



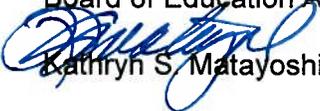
STATE OF HAWAII
DEPARTMENT OF EDUCATION

P.O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

July 3, 2012

TO: The Honorable Donald G. Horner, Chairperson
Board of Education Audit Committee

FROM:  Kathryn S. Matayoshi, Superintendent

SUBJECT: KPMG Audit FY 2011-12

1. RECOMMENDATION

It is recommended that the Board of Education (BOE) approve the exclusion of the Public Charter Schools (PCS) and State Library (Library) from the Department of Education (DOE) annual audit.

It is further recommended that the BOE require PCS and Library to forward financial statement information to the Department of Accounting and General Services (DAGS) to be included as part of the state consolidated audit. The PCS and Library would also need to follow federal guidelines for A-133 audits.

2. RECOMMENDED EFFECTIVE DATE

Fiscal year end June 30, 2012.

3. RECOMMENDED COMPLIANCE DATE

Fiscal year 2012 audit.

4. DISCUSSION

a. Conditions leading to the recommendation

KPMG, the auditors performing the Financial and Single Audit for the DOE, understood that a consolidated audit including all entities within EDN (Department of Education, Public Charter Schools and Public Library) was required as a condition of their contract. Including only a portion of PCS financial information as part of the DOE audit for Fiscal Year (FY) 2009-10 resulted in a qualified opinion. Including audited PCS financial information for FY 2010-11 created an issue where the DOE has no oversight or authority over Library and PCS but was required to sign the representation letter for the combined entities. This representation letter required DOE to "attest" to information about the combined entities, where the DOE has no fiscal oversight or authority.

During the FY 2010-11 exit conference with KPMG and State Auditor's Office (SAO), it was determined that SAO did not require a consolidated audit by KPMG. KPMG determined their audit could include only DOE if: 1) the attorney general reviewed statute to determine if a consolidated audit was required; 2) United States Department of Education (USDOE) approved separate audits; 3) PCS would need to complete A-133 via separate audit if PCS expended over federal fund guidelines during that fiscal year; and, 4) the BOE agreed that no audit would be performed of Library except as part of the State of Hawaii consolidated audit or as an audit separate from DOE.

b. Previous action of the BOE on the same or similar matter

None.

c. Other policies affected

None.

d. Arguments in support of the recommendation

The DOE has no fiscal oversight or authority over PCS or Library. KPMG requires a representation letter from auditees that attests to the accuracy and compliance of the consolidated audit (including DOE, PCS and Library). Separating the audit would allow the DOE to attest the accuracy and compliance for the department which it has authority. The BOE is the only entity with authority over the consolidated entities, but cannot sign the representation letter since they are not management.

e. Arguments against the recommendation

BOE would need to ensure federal audit compliance for PCS and Library.

f. Findings and conclusions of the Board committee

To be determined.

g. Other agencies or departments of the State of Hawaii involved in the action

Office of the Auditor and Department of Accounting and General Services.

h. Possible reaction of the public, professional organizations, unions, DOE staff and/or others to the recommendations

There should be no negative reaction to this action since the DOE will continue their annual financial and single audits.

i. Educational implications

None.

j. Personnel implications

Eliminating the need for consolidating financial information will lessen the burden on DOE staff to gather information from entities over which it has no authority or control.

k. Facilities implications

None.

l. Financial implications

Consolidation of the entities adds complexity to the audit and could cause cost overruns on the audit contract, which could be charged to DOE.

5. OTHER SUPPLEMENTARY RECOMMENDATIONS

None.

KSM:ASK:ch

- c: The Honorable Wesley Lo, Chairperson, Finance and Infrastructure Committee
Ronn Nozoe, Deputy Superintendent
Presley Pang, Administrative Assistant
OFS Directors
Denise Yoshida, Director, Internal Audit
Office of the Auditor
Department of Accounting and General Services