

1995 Annual Report

***State of Hawaii
Office of the Auditor***



**Marion M. Higa
State Auditor**

The Office of the Auditor

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.

To carry out its mission, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with the schedule and criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds and existing funds meet legislative criteria.
7. *Procurement reports* include studies and audits relating to the State's procurement of goods, services, and construction.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

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STATE OF HAWAII
OFFICE OF THE AUDITOR

MISSION OF THE OFFICE

OF THE AUDITOR

THROUGH POST-AUDITS OF THE
ACCOUNTS, PROGRAMS, AND
PERFORMANCE OF STATE AGENCIES,
THE OFFICE SEEKS TO ASSURE THE
ACCOUNTABILITY OF GOVERNMENT
AGENCIES FOR THEIR IMPLEMENTA-
TION OF POLICIES, MANAGEMENT
OF PROGRAMS, AND EXPENDITURE
OF PUBLIC FUNDS. THE OFFICE
REPORTS ITS FINDINGS AND
RECOMMENDATIONS TO THE
GOVERNOR AND THE LEGISLATURE
TO GIVE POLICY MAKERS TIMELY,
ACCURATE, AND OBJECTIVE
INFORMATION FOR DECISION MAKING.

The Honorable Members of the Legislature
The Honorable Benjamin J. Cayetano, Governor

April 22, 1996

Ladies and Gentlemen:

This Annual Report covers activities at the Office of the Auditor for calendar year 1995.

We achieved much in 1995. Our new procurement compliance monitoring program is now well under way. We strengthened our audit follow-up program, while continuing to publish a wide variety of audit reports and other studies to help make government more cost-effective. And the National State Auditors Association, reviewing our office for the second time, concluded that we have an effective quality control system and our work meets professional auditing standards.

This year, our annual report includes an essay on the challenges of computerization in state government. We hope that our observations will contribute to the productive use of new technologies.

On this occasion, I want to give my staff a special pat on the back. The demands on our office are increasing and staff have responded: meeting tight deadlines, reviewing each other's work to ensure its quality, making time in their schedules for our rigorous staff training sessions. It's a true team effort.

We look forward to maintaining and enhancing our contribution to state government in 1996.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marion M. Higa".

Marion M. Higa
State Auditor

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1995 - A Year of Refining New Programs

We reported in our 1994 Annual Report that we had embarked on two new initiatives. First, we had expanded our audit follow-up program. Second, we had established a procurement compliance program. In 1995, we made substantial progress in both areas.

AUDIT FOLLOW-UP

In 1995 we issued 10 follow-up reports to identify actions taken or not taken by agencies on findings and recommendations from audits previously conducted by our office. We revisited the agencies to obtain the necessary information, and found substantial progress in some areas and limited or no progress in others.

While our 1995 follow-up projects were less formal than our regular audits, they provided insight into the impact of our work. In this light, we have formalized the process and will conduct full follow-up audits (following our standard procedures) on a selective basis beginning in 1996.

While they are rigorous, follow-up audits also offer flexibility. For example, conditions that existed when we made a previous finding may have changed, and we can acknowledge this in the follow-up report. We can also credit an agency with solving problems creatively even if its actions are not exactly what we recommended.



Analysts Cindy Kam Spallina (left) and Karen Ho on assignment at an agency during fieldwork.

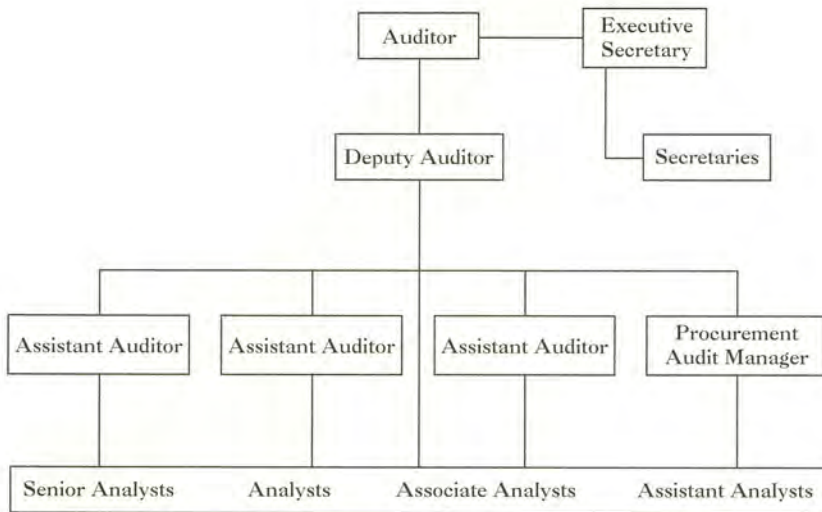
PROCUREMENT COMPLIANCE

As required by law, we are now auditing the procurement practices of government agencies to ensure compliance with the new Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes).

