for the month of June 2003 to be reviewed. We noted the following:

- Forty (40) schools did not have an appropriate review or approval signature and date on the bank reconciliation
- forty-two (42) schools had a review or approval signature on the bank reconciliation, however the review or approval was not dated, therefore we were unable to determine whether the review or approval was performed within a timely manner
- seven (7) schools were unable to provide us with a bank reconciliation after numerous requests
- reconciliation at nineteen (19) schools included unidentifiable miscellaneous differences greater than \$5,000.

To ensure the accountability, accuracy and propriety of a school's cash, we recommend that bank reconciliations be performed on a monthly basis with proper and timely reviews by the principal or designee. Also, all reconciling items should be resolved in a timely manner. Outstanding checks that are past the six-month void date should be canceled.

2003-2 Improving Compensating Controls over Local School Funds

Of the ten (10) schools we visited during our testing of the local school funds, we noted a lack of segregation of duties at all ten (10) schools. The school administrative services assistant or account clerk generally performed all the cash functions at these schools. When staffing limits the extent of segregation of duties, the principal or administrator should provide for compensating controls at each school or office. As stated in the Financial Management System (FMS) User Policy and Process Flow Guide, these compensating controls would include:

1. Conducting periodic unannounced cash counts of the school or office petty cash fund.
2. Verifying that the monthly reconciliations between the bank statement and the school's register are being performed. The reviewer should sign both documents if the reconciliation is completed.

State of Hawaii  
Department of Education

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

June 30, 2003

3. Inspecting checks outstanding for more than six months (“stale” checks), during the review of the monthly bank reconciliation. These checks should be canceled.
4. Checking if cash receipts are deposited daily. The dates on the Official Receipts Form 239(s) should be the same as the bank deposit slip date.
5. The principal or administrator should prepare a report of the reviews conducted during the year indicating the areas reviewed, the date of the reviews, and discrepancies found. Also, the report should be kept on file for audit purposes.

Although all of the above compensating controls should be present at these schools, some of them were not present. Without these compensating controls and the lack of segregation of duties, funds may be lost, unrecorded or misused.

We recommend that DOE ensure that schools perform the above compensating controls because staffing limitations do not provide for segregation of duties. Adequate compensating controls will minimize the chance of undetected errors or defalcations.

2003-3 Processing Disbursements of Local School Funds

According to the FMS User Policy and Process Flow Guide, purchase orders shall be used as a document which 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 received 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 on 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 school’s copy of purchase order.

State of Hawaii  
Department of Education

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

June 30, 2003

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

- Thirty-five (35) instances at nine schools in which the purchase order was not submitted for approval prior to the purchase of goods or services; in one of these instances, the purchase order did not contain the authorizing signature of the principal or designee
- five (5) instances at three (3) schools, in which there was no date on the purchase order, therefore we were unable to determine whether the request to purchase was approved prior to the actual purchase of goods or services
- seven (7) instances at three (3) schools, where payments to vendors were processed without the required invoice or Form 99
- fifty-six (56) instances at six (6) schools, in which the “approval to pay” stamp was not affixed on the original invoice. There was no indication that the purchase was received by an authorized individual and properly approved for payment.

We recommend that all disbursements of local school funds be properly approved and all necessary documents be obtained prior to a purchase or payment, and the “approval to pay” stamp be affixed on the original invoice to ensure that proper approval for payment was made by an authorized individual. Approved purchase orders should contain the authorizing signature and the date the purchase order was approved.

2003-4 Prohibited use of Local School Funds

According to the FMS User Policy and Process Flow Guide, schools are prohibited from advancing funds to staff members from the Non-Appropriated Local School Funds. We noted four (4) instances from one (1) school where payroll advances were made to school employees totaling approximately \$3,300.

We recommend school officials review the FMS User Policy and Process Flow Guide to ensure that they are in compliance with the policies and procedures set forth by the DOE.

2003-5 Accrued Vacation

During our testing of accrued vacation, we noted twenty (20) instances where the “Employee Leave Record” (Form 7) vacation balances as of June 30, 2003 did not agree with the DOE leave records. Also we noted four (4) instances where the employee terminated their employment and DOE leave records indicate they have vacation balances as of June 30, 2003. Based upon our

State of Hawaii  
Department of Education

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

June 30, 2003

discussions with DOE personnel, we understand that these differences exist for various reasons. For example, schools may not be submitting their "Application for Leave of Absence" (Form G-1 or Form 400A), to the payroll department on a regular basis. The Form G1 or Form 400A, which is used by employees to document request and approval of vacation, is the basis for which the payroll department updates the DOE's records. In addition, there is no report of total accrued vacation hours that is generated by the payroll department and provided to each employee for reconciliation and certification purposes. This is a practice that has not been performed over the past few years.

We recommend that schools complete and submit all of the Form G1 or Form 400A records in a timely and accurate manner in order for the payroll department to have up-to-date supporting records. In addition, we also recommend that the payroll department send reports of total accrued vacation hours to each employee for reconciliation and certification. Errors that are noted during this process should be noted and corrections made as necessary. The reconciliation or certification should take place at least once a year. We believe that these procedures are necessary because the differences between the payroll department's records and the schools' Form 7 records may continue to exist and it will be uncertain whether employees are taking the appropriate number of vacation hours.

2003-6 Workers' Compensation/Payroll

We noted the following issues relating to the DOE's workers' compensation for the fiscal year ended June 30, 2003. These issues were also noted in the prior year.

