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AUDIT REPORT NO. 59-4

MARCH, 1969

**A SUMMARY OF
THE GENERAL AUDIT
OF THE DEPARTMENT OF
PERSONNEL SERVICES**

A REPORT TO THE GOVERNOR AND THE
LEGISLATURE OF THE STATE OF HAWAII



SUBMITTED BY THE LEGISLATIVE AUDITOR OF THE STATE OF HAWAII

**THE OFFICE
OF THE LEGISLATIVE AUDITOR**

ORIGINAL

The office of the legislative auditor is a public agency attached to the Hawaii State legislature. It is established by Article VI, Section 8, of the Constitution of the State of Hawaii. The expenses of the office are financed through appropriations made by the legislature.

The primary function of this office is to strengthen the legislature's capabilities in making rational decisions with respect to authorizing public programs, setting program levels, and establishing fiscal policies and in conducting an effective review and appraisal of the performance of public agencies.

The office of the legislative auditor endeavors to fulfill this responsibility by carrying on the following activities.

1. Conducting examinations and tests of state agencies' planning, programming, and budgeting processes to determine the quality of these processes and thus the pertinence of the actions requested of the legislature by these agencies.
2. Conducting examinations and tests of state agencies' implementation processes to determine whether the laws, policies, and programs of the State are being carried out in an effective, efficient and economical manner.
3. Conducting systematic and periodic examinations of all financial statements prepared by and for all state and county agencies to attest to their substantial accuracy and reliability.
4. Conducting tests of all internal control systems of state and local agencies to ensure that such systems are properly designed to safeguard the agencies' assets against loss from waste, fraud, error, etc.; to ensure the legality, accuracy and reliability of the agencies' financial transaction records and statements; to promote efficient operations; and to encourage adherence to prescribed management policies.
5. Conducting special studies and investigations as may be directed by the legislature.

Hawaii's laws provide the legislative auditor with broad powers to examine and inspect all books, records, statements, documents and all financial affairs of every state and local agency. However, the office exercises no control functions and is restricted to reviewing, evaluating, and reporting its findings and recommendations to the legislature and the governor. The independent, objective, and impartial manner in which the legislative auditor is required to conduct his examinations provides the basis for placing reliance on his findings and recommendations.



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FOREWORD

In February, 1969, this office transmitted to the governor and the legislature of the State of Hawaii an audit report entitled, "General Audit of the Department of Personnel Services." That report was the result of a rather extensive examination by this office of the State personnel department. Due to the scope of the examination, the report itself is a lengthy one, and the nature of the report has engendered a great demand for copies of the report. The length of the report and the interest generated have led to this publication.

This publication summarizes the findings contained in the full report. As a summary, it omits the details and the many illustrations and tables found in the full report. This publication, however, reports in full all of the recommendations made by the office of the legislative auditor.

It is hoped that this summary will provide a quick review of our findings and recommendations and will meet the demands of all those interested in the results of our audit of the personnel department.

Clinton T. Tanimura
Legislative Auditor

A SUMMARY OF THE GENERAL AUDIT OF THE
DEPARTMENT OF PERSONNEL SERVICES

PART I. INTRODUCTION

The office of the legislative auditor conducted a general audit of the department of personnel services during the months of June, July and August, 1968. The audit was conducted pursuant to Section 32, Chapter 2, Revised Laws of Hawaii 1955, as amended. It examined those functions of personnel administration relating to the civil service workforce of the State of Hawaii for which the department of personnel services is responsible. It also reviewed the general and financial management practices of the depart-

ment. The following summarizes our findings and recommendations.

The findings and recommendations are presented in six parts, the first four of which relate directly to the major goals of the personnel programs for Hawaii's civil service workforce as identified by the State legislature. Of the remaining two parts, one relates to the general management of the DPS, and the other relates to the department's fiscal practices.

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PART II. A COMPETENT WORKFORCE

The legislature has identified as one of the major goals of the personnel program for Hawaii that each position in the civil service shall be occupied by that person most competent to perform the work. There are six principal elements which are essential to the conduct of this program:

- . the systematic classification of jobs;
- . the establishment of competitive monetary rewards;
- . the recruitment of competent persons;
- . examining for competency;
- . placement; and
- . training for the development of competency.

THE SYSTEMATIC CLASSIFICATION OF JOBS

A classification program involves two things. *First*, it requires the establishment or revision of class specifications, which are generalized descriptions of the predominant characteristics of one or more positions in the State service. Through classification, the great number and variety of jobs in the government are grouped into categories or classes. *Second*, a classification program requires the allocation or reallocation of individual jobs to these classes.

The Present Program. There are today, two principal efforts dominating the conduct of the classification program in the DPS: The first is the *maintenance of the classification plan* to meet the day-to-day needs of the operating departments. The departments prepare job descriptions for new or existing positions, and the DPS allocates or reallocates them to existing classes or establishes new classes where existing classes do not adequately reflect the work described.

The second major program effort is the *overhaul of the existing classification plan*. It involves a survey of large numbers of jobs in similar occupations for purposes of setting up whole new series of class specifications. This task of redefining large groups of class specifications is usually a sporadic attempt to keep these generalized descriptions of occupational areas current.

Findings

1. **It is impossible at this time to measure the adequacy of the current classification program, both in terms of currency, quality and effectiveness.** On July 1, 1968, the number of positions awaiting classification action in the DPS was less and the positions had been pending for a shorter time than was the case in any of the preceding four years. This apparent good record, however, is illusory. *First*, the improve-

ment resulted largely because the department instituted a crash program late in 1967. *Second*, although the crash program took care of many long-pending cases, the number of new cases has continued to build due to the massive reclassification project. The question raised, then, is whether or not a crash program such as that undertaken in late 1967 would continue to be required in order to be able to dispose of, with dispatch, all the new cases that are continually building up. On the bases of available data, it is impossible to answer this question.

2. **The overhaul of the classification system now under way in the DPS is without an adequate plan for its conduct.** This massive undertaking was begun on the basis of a report issued by the DPS in January 1965. This report, however, contained but broad generalizations that the existing system, then existing, was "totally inadequate." It failed to state (and the department made no effort to state prior to the undertaking) in *precise* terms the results to be sought, the benefits which the State will realize from the revision and the estimated costs of the undertaking. No systematic consideration was given to alternative ways to accomplish the same objectives; no specific plan of action for its accomplishment was formulated; and no precise means of measuring the actual results being experienced as the revision progresses was established. Two important results are discernible in this massive undertaking without adequate plans:

- . A large-scale change in the State compensation plan, in a manner contrary

to legislative policy for uniform, statewide biennial pay adjustments is occurring. (This finding is discussed in a later section.)

An inordinate amount of time and money is being spent on this project. The massive revision of the classification system has become a predominate activity of the department at the sacrifice of other programs for which the department is responsible. It is requiring the full attention of nine out of the 24 personnel management specialist positions in the DPS. In addition, four other staff members worked on the classification effort to the extent of 138.56 mandays in fiscal year 1968, and two personnel specialists have been hired in succession on a contractual basis continuously since February 1, 1966 to assist with the classification program.

In four years, slightly over one-half of the work has been completed at a cost of many thousands of manhours and significant increases in personnel salaries. There is about one-half of the work yet to be done. It appears that another four years and an expenditure of considerable amounts of personnel time and money will be required to complete the task. This massive revision, then, has taken on the color of a *regular* on-going activity of the DPS, when it should have been, as the nature of the activity suggests, an effort which occurs but sporadically. If this massive revision had been properly planned, alternative means of accomplishing the task as quickly as possible to prevent it from becoming a

regular activity of the department would have been explored.

Recommendation: We recommend that the legislature request the governor to defer further action (perhaps, after the completion of the reclassification of those positions now being had) on the current revision of the classification plan by the DPS until such time as

- the objectives for revising the classification plan are clearly established;*
- estimates are made of the precise benefits anticipated from the new plan;*
- estimates are made of both the additional salary cost anticipated and the staff man-hours and costs required in accomplishing the work;*
- a schedule for completion of the work is developed;*
- projections of State revenues are such that in addition to all other demands for such revenues in the way of improved public programs the estimated costs can be met;*
- a written report is presented to the legislature describing the results of this assessment and the course of action to be followed.*

3. For the day-to-day maintenance of the classification system, there is no plan for its conduct for the next five years. In order to understand what was being sought in the classification program, it was necessary for us to consult several different documents, such as the

program evaluation reports, annual budget presentations and the latest departmental comprehensive plan. We have found that in none of these documents is the plan for the classification program adequately defined.

Recommendation: We recommend that a complete and long-range plan for the conduct of the classification program be developed. It should include

- specific statements of ends to be sought, which shall provide for improvement in services rendered over the next six years;*
- identification of ways in which to measure the degree to which those ends are being accomplished;*
- consideration of a variety of ways to accomplish them including both organizational considerations, such as possible delegation of classification authority to line departments, and substantive program alternatives, such as different classification techniques, processes, etc.;*
- the direct and indirect costs and the benefits of all reasonable alternatives to the accomplishment of the objective;*
- a rationale for whatever program design is selected.*

4. The policies and procedures governing the classification program are either not documented, or where they are documented, they are not maintained on a current basis, not identified as such, not readily accessible, and not generally distributed to interested parties. When we re-

quested these documents during the audit, we found that there is no one place where one can find them; they carry a variety of titles or none at all; some are dated, others are not, and most bear no indication of their status.

Recommendation: We recommend that the department document its policies and procedures relating to the classification program.

5. The law, rules and regulations covering the processes of classification, reclassification, allocation and reallocation are confusing and are not uniform among the several jurisdictions in Hawaii.

- The terms, "reclassification" and "reallocation," are used interchangeably in the law, rules and regulations as to cause sharp distinctions to occur in practice among the jurisdictions, particularly with respect to the effective date of classification and allocation actions and qualification requirements.*
- The several jurisdictions have adopted regulations and practices which are not uniform. For example, employees in the State may receive greater salary retroactivity benefits under similar circumstances than do employees of the city and county of Honolulu; while the State does not require employees to meet minimum qualification requirements in cases of reclassification (as defined by the State), the city does. This lack of uniformity among the jurisdictions is in direct contradiction to legislative*

policy that there shall be uniform interpretation and administration of Chapter 4, Revised Laws of Hawaii 1955, as amended.

Recommendation: We recommend that the DPS and the several jurisdictions resolve the ambiguities which are apparent in the law, rules and regulations, and where legislative action is needed, prepare such proposals for submission to the legislature.

6. There have been cases of inconsistent and improper application of the State rules and regulations and practices by the DPS in certain classification actions. Examples are:

- The DPS established new classes to reflect the work of a group of nine secretaries all working in the same office. Although the circumstances surrounding the change were identical for all positions, the reclassification action for eight of the nine positions was made effective the first pay period following receipt of the job descriptions in the DPS, and the reclassification action for the ninth position was made retroactive to an earlier date. This difference in treatment caused the individuals occupying the eight positions to receive \$110.00 in retroactive pay, while the ninth received \$1,608.00.*
- Reclassification actions for hundreds of nursing and hospital support positions were made effective on December 1, 1966, rather than on November 15, 1966, which*

should have been the date had the DPS followed its normal practice of making the effective date of reclassification actions the first pay period following the announcement of the study.

Recommendation: We recommend that the DPS establish standards relating to retroactivity of pay increases resulting from classification studies which are fair and equitable to all and which preclude opportunities for preferential treatment, and that such standards be rigorously adhered to.

7. There is currently a diffusion of authority and responsibility for the conduct of the classification program. The DPS has hired on a contract basis a personnel specialist in classification matters. She works under the immediate supervision of the director of the department and independently of the chief of the classification and pay program. The placement of the specialist in the organizational hierarchy and the authority and responsibilities granted her to undertake certain classification studies, without the knowledge of the program chief, contribute to a lack of coordination in the program effort.

Recommendation: We recommend that as long as there is a personnel specialist participating in classification and pay matters she report to the chief of the classification and pay division in order to consolidate in one place the management responsibility for this program.

ESTABLISHMENT OF COMPETITIVE MONETARY INDUCEMENTS

“Establishment of Competitive Monetary Inducements” is concerned with the setting of pay rates and the establishment of monetary and non-monetary fringe benefits in such a way as will permit the State government to compete successfully in the labor market and to attract sufficient numbers of well-qualified persons to its workforce.