Our first compliance audit under the new law was conducted as part of our 1994 work program and issued in 1995. In that *Audit of Hawaii's Implementation of the New Procurement Law*, Report No. 95-8, we found the state administration slow in adopting the procurement code. We also found the organizational

structure for procurement to be ineffective. Roles and responsibilities were conflicting and unclear. Policies for small purchases varied among agencies. We found that agencies were "parceling" their purchases to avoid competitive bidding, and were finding ways to avoid competitive sealed proposals for professional services. We made several legislative and administrative recommendations for improvement.

ORGANIZATION OF THE OFFICE OF THE AUDITOR



Later in 1995, we issued another procurement report, entitled *Audit of State Contracting for Professional and Technical Services*, Report No. 95-29. The audit covered selected agencies: the Airports Division of the Department of Transportation, the Child and Adolescent Mental Health Division of the Department of Health, and the High Technology Development Corporation, which is administratively attached to the Department of Business, Economic Development and Tourism.

We initiated the audit in response to an invitation by the National State Auditors Association (NSAA) to have Hawaii participate in a joint audit with other states. In accordance with the time frame established by NSAA, the audit covered the two-year period of FY1992-93 and FY1993-94. While this was prior to the effective date of Hawaii's new procurement law, the audit obtained information about procurement practices that will assist us in our future compliance monitoring.

STAFF OF THE OFFICE OF THE AUDITOR

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Themes of the Reports

We produced 34 reports as a result of our 1995 work program. These included 16 performance audits and studies, 3 financial audits, a health insurance analysis, 4 sunrise analyses, and 10 audit follow-up reports. Highlights of these reports begin on page 8. We also performed 96 reviews of proposed special and revolving funds for the 1995 legislative session.

Our reports contain information, conclusions, and suggestions that we offer in the interests of government accountability. The following are a few key themes.

COST REDUCTION

One road to government's financial health is cost reduction. We identified several areas of potential savings, some enormous, others more modest.

Weaknesses in the State's contracting processes have led to the Department of Transportation spending more than \$102 million for airport projects that were later canceled. We also estimated that the Department of Education, in building temporary classrooms, could have saved about \$10 million over eight years by using modular structures.

We recommended that the Governor consider issuing guidelines for controlling the cost of agencies' annual reports, some of which cost more than \$20,000 to produce.

REVENUE ENHANCEMENT

Government programs have other sources of support besides taxes, and these revenues should be maximized.

We found that the Department of Health is not doing all it could to bill Medicaid and other insurers for services provided at the state-run community mental health centers. While the centers depend heavily on allocations from the state general fund, aggressively pursuing other reimbursements would help ensure that needed services are provided, and could reduce the burden on taxpayers.

We also concluded that the department's Division of Community Hospitals could increase revenues by transmitting claims to HMSA on electronic media (magnetic tape, diskette, or dial-up-lines). Furthermore, the Maui Memorial Hospital and the Hilo Medical Center could collect millions of additional dollars if they improved their collections to meet hospital industry standards.

CLARITY OF PURPOSE

Like private businesses, government programs need to be clear about what they are trying to achieve. We found that the College of Education at the University of Hawaii has no clear mission. We also found problems of focus in the Comprehensive School Alienation Program and the Pregnant and Parenting Teen Program of the Department of Education. Problems there stem largely from the department's lack of a clear mission statement for public education and the Office of Instructional Services'

failure to provide schools with clear objectives for these two programs.

Not surprising in light of their unclear purpose, we found that these university and public school programs need to be evaluated more effectively.

SOUND FINANCIAL AND INFORMATION MANAGEMENT

Taxpayers expect state agencies to manage their finances with the same diligence and attention to the bottom line that shareholders expect of private businesses. And as in the private sector, state managers need accurate, complete, accessible, and timely information for decision making.

We found significant problems in financial management at the Hawaii State Hospital and the Hilo Medical Center, both operated by the Department of Health. In addition, the department's computerized Community Hospitals' Information Processing System (CHIPS) is still not achieving its purposes.

Deficiencies continue to plague the Financial Management System (FMS) of the Department of Education. This computerized system does not identify school costs with sufficient precision. Furthermore, FMS's response time has been degenerating. We found the department has not used the system effectively for financial analysis and decision making.



Senior analyst Pamela Matsukawa (standing) discusses the indexing of an audit report draft with team members Maria Chun (left) and Susan Hall.

LIMITING AND STREAMLINING GOVERNMENT

Currently, there is much talk of getting government back to basics and streamlining those operations that remain. In four reports, we recommended that the State not add new occupational regulatory programs to its agenda. Specifically, we found that proposals to regulate marriage and family therapists, nutritionists, physical therapist assistants, and respiratory therapists were not warranted.

One way to streamline existing programs is to centralize and consolidate certain activities. This has both advantages and disadvantages. In three of our reports, after weighing the pros and cons, we leaned toward centralization and consolidation.