- Indemnity Payment Lag

Hawaii Revised Statutes (HRS) Section 386-92 states in part that if any temporary total disability benefits are not paid by the employer or carrier within ten days exclusive of Saturdays, Sundays and holidays, after the employer has been notified of the disability, and where the rights to benefits are not controverted in employer's initial report of industrial injury or where temporary total disability benefits are terminated in violation of section 386-91, there shall be added to the unpaid compensation an amount equal to 20% thereof payable at the same time as, but in addition to, the compensation. Through our discussions with DOE Workers' Compensation Group personnel, we understand that there is a significant lag between the time an indemnity payment is authorized to the time it is actually paid and reported in FMS, resulting in noncompliance with HRS Section 386-92. The DOE has paid the additional 20% on a few occasions in the prior years to claimants and their related attorneys' fees due to late payments.

State of Hawaii  
Department of Education

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

June 30, 2003

In addition, there currently exists no control procedure in place to determine whether indemnity payments made through the payroll are correct and timely. As a result of the payroll payment lag and the fact that there is no reconciliation between payroll records and the DOE Workers' Compensation Group records, DOE employees on workers' compensation may be receiving incorrect payments.

Although we have noted improvements in the processing of workers' compensation claims with respect to medical payments, we again recommend that the DOE Workers' Compensation Group administer all record keeping and payments of workers' compensation liability using one system in order to provide accurate and complete workers' compensation data on accumulated indemnity payments by claim. This system should allow DOE adjusters to obtain accumulated paid-to amounts and compare actual claims paid against initial computed gross reserves.

We recommend that the DOE reconcile payments from payroll records to the Workers' Compensation Group records in order to identify approved payments not paid yet and to determine the extent of the payment lag. We believe that these procedures are necessary to ensure proper payments and compliance with HRS Section 386-92.

---

Section III – Federal Award Findings and Questioned Costs

---

U.S. Department of Agriculture

2003-7 Food Donation Program (CFDA No. 10.550) – Reporting

In accordance with 7 CFR 250.14(f), the distributing agency shall determine if a subdistributing agency's (storage company) inventories are excessive (i.e., inventory levels should not exceed 6-month supply). In the event that there are excess inventories on hand, the distributing agency is required to complete and submit a semi-annual FNS-155 report to the USDA. Through our discussions with program personnel, we understand that the DOE did not complete or submit an FNS-155 because inventory levels were deemed adequate during the year. During our testing of reporting requirements, source documents to support the DOE's evaluation of whether there were excess inventories were not available for review because they were not kept on file. The reports that were kept on file did not provide enough documentation for us to determine if inventory levels were excessive.

Furthermore, based upon our understanding of the current DOE procedures in place, the Commodity Distribution Assistant is responsible for monitoring the amount of commodities that are drawn from the USDA and is also responsible for determining whether there are any excess

State of Hawaii  
Department of Education

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

June 30, 2003

inventories on hand to report. There are no other individuals assisting in this process or to review whether the inventory levels as determined by the Commodity Distribution Assistant are adequate.

We recommend that source documents used to support the DOE's analysis of inventory levels be kept on file in accordance with record retention policies. In addition, someone other than the Commodity Distribution Assistant should review the inventory analysis performed during the year, to determine that inventory levels monitored by the Commodity Distribution Assistant appear adequate and proper in accordance with the DOE's needs. This review and approval, which should be documented, would provide for appropriate segregation of duties.

2003-8 Food Donation Program (CFDA No. 10.550) – Subrecipient Monitoring

In accordance with 7 CFR 250.19 and the DOE's Commodity Handbook – Inventory Controls, each distributing agency shall establish review procedures encompassing inventory controls. As part of the procedures currently in effect, all participating schools and organizations (both DOE schools and eligible private organizations) are required to submit a monthly inventory report to the School Food Services (SFS) Office at the end of each month. This "Inventory Report," (form SL-4A) is required to be received by the SFS Office by the 5<sup>th</sup> working day of the subsequent month.

During our testing of the "Inventory Report" (SL-4A), we noted the following exceptions:

- a. Eight (8) instances where the SL-4A was submitted to School Food Services after the 5<sup>th</sup> working day of the month.
- b. Four (4) instances where the SL-4A did not contain a received date, therefore we were unable to determine if the form was submitted within the required deadline.
- c. One (1) instance where the School Food Service Manager/Dietitian did not sign the SL-4A.

We recommend that the DOE perform the necessary procedures to ensure that the form SL-4As are completed and submitted within the required deadline. Timely submission of these reports will assist the DOE to ensure that proper controls are in place over commodity inventories.

2003-9 Child Nutrition Cluster: National School Lunch Program (CFDA No. 10.555) and School Breakfast Program (CFDA No. 10.553) – Activities Allowed or Unallowed

Meal reimbursement requirements over the National School Lunch and Breakfast Programs are set forth in 7 CFR Section 210. To be eligible for federal reimbursement, meals must be served to

State of Hawaii  
Department of Education

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

June 30, 2003

eligible children and must be supported by accurate meal counts and records indicating the number of meals served by category and type. The DOE has established policies and procedures for supporting accurate meal counts as defined in the Standards and Procedures for Free and Reduced Price Meals. These policies require School Food Service Managers to prepare and sign the daily and monthly "Computation of Daily/Monthly School Food Service Transactions," Form SL-5, reports which are reviewed, approved and signed by the principal.

The Standards and Procedures for Free and Reduced Price Meals specifies that:

1. The school food service manager shall prepare a daily Form SL-5 report after obtaining the daily edit check for meal claim from the school office with all information required. The total number of student meals claimed should not exceed the student attendance for that day and the total student meals claimed must not exceed the total approved free or reduced-priced students on file at the school.
2. The information regarding plate count on the back of the Form SL-5 shall be completed, and this should be referred to when there are discrepancies with the meal count.