The actual pay of an employee is affected by (1) the salary schedules which establish the number of ranges, the number of steps and the specific rates for each, (2) the class to which an individual's position is allocated and the salary range to which that class is assigned, and (3) other such specific things such as the rate at which an individual is hired, the years he has been in service, whether he works at night or on a split shift, etc.

The Present Program. There is a total of 1178 classes in the State service whose salary range assignments must be reviewed biennially by the conference of personnel directors, made up of the directors of the central personnel agencies of the State and the counties. In addition, about 118 new classes are established each year for which salary ranges must be determined. There are nearly 22,000 employees who are affected by the pay practices and fringe benefits provided by the State and counties to their employees.

There are two salary schedules affecting the civil service workforce—one for general employees and another for blue collar workers. An

unknown number of State employees also receive additional compensation for hazardous working conditions, night and split shifts and overtime.

Findings

1. There is today no single, comprehensive plan for the conduct of the State pay program. It can only be pieced together by looking at such documents as the budget, program evaluation reports, the departmental comprehensive plan, and responses to legislative requests. The plan which can be identified in this manner is wholly inadequate:

- in stating the basic program needs (the base upon which any program is justified), it states conclusions without supportive evidence;
- the goals and objectives for the program are stated in such broad and general terms as to render them meaningless;
- plans for the future of this program are without a complete schedule for all the essential activities which make it up;
- it makes no provision for such program activities as the administration of pay practices and fringe benefits, establishment of salary schedules, etc.;
- the plan makes no estimate of the cost of the program (it is lumped together with the classification program);
- it fails to identify alternative approaches, the costs and benefits of each, and the

rationale for any program plan selected; and

· most disturbing, no improvement on past performance is proposed for the entire future, six-year period; projections are to continue the same kind and level of services as are presently being carried out.

Recommendation: We recommend that the department of personnel services develop an adequate plan for the conduct of the pay program over at least the next six years. It should include provisions for all of the activities necessary to a comprehensive program of pay administration including such elements as salary rate schedules; salary assignments to individual classes; pay practices, fringe benefits and research. Objectives should be clearly and precisely stated; measures for assessing progress in meeting those objectives should be identified; administrative costs of the programs should be identified; cost estimates should be made relating to the proposed programs themselves; and all necessary and planned activities and accomplishments should be scheduled on an annual basis.

2. The department of personnel services has failed to clarify the legislative acts on pay matters and to enunciate and publicize the policies and practices which govern its pay actions. The most serious example of this lack of basic policy revolves around the problem of whether pay ought to be set out of consideration for the rates prevailing in the community or on the basis of consistency within the State pay plan itself. The legislature cites both principles

in general, although in the case of the blue collar workers, it has clearly said that prevailing rates shall govern. In the case of the white collar pay rates, the DPS has tended to favor the principle of internal consistency, although it has in fact made notable exceptions.

Without such basic policies, faithfully applied, pay setting in the State can be unsystematic, irrational and at times unjust, and an assessment of the adequacy of our pay program and rates impossible.

Recommendation: We recommend that:

a. *The legislature consider establishing an overall policy that calls for the setting of State salaries in accordance with prevailing wages where those can be reasonably determined and where finances allow. No single policy now exists. This principle of prevailing rates is already in use for blue collar employees, and we believe it presents the only reasonable policy given today's labor market situation. Such a policy should include:*

a basic guideline as to how closely government rates ought to parallel those found to be prevailing, i.e., within five percent or 10 percent, etc.; and

sufficient flexibility to accommodate special circumstances which might arise.

Such a policy should not be implemented, however, unless

the DPS has met our recommendations regarding data collection (which is discussed in the next section);

the State fiscal officials participate in the implementation of the policy to the end that should such a policy pose serious threats to the financial integrity of the State, an alternative would be imposed;

there is a recognition by all that a prevailing wage concept is just that and does not always mean higher salaries. It can also mean no change, or adjustments downward in actual rates. The law and rules and regulations must provide for such eventualities as well as those where upward adjustments are warranted.

b. *The legislature establish a policy with respect to the extent to which the State wants to consider the pay and fringe benefit practices of competitive employers in its treatment of local government employees so that the executive branch may be required to conduct research and propose legislation for the implementation of such a policy. There is none today and fringe benefit proposals generally are initiated by the employee organizations.*

3. *The data which are gathered by the DPS and used by it to make salary comparisons and draw conclusions regarding the State's competitive position are wholly insufficient to the task.*

The DPS collects salary data for only about 66 different classes of work—5.6 percent of the total number of State classes. It does not gather information in such broad professional areas as librarian, regulatory and enforcement work, management and staff positions, or in jobs in the biological and

physical sciences. Significant conclusions about the adequacy of State pay rates cannot be drawn on the basis of these sparse data.

Although the data collected by the DPS are insufficient, the DPS draws a great many conclusions on the basis of the insufficient data, to an extent clearly unjustified. For example, in a 1968 report, on the basis of salary comparisons for 12 classes of work, mostly public health classes such as physician and sanitarian, which indicated that Hawaii's minimum salary rate for eight of the 12 classes reported was below the average national minimum, the DPS concluded that, "It would seem to indicate the need to consider a general review of salaries for our professional occupations." The eight represents just 1.5 percent of the total 534 professional classes of work.

Not only does the DPS draw unwarranted conclusions from the data it collects, but it also uses those data inconsistently and as they suit the department's purposes. For example, in 1964, the DPS compared the 25th percentile rates for government and private industry and drew certain conclusions. In the years 1965, 1966 and 1967, it used the government minimum rate to compare with the average minimum rate for private industry, and then in 1968 it used the government minimum rate as against the 25th percentile for private industry. Statisticians may differ on the rate which should initially be used, but they will not differ with respect to the

necessity for using the same rate over the years if any valid conclusions are to be drawn.

Recommendation: We recommend that:

a. *The DPS establish a plan as a part of its research program to collect data in sufficient amounts to permit the department to make meaningful analysis of the "competitiveness" of government pay with those outside the government.*

b. *The DPS be consistent in its use of the data collected.*

4. **Consistent and substantial increases in personnel salary costs are being incurred in the State service without prior consideration of the State's ability to finance them.** The ability of the State to set salaries so as to attract good people has a number of limitations, the primary one being the resources the State has available to finance such salaries. Any salary setting, whether it be across the board increases in rates, or the reassignment of classes to higher salary ranges, ought to be done only after consideration of the ability of the State in both the near term and long range to meet the expenditure involved. The legislature requires that this be done, but it is not being done. This appears to be the primary result of four factors.

Extensive authority is granted to the director of personnel services to act independently in pay matters, and in exercising her authority, the director does not concern

herself with such pertinent questions as the general condition of the State's finances.

Most actions by the DPS which result in substantially increased personnel costs are not planned and scheduled in advance to permit consideration of them in terms of the availability of financial resources before final actions are taken.

Officials of the department of budget and finance are not by law and do not in practice occupy a significant place in the salary-setting process.

Legislative participation consists of not much more than appropriating the funds for actions already effectuated or announced. Salary changes resulting from biennial review, reclassifications and reallocations and the like, are effectuated or announced through large newspaper advertisements, memoranda to the departments, or even visits by personnel officials to employees at work sites before the legislature is presented with the proposals. The legislature can do very little at that point.

Recommendation: We recommend that the legislature consider amending the law to require the active participation of fiscal officials in the respective jurisdictions in the pay-setting process, to the end that no actions shall be taken on pay matters except with prior cost estimates thereof and with a forecast of adequate financial resources for their implementation. Our recommendation with respect to the role of the legislature is included in the next section.

5. The extent of authority over pay matters now vested by law and assumed in practice by the director of personnel services, is excessive; it jeopardizes the principle of a balance of power as between the legislative and executive branches. The scope of the director's authority is as follows:

The director reassigns any of the approximately 1,200 existing classes in the State service to salary grades every two years, which authority is limited only to the extent of needing a majority vote therefor in the conference of personnel directors.

The director decides salary assignments for more than 100 new classes of work each year which are immediately effective, subject to a review by the conference of personnel directors at its next biennial review period—such review rarely results in changes.

The director changes the manner in which any of the nearly 12,000 jobs are reflected in the classification plan and, by identifying these as "new" classes, assigns new salary grades to them—in effect, has a unilateral authority to raise the salary of every job in the State service.

The director determines the effective retroactive date of these reclassification actions where incumbents are involved "as the director may deem equitable"—in some cases, the director has deemed equity would best be served by the retroactivity for nearly two years.

The director may reallocate any of the nearly 12,000 positions on the basis of a change in the duties and responsibilities therein—in effect, this also means authority to raise the salary of every position in the State service.

The director authorizes higher than minimum rates for any of the 1,178 classes which the director deems to be in a "shortage category"—there is no review of these actions.

The director determines the blue collar pay schedule in accordance with an established statistical method as applied to pay rates found in the community in a study conducted by her staff, among others—this authority requires a concurring majority vote of the conference of personnel directors.

The extensiveness of this authority is evident in the number of salary increase actions taken by the director in the past five years—a total of 4,456. These salary increases are exclusive of two legislatively-authorized salary increases during the period and changes in pay rates taken under the shortage category provision of law. In some of these cases, individuals received salary grade increases through reclassification actions by as much as seven grades—from SR 17 to SR 24. In one single action under the "shortage category" authority, the director increased the cost of government of salaries of a selected group of employees (engineers) by a quarter of a million dollars a year.

These actions indicate that the director of personnel services can and does, without effective legislative or executive review, increase government expenditures for personal services at any time and for any number of reasons. Coupled with our finding that there is insufficient consideration given to the financial condition of the government to support salary adjustments, we are of the opinion that a serious imbalance in power exists in the office of the director of personnel services in the matter of pay administration for the State service.

Recommendation: We recommend that:

a. *The legislature consider the enactment of a provision in the law to the effect that reclassification actions may be effectuated by the executive branch without prior legislative approval only to the extent of a given maximum dollar amount per fiscal year. We believe that this approach is a practical one, now that the legislature will be meeting for a greater portion of the fiscal year than was previously so and can therefore be more responsive to the immediate and demonstrated needs of the personnel program.*

b. *The legislature amend Act 216, SLH 1967, relating to the raising of rates of pay in shortage category occupations by the action of the director of personnel services by providing either for a maximum annual additional expenditure which may be incurred by the executive branch under this Act without prior legislative approval, or providing for prior legislative approval in all cases. In addition, we recommend*

the DPS establish specific standards by which shortage category classes will be determined.

c. If a policy of uniformity is to prevail among the State and its counties, the legislature amend Act 216 to require that the raising of rates for shortage categories be taken (1) only after a majority vote of the conference of personnel directors even in cases where only one jurisdiction intends to so act, and (2) only with the prior advice and approval of the fiscal officers of the jurisdiction involved.

6. Since 1965, the department of personnel services has pursued a course of action which has circumvented the legislative intent for uniform pay administration in Hawaii and has virtually destroyed the progress made in inter jurisdictional collaboration in this area. In Act 188, SLH 1961, the State legislature established two basic policies: (1) that government salaries in Hawaii shall be as uniform as possible among the five governmental jurisdictions; and (2) that salaries shall be reviewed by the five jurisdictions on a systematic and biennial basis.

The act makes one exception to this statewide and biennial approach to pay administration. It provides that the personnel directors of the separate civil service agencies may unilaterally and immediately set salaries where new kinds of work are being established, subject to a subsequent review by all jurisdictions at the next biennial meeting. Since 1965, the department of personnel services has used this provision of the act to take hundreds of salary increase actions on jobs which incorporate kinds of work long

established in the State service. It has rationalized its actions by defining a "new class" as one which describes a group of jobs in a different way from a previous description of essentially the same group of jobs. This definition of a "new class" differs from the official definition established by the conference of personnel directors that it means a class describing kinds of work which are new to the State. This course of action by the DPS has led to serious disruptions and inequities in pay throughout the State. County employees are not receiving comparable pay with those being received by State employees, although they perform substantially the same kind of work. The review by the conference of personnel directors of actions taken by the director of the DPS is after the fact and essentially ineffectual.

Recommendation: We recommend that the legislature re-evaluate its basic policy regarding uniformity in pay administration in the State. There are advantages and disadvantages to either uniformity or independence in pay authority for each jurisdiction; but, one or the other ought to prevail. If it decides to continue its policy of uniformity, then to make it effective, it must define precisely the term "new class." On the other hand, if it decides to alter its policy and return to previous practice, it should repeal those sections of Chapter 4 relating thereto and provide that pay-setting authority shall be vested in each individual jurisdiction. We believe that if the former is done, as well as the action suggested with respect to participation by fiscal officers in the respective jurisdictions in the pay-setting process, both the lack of uniformity

and the imbalance in pay-setting authority described as a major fault in the present program for pay administration in the State will have been largely overcome.