First, we recommended that the administration of the State's purchase of service contracts with outside providers be removed from a separate law, Chapter 42D, Hawaii Revised Statutes, and brought under the State's Procurement Code, Chapter 103D.

Second, we recommended that the processing of state employees' workers compensation claims be centralized in the Department of Human Resources Development.

Third, we concluded that creating a single cabinet level department of housing could help the State reach its housing goals, although much additional analysis of this approach is necessary.

POTENTIAL FOR CHANGE

We are often asked whether our reports have any impact. Our 10 follow-up reports issued in 1995 strongly suggest that the answer is yes. We found that our previous audits had led to improvements in agencies' financial reporting, financial management, contracting practices, management information, and records management. However, progress was not uniform and much remains to be done.

NUMBER AND TYPES OF REPORTS - 1995



Essay: Are We On Line?

Historians may differ on whether the Internet and other recent developments in the world of information technology are truly revolutionary. But few would disagree that computers have had a significant impact on everything from billing customers, to diagnosing diseases, to making movies, to flying to the moon.

Catch phrases such as "information superhighway" are quickly becoming household terms, as entities such as the Internet have found their way into nearly every facet of our lives. Despite our applause, hesitation, or even outright rejection of computer technology, computerization will continue to accelerate at rates that far outstrip this week's fastest microchip.

Suddenly, government agencies find themselves confronted not with the issue of whether to board the fast-track of computerization, but *how* to board it quickly and painlessly. Government agencies can't afford costly experiments and hit or miss approaches to implementing information systems when public funds are at stake. Rather, government organizations face the challenge of finding the most cost-effective routes to computerization.

Our role as auditors has provided us with insight into some of the key issues surrounding the evolution and impact of computer technology on state agencies. Increasingly, we are being called upon to examine computer systems that were intended to make government more efficient and effective.

In the end, the question on everyone's mind is "has computerization improved state government in Hawaii?" We'd say that the jury is still out. Too often, we see ambitious hopes for exciting new information systems dashed by unmet expectations. In some instances, the process of implementing new technology has hurt more than it has helped.

CASE STUDIES: CAUGHT IN THE WEB

The Desire: The Department of Education spent millions of dollars to develop a computerized financial management system to streamline its paper work, and to provide individual schools with stronger budget control.

The Reality: Staff are wrestling with a new system that because of its slow response time, has forced them into working overtime.

The Desire: The Department of Health spent millions of dollars automating its information system for 13 community hospitals, to increase efficiency in the flow of financial and operational information.

The Reality: Staff are still processing information manually, using piecemeal systems, or awkward combinations of manual and automated functions, all at the expense of lost revenues.

The Desire: The Traffic Violations Bureau of the Judiciary implemented a data processing system to increase its efficiency in collecting fines and fees.

The Result: Staff are still performing manual tasks to a large degree, causing inefficient use of time and inadequate management information.

HAWAII IS NOT ALONE

Problems with computerization are not exclusive to Hawaii. Misadventures in systems' management plague government agencies throughout the country. For example:

- The California State Auditor recently reported that the State's Department of Motor Vehicles spent \$49.4 million for a failed computer data base. Key objectives in project development were missed, and even after a major re-assessment, the system could not be made to work.
- The State Comptroller of New York found that an automated Medicaid management information system could not detect certain types of billing errors or handle some of the larger claims. Such problems resulted in millions of dollars in overpayments.
- According to *The Washington Post*, the District of Columbia's computerized financial management system is too old and limited to perform its functions. It recently "crashed" just before a key deadline in crucial budget preparations. Even when healthy, the system was not being well used by staff.
- A story in *The Wall Street Journal* told of problems in controlling access to computers in the U.S. House of Representatives that could allow unauthorized persons to tamper with sensitive data and conceal improprieties.

WHAT GOES WRONG AND WHAT TO DO ABOUT IT

The use of transportation metaphors to describe information systems is not merely a clever coincidence. We are traveling at high speeds toward a new era. Many believe that we are in a period of change and evolution from the industrial society to one based on information processing and exchange; and that this period brings with it the turmoil and growing pains of any developmental stage. Amidst this turbulence are state agencies, which were forced to find ways to harness a plethora of information that had suddenly been unleashed by the microchip. So how did the agencies respond to this? They rushed.

In their efforts to quickly implement automated information systems, state agencies often skipped over essential steps in the development process. Over and over again, we found that agencies lacked sufficient planning, management, and staff to successfully implement new technology. These three words—planning, management, and staff—are not innovative terms that evolved from the advent of computerization. On the contrary, they are fundamental, familiar words that have been the cornerstone of organizations and agencies for decades. It's time to return to the basics.

BACK TO BASICS

Once a major new automated system has been purchased, it develops a momentum of its own. It's not easy to stop the project, take stock, change direction, or abandon the project. But just as in private business, state agencies must develop the flexibility to re-assess what they are doing in computerization and make the necessary corrections.