During our testing of the National School Lunch and Breakfast Programs, we noted the following:

1. One (1) instance in which the daily SL-5 was not signed by the principal and five (5) instances in which the daily SL-5 was not signed by the School Food Services Manager. There were also four (4) instances at two (2) schools in which monthly SL-5 that were not submitted to the School Food Services within five working days.
2. Six (6) instances at one (1) school on the Form SL-5 contained mathematical errors.
3. Two (2) instances at one (1) school in which the information on the Form SL-5 did not agree with numbers within the form.
4. Two (2) instances at two (2) schools where the amounts of the validated bank deposit slip did not agree to the daily SL-5.

We recommend that the daily and monthly Form SL-5 be properly completed and reviewed for accuracy and completeness as these documents are used to compile monthly lunch count reimbursement amounts submitted to the federal award agency. We also recommend that the review be documented. We believe these procedures are necessary to ensure that claims for reimbursement are properly supported by accurate records.

State of Hawaii  
Department of Education

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

June 30, 2003

2003-10 Child Nutrition Cluster: National School Lunch Program (CFDA No. 10.555) and School Breakfast Program (CFDA No. 10.553) – Eligibility and Special Tests and Provisions

By December 15<sup>th</sup> of each school year, the school food authority must verify the current free and reduced-price eligibility of households based upon sampling of applications that the schools have approved for free and reduced-price meals. Annually, each school receives a “Verification Guidance” manual from the School Food Services Branch which provides instruction and guidelines on completing the verification process. The Verification Guidance states that the following procedures should be performed:

1. When determining the number of applications to verify, each school should verify 3% of the total number of eligible applications or five (5) applications, whichever is more, as of October 31. Applications should then be selected for verification using the “statistical sampling” method recommended by the federal award agency.
2. After verification is completed, a “Report on Verification of Free and Reduced-Price Meal Applicants” must be submitted to the School Food Services Branch by the first Friday in December.

Of the ten (10) schools we visited, we noted the following:

1. Two (2) schools did not verify the minimum number of applications as stated in the Verification Guidance.
2. Four (4) schools submitted the Report on Verification of Free and Reduced-Price Meal Applicants late. We noted that the reports were prepared between three (3) to thirty-eight (38) days after the due date.
3. The number of applications on file at eight (8) schools did not agree to the listing per Report on Verification of Free and Reduced-Price Meal Applicants.
4. One (1) school’s number of students eligible for free meals per Report on Verification of Free and Reduced-Price Meal Applicants did not agree Master Roster.
5. One (1) school’s report was prepared prior to the October 31, 2002 cutoff date for the Report on Verification for Free and Reduced-Price Meal Applicants.

We recommend that schools follow the Verification Guidance in performing application verification. We also recommend that the Report on Verification of Free and Reduced-Price Meal Applicants be completed accurately and submitted to the School Food Services Branch by the first

State of Hawaii  
Department of Education

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

June 30, 2003

Friday of December. Documentation to support the amounts on this report should be maintained by the respective school in accordance with record retention policies.

2003-11 Child Nutrition Cluster: Summer Food Service Program for Children (CFDA No. 10.559) – Subrecipient Monitoring

In accordance with 7 CFR 225.7, the DOE is required to conduct program monitoring, which includes sponsor and site reviews. It is the DOE's policy to conduct at least ten percent of each sponsor's sites, or one site, whichever is greater. During our testing of the site reviews, we noted seven (7) instances where the documentation of site reviews could not be provided for our review. Through our discussions with program personnel, we understand that these site reviews were conducted, but the DOE was unable to locate the documentation.

We recommend that documentation of site reviews be maintained on file in accordance with record retention policies.

2003-12 Title I (CFDA No. 84.010) – Cash Management

In accordance with OMB Circular A-133 Compliance Supplement, when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. If the cash on hand at the end of each month is less than 3 days, cash balance is reasonable and available for immediate needs. We noted one (1) month where DOE was not in compliance with the above requirement. The number of working days cash on hand at the end of this month approximated 11 days. Based upon our discussions with Department personnel, we understand that there were instances of overdrawn cash beyond the Department's immediate needs during the year because of over estimating of advances to cover any unexpected expenditures.

We recommend that DOE only request enough funds to cover immediate needs to ensure compliance with cash management requirements and to minimize the time elapsed between transfers of funds from the federal awarding agency and actual disbursement.

2003-13 Safe and Drug-Free Schools and Communities – State Grants (CFDA No. 84.186) – Allowable Costs

Purchases of materials, supplies and services are requested using the purchase order or purchase order worksheet. Requests for purchases should be reviewed and authorized by an individual other than the requester prior to the actual purchase of goods and services. The authorization ensures that only allowable costs are made with program funds and is documented on the purchase order or purchase order worksheet.

State of Hawaii  
Department of Education

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

June 30, 2003

During our testing of non-payroll expenditures, we noted three (3) instances in which the purchase order/worksheets used to authorize the purchase of materials, supplies and services were prepared after the goods and services were ordered.

We recommend that proper authorizations for purchases be obtained and documented prior to the purchase of materials, supplies and services to ensure that purchases with program funds are allowable and in accordance with program requirements.

