



HOUSE COMMITTEE ON FINANCE
The Honorable Sylvia Luke, Chair
The Honorable Ty J.K. Cullen, Vice Chair

S.B. NO. 856, S.D. 1, H.D. 2, RELATING TO THE DEPARTMENT OF EDUCATION

Hearing: Friday, March 29, 2019, 2:30 p.m.

The Office of the Auditor has **no position** regarding S.B. No. 856, S.D. 1, H.D. 2, which requires the Office of the Auditor to “conduct a financial and management audit of the department of education, superintendent, board, and complex areas every three years.” **However, we request clarification of the intended scope of the audit and offer the following comments.**

We strongly suggest that the committee identify the specific Department of Education (DOE) programs that it wants assessed to ensure that our audit includes the issues that the Legislature is most interested in having us examine. We conduct performance audits in accordance with generally accepted government auditing standards. Those standards require us to properly plan, document, and carry out work necessary to address “audit objectives” that we identify during the planning phase of our audit work. Without more specific direction, we may develop audit objectives that may be different from those envisioned by the Legislature, and for that reason, the audit may offer less value to the Legislature.

We also have strong concerns about our capacity to perform the recurring work required by this bill without additional staff. We currently are statutorily mandated to regularly audit the Office of Hawaiian Affairs, the Hawai'i Tourism Authority, and the Deposit Beverage Container Program; to review departments' special funds, revolving funds, trust funds, and trust accounts; to assess proposed special and revolving funds; and to analyze the State's tax incentives. We also receive requests for audits and other studies each legislative session—our office is aware of a number of requests for work that are still pending this session.

Additionally, the requirement for recurring audits may be premature since an initial audit will aid in determining the scope for any future audits the Legislature may order. However, if the Committee believes a financial and management audit of DOE should be recurring work, we request that this requirement be codified in Chapter 23, HRS, along with our office's other responsibilities. *See* Section 23-13 (HTA audit every five years); Section 23-14 (HART annual review); Sections 23-11, -12 (Department special, revolving, and trust funds review).

With respect to the required financial audit, DOE's financial statements are currently audited by a certified public accounting (CPA) firm, which we contract to perform the audit. DOE's most recent financial audit, which is for the fiscal year ended June 30, 2017, is accessible through our website at: http://files.hawaii.gov/auditor/Reports/2017_Audit/DOE2017.pdf.

Finally, while we appreciate the appropriation included in the measure, the Legislature currently provides an appropriation to our Audit Revolving Fund to cover the cost of the financial audit of DOE. If the intent of the appropriation is to cover costs related to the “management audit” of the DOE, superintendent, board, and complex areas, we are unable to provide an estimated cost to perform the work because the measure as currently drafted does not provide enough detail. If the committee believes our work may require hiring a consultant or other experts, we strongly recommend that the measure identify the work it is interested in having us perform.

Thank you for considering our testimony related to S.B. No. 856, S.D. 1, H.D. 2.



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

Date: 03/29/2019
Time: 02:30 PM
Location: 308
Committee: House Finance

Department: Education

Person Testifying: Dr. Christina M. Kishimoto, Superintendent of Education

Title of Bill: SB 0856, SD1, HD2 RELATING TO THE DEPARTMENT OF EDUCATION.

Purpose of Bill: Requires the Auditor to perform a financial and management audit of the Department of Education, Superintendent, Board of Education, and complex areas every three years. Appropriates funds. (SB856 HD2)

Department's Position:

The Department of Education (Department) respectfully provides comment on SB 856, SD1, HD2. The oversight structure in place, as well as ongoing audit activities throughout the year, aligns with the Board of Education's (Board) and Department's strategic priority to improve transparency and access to information to encourage an informed and engaged community of citizens.

As the governing body over the Department, the Board created an Audit Committee in 2011. It is the duty of the Audit Committee to report regularly to the Department with respect to any issues that arise concerning the quality or integrity of the Department's financial statements, the Department's compliance with legal or regulatory requirements, the performance and independence of the Department's external auditors, the performance of the internal audit function, or any other matter within the scope of the Audit Committee's functions.

Each year, the Internal Audit Office performs a department-wide risk assessment. Identified high risk areas are placed into an annual *Internal Audit Plan*. This plan is presented to the Audit Committee for approval. To date, 25 audits/reviews have been performed, with two (2) currently in progress.

In addition, several *management, financial, compliance, and other audits and reviews* are conducted throughout each year which focus on the processes in various

Department offices. For example:

• The Department is required by OMB Circular A-133 to have an annual *single audit*, as we expend over \$750,000 of federal funds each year. Along with the annual single audit, a *financial audit* is done each year, both performed by an external CPA firm contracted by the State Auditor's Office. The current \$1,215,000 contract with KKDLY, LLC covers FYE 2018 through FYE 2020 for the annual financial and single audits and costs \$405,000 per fiscal year and is mostly funded by the State Auditor's Office.