A structure for project development is essential. The Information and Communications Services Division of the Department of Budget and Finance has developed a "SDM/Structured Methodology" which steers development efforts with descriptions of steps to be performed, how they are to be documented, and guidelines on estimated costs and timetables. SDM also guides maintenance, enhancements, or modifications to systems. Agencies should follow the SDM to effectively control their automation development.

It is crucial that automation efforts within departments receive adequate support at the highest levels of the department. Department branches and units should not be left to flounder on their own.

Most of all, everything comes down to people. We believe that before embarking on computerization projects—and this includes both new automation and efforts to improve existing systems—agencies need to make sure that they have a knowledgeable, tough-minded person on board to get the project off to a good start and keep things on track. This person must be capable of



Analysts Steven Araki (left) and Gansin Li assist in identifying a problem with one of the office computers.

establishing why the system is needed, what is expected from it, and how success will be measured.

FINAL OBSERVATIONS

The stakes are high in computerization. Vendors push to sell systems that may or may not be what the agency needs, and hasty purchasing decisions can be financially devastating. Failed projects have both direct costs (hardware, software, contractors, consultants, staff salaries) and indirect costs (low morale, inefficient operations, lost opportunities). But finding the right person to make wise choices and to lead the agency into successful automation is not an easy task. When the stakes are this high, however, we can't afford to settle for anything less than our highest standards.

Ultimately, the successes of computer technology depend on the efforts and visions of the people behind its operations.

Summary of Reports - 1995 Work Program

PERFORMANCE AUDITS AND SPECIAL STUDIES

*Audit of the **Annual-Report Costs of State Agencies**, Report No. 95-20*

Many departments and other units of state government in Hawaii issue annual reports. We examined expenditures for vendors such as graphic designers and printers, and found that state agencies vary widely in the costs of producing and distributing their annual reports. The costs of an annual report ranged from negligible amounts to over \$20,000. We also found no overall cost guidelines for agencies' annual reports. As a result, the reasonableness of costs incurred is a matter of opinion and we found some of the costs to be questionable. The Governor should consider issuing guidelines with suggestions on how to produce and distribute a readable annual report at a reasonable cost.

*Audit of the Management of **Billings and Collections for the Department of Health's Outpatient Adult Mental Health Services**, Report No. 95-25*

We focused on the Adult Mental Health Division of the Department of Health and eight community mental health centers run by the department. While the centers are steadily increasing their revenues from billings and collections, recoupment falls far short of initial estimates that each center would generate 30 to 40 percent of its budget from Medicaid billings. In FY1993-94, billing revenues amounted to \$338,209, or about 3 percent of the \$11.7 million in general funds allocated to the centers. Obstacles include staff vacancies at the centers, lack of formal training, and insufficient guidance from the Adult Mental Health Division. Furthermore, the division does not aggressively pursue billings and collections. Inadequate automation presents another major obstacle.

*Management Audit of the **College of Education**, Report No. 95-24*

The College of Education of the University of Hawaii at Manoa is a primary source of teachers for the State's public school system. We found that the college has not clarified its mission. It has failed to seek a resolution to the conflict between a single mission to prepare teachers for the public schools set out in Section 304-20, Hawaii Revised Statutes, and the broader university mission of teaching, research, and public service. The college also lacks clear policies and guidelines for its program development process. Moreover, students at the college are not routinely informed of what is expected of them because goals and objectives for some programs are rudimentary, unclear, or nonexistent. Further, the college's teacher preparation programs are not being adequately evaluated.

*Management Audit of the **Commission on Water Resource Management**, Report No. 96-3*

The Commission on Water Resource Management administers the State Water Code. While the commission is making some progress in its effort to protect water resources, we found that it still has serious problems to address. The commission has not fulfilled certain requirements of the code, including issuing certificates of water use, developing an adequate Hawaii Water Plan, or establishing a comprehensive instream-use protection program. The water management designation process is lengthy and can interfere with the commission's ability to protect water resources. The issuance of water use permits is slow, poorly managed, and at times delayed due to additional or unclear procedures. The commission's rules are unclear, incomplete, or outdated.

*Audit of the **Comprehensive School Alienation Program and the Pregnant and Parenting Teen Program** of the Department of Education, Report No. 96-2*

We found that the Department of Education's management of the Comprehensive School Alienation Program (which includes alternative learning centers) and the Pregnant and Parenting Teen Program is weakened by the lack of a clear department mission. The Office of Instructional Services spent \$10 million for these programs without appropriate planning and evaluation of their effectiveness. Arbitrary allocation of resources has resulted in unequal access to alternative education programs. The department needs to clearly state the mission of public education, and this mission should drive the implementation of the two programs. Our report also recommends specific improvements in program evaluation, management information, and resource allocation.