7. The DPS does not keep the counties fully informed of its plans with respect to compensation, particularly with regard to proposed legislation. All five governmental jurisdictions in the State of Hawaii operate with the same basic compensation law, the same schedules of rates, and the same pay practices. What affects one affects them all. Yet the DPS has often failed to keep the counties fully informed of its plans.

Recommendation: We recommend that the DPS communicate with the county jurisdictions on a timely basis on all matters of mutual concern.

8. In addition to the foregoing, the following are our miscellaneous findings respecting the pay program.

- There is no regular or planned research into pay matters other than the annual community wage survey.
- The DPS has no policy and procedure manuals for the conduct of this program, nor are there complete and current policies in existence.
- Some pay activities are handled by the classification and pay division; others by a personnel specialist working directly for the director of the department thereby contributing to confusion among the staff

and an uncoordinated effort in pay matters.

The department of personnel services has no program relating to pay matters in areas other than the setting of basic salary rates and the assignment of classes to salary ranges.

Recommendations: We recommend that:

a. The DPS establish a plan for an adequate pay research program to meet the clearly-identified needs of the State for such data, both as to salaries and wages and fringe benefit considerations.

b. The DPS prepare a policy and procedure manual for the conduct of the pay program.

c. If the personnel specialist for the classification revision project is retained, clarification of her role and that of the classification and pay division chief be made.

d. The DPS establish a planned program in those areas other than pay setting and the assignment of classes to salary ranges, such as the area of fringe benefits.

THE RECRUITMENT OF COMPETENT PERSONS

To meet the needs of the government for talented personnel, an aggressive seeking out of these persons from the community is required. This means, then, that the State must have a

recruitment program which insures that sufficient applications from technically-competent persons are received, and that they are received on a timely basis.

The Present Program. There are two specific activities presently undertaken within the DPS to carry out this program. The first is the announcement of classes of work for which applicants are being sought. The second activity is the distribution and receipt of applications per se.

Findings

1. The current program is ineffective in recruiting competent personnel. The current recruiting methods are those which we have relied upon for years. They include such time-worn techniques as announcements posted on bulletin boards, standardized newspaper ads, occasional ads in professional journals, and staff appearances at a few high schools and the U.H. during periods set aside for such visits. These techniques may well have been satisfactory in days when many people wanted government jobs and were willing to seek them out, but such is not the condition of employment today. Times have changed, but there has been no corresponding change in our recruitment practices. Moreover, the same recruiting techniques are used for all occupational areas, irrespective of the differences in occupational skills required, the extent of the State's needs, the condition of the labor market, and the kinds of persons being sought.

The relative ineffectiveness of our present program is revealed in the fact that during the last two and one-third years, in a little over one-third of the cases, the eligible list contained less than three names, and in more than 50 percent of the cases, the list contained less than five names. In addition, in none of the past five years has there been, on the average, enough initial applications for each vacancy to enable the DPS to get five names on the eligible list.

The relatively poor overall effectiveness of the recruiting program stems in a large part from (1) lack of sound program planning and (2) a failure to collect the data needed for evaluation and planning.

2. There is today no single plan for the conduct of the recruitment program for the next five years. The present recruitment program of the DPS is entirely one of reacting to immediate departmental needs. As positions become vacant and requests are made to the DPS for names of prospective employees, so the machinery of recruitment gets underway. Each of the several DPS documents—the budget, program evaluation reports, the departmental comprehensive plan, etc.—allude to a plan. A review of these documents, however, revealed that these “plans” are really no plans at all.

Recommendation: We recommend that the department of personnel services develop a program plan for recruitment. Such plan should include:

- specific objectives stated in such a manner that measurement of attainment of the objectives is possible;*

consideration of a wide variety of ways in which to attract the persons needed, with estimates of the costs of each and the probable results each would assure; and

consideration of the impact on other personnel processes; i.e., examination, training, etc., of each alternative way. The plan should spell out that program alternative which appears to offer the most promise in meeting the needs of the State. It should be the result of an analysis which weighs the costs and benefits of each program alternative.

3. The DPS is deficient in the gathering of relevant data for adequate planning and evaluation of the recruiting program. At least two kinds of data are required for planning and evaluation, which are not being gathered:

- A forecast of manpower needs. The State of Hawaii purportedly has a serious recruiting problem, particularly in certain occupational areas; however, the DPS does not maintain data such as would indicate whether this is true and in precisely which kinds of work and to what extent it is so.*
- The results being obtained from the implementation of the recruitment program. In its implementation of the recruitment program, the DPS does not identify, collect and analyze routinely such data as would elucidate the effectiveness of the recruitment program and identify the problem areas. The data presently maintained by the DPS are those relating to volume—the number of announcements*

and notices issued, the number of qualification standards written, etc.—which tell little about how much our recruiting efforts have achieved. There are no data which inform the department as to how many applications are received, how many names are finally placed on eligible lists, why persons fail to qualify, what the best source of potential workers is, what the competition is for such workers, etc. Without such basic information, no recruiting program can possibly function adequately.

Recommendation: We recommend that the department of personnel services begin to gather and analyze data reflecting the manpower needs and the effectiveness of its recruitment program so that program planning can proceed on a sound base. The data should include:

estimates of the total number and kind of employees who will be needed for at least the next five years. Estimates must be based on the best projections of future program direction by State departments, turnover experience data, analysis of the age of present employees, their retirement plans, etc.;

estimates of the probable supply of such persons throughout the years in the Hawaiian and mainland labor market;

number of applications received and processed by occupational groups and pertinent sub-groups therein;

number of eligibles finally available by occupational groups and pertinent sub-groups; and

number and median length of time jobs remain vacant by the basic causes for vacancies in positions in excess of a median length of time.

4. In addition to the planning and data collection inadequacies, the DPS is deficient in its operations in the following respects. While the DPS has assembled some procedures for the conduct of this program, there is no standardization of format and no indication of their currency or official adoption. Further, some of the procedures contain written changes making it uncertain whether these have been communicated to all interested parties.

Recommendation: We recommend that the DPS formalizes and officially adopt policies and procedures relating to recruitment and that all such policies and procedures as may be adopted by the DPS be communicated to all departments and interested parties.

EXAMINING FOR COMPETENCY

One of the key processes of the merit system of personnel administration is that of examining prospective employees in order to determine which among them are best able to perform the various kinds of work government has to do. Examinations are administered for the purpose

of predicting with as much accuracy as possible the relative present or potential competence of each applicant for the performance of a particular kind of work.

The Present Program. There are four basic activities which make up the present examination program. First, the establishment of minimum qualification standards for each class of work. Second, the screening of applications to determine whether persons meet those minimum standards of employment. Third, the construction of the examination and a determination as to the relative weights to be assigned each of its parts. Fourth, the scoring of the tests and the establishment of a list of eligibles in order of their earned rating.

During the fiscal 1968, 58 percent of the examinations given were written, 22 percent were training and experience evaluations, three percent performance, one percent oral, and 18 percent a combination of these types.

Findings

1. The DPS today has no way of knowing and there is no evidence to indicate whether any of the tests administered by the DPS is valid, reliable and objective. The effectiveness of any examination process is measured in terms of its

validity—how well does the examination predict whether the individuals can or cannot do the work and assess the order of probable proficiency among a group of persons;

reliability—the consistency with which the list predicts competency and assesses probable proficiency; and

objectivity—the degree to which factors extraneous to job performance are excluded.

One of the reasons for this inability to measure the validity, reliability and objectivity of the examinations administered by the DPS, is the lack of a sound job performance evaluation program and an effective program for dismissing incompetent employees. If these programs were in existence, they might serve as a rough overall measure of the examination program. One could then relate test results to work performance.

While it is impossible to assess precisely the effectiveness of the examination program, the practice of DPS in administering examinations seemingly indicates that the effectiveness of the program is probably nil. The DPS has, over the years, administered exactly the same examination over and over again. In 1967-68, of the total number of tests given (401), only 18 were completely new; the others had been used previously. The technicians at the DPS admit that over one-half of the tests given in 1967-68 have been used so often (overexposed) as to be of questionable value.

Recommendations:

a. We recommend that a plan be developed immediately for the systematic validation of examination materials in use in the DPS. Complementing this effort must be the development

of an effective performance evaluation system as recommended elsewhere in this report.

b. In addition, we recommend that a planned effort to update all examination materials on the basis of sound priorities be pursued.

In planning for these two projects, there must be

a clear identification of the problems—their size and scope—a specification and understanding of the objectives of the undertaking;

a consideration of alternative ways for accomplishing the task;

estimates of the costs and potential benefits of each alternative;

a selection of the best alternatives with a precise estimate of the financial and manpower requirements thereof.

2. The lack of measures to assess the effectiveness of the examination program is due largely to the lack of real program planning by the DPS. The various "planning" documents issued by the DPS actually call for a continuation of nothing more than the present activities at a level increased in direct proportion to anticipated automatic workload increases. Continuation of existing program techniques is assumed throughout.

Recommendation: We recommend the DPS develop a new plan for the conduct of the examining program for the next six years such as

will provide for improvement over past accomplishments and will present:

- specific objectives based upon identified program needs;
- measures and collection procedures to evaluate the progress of the program in meeting these objectives;
- program activities selected after consideration of alternatives and cost and benefit analyses; and
- financial and manpower requirements for the period.

3. The ranking of individuals on eligible lists established by the DPS is based on point ratings that are so fine as to suggest great discriminatory powers in the tests given. For example, in randomly sampling some sets of scores, we found a set of scores for a recently-established list which separated the eighth and ninth persons by two hundredths of a point. In that case, if an appointing authority had four vacancies to fill, he would have received eight names to select from—five for the first vacancy and one additional name for each vacancy thereafter. The opportunity for consideration could then have been denied to the person ranked No. 9. Since we are using tests in the first place for which we have absolutely no verification of their predictive capabilities, distinguishing among individuals on the basis of minute numerical amounts borders on the ridiculous.

Recommendation: We recommend that the legislature enact legislation to the effect that

when final earned scores of eligibles are within .50 points of those initially certifiable, they shall be added to the list of eligibles certified to the appointing authority even though the total number so certified then exceeds the limitation imposed by the rule of five.

4. Since 1963-64, there has been a steady decline in the percentage of competitive examinations given by the DPS and a concurrent increase in the number of non-competitive examinations. We note this because it is a basic policy of the legislature that, to the extent possible, competition in the public service shall prevail. The causes and impact of such a trend are probably many and varied to an extent beyond the scope of our audit to identify and analyze. However, we do think it to be worthy of further investigation.

Recommendation: We recommend that a study by persons outside the DPS, most logically the civil service commission, be conducted to determine the effect on the merit system of the trend toward less competition in the examining process, (and the placement process as noted in the next chapter) particularly with respect to questions of competency in the public service, employee morale, management flexibility, possible political favoritism, and related considerations.

THE PLACEMENT OF PERSONNEL

The actual bringing together of the job to be done and the person best able to do it is the

final step in the process of assuring that government's work is done in a competent and efficient manner.

There are two distinct methods of placement. The first method is placement by appointment from a list of five eligibles. The appointing authority may get additional names if his reasons for rejecting any of the top five are acceptable to the director of personnel services. The second method is placement through promotion. The appointing authority may promote a regular employee from his own department to a vacancy, without examination, provided the employee meets the minimum qualification requirements and the new work is related to the old. There are four different kinds of placements: the initial hire, promotion, demotion, and transfer.

The Present Program. The DPS currently conducts three basic activities in carrying out its responsibilities in this area. First, it certifies the names of eligibles when so requested by a department. Secondly, it reviews placements to be made from other than eligible lists, such as promotions without examinations, transfers, etc., to see that individuals meet certain minimum qualifications. Finally, it makes sure that a performance rating form is filed for each probationary employee.

Findings

1. Indicators to measure the effectiveness of the placement program are non-existent. Since placement has to do with placing the right person in the right job at the right time, the

kinds of indicators which will permit an assessment of effectiveness are those which tell us whether or not: (a) the employee selected is competent to do the job for which he was hired; (b) the employee is performing up to the standards required of the job; and (c) the employee has been placed on the job with a minimum loss of time. None of these exists.