2003-14 Public Charter Schools (CFDA 84.282) – Cash Management

In accordance with OMB Circular A-133 Compliance Supplement, when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. If the number of working days cash on hand at the end of each month is less than 3 days, cash balance is reasonable and available for immediate needs. We noted two (2) instances where the number of working days cash on hand at the end of each month ranged between 12 and 16 days. Based upon our discussions with Department personnel, we understand that there were instances of overdrawn cash beyond the Department's immediate needs during the year because of over estimating of advances to cover any unexpected expenditures

We recommend that DOE only request enough funds to cover immediate needs to ensure compliance with cash management requirements and to minimize the time elapsed between transfers of funds from the federal awarding agency and actual disbursement.

2003-15 21<sup>st</sup> Century Learning Centers (CFDA No. 84.287) – Cash Management

In accordance with OMB Circular A-133 Compliance Supplement, when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. If the cash on hand at the end of each month is less than 3 days, cash balance is reasonable and available for immediate needs. We noted one (1) months where DOE was not in compliance with the above requirement. The number of working days cash on hand at the end of this month was 10 days. Based upon our discussions with DOE personnel, we understand that there were instances in which cash was overdrawn beyond the program's immediate needs during the year because of the difficulties accounting personnel experienced in estimating the cash needs to cover payroll expenses. Most of the program's payroll expenses result from the utilization of part-time employees, which resulted in fluctuation of actual expenses from one pay period to another.

We recommend that the DOE perform procedures to obtain more accurate estimates of the program's immediate cash needs in order to be in compliance with OMB Circular A-133's cash

State of Hawaii  
Department of Education

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

June 30, 2003

management requirements. We recommend that program personnel communicate actual hourly payroll information to accounting personnel on an on-going basis. Accounting personnel should then use this information to estimate the program's immediate cash needs. Because there is a two-week payroll lag for part-time employees, hours worked related to their payroll expenses should be readily available in advance.

2003-16 Reading Excellence Act (CFDA No. 84.338) – Allowable Costs

Purchases of materials, supplies and services are requested using the purchase order or purchase order worksheet. Requests for purchases should be reviewed and authorized by an individual other than the requester prior to the actual purchase of goods and services. The authorization ensures that only allowable costs are made with program funds and is documented on the purchase order or purchase order worksheet.

During our testing of expenditures, we noted three (3) instances in which the purchase order/worksheets used to authorize the purchase of materials, supplies and services were prepared after the goods and services were ordered.

We recommend that proper authorizations for purchases be obtained and documented prior to the purchase of material, supplies and services to ensure that purchases with program funds are allowable and in accordance with program requirements.

2003-17 Reading Excellence Act (CFDA No. 84.338) – Allowable Costs

Pursuant to the Reading Excellence Act, Part C, Title II of the Elementary and Secondary Education Act of 1965, as amended, the State agency may use Federal funds to carry out activities to advance reform of reading instruction in eligible schools. During our testing we noted expenditures that approximated \$3,000 that was paid for lease expense on equipment at the school level. Monthly lease equipment expenses are not considered allowable program expenditures at the school level. Therefore, the entire \$3,000 are considered questioned costs to the program.

We recommend that the DOE perform the necessary procedures to ensure that expenditures for the Reading Excellence Act are in compliance with the program requirements over the allowable uses of program funds.

CORRECTIVE ACTION PLAN  
(provided by Department of Education, State of Hawaii)

STATE OF HAWAII  
DEPARTMENT OF EDUCATION

June 30, 2003



STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
P.O. BOX 2380  
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

March 29, 2004

Grant Thornton LLP  
1132 Bishop Street, Suite 1000  
Honolulu, Hawaii 96813-2830

Ladies and Gentlemen:

We appreciate your assistance in our successful completion of the Single Audit of the State of Hawaii Department of Education within the nine-month timeline in accordance with OMB Circular A-133. We are pleased that your audit has concluded the following:

Report on Compliance -- Financial Reporting:

"The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*." (Page 46)

Internal Control Over Financial Reporting:

"None of the significant deficiencies...is a material weakness." (Page 47)

Report on Compliance -- Major Federal Programs:

"Except for...[the programs described on page 48 and 49]...the Department of Education, State of Hawaii, complied, in all material respects, with the requirements...that are applicable to each of its major federal programs for the year ended June 30, 2003." (Page 48)

In addition, the following Federal program audits resulted in no reportable conditions and no material items of non-compliance: Special Milk Program for Children; Adult Education - State Administered Basic Grant; Special Education--State Grants, IDEA Part B and Special Education - Preschool Grants, IDEA Preschool.

However, we recognize that further improvements can be made. In accordance with OMB Circular A-133, on the following pages are the Corrective Action Plan and Summary Schedule of Prior Audit Findings of the State of Hawaii Department of Education for the year ended June 30, 2003.

Very truly yours,

A handwritten signature in cursive script that reads "Patricia Hamamoto".

Patricia Hamamoto  
Superintendent

PH:DY  
Attachments

**STATE OF HAWAII DEPARTMENT OF EDUCATION  
SINGLE AUDIT -- CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2003**

**FINANCIAL STATEMENT FINDINGS**

**2003-1 Local School Fund Bank Reconciliations (Pages 52 to 53)**

**Corrective Action Plan**

Local School Fund balances totaled to about \$13.2 million as an "Agency Fund" in the Department's Fiduciary Fund Financial Statement. This represents less than one percent of the Department's total assets.

The Department recognizes the importance of reconciling the local school fund against the monthly bank statement as a means of preventing defalcation of funds. We are highly aware that this is a critical component for the internal control of cash. It appears that the majority of schools are doing monthly reconciliations, with 5% of the schools in the sample size failing to furnish any reconciliations to the auditors. We do acquiesce however, that not all schools have taken the necessary steps to document the reconciliation process.