*Audit of State **Contracting for Professional and Technical Services**, Report No. 95-29*

We found inconsistent controls over contractual services among selected state agencies. In the Airports Division of the Department of Transportation, weaknesses in contractor selection, planning, and monitoring led to waste and inefficient use of public funds including more than \$102 million in payments for canceled projects. The Child and Adolescent Mental Health Division of the Department of Health exercises poor control over contract files, lacks clear policies and procedures over authorization of payments to contractors, and needs better planning, monitoring, and evaluation. In contrast, the High Technology Development Corporation has strong controls including a qualified staff, clearly written contracts, and diligent monitoring and evaluation.

*Status Report on Monitoring **Fiscal Accountability of the Department of Education: Case Study - Royal Elementary School**, Report No. 95-23*

Current expenditure reports from the Financial Management System of the Department of Education lack the detail to identify how the \$1 billion appropriated for public education each year is being spent. The department cannot identify expenditures made on behalf of schools or identify support agencies' operational costs either on a school-by-school or programmatic basis. Because of the lack of expenditure reports which attribute costs by function and location, we had to manually calculate the operational cost for Royal Elementary School during FY1993-94. We also found that the department has not fully utilized its Financial Management System to perform financial analysis and assist in decision making.



*Sunset Evaluation of the **Forfeiture Program**, Report No. 95-22*

The Hawaii Omnibus Criminal Forfeiture Act, Chapter 712A, HRS, provides for the seizure and forfeiture of property associated with certain unlawful activities and for the distribution of the property itself or its proceeds, to state and county law enforcement agencies for their use. We found that the impact of forfeiture in deterring crime is difficult to measure, but the forfeiture law need not be repealed. We also found that the law could be made more fair by incorporating certain provisions of the model *Uniform Controlled Substances Act* (1994). Finally, we found that the Criminal Forfeiture Fund administered by the Department of the Attorney General does not clearly link benefits and charges, escapes the normal process of legislative appropriations, and is unnecessary.

*Management and Fiscal Audit of the **Hawaii State Hospital**, Report No. 95-34*

We found that past administrations failed to properly manage the Hawaii State Hospital, a psychiatric facility licensed and operated by the Department of Health. Detrimental practices ingrained in the fabric of hospital operations have put the new hospital superintendent at a severe disadvantage in making changes. The superintendent has made some progress in personnel management and other areas, but many problems remain. Improvements are needed in the areas of absenteeism, grievances, supervision, purchasing, payroll, staff utilization, recordkeeping, and inventory controls. The department and the hospital should reconsider the practice of subsidized meals for hospital employees. The hospital should continue its efforts in addressing the problems associated with its forensic patient population.



*Audit of the **Information System of the Division of Community Hospitals**, Report No. 95-21*

In our 1992 audit of the Division of Community Hospitals of the Department of Health, we found that poor management, inadequate staffing, and an insufficient budget led to a failing information system. This time, despite more than \$15 million in additional expenditures, we found that the system was still fraught with problems. The Community Hospitals' Information Processing System is incomplete, fragmented, poorly managed, and without clear direction. The system continues to fall far short of its intended goal of a standardized, state-wide, integrated information system. The deputy director of community hospitals should attend to some key tasks that include hiring a full-time trained and qualified data processing manager, evaluating the system, and ensuring adequate staff training.

*A Study of a **Proposed Department of Housing**—Final Phase, Report No. 96-7*

This report is the second phase of our study of the potential advantages and disadvantages of creating a cabinet level department of housing that would assume the housing functions now being implemented by the Hawaii Housing Authority, the Housing Finance and Development Corporation, and the Hawaii Community Development Authority. The first phase was *A Preliminary Study of a Proposed Department of Housing*, Report No. 95-7. The final report, No. 96-7, concludes that to effectively utilize its limited resources, the State needs to evaluate its housing goals and objectives to determine its most suitable courses of action and target groups. We also conclude that creation of a single cabinet level department of housing has the potential to improve the effectiveness and efficiency of the State's efforts to achieve its housing policy goals.



*Audit of the Administration of the **Purchase of Service System**, Report No. 96-1*

Proper administration of purchase of service contracts has long been a problem for a majority of state departments. We found the administration of these contracts under Chapter 42D, HRS, to be plagued with problems. We found no designated central authoritative agency responsible for the administration of contracts, and two ineffective and unnecessary councils, the Executive Coordinating Council and Advisory Council. The new procurement law, Chapter 103D, duplicates efforts of Chapter 42D and could be more efficient and effective for administering purchases of services. The Legislature should remove purchase of service from Chapter 42D and bring it within Chapter 103D. In addition, the Executive Coordinating Council and the Advisory Council should be eliminated.