Recommendations: We recommend that the department of personnel services take immediate steps to establish measures by which the effectiveness of the placement program can be assessed. In establishing such measures:

a. The DPS should develop a sound performance evaluation system, based on established standards of work performance for each class of work. This effort should be done in cooperation with the line departments and employee organizations. Such performance evaluation system should assist not only in measuring the effectiveness of the placement program, but also, in measuring the effectiveness of other programs in the State merit system, particularly those relating to work productivity and training. The system developed ought, at the minimum, to include:

- identification of the needs for performance evaluation;
- the objectives of the system;
- its design, including performance standards, rating procedures and forms; and
- a means for the review of its operation and its periodic improvement.

b. The DPS, in cooperation with the department of budget and finance and the line departments, should flow chart the process of "filling a vacancy" and gather average data on the time required for the various sequential steps. Following this, methods to shorten the time involved can be considered and implemented.

2. The DPS has no integrated program as such for the placement of individuals in jobs. It conducts certain placement activities but these are parts and parcel of the programs for recruitment and examination, and there is no organized effort directed specifically to placement. The plan which does exist for the three programs together (recruitment, examination, placement) provides for no improvement in existing services for the next six-year period.

Recommendation: We recommend that the DPS develop a plan for the conduct of a placement program, separate from that of the recruitment and examination programs. Such a plan should include:

- the need for the program and the problems presently being encountered;*
- the objectives to be sought;*
- the alternative ways of attaining the objectives and the specific activities selected which will be carried on during the next six years to meet those objectives;*
- what these activities will accomplish in terms of results in each of the six years; and*

the resources required to carry out the program.

3. There is lacking any document which can be said to be the official placement policy of the State. Clearly-enunciated policies specifically in at least two areas are lacking.

There is no State policy with respect to placement through promotions. Each department is left to follow its own promotional policy, and the DPS does not fully know what these departmental promotional policies are. The DPS admits that, as far as it knows, there is no consistency or uniformity among the policies of the various departments. A definite State policy is indeed required, since more and more promotions are being made without benefit of an examination process. The DPS has been aware of this failing since at least 1965. Yet, after four years, there still is no State policy or standards.

There is no policy which states what happens upon reallocation of a job, if the employee then in the job does not meet the qualification requirements on the date of the reallocation action. At one time, written procedures in the DPS provided that in such cases the employee must qualify on a non-competitive examination, or else the department must take away those duties which led to the reallocation action. These provisions have been voided and no new ones have been written. It appears that the practice now is to require the department

to take away the duties from the position and thereby not effectuate the reallocation action until the employee meets the minimum qualifications. If this is so, it should be officially enunciated as a departmental policy for all to know and understand.

Recommendations: We recommend that:

a. *The DPS formally and officially adopt and announce policies and procedures for the conduct of the placement program.*

b. *The DPS take immediate steps to establish a formal statewide promotional policy. Such policy must include*

- the means by which merit and fitness will be determined;*
 - when competition by examination will prevail and when it will not;*
 - what methods of evaluation will be used in non-competitive promotions;*
 - when promotional opportunities will be made available on an inter-departmental basis, when within a department only, and when outsiders will be invited;*
 - records which must be maintained;*
 - appeal rights of employees; and*
 - the review and enforcement authority of the DPS.*
- c. *The DPS adopt a written policy relating to what happens in instances when an employee's job is reallocated and the employee then in*

the job does not meet the qualification requirements on the date of the reallocation action.

4. Under present procedures, employees are not required to meet the minimum qualification standards in cases where new classes are being established as a result of the overhaul of the classification plan. The legislature has not expressed its intent in this matter since it is only in recent years that the DPS has defined reclassification as separate and distinct from reallocation. Reallocations do require a meeting of qualifications by incumbents. The DPS rationalizes that employees should not have to meet the qualifications for revised class specifications since it is a technical matter, not a substantive one, that the new class standards differ from the old. Such thinking begs the question. The purpose for establishing minimum qualification standards is to assure at least minimum competency among employees for the performance of the work which is assigned to them. That work is reflected in the class specification, and the qualifications defined therein are based upon that specification. We see no difference between these reclassification cases and either initial hires, reallocations, transfers or any other movement in which employees are required to meet the minimum requirements for the work.

Recommendation: We recommend that the DPS be consistent in requiring that minimum qualifications be met in all movements of employees from one class to another, whether such movements be by reclassifications, creation of new classes, reallocations, transfers or otherwise.

5. The names of persons certified to the departments as eligible for appointment are not being screened for the purpose of determining whether they are still available for employment. As a result, departments get names of many persons no longer interested in employment and considerable time is lost and effort duplicated by repeated sending of forms back and forth in an effort to get the names of five persons eligible and interested in employment.

Recommendation: We recommend that the DPS institute a practice of screening eligibles before sending their names to departments.

TRAINING FOR THE DEVELOPMENT OF COMPETENCY

Competence in the work to be performed is not always immediately available from persons who become employees in the State service. Many persons are hired for their potential contribution to the public service and must therefore be subjected to training in the service before they can become fully productive, competent members of the workforce. Additionally, all employees, whether hired for their present or future competency, require a basic orientation to the State government and to the particular program in which they will serve, as well as on-the-job training in the particular positions they will fill. The DPS is responsible for establishing statewide training standards which will accomplish the legislative intent for improving the quality of government service. It is also responsible for advising and assisting the depart-

ments in implementing their own training programs such as will meet the standards established.

Present Activities. Close to 2,000 employees are newly hired each year. In 1967-68, of that number, about half received *orientation* training during the first half of the year while in prior years one-fourth or less received such training. With respect to the conduct of *basic job training*, there are no data available in the DPS as to how many employees received it. We do know that the total number of placements in jobs in 1967-68 amounted to 3,012 and presumably each required some degree of introduction to his new work.

At present, the department of personnel services conducts an orientation training session every other month for anyone whom the departments choose to send. It is concerned generally with descriptions of employee benefit programs, presentations by employee organizations and a survey of the functions of the divisions within the DPS.

Finding: The present training program to develop competency in new jobs falls far short of the requirements which the DPS has set for itself. The DPS' comprehensive *Employee Development and Training Manual*, issued in 1963, describes the general types of training to be conducted in the State. The manual requires that both orientation training and basic job training be provided by the operating departments, and requires the DPS to help the operating departments institute such activities and oversee and evaluate them for adequacy and

compliance with statewide standards. The DPS has completely failed to carry out its responsibilities for the program as defined in its own manual.

There is today no planned or coordinated program designed to provide new employees in the State service with general information about government operations and/or with basic skills training for the performance of the work. Further, the DPS has no idea as to what is taking place in the operating departments. The DPS has failed to develop statewide guidelines for the use of departments in their efforts to develop the different types of training activities, as would provide a basic uniformity of approach and a standard against which to measure individual efforts. And the department of personnel services has no identifiable plans for the next six years for the conduct of orientation and basic job training.

Recommendation: We recommend that the DPS immediately develop a program plan to meet the needs of the State in the area of orientation training and basic job training. Such

plan must be based on clearly-identified needs of the State and should utilize the existing organizational and functional arrangements spelled out in the DPS "Employee Development and Training Manual." The plan should include:

- . an identification of the actual needs for such training;*
- . statements of the objectives for such training;*
- . programs designed to meet those objectives;*
- . measures by which the program will be evaluated which go to the question of increases in competency and not attendance per se;*
- . interdepartmental standardization and coordination;*
- . resources needed to carry out the plan, both financial and manpower; and*
- . a system for the periodic review and evaluation of activities in light of our objectives and experience.*

PART III. A CAREER IN THE PUBLIC SERVICE

The following six elements are essential to the development of a career in the public service:

- . obtaining the services of career-minded young persons;
- . a career base classification structure;
- . progressive salary increases;
- . promotional opportunities;
- . training for advancement; and
- . reasonable job security.

OBTAINING CAREER-MINDED YOUNG PERSONS

To develop a core of persons in the public workforce who will make a career in the government service, sufficient numbers of individuals must be brought into the employ of the State at a relatively young age.

The Present Program. At present, activities within the recruitment, examination and placement division to recruit young persons include participation in career day programs in Hawaii's schools as requested by education officials, and conducting examinations generally, though not necessarily, for recent school graduates—i.e., the Hawaii State service entrance examination (HSSEE) and the general clerical examination.

Finding. There is no program per se being conducted by the DPS which is concerned specifically with the recruitment of young persons. The HSSEE is an all purpose general entrance examination for a number of entry level classes of work—personnel, management, budgeting, social work, etc. The general clerical examination also is given regularly to recent graduates. Neither of these examinations is related in an integrated fashion to an overall program of developing a career service or to the specific problem of recruiting career oriented, young persons. As a part of its regular recruiting efforts, the staff of the DPS visits educational institutions, but this too is not a part of a planned effort for developing a career service.

Recommendation: *We recommend that a program for recruiting young persons into the public service be undertaken by the recruitment, examination and placement division. In planning such a program, the following steps should be taken:*

- . *Identify the general manpower needs of the State in the various occupational areas for the next few years, particularly with respect to the needs for career oriented employees.*
- . *Establish the objectives for recruiting young persons for careers in the public service.*

- . *Consider various possible ways of accomplishing these objectives, ways that will assure obtaining talented personnel.*
- . *Estimate the costs and probable success of each method.*
- . *Decide on a program made up of that method or those methods which appear most promising.*
- . *Implement the program, monitor its results in terms of our objectives and modify it as required.*

A CAREER-BASE CLASSIFICATION STRUCTURE

Individuals will be partially influenced into making a career of the public service by the extent to which the classification system provides them with a picture of the opportunities for movement upward in their chosen occupational specialty. One objective for an integrated career service program must therefore be the establishment of a job classification structure which facilitates recognition of the succession of progressively more responsible posts to which employees may aspire, given an acceptable level of work performance and potential.

The Present Program. The development and maintenance of the State classification plan is a day-to-day operational activity of the DPS. The establishment of new classes and of new series of classes and the abolishment of old classes occur regularly and have in fact, as explained earlier in this report, been a major emphasis of the DPS for the past four years.

Finding. The classification structure now emerging does provide a systematic view of advancement possibilities. The series of classes being adopted and their titling structure are logical and orderly. There are some exceptions however which tend to detract somewhat from an otherwise improved picture. Whereas, in most cases, complete series of classes containing all levels of work, irrespective of the existence of positions at each level, are being established, there are other cases where this is not so. For example, the series called metrologist has classes from I through VI, even though there are positions presently only at the V and VI levels. On the other hand, there is a series called disability claims specialist II through V which lacks identification of the first level, and there are single classes such as educational therapist III and fair employment practices specialist V which stand alone and therefore give no picture of possible movements in or out.

The extent to which continued effort toward developing a career base classification structure should be pursued is subject to the reservations expressed in Part II which point out the need for such a decision to be made only after precise cost and benefit data are assembled and possible alternative courses of action considered.

PROGRESSIVE SALARY INCREASES

In order for the State to attract career oriented persons, it must offer reasonable and logical salary increases commensurate with increases in competency, duties and responsibilities, and length of service. The legislature has

provided two important elements in the accomplishment of this program objective: (1) For the first five years, a regular employee is entitled to a five percent annual increase in compensation, and thereafter, for each fourth year, he is entitled to another five percent, for a total of five increments and four longevity steps. (2) In the case of promotions or reallocations to higher grades, employees are entitled to an increase in compensation to the lowest step in the higher salary range which exceeds his present compensation. The operation of the above two elements is automatic, upon the happening of the specified conditions.

There is, however, one aspect of pay the responsibility for the administration of which is in the DPS, the conference of personnel directors, and the public employees compensation appeals board. This aspect concerns the establishment of pay differences to recognized increases in the complexity of work performed or greater responsibilities assumed. These pay differentials are established through salary range assignments for each class or series of classes. The actual salary range assignments decided upon for classes and series of classes are sometimes called the "pricing pattern."

Finding. The question of whether the pricing patterns which have been developed by the DPS to reflect the differences among levels of work are appropriate is strictly a judgmental matter. The pattern developed recently for professional classes is proper in the opinion of the pay specialists at DPS, and there is no real basis on which to agree or disagree with them. Other pay specialists might well have developed something

different, but they would be no more right nor wrong in any case.

However, as earlier discussed in the matter of pay setting for recruiting purposes, the DPS does not, when considering the pricing patterns for classes of work, (1) accurately forecast the cost of such decisions and of alternative decisions, and (2) consult with financial officials of the State and counties prior to their adoption in order to assess the ability of the jurisdictions to finance such salaries over the long term. Clearly since there is no one "right" pattern, alternative patterns are possible which, in consideration of the projected costs, might well be preferred, particularly where large numbers of positions and substantial monetary outlays are involved as has been the State's recent experience.