The Office of Business Services, School Support Section, will continue to provide in-service training on the policies and procedures regarding the non-appropriated local school. Additionally, this audit exception will be discussed with the school business support personnel in workshops throughout the State during the summer of 2004.

In FY 2002, business support personnel for school complexes were established. These positions were classified in the State Civil Services System as Complex Administrative Services Assistants and are charged to provide direct school level support to principals in the areas of financial and facilities management. Consequently, the Complex Administrative Services Assistants will be assigned to follow up with a written status report of the seven individual schools with outstanding bank reconciliations, in addition to those schools with reconciling differences over \$5,000.

Contact Persons: Mr. Chris Ito, Accounting Director  
Mr. Charles Kagawa, School Business Specialist III  
Ms. Denise Yoshida, Internal Auditor

Anticipated Completion Date: August 1, 2004

**2003-2 Improving Compensating Controls Over Local School Funds (Pages 53 to 54)**

**Corrective Action Plan**

The lack of business support staff continues to be a problem at the schools, rendering it problematic to segregate cash functions. The Department has established five “compensating control” procedures for the school administrators to oversee and review the work done by the school staff. The five compensating control procedures are part of the Department’s Financial Management System User Policy and Process Flow Guide, Chapter 9 “Non-Appropriated Local School Fund Policies on Compensating Internal Controls.” Additionally the Department has established an “Administrator’s Checklist” to further aid in implementing these controls.

It should be noted that school principals have been assuming more responsibilities for the provision of services for special education students, implementing standards based educational reforms, addressing Federal requirements such as No Child Left Behind, as well as dealing with other curriculum related issues. Under these circumstances, the relative priority of implementing the “Administrator’s Checklist” has been problematic. This is further often exacerbated by the lack of formal business training of the principals, rendering it even more difficult for them to conduct this function.

In FY 2002, business support personnel for school complexes were established. These positions were classified in the State Civil Service System as Complex Administrative Services Assistants and provide direct school level support to principals in the areas of financial and facilities management. Due to the overload of curriculum and instruction tasks delegated to the principals, the Complex Administrative Services Assistants will need to undertake this task, if so delegated by the schools they service.

Contact Persons: Mr. Chris Ito, Accounting Director  
Mr. Charles Kagawa, School Business Specialist III  
Ms. Denise Yoshida, Internal Auditor

Anticipated Completion Date: August 1, 2004

**2003-3 Processing Disbursements of Local School Funds (Pages 54 to 55)**

**Corrective Action Plan:**

The State of Hawaii Department of Education, with over 250 schools in seven (7) geographic districts and fifteen (15) complex areas, processed thousands of Local School Fund purchase order transactions in FY 2003. In most cases, purchase orders are properly approved prior to ordering goods or services, and invoices stamped and signed.

The Department’s FMS User Policy and Process Flow Guide, Chapter 9, “Non-Appropriated Local School Fund Policies”, Section 9.8 “Accounting for Expenditure and Disbursement of Funds” provides guidelines and exhibits regarding recordkeeping requirements for the accounting for school funds. The Office of Business Services, School Support Section, will continue to provide in-service training on the policies and

procedures regarding the non-appropriated local school fund. Further, this audit exception will be discussed with the school business support personnel in workshops throughout the State during the summer of 2004.

Contact Persons: Mr. Chris Ito, Accounting Director  
Mr. Charles Kagawa, School Business Specialist III  
Ms. Denise Yoshida, DOE Internal Auditor  
Anticipated Completion Date: August 1, 2004

**2003-4 Prohibited use of Local School Funds (Page 55)**

**Corrective Action Plan:**

The Department's Financial Management System User Policy and Process Flow Guide, Chapter 9, strictly prohibits the advancing of payroll from the non-appropriated local school fund. We are reassured that only one school of the sample size of 138 was in non-compliance. As such the school in question will be notified to cease and desist from doing further cash advancements to employees.

The Office of Business Services, School Support Section, will continue to provide in-service training on the policies and procedures regarding the local school fund. Additionally, this audit exception will be discussed with the school business support personnel in workshops throughout the State in the summer of 2004.

Contact Persons: Mr. Chris Ito, Accounting Director  
Mr. Charles Kagawa, School Business Specialist III  
Ms. Denise Yoshida, DOE Internal Auditor  
Anticipated Completion Date: August 1, 2004

**2003-5 Accrued Vacation (Pages 55 to 56)**

**Corrective Action Plan:**

As part of the payroll process, schools/offices submit the Attendance Certification, Form BP-5, to certify that all salaried employees were present at work except those being reported at the end of the payroll period or minimally once a month. The Attendance Certification is used for transmittal of the leave documents sent to the Leave Accounting Unit. With the T-SEA system (Teacher Substitute Employee Automated System), absences are recorded when teachers are absent and/or require substitutes. Schools have been reminded to submit manual forms for teacher absences not called into T-SEAS.

The Leave Accounting Unit sends out Form BP-6 (Payroll Unit Form) to schools that fail to submit the BP-5. The Leave Accounting Unit will send monthly listings of the outstanding schools to the School Support Section for additional follow up.

The Leave Accounting Unit continues to work on the backlog of updating the leave records. Two copies (employee and office copy) of the annual leave status reports are sent to the schools prior to the closing of the leaving accounting records in the system.

The schools are instructed to distribute the copies to the employees, reconcile the employees' Form 7s with the reports, and notify the Leave Accounting Unit of any discrepancies with revised forms.

The School Support Section continues to provide training on leave accounting and Administrative Service Assistants are also on call to assist schools. In addition, district working sessions are held for schools to work on their individual leave records with the assistance of the ASAs who are there to provide the necessary support.