*Review of **Revolving and Trust Funds of the Judiciary and the Departments of Commerce and Consumer Affairs, Hawaiian Home Lands, Health, and Human Services, Report No. 95-32***

This is our third report under a law that requires the Auditor to review all existing revolving and trust funds in state government every five years. We reviewed 51 revolving and trust funds and trust accounts based on the following criteria developed by the Legislature and our office: do the funds continue to serve the purpose for which they were created, without requiring continuing general fund appropriations; and do the funds show a linkage between benefits and charges made on users or beneficiaries of the state program involved? For each fund or account, our report presents a five-year financial summary, the purpose of the fund, and our conclusions about its use.



*A Review of **Sports Promotion Activities of the Department of Business, Economic Development and Tourism, Report No. 95-33***

The Department of Business, Economic Development and Tourism conducts sports promotion activities for the State, excluding the University of Hawaii. The Hawaii Visitors Bureau also conducts such activities through a contract with the department. We looked at several alternative strategies, such as, transferring these activities to the Stadium Authority or another state agency; establishing a separate sports authority; or making no changes. We recommended that the activities remain with the department and the visitors bureau. The Stadium Authority should be allowed to develop its promotional capabilities before considerations are made to perform general sports promotion. If creating a sports authority or commission is considered again, key issues in its establishment will be the organization type, funding, scope, and logistics.

*Audit of the **Temporary Classroom Program, Report No. 95-19***

To meet shifting public school population needs, approximately 60 temporary wood classrooms are constructed each year at a cost of about \$4 million. To reduce delays, we recommended that the Department of Accounting and General Services and the Department of Budget and Finance streamline the approval process for allotting design funds and obtaining permission to advertise for bids. Also, the Department of Accounting and General Services should reduce the use of engineering consultants by using staff electrical and mechanical engineers as appropriate. This department and the Department of Education should explore alternative cost-effective methods and technologies to fulfill the need for temporary classrooms. For example, the alternative of using modular classrooms could have saved the State about \$10 million over the past eight years.



*Study of the **Workers' Compensation Claims Process for State Employees, Report No. 96-5***

Expenditures by Hawaii state government for workers' compensation benefits to its employees have increased to more than \$25.6 million. State government has taken significant steps to better control these costs, but these efforts have not yet produced an integrated system. No one department is fully accountable for overseeing, coordinating, and reporting on claims for and costs of workers' compensation for all state employees. The Legislature should consider making the Department of Human Resources Development responsible for central oversight, coordination, and reporting for workers' compensation activities related to claims by state employees. Among other things, the department could manage claims on a centralized basis for all agencies in the executive, judicial, and legislative branches.

FINANCIAL AUDITS

*Financial Audit of the **Hilo Medical Center**, Report No. 96-4*

We conducted this audit with the certified public accounting firm of Arthur Andersen LLP. We found that financial management practices at the Department of Health's Hilo Medical Center are deficient to the extent that the center is far from being capable of functioning as an independent or autonomous entity. The problems are primarily the result of several layers of bureaucracy, and inattention by the Division of Community Hospitals; State of Hawaii job classification and pay scales; and a failure to properly manage important functions such as billings and collections, contracts, and workers' compensation claims. Certain conditions resulted in Arthur Andersen LLP stating an exception to the fair presentation of the center's June 30, 1995 financial statements.



*Financial Audit of the **Maui Memorial Hospital and Hana Medical Center**, Report No. 96-6*

This audit was conducted with the certified public accounting firm of Deloitte & Touche LLP. In the firm's opinion, the financial statements present a fair picture of the financial position and results of operations of the Maui Memorial Hospital and Hana Medical Center—two facilities operated by the Department of Health—for the fiscal year ended June 30, 1995. We found, however, that the Maui Memorial Hospital could improve its business office operations and security procedures. Cash discounts granted to two insurers may not be authorized or based upon sound reasoning. Revenue and collection practices need to be improved so that the hospital can pay off a near \$16 million debt that it owes to the state general fund. Other areas needing attention are utilization review, internal financial reporting, and accommodations for long-term care patients.

*Financial Audit of the **Public School System**, Report No. 96-8*

This audit was conducted with the certified public accounting firm of Nishihama & Kishida, CPA's, Inc. In the firm's opinion, the financial statements present fairly the public school system's financial position and results of operations for the fiscal year ended June 30, 1995. We found continuing weaknesses in the Department of Education's automated Financial Management System, including user dissatisfaction with the system's availability and response time; the lack of a comprehensive budgeting and accounting system at the school level; and the lack of expenditure reporting on a school-by-school basis. Our audit also found many deficiencies in the department's internal controls, including inadequate segregation of duties at the schools' business offices, weak controls over receipt books, untimely recording of deposits, poor controls over school cafeteria collections, and insufficient collection and enrollment procedures for the A+ Program.