• Section 40-83, Hawaii Revised Statutes, requires that "the comptroller shall cause to be examined and audited books of accounts kept by any public school in connection with school fees and all other moneys collected by these schools." Since 2001, over 593 *Local School Fund/Student Activity Fund Audits* have been performed by the DAGS Audit Division and the Department's Internal Audit Office (IA). In addition, IA has performed 62 *School Monitoring Reviews* since 2015.

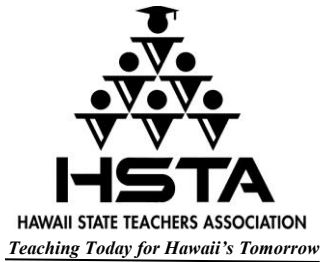
• Numerous audits and reviews are performed by Federal and State agencies. These include but are not limited to: a) 83 management audits, program audits, studies, reviews, assessments, evaluations, performance audits, etc. since 1984 by the State Auditor; b) 41 program and fiscal management evaluations of the Office of Hawaii Child Nutrition Programs by the Western Regional Office of the USDA; c) 40 audits of various federal programs in the Office of Curriculum and Instructional Design and the Office of Student Support Services by the USDOE and various CPA firms; and d) 184 program and fiscal evaluations as directed by the Board of Education.

• The Department has also self-initiated several program audits, fiscal accountability studies, and program evaluations. Various auditors such as Grant Thornton; N & K CPAs; Pricewaterhouse; Deloitte & Touche LLP; Accuity; and KMH LLP were contracted.

The Department is committed to promoting excellence in Hawaii's public school system through proactive system improvements and by addressing the recommendations of all audits.

The Department defers to the State Auditor for any concerns. Thank you for the opportunity to provide testimony on SB 856, SD1, HD2.

The Hawaii State Department of Education seeks to advance the goals of the Strategic Plan which is focused on student success, staff success, and successful systems of support. This is achieved through targeted work around three impact strategies: school design, student voice, and teacher collaboration. Detailed information is available at www.hawaiipublicschools.org.



1200 Ala Kapuna Street ♦ Honolulu, Hawaii 96819
Tel: (808) 833-2711 ♦ Fax: (808) 839-7106 ♦ Web: www.hsta.org

Corey Rosenlee
President

Osa Tui Jr.
Vice President

Logan Okita
Secretary-Treasurer

Wilbert Holck
Executive Director

TESTIMONY BEFORE THE HOUSE COMMITTEE ON
FINANCE

RE: SB 856, SD1, HD2 - RELATING TO THE DEPARTMENT OF EDUCATION

FRIDAY, MARCH 29, 2019

COREY ROSENLEE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Luke, and Members of the Committee:

The Hawaii State Teachers Association **opposes SB 856, SD1, HD2**, relating to the Department of Education.

SB 856, SD1, HD2 would require the Auditor to perform a financial and management audit of the Department of Education, Superintendent, Board of Education, and complex areas every three years.

The Hawaii State Teachers Association **opposes SB 856, SD1, HD2**, for the following reason, **although the audit *may* identify inefficiencies as everyone would expect, it will not find a large enough sum to make up for the inadequate funding of our public schools. The audit would also not supply answers about what should be done to rectify these inefficiencies. On the other hand, a School Funding Adequacy Study as proposed by Senate Bill 78 would give us the answers everyone needs to help make our public schools are more efficient.**

Adequacy studies are rigorously being used to lay the groundwork for long-term and meaningful school improvement by determining where resources should be allocated, based on the best educational research. This will help all students achieve and succeed, whether that means college, technical training, apprenticeships or jobs right after graduation. An adequacy study will help determine the true cost of providing a high-quality education to all of our children in Hawai'i in our public schools.

An adequacy study would also take into consideration what is needed at a school based on poverty, districts of varying sizes, types of schools (elementary, middle, high school), plus the size of the school, and whether it is in a geographically



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isolated district such as Lanai and Hana. It will also consider what resources, including certified teachers and support staff, are needed, to help focus on all students, including those with special needs, English Language Learners, and at-risk students. The study will provide lawmakers with the foundation for any potential school funding allocations to get the most bang for the buck, so to speak. It has worked for other states, such as Washington, recently, and it is time for Hawai'i to take a closer look at our funding for our public schools, especially when it comes to resource allocations, **not through an audit, but through a school funding adequacy study instead.**

For this reason and given the State's limited resources the Hawaii State Teachers Association **opposes SB 856, SD1, HD2** and, instead pass SB 78.