Contact Persons: Mr. Chris Ito, Accounting Director  
Ms. Lea Kashiwa, Accounting Operations Specialist  
Anticipated Completion Date: September 30, 2004

## **2003-6 Workers' Compensation/Payroll - Indemnity Payment Lag (Pages 56 to 57)**

### **Corrective Action Plan:**

#### **Background**

Based on the Governor's Directive dated October 22, 1996, the risk management of workers' compensation claims for all injured Department employees was transferred from the Department of Human Resources Development (DHRD) as of July 1, 1997. When case file information from DHRD was received, many inaccuracies and discrepancies were found. Therefore, the tasks of analysis, reconciliation and accounting for case data have been extremely difficult.

In addition, the workers' compensation staffing was established with the primary objective of case management. The only personnel resources transferred from DHRD were four claims managers. Therefore, the Department was left with insufficient resources to effectively handle the daily office operations, accounting tasks and reconciliation.

For the past four years, requests for additional support staff to manage our fiscal and accounting tasks have been made. In the meantime, we continue to address the recommendations of the auditors.

#### **Reconciliation of Payroll Payments to Workers' Compensation Records**

The Department supports the recommendation that payments from payroll records be reconciled with Workers' Compensation case records. Since December 2001, the payroll staff in the Operations Section began tracking the date disability payment authorizations were received and the date payments were made utilizing Microsoft Access software. The workers' compensation data is stored on the Renaissance system.

At present, the DOE Workers' Compensation Section is upgrading our client server system (Renaissance program) to enable us to interface payroll department's records with the workers' compensation claim records. Our "Renaissance" computer system will eventually be the main source to provide accurate and complete workers' compensation data on case counts and accumulated indemnity and medical payments by claim.

Contact Person:      Mr. Winston Towata, Personnel Specialist, Workers' Compensation  
                                 Mr. Chris Ito, Accounting Director  
Anticipated Completion Date:      June 30, 2004

## FEDERAL AWARDS

### U.S. Department of Agriculture

#### **2003-7 Food Donation Program (CFDA No. 10.550) - Reporting (Pages 57 to 58)**

##### **Corrective Action Plan:**

In the re-organization of the School Food Services Branch, the Office of Hawaii Nutrition Programs (OHCNP) became the distributing agency (DA) and was charged with the responsibilities of the DA. The OHCNP conducted a review of the storage contractors' inventory and determined that there were "excess inventories" for certain USDA commodity items. Because the DOE School Food Services Branch School Food Authority (SFSB SFA) was the administrator of the storage contracts at the time of this audit, the SFSB SFA was requested by the OHCNP to reduce the "excess inventory" in all storage facilities. The DOE SFSB SFA notified all schools statewide to draw down the "excess inventories" by April 30, 2004 and will donate all remaining "excess inventory" items by May 14, 2004. To prevent future accumulation of "excess inventories", the OHCNP, working closely with the DOE SFSB SFA and other SFAs, will inform the SFAs of any potential "excess inventories" and request that the food items be allocated to the schools as quickly as possible. The OHCNP will designate a staff person to be the point person to coordinate the "excess inventory" concerns of the Food Distribution program

Contact Person: Mr. Harold Ferwerda, Food Service Manager  
Office of Hawaii Child Nutrition Programs  
Anticipated Completion Date: May 31, 2004

#### **2003-8 Food Donation Program (CFDA No. 10.550) -Subrecipient Monitoring (Page 58)**

##### **Corrective Action Plan:**

The DOE SFSB SFA will provide training during the months of April-May, 2004 for all audited school personnel on meeting the prescribed monthly deadlines and completing the Inventory Report Form SL-4A properly. In addition, there will be further training for all other school personnel on the procedures for completing the Form SL-4A during the months of July-August 2004. The training will be under the supervision of the DOE SFSB Director and staff.

In addition, the Office of Hawaii Child Nutrition Programs has developed the new "Monthly Entitlement Report for: Federal Commodity and Department of Defense" (FDP-1) and is due in our office by the 15<sup>th</sup> of each month. The annual agreement states that each Recipient Agency is required to report the Federal Commodity and Department of Defense entitlement monies monthly.

Contact Person: Mr. Eugene Kaneshiro, Director, School Food Services Branch  
Mr. Harold Ferwerda, Food Service Manager,  
Office of Hawaii Child Nutrition Programs  
Anticipated Completion Date: August 31, 2004

**2003-9 Child Nutrition Cluster: National School Lunch Program (CFDA No. 10.555) and School Breakfast Program (CFDA No. 10.553) - Activities Allowed or Unallowed**  
(Pages 58 to 59)

**Corrective Action Plan:**

During the months of April and May 2004, the School Food Services Branch Director and staff will conduct a special training session for the school staff with this audit finding. The training will include procedures to ensure that the Form SL-5 is signed by the school administrator and School Food Services Manager, and submitted on time, with the information accurately computed, and reconciled. The training will be completed by May 31, 2004.

In addition, for all other school administrators and staff, training on the specific findings will be conducted during the months of July and August, 2004 at the annual School Food Services Program principals' training.

At both training sessions, all of the findings will be discussed and suggested methods to eliminate mathematical errors and omissions will be emphasized. The training sessions will emphasize utilizing two persons to double check completeness of the report and double check the math and other potential clerical errors.