Recommendations:

a. In consonance with the recommendations made earlier, it is our recommendation that the establishment of both pricing patterns for series of classes and proposals for new pay rates or pay schedules in the State be accomplished only after

- . alternatives are considered;*
- . cost estimates are developed for all alternatives; and*
- . financial officials of the State are consulted and long-term financial resources are related to the long-term costs of each alternative.*

b. We also recommend that if the legislature intends to continue its basic policy of uniform-

ity among State and county jurisdictions in Hawaii, then the above recommendation should provide also for the inclusion of the county personnel and financial officials during the developmental and decision-making processes in order that the needs of and impact on the counties in such matters are thoroughly considered.

PROMOTIONAL OPPORTUNITIES

An integral part of any system designed to provide careers in the service is a program which assures that those who are talented and who have demonstrated their capabilities will be able to assume positions of higher level work and responsibility. One objective of the State civil service system then is to provide talented employees with sufficient opportunities to be promoted to work of greater complexity and responsibility. The responsibility of the DPS in this area is to establish a statewide promotional system based upon merit and to review departmental activities to ensure compliance with the policies and standards inherent in that system.

The Present Program. There are two activities in the DPS which are related to a promotional program. First is the task it performs of reviewing the records of employees who are to be promoted without examination to make sure they meet the minimum qualification requirements of the job, and second, that of administering promotional examinations.

Findings

1. It is impossible to determine, and the DPS cannot determine, whether promotions are based on merit, and even if they are, the promotion experience indicates we are falling short of that result which we ought to be attaining.

The state currently is unable to determine how many promotions are being made on the basis of talent. An assessment of the effectiveness of any promotion program entails some measurement of the resulting number of promotions. There are two pieces of information inherently required in a measurement of this kind: (1) the number of promotions based on talent, and (2) some standard against which the number can be compared. Such data are not available.

Even if we assume that all of the promotions are made on the basis of merit, it appears that our record of promotions is insufficient. First, the percentage of promotions (six percent of the workforce), which has remained fairly constant throughout the past four years, appears inordinately low. Second, by the DPS's own standards, contained in its 1965 report, of three promotions to one new hire, we are falling short. Since 1961-62, the ratio has remained around one to three in favor of new hires.

2. The DPS does not, in fact, have a program designed specifically to meet the objec-

tive of providing planned promotional placement opportunities to talented persons. Whatever promotional opportunities that do exist are the result of chance and not design. There is no plan to develop such a program in the long-range plans of the DPS, and little or no staff time is presently devoted to it. It lacks such plan, even though the DPS itself recognized back in 1965 the need for a planned promotional program.

3. The DPS has failed to give adequate attention to providing promotional opportunities in our classification structure; the structure, in fact, appears to contain severe limitations on promotional opportunities.

To attain the desired promotional results, it is necessary that there be sufficient opportunities for employees to advance to higher levels of work, and such opportunities must exist within the classification system. The real extent of promotional opportunities depends in part upon the number of positions available at the higher levels, both on a statewide basis and within a given department. Among certain professional work specialities, the number of positions which exists at the upper levels throughout the State service is limited. In addition, there are several departments which have but few jobs available at higher levels within the department proper. The DPS has done no work toward insuring that jobs actually exist at the higher levels.

Another condition which seriously limits promotional opportunities is the "selective certification" technique. Employees in an

otherwise broad class (same work, for example) are often restricted from moving upward because the DPS may select out from the list of persons available for promotion the names of only those eligibles who have a particular specialty background (medical social work, for example) deemed necessary to the performance of higher level assignments.

4. The lack of an effective promotional program monitored by the DPS makes it possible for the merit principle in promotions to be circumvented. Such circumvention can occur through the practice of reallocating positions. The practice of reallocation enables an appointing authority, instead of selecting one from among all eligible employees passing some objective test of relative competency, to simply redescribe the position of the employee he wishes to promote to reflect the higher level work, and have the DPS reallocate it to a higher class and grade assignment. The DPS is aware of this technique as a possible means to avoid the consideration of merit in advancements, but has taken no positive action to assure the proper use of both the promotional process and the reallocation process in the overall context of a merit system of personnel administration.

Recommendations

a. *Earlier, we recommended that the DPS undertake to identify a program designed to place persons in the right jobs on a timely basis. "Placements" include promotions, and we therefore reiterate our recommendation that the DPS should spell out*

the needs of the service for a planned promotional program.

its objectives and how we will measure the extent to which we are successful in meeting them;

how these objectives will be accomplished, including consideration of such matters as statewide v. departmental promotional opportunities, competition v. non-competition, the requirement for announcing available opportunities, the possible use of the reallocation process as a device to avoid consideration of merit in promotions, the wide variation in promotional opportunities among professions and the departments and the need to improve in some areas, etc.

b. *In addition, we recommend that the program which is developed be such as will provide for sufficient promotional opportunities for all State employees and will assure that they are based first upon merit and fitness and second upon seniority as the present public policy requires.*

TRAINING FOR ADVANCEMENT

A career system of public service implies some planned and programmed effort on the part of government to enable its employees to develop increasing skills in their chosen professions and to prepare themselves to perform more complex and challenging work. To accomplish this, the DPS is responsible for establishing statewide

training standards, providing suitable in-service training, conducting surveys of training needs, coordinating training activities, and advising and assisting departments in the conduct of training programs.

Finding. There are, at present, no training activities in the DPS to develop employees for the assumption of higher level responsibilities. The department of personnel services has no estimates of the long-range manpower needs of the State on which a logical plan for employee development could be based. Further, the DPS is totally uninformed with respect to possible activities going on in the line departments such as might contribute to the development of employees for higher level assignments.

Recommendations:

a. *We reiterate the recommendation made earlier that the DPS should initiate a program for long-range manpower forecasting. Recruitment and training of employees for future skill requirements of the State can occur systematically and sensibly only if we have reasonable ideas as to our future needs. Any other approach to training is irrational.*

b. *We further recommend that on the basis of such forecasts and in consideration of the intent of the State to provide careers for its employees, the DPS should specifically:*

establish objectives for the program of preparing employees for advancement;

- develop a program design after consideration of a number of alternatives which will best meet those objectives;
- estimate the costs and manpower requirements for such a program;
- develop measures to gauge its success;

- design procedures for improving it as experience dictates; and
- implement the program in consonance with the functional and organizational relationships specified in the "Employees Development and Training Manual."

PART IV. A HIGH QUALITY AND QUANTITY OF PERFORMANCE

Like any other organization—public or private—the State will accomplish its program goals to the extent to which each individual who makes up the organization contributes his share of the work with as great dispatch and proficiency as possible. Accomplishment of a program to bring this about requires

- work performance standards and performance evaluation;
- training to improve performance; and
- sound employee-employer relations.

WORK PERFORMANCE STANDARDS AND PERFORMANCE EVALUATION

A concern for high productivity in the workforce necessarily begins with determinations of acceptable levels of productivity for each kind and level of work to be performed. This must be followed by objective evaluations of individual performance in relation to those standards. An evaluation system based upon standard tells us where we are in relation to where we want to be, whether improvement is required, and in what areas our employees are meeting or failing to meet essential performance levels.

The Present Program. The DPS currently utilizes a standard "Job Performance Report" for reporting employee job performance. It was

developed in 1955 and contains three parts. In each part, a rating of *unsatisfactory*, *not quite satisfactory*, *satisfactory*, *more than satisfactory* or *very satisfactory* may be given. Part I is a summary rating of the overall work of the employee. Part II is the area set aside to rate the quality and quantity of his work, his work attitudes and habits. Short phrases are provided, such as "neatness of work," "regularity of output," "initiative," etc., to suggest the kinds of things which reflect upon quality, quantity, or attitude. Part III asks for an appraisal of the employee in terms of his "potential for growth" and "supervisory and/or administrative ability." This is a written appraisal based again on certain suggested criteria such as "his ability to plan and to organize . . ."; "his ability to train and to develop his subordinates . . ."; etc., which apparently are indicators of supervisory or administrative ability. Just prior to the service anniversary date or the completion of a probationary period, each employee is rated by his immediate supervisor on this form.

Findings.

1. The present system of performance evaluation is nothing more than a perfunctory, paper processing procedure which contributes nothing to improved or increased work production, or to greater motivation, job understanding or satisfaction among employees. This conclusion is based on the following.

The State has no established standards against which performance in the various jobs can be measured. The omnibus, all purpose, "Job Performance Report" is used to evaluate all employees on the same factors, regardless of the differing nature and levels of complexity of the occupations. Moreover, the "Job Performance Report" form falls short in that it never defines the terms it uses, such as "initiative" and "neatness" nor does it establish the criteria by which a supervisor may reach conclusions in these regards about individual employees.

Less than satisfactory performance is very rarely identified. In the light of the size of our State's employee workforce, the gross figures on the number of less than satisfactory ratings indicate to us that true evaluations are not being made. From 1964-65 to 1967-68, *less than satisfactory rating* was given to an average number of employees during those years of 8,629. Such a degree of satisfactory service in the public workforce is simply not probable, especially in the light of inadequate examining and placement programs.

2. Because there is no real system of performance evaluation operating, there is no rational basis upon which to evaluate the effectiveness of the recruiting, examination and placement programs and to develop State training programs based upon clearly identified needs.

Consequently, these programs continue their day-to-day operations without data or rationale upon which to determine whether what they are doing is logical and contribute to overall State efficiency and, if not, in what ways they fail.

3. There is nothing in the future plans of the DPS to indicate that they expect to do anything in the next six years to develop a system more capable of meeting the basic purposes which performance evaluation serves.

Recommendations:

a. We recommend that the DPS immediately undertake a project, along with appropriate departmental and employee representatives, to develop a performance evaluation system as the legislature intended it to be. It should be designed to

improve production by establishing standards of performance, assessing employee performance against them, and developing techniques to bring performance up to acceptable levels of quality and quantity;

contribute to improved supervisor-subordinate relationships by providing a means for communication between them about the job to be done;

improve the image of public service by displaying efforts at and actually contributing to high standards of public service;

lead to the identification of weak or inadequate supervision, the need for training or retraining, possible transfer, reassignment or promotion of personnel, and the need for a dismissal or disciplinary action; and

contribute to valid measurement of the effectiveness of other personnel programs, namely recruitment, examination, placement and training.

b. In the course of this project, we recommend that consideration be given to divorcing the annual increment increase in pay from the performance evaluation program *per se* in order that the latter may fulfill its purposes more effectively. This will be an undertaking of considerable magnitude, and we therefore recommend that it be preceded by thoughtful and precise planning and organization.

TRAINING FOR IMPROVED PERFORMANCE

"Training for improved performance" is concerned with bringing employees' performance up to standards where it is not at that point and with maintaining it at that level as new techniques and developments have their impact upon the world of work. It is designed to increase employee efficiency to the end that public services will be carried on at a high level of productivity in both quantitative and qualitative dimensions.

The DPS has issued a training manual which delineates its and the line departments'

responsibilities for training. The DPS is responsible for establishing standards for departmental training and for training on a statewide basis; the departments are responsible for certain other kinds of training.

The Present Program. Data relating to the kind of training given by individual departments are not available in the DPS. With respect to the DPS, the following are the kinds of training sessions it conducts to improve employee performance.

A course entitled, "Core Curriculum," which is designed to give first line supervisors an initial understanding of the supervisory role. It is held four times a year and is open to anyone the departments choose to send.

Courses which fall under the general heading of "methods improvement"—e.g., how to write plain letters; how to analyze work and give job instructions in the trade and equipment operation fields. These are given by the DPS staff on a regular basis.

One time courses dealing with subjects such as forms improvement and organizational effectiveness. These have been sponsored, utilizing the resources of the University of Hawaii.

In addition to the foregoing training sessions, a great deal of time and State money is going to training labeled "out-service" in which employees attend non-state government courses, seminars, conferences, etc., at whole or partial government expense.

Findings.

1. There is no way to assess whether the training which is presently being given to improve employee performance is effective. The DPS presently evaluates the effectiveness of its training efforts on the basis of the number of sessions given, the number of persons who attended and the number of hours involved. Such measures tell nothing about effectiveness. To measure the effectiveness of any training program to improve performance, we need to know what the level of performance was prior to training, and what the level of performance has been following the training efforts. The degree of effectiveness is the extent to which the level of performance after training exceeds that which existed prior to training. The DPS cannot (and we could not) make such evaluation, because the DPS does not have information regarding performance before and after training.