**Testimony to the House Committee on Finance
Friday, March 29, 2019 at 2:30 P.M.
Conference Room 308, State Capitol**

RE: SB 856 SD 1 HD2, RELATING TO THE DEPARTMENT OF EDUCATION

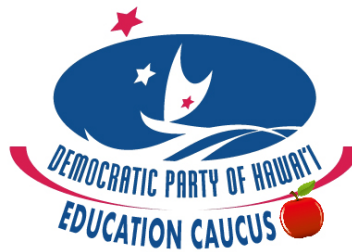
Chair Luke, Vice Chair Cullen, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** SB 856 SD1 HD2, which requires the Auditor to perform a financial and management audit of the Department of Education, Superintendent, Board of Education, and complex areas every three years.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

Requiring an audit of the Department of Education would help the State determine exactly what kinds of costs are needed to help with our schools' infrastructure and student needs. With a reported backlog of over \$800 million for repair and maintenance projects, an audit every three years would allow the State and the public the opportunity to see what progress is being made. Additionally, an audit would provide an independent analysis on how much funding is reaching our classrooms, which could more accurately inform further action by the Legislature to improve our schools. We need to help ensure that our students are offered the best education in order to prepare them for college and their future roles in the workforce.

Thank you for the opportunity to testify.



SENATE BILL 856, SD 1, HD 2, RELATING TO THE DEPARTMENT OF EDUCATION

MARCH 29, 2019 · HOUSE FINANCE COMMITTEE ·
CHAIR REP. SYLVIA LUKE

POSITION: Oppose.

RATIONALE: The Democratic Party of Hawai'i Education Caucus opposes SB 856, SD 1, HD 2, relating to the Department of Education, which requires the Auditor to perform a financial and management audit of the Department of Education, Superintendent, Board of Education, and complex areas every three years.

While the Caucus continues to fight for better school funding, we believe that **increasing departmental audits is a step backwards in the march toward a fully funded education system.** The DOE's Internal Audit Office performs a departmental risk assessment to identify high-risk areas that are then subjected to internal audits, the findings of which are presented to the Hawai'i Board of Education at publicly noticed hearings. This measure, therefore, appears intended to satisfy the false belief that our state's public education system can improved simply by finding waste within the DOE.

While inefficiencies certainly exist in departmental processes, it is highly unlikely that the fiscal impact of these inefficiencies would amount to the hundreds of millions of dollars needed to end the state's persistent teacher shortage, increase arts and vocational curricula, improve special education programming, lower class sizes, advance Hawaiian cultural instruction, remedy the department's repair and maintenance backlog, and rectify other glaring problems that prevent our state from delivering the schools our keiki deserve.

SB-856-HD-2

Submitted on: 3/28/2019 11:52:20 AM

Testimony for FIN on 3/29/2019 2:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Edna Kido	Individual	Support	No

Comments:

**House Committee on Finance (FIN)
Hearing Friday, March 29th. 2019**

Rep. Sylvia Luke, Chair
Rep. Ty J.K. Cullen, Vice Chair

Committee Members: Representatives Eli, Gates, Hashimoto, Holt, Kitagawa, Kobayashi, Matayoshi, Nakamura, Nishimoto, Todd, Wildberger, Yamashita and McDermott

March 27, 2019

SB856 SD1 HD2 Requires the Auditor to perform a financial and management audit of the Department of Education, Superintendent, Board of Education, and complex areas every three years!

Yes, I like it *“auditor shall conduct a financial and management audit of the department, superintendent, board, and complex areas every three years.”*

So for obvious reasons, **I so strongly support this bill.**

As an over taxed resident, yes I would like to know exactly where our money is going. It feels like the DoEd keeps asking for more and more money yet the quality of our education system does not appear to improve. Why? Where is that money going?

Education for our children is imperative and we as Hawaii taxpayers have the right to know how our money is being spent, exactly where and how our money is being used or if it is being siphoned off to other non-educational areas/projects.

So yes, I encourage the passing of this bill.

Respectfully
Rita Kama-Kimura
Mililani, HI



MAUI
CHAMBER OF COMMERCE
VOICE OF BUSINESS

LATE

**HEARING BEFORE THE HOUSE COMMITTEE ON FINANCE
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 308
FRIDAY, MARCH 29, 2019 AT 2:30 P.M.**

To The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair; and
Members of the Committee on Finance,

TESTIMONY IN SUPPORT OF SB 856 RELATING TO THE DEPARTMENT OF EDUCATION

Aloha, my name is Pamela Tumpap and I am the President of the Maui Chamber of Commerce with approximately 650 members. I am writing share our support of SB 856.

The Maui Chamber of Commerce and the business community strongly support education. We live here, our children go to school here and these are our communities, so comments saying that businesses don't care about education are uncalled for, divisive and untrue.

The business community relies on an educated workforce and our support for an independent audit of the Department of Education (DOE) comes from deep-seated concerns about funding breakdowns between the administrative and classroom levels as we feel not enough money is getting to the classroom. With overcrowding in schools, teacher's pay, and teachers purchasing their own classroom supplies, the general feeling is the system is too top heavy. We support and urge the legislature to pass this bill to conduct an independent audit of the DOE so a holistic view of DOE allocations can be examined and priorities can be properly funded.

Mahalo for your consideration of our testimony and we hope you will move this bill forward.

Sincerely,

Pamela Tumpap

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.