Contact Person: Mr. Eugene Kaneshiro, Director  
School Food Services Branch  
Anticipated Completion Date: September 30, 2004

**2003-10 Child Nutrition Cluster: National School Lunch Program (CFDA No. 10.555) and School Breakfast Program (CFDA No. 10.553) - Eligibility and Special Tests and Provisions** (Pages 60 to 61)

**Corrective Action Plan:**

During the months of April and May, 2004, the School Food Services Branch Director and staff will conduct a special training session for the school staff with this audit finding. The training will include procedures to conduct the verification accurately and on time. The training will emphasize correctly listing the applications on the Verification Report. The school staff will be trained to correctly categorize the applicants' meal status by computing their household income. The training will be completed by May 31, 2004.

In addition, for all other school administrators and staff, training on this specific finding will be conducted during the months of July and August, 2004 at the annual School Food Services Program principals' training.

At both training sessions we will address the importance of timely Verification Reports, accuracy of the sampling, and accuracy in the computation of the household income and determination of the student's eligibility status.

Contact Person: Mr. Eugene Kaneshiro, Director, School Food Services Branch  
Anticipated Completion Date: September 30, 2004

**2003-11 Child Nutrition Cluster: Summer Food Service Program for Children (CFDA No. 10.0559) - Subrecipient Monitoring (Page 61)**

**Corrective Action Plan:**

The Food Services Manager will establish administrative policies and procedures to track the administrative and site reviews for all Child Nutrition Programs. A review checklist has been developed and will be used during Fiscal Year 2004.

The OHCNP Food Services Manager will review procedures and train all staff to document and file all SFSP sponsor and site reviews by June 1, 2004.

Contact Person: Mr. Harold Ferwerda, Food Service Manager  
Office of Hawaii Child Nutrition Programs  
Anticipated Completion Date: June 30, 2004

**2003-12 Title I (CFDA No. 84.010) - Cash Management (Page 61)**

**Corrective Action Plan:**

The Accounting Section does exercise oversight for all cash withdrawals made by the accounting staff. Our cash withdrawal procedures during the audit period July 1, 2002 to June 30, 2003 included semi-monthly cash withdrawals to coincide with the pay periods.

Beginning July 1, 2003 we have changed frequency of our cash withdrawals to twice a week to meet the requirement. Our current process includes obtaining the status of each federal grant from the Financial Management system and projecting the grant cash requirements. The accountants are allowed to use their discretion to provide additional cash draws based on information obtained from the program manager.

Contact Persons: Mr. Chris Ito, Accounting Director  
Mr. Alan Akagi, Fiscal Specialist III, Accounting  
Anticipated Completion Date: August 1, 2003

**2003- 13 Safe and Drug-Free Schools and Communities - State Grants (CFDA No. 84.186) - Allowable Costs (Pages 61 to 62)**

**Corrective Action Plan:**

The stated instances involved requests for reimbursement for allowable purchases made by private schools. Purchase order worksheets were not prepared prior to the invoice date, as these private schools purchased goods from vendors and subsequently invoiced the program for reimbursement. Documentation regarding the discrepancies was shared with the auditor.

Immediate steps have been taken to insure that this is not repeated in the future by securing proper authorizations for purchases and documenting said authorizations prior

to the purchase of materials, supplies and services ensuring that purchases with program funds are allowable and in accordance with the program requirements.

Contact Person: Mr. Kendyl Ko, Educational Specialist II,  
Safe and Drug-Free Schools and Communities  
Anticipated Completion Date: June 30, 2004

**2003-14 Public Charter Schools (CFDA 84.282) – Cash Management (Page 62)**

**Corrective Action Plan:**

The Accounting Section does exercise oversight for all cash withdrawals made by the accounting staff. Our cash withdrawal procedures during the audit period July 1, 2002 to June 30, 2003 included semi-monthly cash withdrawals to coincide with the pay periods.

Beginning July 1, 2003 we have changed frequency of our cash withdrawals to twice a week to meet the requirement. Our current process includes obtaining the status of each federal grant from the Financial Management system and projecting the grant cash requirements. The accountants are allowed to use their discretion to provide additional cash draws based on information obtained from the program manager.

Contact Persons: Mr. Chris Ito, Accounting Director  
Mr. Alan Akagi, Fiscal Specialist III, Accounting  
Anticipated Completion Date: August 1, 2003

**2003-15 21<sup>st</sup> Century Learning Centers (CFDA No. 84.287)-Cash Management (Pages 62 to 63)**

**Corrective Action Plan:**

The Accounting Section does exercise oversight for all cash withdrawals made by the accounting staff. Our cash withdrawal procedures during the audit period July 1, 2002 to June 30, 2003 included semi-monthly cash withdrawals to coincide with the pay periods.

Beginning July 1, 2003 we have changed frequency of our cash withdrawals to twice a week to meet the requirement. Our current process includes obtaining the status of each federal grant from the Financial Management system and projecting the grant cash requirements. The accountants are allowed to use their discretion to provide additional cash draws based on information obtained from the program manager.

Contact Persons: Mr. Chris Ito, Accounting Director  
Mr. Alan Akagi, Fiscal Specialist III, Accounting  
Anticipated Completion Date: August 1, 2003

**2003-16 Reading Excellence Act (CFDA No. 84.338) – Allowable Costs**

(Page 63)

**Corrective Action Plan:**

Written notice was sent to Reading Excellence Act (REA) schools to remind program coordinators and administrators of protocol and timeline requirements of purchase order procedures prior to approval of payment.

Contact Person: Marian Crislip, Ph.D., Educational Specialist II,  
Reading Excellence Act Program

Completion Date: March 10, 2004

**2003-17 Reading Excellence Act (CFDA No. 84.338) – Allowable Costs**

(Page 63)

**Corrective Action Plan:**

Principals of the schools were notified of the unauthorized expenditure and promptly submitted the appropriate journal voucher (AC4) to the Accounting Section for return of the funds to REA.