2. In the absence of performance standards, the DPS is unable to determine the shortcomings in the existing level of performance and the kinds of training needed to bring performance up to the standards. The core curriculum course, the plain letters course and the one time courses in methods improvements are not based on specific needs.

Recommendations:

a. We reiterate our earlier recommendation that the DPS establish performance standards for State jobs and an employee performance evaluation system.

b. We further recommend that on the basis of the performance standards and an evaluation of how well State employees are in fact performing, the DPS identify the specific needs for training to improve job performance and that, on the basis of data collected through a revised performance evaluation system, carry out its responsibilities for overall State training to bring about improved performance by each employee in his given job. The DPS should be mindful of its responsibility to see that such training is undertaken in a manner to avoid duplication of efforts among and between departments, and it should formulate adequate, statewide, long-range plans therefor and prepare reports of results periodically.

EMPLOYEE-EMPLOYER RELATIONS

Broadly speaking, it is a valid objective of the State personnel program to establish and maintain good employee-employer relationship, develop positive employee attitudes and generally build high group morale to the end that the public service is both a productive and happy place in which to work. It is not within the scope of this audit to attempt to define those kinds of activities which, either on the part of management or on the part of employee groups, do or do not contribute to greater morale and productivity. We accept the basic premise that there is a relationship, identify those things which are done in the name of this relationship in the State personnel program today and then proceed to evaluate the effectiveness of these activities.

The Present Program. Employees in the State government today are given awards for long service and for recommending improvements to operations, and they may organize themselves for purposes of presenting their own ideas regarding the public service and for satisfying other common interests. The law makes provisions for appeals against actions taken and for the expression of grievances.

The department of personnel services issued a *Management-Employee Relations Manual* in March of 1964. The manual presents the governor's policy statement that there shall be a program to provide morale, motivation and employer-employee relationship. The DPS is responsible for its promotion and coordination and for the administration of the program within the State government. The line departments are responsible for carrying out the activities listed in the manual within their departments. The manual lists five major programs which are to be undertaken: (a) health, safety and welfare; (b) morale and motivation; (c) career service; (d) communications; and (e) management-labor relations.

Findings.

1. There is no organized effort within the DPS to promote the program described in the manual. The plans for departmental activities for the next six years do not indicate that this portion of the State's personnel program will receive any attention. While service awards are being given employees, there are no data available as to the extent of this activity, nor is

there any regularized data collection as the manual prescribes in any area as would give a total picture of events.

With respect to labor-management relations, we believe that this matter is one of the more pressing issues which will face the State government in the next five years, primarily because of the recent constitutional amendment providing for collective bargaining by public employees. Yet, there are no plans for the implementation of this program.

2. There is no clear delineation of the DPS' responsibility in implementing some of the things the manual requires to be undertaken. For example the health and medical care, civil defense, and workmen's compensation programs which are listed as parts of the program in the manual are wholly the responsibility of the departments other than the DPS. It would seem that the role of the DPS in these areas might clearly be different from its role in seeing to it that the incentive awards program functions properly, and yet each is treated similarly in this document.

Recommendation: We recommend that the DPS reassess the entire area of employee-management relations as it presently operates in the State service and give particular attention to the development of a realistic program designed to meet the specific needs of the State. Plans should be developed and should include:

our specific objectives in this regard;
measures by which we can assess our progress in accomplishing these objectives;
specific activities which will be undertaken;
estimates of costs and benefits should these activities be pursued; and
a delineation of appropriate organizational and functional responsibilities for its effective implementation.

Immediate priority should go to the development of a employee-management relations program, since this whole area, including collective bargaining by public employees, will clearly dominate the public personnel scene in the next decade.

PART V. HIGH PERSONAL STANDARDS IN THE PUBLIC SERVICE

Hawaii's civil service system, based as it is on traditional merit system principles, requires that services rendered to the public shall be performed in an objective manner, irrespective of partisan politics, and in accordance with high standards of personal conduct and loyalty to the State. (Ethical conduct was not a subject covered in our audit because it is not a responsibility assigned to the department of personnel services.)

NEUTRALITY IN THE PUBLIC SERVICE

Every citizen, regardless of political belief, is entitled to receive the kind and quality of service due him. To this end, each public employee must conduct the public business in a fair and impartial manner. To insure a fair and impartial public service, there must be some limitations on the nature and scope of political activity among civil service employees. The DPS is responsible for establishing rules and regulations governing the political activity of public employees and for administering the law, rules and regulations in the State.

The Present Program. The rules and regulations, promulgated by the DPS, outline what are lawful and what are unlawful political activities on the part of civil servants. These are essentially a repetition of the statute itself. Beyond that, the DPS confines its administration of the law to answering specific

questions put to it with respect to what is legal and what is prohibited activity. It does not actively seek out information as to whether public employees are abiding by the rules or not.

We interpret the public policy in this matter to be literal and one of permitting as much freedom for political activity among public employees as is reasonable and still maintain a merit system of personnel administration. The law, rules and regulations permit public employees to be active members of political parties, to contribute money to support the general expenses of such parties, and to run for office. In general, the prohibitions upon political activity surround such things as not letting political questions influence the discharge of official duties and not conducting political business during working hours or in government offices.

Finding. While the liberal rules perhaps serve a well-intended purpose of providing maximum opportunity to public employees to participate in the political process, they are not without risks. The liberal rules do provide avenues where political favoritism in appointments or promotions can occur. For example, favoritism can be exercised in promotions where no competition is required. Similarly, determinations regarding the type of examinations to be conducted may well permit favored persons to be selected. Whether in fact, the day-to-day decisions in such matters have been influenced by political considerations was

not amenable to assessment during the course of this audit; however, the possibility is there, and we note it as a matter of record.

Recommendation: We recommend that the department of personnel services exercise continuing vigilance and formulate such programs (including programs in recruitment, examination and promotions, as recommended in the previous chapters) to insure compliance with the political activities provisions of the civil service law.

LOYALTY

The rationale for requiring personal conduct from public employees which assures their loyalty to the State rests upon the belief that such individuals have both a special opportunity and special obligation to see to it that the institutional foundation of the State remains secure even while modifications and improvements to it take place. The legislature has prescribed a form requiring public employees to affirm their support of the Constitution of both the United States and the State of Hawaii. It has also set forth the procedures to be followed in the filing of such

oaths. Rules and regulations governing loyalty have been adopted by the governor which provide for cases where loyalty may be in doubt.

The DPS is responsible for seeing that each new employee of the State and county governments prepares a personal history statement relating to his belief in the democratic system of government and in the Constitution of the United States. It transmits such statements to the commission on subversive activities. The DPS also considers questionable cases of loyalty referred to it by the commission and conducts investigations and hearings if it sees fit. The civil service commission considers and affirms, reverses or requires a rehearing of any decision by the director of personnel services which was adverse to the respondent and where an appeal thereon was filed with the commission. Data on how many questionable loyalty cases have occurred in the past were not gathered.

Findings. The DPS carries out its responsibility for seeing that all forms are prepared and transmitted to the commission on subversive activities. There is no indication of a need to increase or alter emphasis on this program in its present form.

PART VI. GENERAL PROGRAM SUPPORT

This part is concerned with overall departmental operations, activities and practices which support the primary missions of the department of personnel services. These activities are:

- . departmental planning;
- . departmental operations, including personnel practices, data collection and recordkeeping, office space and working conditions; and
- . statewide personnel transactions auditing.

DEPARTMENTAL PLANNING

Planning in specific program areas has been commented on in other portions of this report. Here, we comment on the overall departmental planning efforts of the DPS' management staff.

Planning is that process by which we think through what the needs are, precisely specify what we will seek to accomplish, formulate means by which we will measure our progress, identify alternative ways to accomplish our objectives, estimate and weigh the varying costs and accomplishment levels possible in each alternative, and select the programs designed to best achieve what needs to be done. Planning also requires an annual phasing of the program activities over a future period of time as well as estimates of the annual financial and manpower requirements for each significant segment thereof. Once approved, a plan becomes a guide

to action and a means to evaluate actual progress with planned progress.

State Planning Efforts. In recent years, the State of Hawaii has initiated several efforts in the direction of bringing about more effective departmental long-range program planning. Each has been sponsored by the governor and his chief fiscal and planning advisors. These include the traditional budget preparation process in which program evaluation reports are called for by the department of budget and finance, the six-year capital improvement program under the DPED, and the development of a departmental comprehensive plan under the direction of the governor's office.

Findings.

1. There is no effective long-range planning in the DPS for the conduct of those things for which it is responsible. The reasons for this are several.

- . The director has failed to take an active role in preparing departmental plans in response by the department of budget and finance. In response to these requests, each division chief in the DPS independently prepared his respective part of the comprehensive plan. The different parts were then simply slapped together and submitted, without an effort to integrate the various parts and without the director's review.

The plans which the division chiefs have prepared are viewed by them as responses to specific one-time requests of the governor or his staff, after which they are filed. They are not utilized on a regular and periodic basis as a guide to program operations.

Whereas a budget is a financial representation of a plan for a given period of time, the preparation of the annual budget in the DPS is a separate and distinct activity from any of the department's long-range planning efforts, such as they are. It is prepared by the department's fiscal officer, not on the basis of any comprehensive plan, but on the basis of past expenditures.

2. The various "planning" documents of the DPS are inadequate. They fall short in the following respects.

They are not based upon the needs of the State service for which the department is responsible.

Program objectives are stated as meaningless platitudes rather than as precise end results worthy of our time and attention. It is therefore impossible to measure in any meaningful fashion whether progress is being made toward the accomplishment of our primary missions.

The plans call for nothing more than the continuation of existing activities at a level adjusted in relation to an across-the-board estimate of employee workforce increases.

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Moreover, some present activities which we were told are going on and which have significant future operational implications are omitted entirely and some activities not now performed, but which are clearly in the offing are not anticipated in the final plans.

Long-range estimates of the financial requirement for the department are obviously erroneous, since identical amounts are estimated whether total needs or only partial needs are to be met, whether new program levels are anticipated or not. Moreover, significant costs of these programs are totally ignored, such as those relating to extensive reclassification actions.

While some pertinent measures of program success have been identified, they are not used to project the success each program will strive for in the next six years.

Recommendation: We recommend that the department immediately undertake the development of a departmental comprehensive plan under the positive leadership of the director of personnel services to the end that it represents a reasonable and reliable overall projection to guide the operation of the department of personnel services for the next six years. Guidelines for program planning of this type were developed by the governor's staff. We believe that the intent of this planning effort by the governor is clearly in the best interests of the State and the department should put its best

thinking into preparing the plan initially, improving it annually, and making it a meaningful portion of the overall management plan for the State government.

DEPARTMENTAL PROGRAM OPERATIONS

The following are our findings regarding departmental operations; specifically, internal personnel practices, data collection and recordkeeping, office space and working conditions, and the documentation of personnel and departmental policies and procedures.

Findings

1. **Internal Personnel Practices.** The DPS has engaged in certain internal personnel practices which are contrary to law, established practice or the clear intent of the legislature. They are as follows.

Employees of the DPS are often not required to meet the same standards for qualifying for higher level work as are other State employees. Over the past two and one-half years, the technical staff members of the DPS, in particular those in the classification and pay division and the recruitment, examination and placement division, have been assigned higher level duties and responsibilities through reallocation or intra-agency transfers without being screened to determine whether they meet the minimum qualification requirements for their new

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assignments. The policy and practice of the DPS for employees of all other departments are, in all cases of reallocation, the employee's qualifications must be screened for purposes of seeing that he meets the minimum requirements of the new class and if he does not, the reallocation action cannot be effectuated until he does.

The DPS employed a person on a temporary appointment in a manner contrary to law. This person was hired on February 1, 1966 on a temporary appointment, outside the list, for a period not to extend beyond January 31, 1967. He filled a permanent position authorized to the department by the appropriations act. By regulation, such temporary appointments cannot exceed 365 calendar days in duration including any extensions, and may be used for cases "where there is work of a temporary character . . ." This individual was actually on the payroll for 258 calendar days in excess of the legal limit of 365 calendar days. In addition, the nature of the appointment itself was illegal since he occupied a position of a continuing nature in the department and not one "of a temporary character."