HEALTH INSURANCE ANALYSIS

*Study of Proposed Mandated Health Insurance for **Acupuncture Services**, Report No. 95-28*

Available information indicates that interest or demand for insurance coverage for acupuncture services is low or nil. Although a large nationwide population utilizes unconventional treatment such as acupuncture and is willing to pay out of pocket for this service, this has not moved Hawaii's work force into negotiations for insurance coverage. Coverage for acupuncture services is already provided by some Hawaii insurers and under Hawaii's workers' compensation and no-fault insurance laws. Also, insurance coverage may be provided as an optional rider to existing coverage as an insurer's option. If coverage is mandated, costs for insurance premiums are expected to increase. We concluded that mandated coverage for acupuncture services is not warranted at this time.

SUNRISE ANALYSES

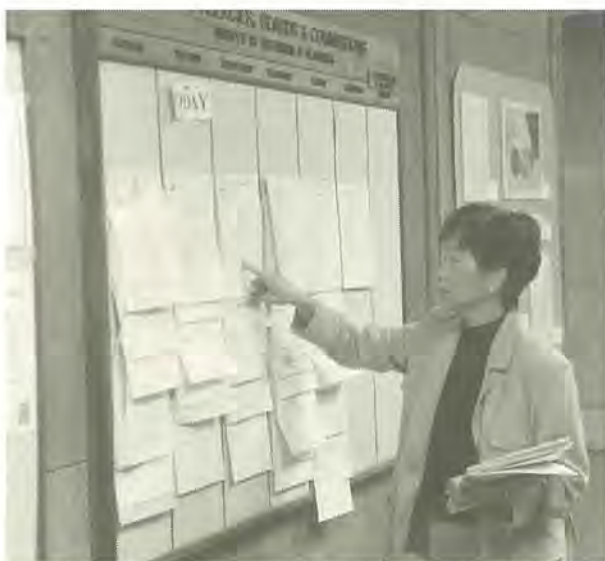
Marriage and Family Therapists,
Report No. 95-26

Nutritionists, Report No. 95-27

Physical Therapist Assistants,
Report No. 95-30

Respiratory Care Practitioners,
Report No. 95-31

We analyzed whether marriage and family therapists, nutritionists, physical therapist assistants, and respiratory care practitioners should be regulated as proposed during the 1995 Regular Session. Applying the policies in Hawaii's Sunset Law, we found that regulation of these occupations is not warranted. Our conclusions were based on such factors as the following: insufficient evidence of harm to consumers by practitioners of the occupation; the existence of other consumer protections such as standards of private professional associations and supervision; and the substantial costs and uncertain benefits of regulation. We also found that the bills proposing regulation had flaws in such areas as scope of regulation, licensing requirements, and public representation on proposed licensing boards.



Analyst Melvia Kawashima checks the hearing schedule posted at the State Capitol during the legislative session.

FOLLOW-UP REPORTS

*Follow-Up Report No. 95-9 on an Audit of the
**Research Corporation of the University of
Hawaii***

Our 1993 *Audit of the Research Corporation of the University of Hawaii*, Report No. 93-10, found a lack of accountability and oversight in the corporation's operations, financial management, and contract administration. The corporation also lacked clear policies, criteria, and management controls for contracts with state agencies. Also, the corporation's management fee structure for state agencies was arbitrary and not linked to services provided. *In our 1995 follow-up*, Report No. 95-9, we found that the corporation had made progress by improving its financial reporting and by drafting a proposed master agreement establishing the terms and conditions under which it may contract with state agencies. Nonetheless, the fee structure is still arbitrary.



*Follow-Up Report No. 95-10 on a Study of the
**Memorandum of Agreement for Coordinating
Mental Health Services to Children***

State law requires the Department of Education and the Department of Health to develop a memorandum of agreement for sharing responsibilities for mental health services for children. Our 1993 report, *A Study of the Memorandum of Agreement for Coordinating Mental Health Services to Children*, Report No. 93-1, found that the departments had no collaborative process to keep the agreement up to date. Also, the departments had not defined their respective responsibilities to children with mental health needs. *In our 1995 follow-up*, Report No. 95-10, we found that the departments have begun the process of improving collaboration, working on the memorandum of agreement, and clarifying their responsibilities. However, the new memorandum of agreement exists only in draft form.

Follow-Up Report No. 95-11 on a Study of the
Financing of the Small Boat Harbors and
Boat Ramps Program of the Department of
Land and Natural Resources

The State operates small boat harbors and boat launching ramps in all four counties. Our 1993 report, *Study of the Financing of the Small Boat Harbors and Boat Ramps Program of the Department of Land and Natural Resources*, Report No. 93-24, found that the statewide boating program needed improvement. Facilities and services varied from harbor to harbor and were sometimes inadequate. Accounting controls for the program were also deficient. *In our 1995 follow-up*, Report No. 95-11, we found that the department has not yet developed a comprehensive boating program. No specific statewide standards exist for facilities and for services to the boating public, and there are no specific goals and time lines for bringing facilities and services up to standard.