Contact Person: Marian Crislip, Ph.D., Educational Specialist II,  
Reading Excellence Act Program

Completion Date: October 5, 2003

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(provided by Department of Education, State of Hawaii)

STATE OF HAWAII  
DEPARTMENT OF EDUCATION

June 30, 2003

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Prior Fiscal Year Ended June 30, 2002**

**FINANCIAL STATEMENT FINDINGS**

**2002-1 Local School Fund Bank Reconciliations**

(Pages 54 to 55 of the Prior Year June 30, 2002 Report)

**Status** -- Partially Corrected. Please refer to the current year response to Financial Statement Finding No. 2003-1.

**2002-2 Improving Compensating Controls Over Local School Funds**

(Pages 55 to 56 of the Prior Year June 30, 2002 Report)

**Status** -- Partially Corrected. Please refer to the current year response to Financial Statement Finding No. 2003-2.

**2002-3 Processing Disbursements of Local School Funds**

(Pages 56 to 57 of the Prior Year June 30, 2002 Report)

**Status** -- Partially Corrected. Please refer to the current year response to the Financial Statement Finding No. 2003-3.

**2002-4 Accrued Vacation**

(Page 58 of the Prior Year June 30, 2002 Report)

**Status** -- Partially Corrected. Please refer to the current year response to Financial Statement Finding No. 2003-5.

**2002-5 Workers' Compensation/Payroll**

(Pages 58 to 59 of the Prior Year June 30, 2002 Report)

**Status** -- Partially Corrected. Please refer to the current year response to Financial Statement Finding No. 2003-6.

**FEDERAL AWARDS**  
**U.S. Department of Agriculture**

**2002-6 Food Donation Program (CFDA No. 10.550) - Reporting**  
(Pages 59 to 60 of the Prior Year June 30, 2002 Report)

**Status** -- Partially Corrected. Please refer to the current year response to the Federal Award Findings and Questioned Costs, Finding No. 2003-7.

**2002-7 Food Donation Program (CFDA No. 10.550) - Subrecipient Monitoring**  
(Pages 60 to 61 of the Prior Year June 30, 2002 Report)

**Status** -- Partially Corrected. Please refer to the current year response to the Federal Award Findings and Questioned Costs, Finding No. 2003-8.

**2002-8 Food Donation Program (CFDA No. 10.550) - Subrecipient Monitoring**  
(Page 61 of the Prior Year June 30, 2002 Report)

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

**2002-9 Child Nutrition Cluster: National School Lunch Program (CFDA No. 10.555) and School Breakfast Program (CFDA No. 10.553) -- Activities Allowed or Unallowed**  
(Pages 61 to 63 of the Prior Year June 30, 2002 Report)

**Status** -- Partially Corrected. Please refer to the current year response to the Federal Award Findings and Questioned Costs, Finding No. 2003-9.

**2002-10 Child Nutrition Cluster: National School Lunch Program (CFDA No. 10.555) and School Breakfast Program (CFDA No. 10.553) -- Eligibility and Special Tests and Provisions**  
(Pages 63 to 64 of the Prior Year June 30, 2002 Report)

**Status** -- Partially Corrected. Please refer to the current year response to the Federal Award Findings and Questioned Costs, Finding No. 2003-10.

**U.S. Department of Education**

**2002-11 Adult Education Program (CFDA No. 84.002) - Cash Management**  
(Pages 64 to 65 of the Prior Year June 30, 2002 Report)

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

**2002-12 Adult Education Program (CFDA No. 84.002) - Reporting**  
(Page 65 of the Prior Year June 30, 2002 Report)

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

**2002-13 Special Education Cluster: State Grants, IDEA Part B (CFDA No. 84.07) - Cash Management**  
(Pages 65 to 66 of the Prior Year June 30, 2002 Report)

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

**2002-14 Safe and Drug-Free Schools and Communities - State Grants (CFDA No. 84.186) - Allowable Costs**  
(Page 66 of the Prior Year June 30, 2002 Report)

**Status** -- Partially Corrected. Please refer to the current year response to the Federal Award Findings and Questioned Costs, Finding No. 2003-13.

**2002-15 Public Charter Schools (CFDA No. 84.282) - Allowable Costs**  
(Page 66 of the Prior Year June 30, 2002 Report)

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

**2002-16 Public Charter Schools (CFDA No. 84.282) - Cash Management**  
(Pages 67 of the Prior Year June 30, 2002 Report)

**Status** -- Partially Corrected. Please refer to the current year response to the Federal Award Findings and Questioned Costs, Finding No. 2003-14.

**2002-17 Public Charter Schools (CFDA No. 84.282) - Procurement and Suspension and Debarment**

(Pages 67 to 68 of the Prior Year June 30, 2002 Report)

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

**2002-18 Public Charter Schools (CFDA No. 84.282) - Subrecipient Monitoring**

(Pages 68 to 69 of the Prior Year June 30, 2002 Report)

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

**2002-19 21<sup>st</sup> Century Learning Centers (CFDA No. 84.0287) Cash Management**

(Page 69 of the Prior Year June 30, 2002 Report)

**Status** -- Partially Corrected. Please refer to the current year response to the Federal Award Findings and Questioned Costs, Finding No. 2003-15.

**2002-20 Reading Excellence Act (CFDA No. 84.338) - Allowable Costs**

(Pages 69 to 70 of the Prior Year June 30, 2002 Report)

**Status** -- Partially Corrected. Please refer to the current year response to the Federal Award Findings and Questioned Costs, Finding No. 2003-16.