An individual has been employed on contract with the DPS for such an extended period and for the performance of such work as would indicate that contractual employment is not permitted under the law. The DPS initially hired a "personnel specialist" on a contract on September 7, 1966 to "study and

recommend modern concepts of position classification." The original contract was for the period September 7, 1966 to June 30, 1967. A second contract with the same individual was for the period July 1, 1967 to June 30, 1968, and a third contract is for the period July 1, 1968 to June 30, 1969, a total of two years and nine months.

The civil service law permits the hiring of persons outside the regular civil service procedures where "the service is special or unique, is essential to the public interest and that, because of circumstances surrounding its fulfillment, personnel to perform such service cannot be obtained through normal civil service recruitment procedures." (Section 3-2d(b), RLH 1955) Although when the first contract was entered into, it was intended that she was to fill the State's special need for a new classification plan, the personnel specialist has been carrying out all kinds of assignments covering the entire range of personnel management to the extent that it can no longer be said that they are either "special" or "unique."

In addition, the law permits special employment contracts for periods of one year. In the administration of the law, the DPS in certain cases has permitted second one-year contracts, particularly where the special projects or studies have taken that period of time to complete. The contract under question will bring the total period of employment to two years and nine

months, considerably longer than such contracts are normally permitted.

The department of personnel services reallocated a position in its own department in violation of the rules and regulations and its records show that it was clearly aware that it was doing so. A personnel management specialist II position was reallocated to personnel management specialist III, effective retroactive to January 1, 1967. The position description was not prepared or received until April 21, 1967, thereby making May 1, 1967 the earliest legal effective date. Because of this action, the employee was improperly paid a total of \$112.00. Notes accompanying the job description on which the action was taken show that the department knew the legal effective date was May 1, 1967. By this action, the DPS has given preferential treatment to its employee. As the agency in whom is entrusted the responsibility for securing compliance with State personnel law, rules and regulations, it should be above reproach with respect to the application of those provisions to its own staff.

Recommendations:

a. We recommend that the contract for the employment of the personnel specialist be terminated immediately.

b. We do not believe that the employees who received salary increases through

reallocations, even though they did not meet the qualifications, should reimburse the State, inasmuch as the requirement for meeting minimum qualifications, while a standard practice of the DPS, is not documented nor officially promulgated.

We do recommend, however, that the department adhere strictly to established practice and principle in all of its future activities concerning its own employees. As the department entrusted with assuring compliance with the merit system principles in the State government, it should be no less. We further recommend that established practices, not now documented, be documented and officially promulgated to insure equal treatment of all employees.

c. We recommend that the employee concerned reimburse the State in the sum of \$112.00.

2. Data Collection and Recordkeeping. There is a great deal of tedious manual recordkeeping and data collection by the staff of the DPS. Some of these activities are being duplicated by the data processing machines; some others, now done by hand, should be done by the machines. In addition, the data processing equipment is collecting and reporting some data which are not being utilized by the department. The department of personnel services has been talking about the mechanization of personnel records and data collection since 1963, but to date, little has been accomplished. Moreover, although SWIS

produces numerous reports and listings for the DPS, they are either not used by the DPS or are used only to double-check against identical records kept manually.

Recommendation: We recommend that the department of personnel services, by the end of this fiscal year, convert from manual to machine recordkeeping of essential personnel data and develop procedures for the machine processing of all pertinent personnel statistics so as to provide for a completely automated personnel recordkeeping and reporting system. We believe it is long overdue.

3. Office Space and Working Conditions. In our opinion, employees of this department work under conditions of the poorest possible kind. Desks are crowded together; there is poor air circulation; employees complain about the lighting; technical personnel do not have quiet or privacy in which to work; general traffic circulates freely throughout the office causing disruptions and distractions in work; entrances and exits are narrow, causing us some concern for employee safety in case of an emergency; during the summer months while we conducted the audit, the heat and humidity were excessive; and there is a general appearance of untidiness and disarray throughout the office.

Recommendations:

a. We recommend that the comptroller undertake immediately a survey of the office space and conditions in this department and first, provide whatever immediate and

short-term improvements that are possible and second, develop plans for long-term improvements.

b. We further recommend that the department of personnel services do what it can in the meantime to bring greater order and neatness to the office within the recognized limits of space.

4. **Personnel Policies and Procedures.** Policies and procedures governing the day-to-day administration of the department are either not documented, not easily accessible, of unknown status, or assembled with a conglomeration of miscellaneous data. Divisional policies and procedure manuals do not exist (with the exception of those in the recruitment, examination and placement division). The policies and procedures which were assembled at our request are of varying formats, without indication of currency and without clear, current and official status.

Recommendation: We recommend that the department of personnel services review all of its present operational policies and procedures, both written and unwritten, document them and officially promulgate them. It should also establish a system for their periodic review and updating. It should also distinguish between purely informational matters and official acts of the director of the department.

AUDIT OF STATEWIDE PERSONNEL TRANSACTIONS

The DPS is responsible for assuring that there is compliance by the operating departments with the law and rules and regulations of the civil service system. In carrying out this responsibility, it audits each standard Form 5, "Notification of Personnel Action," prepared and processed by the operating departments, and in addition rules on numerous matters, such as whether proposed positions fall within the scope of the civil service system, whether non-residents may or may not be appointed to jobs, etc.

Findings

1. **Exemption of Positions from Civil Service Law.** The DPS has permitted positions to be exempted from civil service coverage, contrary to the provisions of the law. Section 3-20 of the Revised Laws of Hawaii 1955, as amended, specifies the employment positions which are exempted from coverage of the civil service law. All other positions are included in the civil service, unless otherwise exempted in other sections of the law. The DPS violated this statutory provision in the following two instances:

- It exempted 11 positions in the DOE and permitted them to be filled by persons as if they were certificated and educational officers, when in fact they are not.

It has continued to exempt seven positions in the foreign trade zone, even though Act 50, SLH 1964, and Act 99, SLH 1965, which initially exempted these positions, expired on June 30, 1966.

Recommendations:

a. We recommend that the director of personnel services take immediate steps to bring these two groups of positions into the civil service system before the end of the current fiscal year.

b. We further recommend that in the future, in the case of DOE positions, the DPS insure that the positions it exempts on the representation of the DOE that they will be filled by educational officers or other certificated personnel are in fact filled by such personnel.

2. **Personnel Transaction Audit.** The DPS audits all of the employee transactions which occur during the year throughout the State, irrespective of the benefits to be derived from such 100 percent audit. Records show that in each of the past two years 20 to 30 thousand transactions took place. For 1967-68, errors in pay constituted four-tenths of one percent of the total number of transactions; other errors amounted to five percent of the total number of transactions. It costs approximately \$.65 to

\$1.00 to audit one transaction. Since the average annual saving to the State on the errors uncovered on pay transactions is well in excess of \$1.00—often exceeding several hundred dollars—a 100 percent audit of all pay transactions is surely justified. However, we question whether it is also justifiable to conduct a 100 percent audit of all other kinds of transactions at a cost of close to \$1.00 per audit. An objective review of this kind of audit is in order since a 100 percent audit means an ever-increasing workload for the DPS.

Recommendation: We recommend that the DPS reconsider the performance of its personnel transaction audit in the following manner:

- Continue to perform a 100 percent audit of all pay transactions.
- Evaluate the nature of all other transactions presently audited with a view to determining the true significance of the errors to the proper administration of the civil service system.
- Consider delegating the responsibility for accuracy in non-pay matters to the line departments wherever errors will not have a significant and long-range impact on the civil service system.
- Set up a system to post-audit a random sampling of personnel transactions, other than those relating to pay.

PART VII. FINANCIAL TRANSACTIONS AND MANAGEMENT

A part of the audit of the department of personnel services examined the financial transactions, books, and accounts of the department. The following are the findings concerning the department's financial transactions and the accuracy and reliability of its financial records for fiscal year ending June 30, 1968, and the adequacy of the department's controls to safeguard assets against loss, waste, fraud and extravagance.

THE INTERNAL CONTROL SYSTEM

"System of internal control," means the plan of organization and methods and measures adopted to insure the accuracy and reliability of accounting data, to promote operational efficiency, and to assure adherence to prescribed laws, policies, and rules and regulations of the department and the State of Hawaii. A sound system of internal control includes among other things, the adoption of procedures requiring prior authorization for expenditures, and accurate and timely recording and reporting of transactions and control of assets and liabilities.

Findings

1. The department's financial reporting system is inadequate. It is inadequate in the following respects:

There is no financial reporting structure. A sound financial reporting system dictates

that financial reports be periodically furnished to the different levels of management for planning, evaluating and controlling fiscal activities. At present only the fiscal officer receives any kind of fiscal report; none is furnished the director of the department or any of the program managers. We believe that the program managers should participate actively in the preparation of the budget and in controlling the costs of their programs, and to this end should receive fiscal reports periodically.

The financial reports that are issued are not being issued on a timely basis. For effective financial reporting, the reports must be prepared as frequently as there is need for the information for planning and control. At present, only quarterly reports are being received by the fiscal officer. We believe that the reports should be prepared more frequently.

The financial reports now being issued are not comprehensive enough for management purposes. Fiscal reports should contain all of that information which is necessary to properly evaluate fiscal operations. The quarterly reports presently being prepared do not permit such evaluation to be made. It appears that these quarterly reports are intended solely for the purpose of enabling the fiscal officer to determine the amount of the unexpended balances of the

appropriations and to enable him to take such steps as appropriate to prevent the balances from lapsing.

The accuracy of the department's financial reports is in doubt. To be useful, financial reports must be accurate. Our audit disclosed that the department had not reconciled its fiscal records with those of the State comptroller during the fiscal year; a reconciliation was performed only after the end of the year. "Reconciliation" means determining whether the department's appropriation balance at the end of a period is in agreement with the State comptroller's records. Without reconciliation, errors in recordkeeping go unnoticed and uncorrected.

Recommendations: We recommend that:

a. *The program managers take an active role in the fiscal management of their programs and accordingly be delegated fiscal authority.*

b. *Financial reports be furnished periodically to the different levels of management. The scope and detail of the reports will depend upon the purpose and the use to be made of the reports.*

c. *Financial reports be prepared as frequently as there is need for the information to plan and control fiscal activities.*

d. *The department's accounting records be reconciled with those of the State comptroller at least quarterly.*

2. The department has violated the governor's budget execution policy which requires that "all departments shall submit quarterly reports on program operations and expenditures." The failure of the department to comply with this policy is traceable to its inadequate recordkeeping system. Without accurate and sufficient data, the department cannot conceivably comply with the above requirements.

Recommendation: We recommend that the DPS submit to the department of budget and finance copies of the financial reports as directed under the governor's budget execution policies.

3. The department failed to file its July 1, 1967 inventory, and filed its July 1, 1968 inventory late. The 1968 inventory was filed on October 1, 1968. This failure to file the 1967 inventory and the late filing of 1968 inventory were in violation of section 36-1, RLH 1955, which requires all department heads to file such inventory by August 15 of each year with the State comptroller. In addition, the DPS has failed to comply with the comptroller's requirement that all departments submit quarterly reports on additions and disposals of properties during each quarter.

The July 1, 1968 inventory fails to list eight dictating and two transcribing machines and an overhead projector. This omission is partly attributable to the erroneous categorization of expenditures for these items as "other current expense" rather than "equipment." However, we believe the omissions should have been

discovered by the inventory clerk during the physical count of all of the items.

Recommendations: We recommend that:

a. An actual inventory count of all property under the custody of the director of DPS be taken annually.

b. The department prepare and file its annual inventory of property on a timely basis as required by law.

c. The department submit quarterly reports which account for changes in the inventory of property as prescribed by the State Comptroller.

4. The DPS wrongfully recorded its financial transactions in violation of statute. Section 14, Act 54, SLH 1967, forbids the transfer of funds between appropriations within a department, except where prior approval is obtained from the director of budget and finance. In several instances, the department charged expenditures, authorized under one appropriation, against another appropriation without the approval of the director of budget and finance. Although the department maintains that the errors were clerical errors, we find that some of the errors were knowingly made. Illustrations of these errors are as follows:

Three IBM electric typewriters costing \$1,538 were purchased for use in the personnel services program, but were charged against the Act 97 appropriation. The fund balance for equipment purchases

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in the personnel services appropriation was insufficient to pay for the typewriters, and thus their purchase was charged to the Act 97 appropriation.

Expenditures totaling \$2,397 relating to the personnel services' training activities were wrongfully charged against the Act 97 appropriation.

Appeals board expenditures totaling \$2,030 were initially correctly charged to the appeals board appropriation. However, because of the department's error in account coding, DAGS charged the expenditures to the personnel services appropriation. The department then changed its records to conform to DAGS' records. This change was in error.

In several cases, the department recorded "other current expenses" ("B" character of expenditure) as "personal services" ("A" character of expenditure). These erroneous recordings constituted a violation of the department of budget and finance's policy which does not permit, unless prior approval is obtained from the department of budget and finance, the use of any of the allotment allocated to "personal services" for expenditures of "other current expenses."

Recommendations: We recommend as follows:

a. The department should adhere to the statute and the policy of the department of

budget and finance with respect to the use of the appropriation for designated purposes.

b. The fiscal officer should exercise closer control over the expenditure of the funds and the classification of the expenditures in the accounting records.

EXPENDITURES OF PERSONNEL SERVICES APPROPRIATION

1. **Statement of Personnel Services Appropriation.** In our opinion, except as otherwise noted, the statement of personnel services appropriation, expenditures and unencumbered balance (\$4,745) presents fairly the resources, expenditures and unencumbered balance for the fiscal year ended June 30, 1968.

2. **Schedule of Personnel Services Appropriation Expenditures.** The expenditures and obligations charged to the personnel services appropriation were under the budgeted or planned expenditures by \$3,678. However, there were many instances where the department misclassified expenditures—that is, charges for "other current expenses" were charged as "personal services"—causing program costs to be inaccurately reflected. These repeated misclassifications reflect lack of fiscal controls and sloppy bookkeeping.

3. **Personnel Services Expenditures.**

The department improperly charged the "personal services" account for

expenditures for the rental of school facilities used to conduct civil service examinations, examination materials, and fees paid to professional consultants.

There was an unauthorized payment of \$1,972 to the director of the DPS for vacation credit. The statute authorizes cash payment for vacation credits accumulated in excess of 90 days, but it does not authorize the payment of cash for annual vacation credits in excess of 15 days. At the time of payment, the director's accumulated vacation credit was approximately 80 days. She was, however, paid cash for 23 days which represented her total annual vacation credits accrued in excess of 15 days. Our interpretation of the law was confirmed by the attorney general, and upon the advice of the attorney general, the director has reimbursed the State.

The amounts paid and obligated for overtime (\$10,569) exceeded the amount budgeted (\$3,708) by \$6,861. The \$10,569 paid and obligated includes \$700 worth of overtime incurred in the prior fiscal year (FY 1967). The overtime in fiscal year 1968 resulted primarily from a) administering examinations on Saturdays; b) processing yearly increments; c) reviewing the compensation plan as required by statute; and d) developing the blue collar pay plan. A certain amount of overtime can be expected in any organization. However, effective advance planning to meet the organization's

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requirements can reduce overtime to a minimum. The department is referred to our audit report no. 67-1, *Overtime in the State Government*, for our findings on the causes of overtime in the State government.

Recommendation: We recommend that the department conduct a review of the overtime performed during the current fiscal year to identify and solve the underlying causes and keep overtime to a minimum.

The department has engaged in the practice of frequently shifting personnel from one division to another within the same appropriation and from one appropriation to another. This shifting of personnel indicates poor planning of personnel requirements. It also makes it difficult to compare actual results with the budget plans.

Recommendation: We recommend that the department review its personnel requirements more carefully and prepare its budget plan accordingly.

4. Other Current Expenses. Actual expenditures for other current expenses exceeded the budget by \$2,514. Some of these expenditures were misclassified as follows.

The expenditures for examination materials such as examination booklets, master copies, answer sheets, and scoring and

analyzing responses were improperly charged to "other personal services."

The classification, "other personal services," under "other current expenses" ("B" character of expenditures), was in error; it should have been properly placed under "personal services" ("A" character of expenditures).

Recommendation: We recommend that the department conform with the account coding established by DAGS.

\$8,604 of supplies for State training program was charged to "office supplies," rather than against "state training."

The sum of \$50 for plane fares for two appeals board members was erroneously charged to this appropriation rather than against the appeals board appropriation.

\$200 of inter-island plane fares for departmental personnel was erroneously charged as "per diem."

\$110 of inter-island plane fares for departmental personnel and an unbudgeted amount of \$222 paid as services-for-fee to a technical consultant for the conduct of training sessions were erroneously charged as "out-of-state, plane fares."

The sum of \$1,916 of appeals board expenditures was wrongfully charged to this appropriation as "advertising."

APPEALS BOARD APPROPRIATION

1. Statement of Appropriation. In our opinion, the statement of the appeals board appropriation, expenditures and unencumbered balance of \$2,033 presents fairly the financial transactions of the appropriation for the fiscal year ended June 30, 1968.

2. Some Findings. Certain expenditures charged to the appeals board appropriation during the fiscal year ended June 30, 1968 deserve comment.

The item "personal services" resulted in an overexpenditure of \$1,106 as a result of underestimation of the need of the board in conducting hearings and other work relating to the compensation plan.

The plane fares of two appeals board members were charged to the personnel services appropriation, as discussed earlier in this report.

\$1,916 paid for the publication of the compensation plan was improperly charged to the personnel services appropriation.

Some rentals of equipment were improperly charged to the personnel services appropriation.

Recommendation: We recommend that the DPS charge expenditures to the proper accounts.

ACT 97 APPROPRIATION

1. Statement of Act 97 Appropriation. In our opinion, except as otherwise noted in this

chapter, the statement of Act 97 appropriation, expenditures and unencumbered balance (\$1,584) presents fairly the financial transactions of the appropriation for the fiscal year ended June 30, 1968. This appropriation was approved by the legislature to meet the workload that was expected to result from the transfer of the Act 97 positions and employees from the counties to the State.

2. Misuse of Funds. Much of this Act 97 appropriation was used to fund the activities of the personnel services program, in violation of the appropriation act which does not permit the transfer of funds between programs without prior approval of the director of the department of budget and finance. Some expenditures illegally charged against this appropriation were:

Vacation allowance of \$2,241 paid to an employee of the department upon his retirement during the fiscal year.

The cost of litho bond paper and the cost of folders for training sessions and conventions.

The cost of classified want ads announcing recruitment and examination for specified positions.

\$3,310 for the purchase of three new air conditioning units, the reconditioning of three State-owned units and the installation costs of these units. The department's 1967-68 budget contained no request for the purchase and installation of air conditioning units. This means that the unused funds at June 30, 1968, which

would have reverted to the general fund, were encumbered for these unbudgeted expenditures. The department's approved budget plans for 1968-69 includes a line item of \$3,950 for "miscellaneous repairs to office and air conditioning." The air conditioning system is estimated to cost \$13,000 in total, which means that an additional \$5,740 will have to be located before the project can be completed.

\$3,586 for the cost of six electric typewriters, three of which were for the personnel services activities. The budget approved by the legislature did not provide for the additional three typewriters in any of the appropriations.

Recommendation: We recommend that the department adhere more closely to the approved budget plans.

LOYALTY BOARD FUND BALANCE

The director of the department is charged with the administration of an appropriation termed, "Expenses, Activities Relating to Loyalty of Public Employee." The appropriation was authorized under Act 256, SLH 1951, which created the Territorial loyalty board to consider the case of each public officer or employee whose loyalty is deemed questionable. The act appropriated the sum of six thousand dollars (\$6,000) from the general revenues to defray the expenses of the board. By the Hawaii State Government Reorganization

Act of 1959, the loyalty board was abolished, and its rights, powers, functions and authority were transferred to the department of personnel services. There has been no activity in this appropriation since 1955, and as of June 30, 1968, there was a balance of \$5,130. Since the board was abolished, there appears to be no reason for the continuation of this appropriation.

Recommendation: We recommend that the director of the department of personnel services initiate action to return the balance to the State treasury.

DAGS AUDIT OF DPS FOR FISCAL 1963

This report on the financial aspects of the DPS will not be complete unless we comment on the DAGS audit of the DPS in fiscal 1963. The DAGS audit was performed to determine the adequacy of the department's fiscal operations and controls. It covered the period July 1, 1962 to June 30, 1963. The audit report issued on May 8, 1964, made a number of recommendations to improve the DPS' operations and controls, but the DPS has failed to implement them. The following are some of those recommendations on which the DPS has failed to act:

The report contained a recommendation that operating statements which are prepared quarterly and which classify expenditures only on a departmental basis be prepared on a monthly basis; that the

expenditures be categorized by the department's four programs or divisions—the administrative, the training and employee relations, the classification and pay, and recruitment, examination and placement. The department has not implemented this recommendation.

The report required a follow-up to determine the actual disposition of two office desks unaccounted for at the time of the audit. Since the proper disposal procedures were not followed, it was not possible to account for the disposition of those desks. At this point, it is fruitless to pursue this matter. However, we recommend that the department conform to the standard procedures in future dispositions of property.

The audit report recommended that one of the copies of the purchase order and a copy of the supporting invoices be attached to the department's office copy of the warrant vouchers. The department has complied only partially with this recommendation. It now attaches to its warrant vouchers a copy of the supporting invoices, but the department has chosen to

ignore the filing of one copy of the purchase order with the warrant vouchers. *We recommend that the department follow the DAGS audit recommendation.*

The report suggested that the department use, on a temporary basis, the property identification decals available in the department on State-owned equipment, until these decals can be replaced with more durable ones. We noted that these decals were not being used at all and that the more durable decals had not been received by the department. *We recommend that immediate corrective action be taken.*

The report contained a finding that four typewriter stands purchased from the State surplus property branch were charged to the "other current expenses" expenditure classification instead of to the "equipment" classification. The department is continuing this practice of charging equipment purchases to other current expenses. *We recommend that this practice be discontinued and that equipment purchases be charged properly to the "equipment" classification.*

**PUBLISHED REPORTS OF
THE LEGISLATIVE AUDITOR**

Audit Reports

- 1966 1. Examination of the Office of the Revisor of Statutes, 66 pp. (out of print).
- 1967 1. Overtime in the State Government, 107 pp.
2. Management Audit of Kula Sanatorium, 136 pp.
- 1968 1. Financial Audit of the Department of Health for the Fiscal Year Ended June 30, 1967, v.p. (out of print).
2. Financial Audit of the Department of Planning and Economic Development for the Fiscal Year Ended June 30, 1967, v.p. (out of print).
3. Financial Audit of the Department of Regulatory Agencies for the Fiscal Year Ended June 30, 1967, v.p. (out of print).
4. Financial Audit of the Department of Hawaiian Home Lands for the Fiscal Year Ended June 30, 1967, 54 pp.
5. Financial Audit of the Oahu Transportation Study for the Period July 1, 1962 to August 31, 1967, 68 pp.
6. Financial Audit of the Hawaii Visitors Bureau for the Period July 1, 1966 to January 31, 1968, 69 pp.
7. State Capital Improvements Planning Process, 55 pp.
8. Financial Audit of the Hilo Hospital for the Fiscal Year Ended June 30, 1967, 43 pp.
9. Financial Audit of the Hawaii Visitors Bureau for the Period July 1, 1967 to June 30, 1968, 42 pp.
- 1969 1. Financial Audit of the General Fund, State of Hawaii, for the Fiscal Year Ended June 30, 1968, v.p.
2. Financial Audit of the Judicial Branch, State of Hawaii, for the Fiscal Year Ended June 30, 1968, v.p.
3. Financial Audit of the State Department of Budget and Finance for the Fiscal Year Ended June 30, 1968, v.p.
4. General Audit of the Department of Personnel Services, State of Hawaii.

Other Reports

- 1965 1. Long and Short Range Programs of the Office of the Auditor, 48 pp. (out of print).
2. A Preliminary Survey of the Problem of Hospital Care in Low Population Areas in the State of Hawaii, 17 pp. (out of print).
- 1966 1. Procedural Changes for Expediting Implementation of Capital Improvement Projects, 9 pp. (out of print)
- 1967 1. The Large School: A Preliminary Survey of Its Educational Feasibility for Hawaii, 15 pp.
2. State-City Relationships in Highway Maintenance, and Traffic Control Functions, 28 pp.
3. Manual of Guides of the Office of the Legislative Auditor, v.p.
- 1969 1. Transcript of Seminar in Planning-Programming-Budgeting for the State of Hawaii, 256 pp.
2. Airports System Financing Through Revenue Bonds, 9 pp.
3. Second Annual Status Report on the Implementation of Act 203, Session Laws of Hawaii 1967 (Relating to State-county Relationships), 13 pp.
4. An Overview of the Governor's 1969-70 Capital Improvements Budget, 61 pp.

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