Follow-Up Report No. 95-12 on a Study of the
Department of Health's Administration of
Contracts for Purchases of Service for
Persons with Developmental Disabilities

In our 1992 report, *A Study of the Department of Health's Administration of Contracts for Purchases of Service for Persons with Developmental Disabilities*, Report No. 92-32, we found that contracts and payments to providers of services were often delayed and contract monitoring was inconsistent. Also, the department needed to develop better estimates of the number of persons with developmental disabilities and improve its consolidated purchase of service program. *In our 1995 follow-up*, Report No. 95-12, we found that the department has made progress in most of these areas. However, the department has not yet developed written contract monitoring standards for its divisions as we recommended.

Follow-Up Report No. 95-13 on a Financial Audit of
the Department of Health

Our 1992 report, *Financial Audit of the Department of Health*, Report No. 92-30, found that the department's contracting practices failed to assure that legislatively mandated services were provided to the public in a manner that safeguarded the interests of the department, service providers, and recipients of services. We also found some weaknesses in the department's financial management. *In our 1995 follow-up*, Report No. 95-13, we found that the department has made progress in several areas. However, the department still needs to ensure timely execution of purchase of service contracts, develop written contract monitoring standards for its divisions, deposit and record receipts in a timely manner, and comply with state requirements on reporting equipment acquisitions.

Follow-Up Report No. 95-14 on a Study of
Curriculum, Budgeting, and Repair and
Maintenance for Hawaii's Public Schools

In our 1992 report, *A Study of Curriculum, Budgeting, and Repair and Maintenance for Hawaii's Public Schools*, Report No. 92-31, we found that the Department of Education had not clearly defined a statewide curriculum or core curriculum. Also, the memorandum of agreement on school repair and maintenance between the Department of Education and the Department of Accounting and General Services did not reflect current repair and maintenance policies and procedures. Better training and realignment of some responsibilities could improve the repair and maintenance program. *In our 1995 follow-up*, Report No. 95-14, we found that progress has been made in the area of repair and maintenance. However, our recommendations in the area of curriculum management have not been implemented. Education reform (school-community based management) and the adoption of performance standards by the Board of Education have impacted the implementation of our 1992 report.

*Follow-Up Report No. 95-15 on a Management Audit of the **Honolulu Traffic Violations Bureau***

Our 1993 report, *Management Audit of the Traffic Violations Bureau*, Report No. 93-21, found that the manager of the bureau had limited authority to make decisions, making it difficult to manage operations. We also found that the bureau's Traffic Violations Computer System (TRAVIS) was old and inadequate for processing traffic citations and drivers' abstracts. In addition, we found that the bureau needed to improve its management of check deposits and cash register receipts, and that its policies and procedures manual was outdated. *In our 1995 follow-up*, Report No. 95-15, we found that the bureau has improved its handling of cash register receipts and has made progress towards an updated manual of policies and procedures. In addition, the Judiciary is in the process of updating and possibly replacing TRAVIS. There are indications that the bureau manager will be given more autonomy.

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*Follow-Up Report No. 95-16 on a Management and Financial Audit of the **Department of Hawaiian Home Lands***

In our 1993 report, *Management and Financial Audit of the Department of Hawaiian Home Lands*, Report No. 93-22, we found that the department was far from achieving its mission since the majority of beneficiaries were still waiting to receive their homestead. The Hawaiian Homes Commission had not asserted its authority and policy-making responsibilities, and the department lacked written policies and a strategic plan to direct and lead its programs. We also found inadequacies in records management and loan activities. *In our 1995 follow-up*, Report No. 95-16, we found good progress in records management and loan collections, but the outgoing department leadership took exception to our recommendations in other areas. However, the new department administration has expressed support for most of our recommendations and states that corrective actions are under way.

*Follow-Up Report No 95-17 on a Financial Audit of the **Department of Human Services***

Our 1994 report, *Financial Audit of the Department of Human Services*, Report No. 94-5, found that the financial operations of the department were not being implemented in a responsible manner. For example, the department was improperly charging expenditures of certain programs to appropriations meant for other programs, failing to lapse federal reimbursements into the State's general fund, and not systematically tracking and recovering welfare overpayments. *In our 1995 follow-up*, Report No. 95-17, we found that the department has taken steps to correct many of the more significant deficiencies. For example, the improper charging of expenditures of certain programs to appropriations of other programs appears to have ended. However, much remains to be done, particularly in establishing procedures to ensure the completeness and accuracy of data entry, documentation in case files, and verifying the residency of recipients of assistance.

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*Follow-Up Report No. 95-18 on a Financial Audit of the **Department of the Attorney General** and a Management Audit of the **Child Support Enforcement Agency***

In our 1992 reports, *Financial Audit of the Department of the Attorney General*, Report No. 92-21, and *Management Audit of the Child Support Enforcement Agency*, Report No. 92-22, we found that the child support enforcement agency in the department suffered from a serious lack of internal controls and appeared not to understand the importance of financial management. For example, the agency had no record of the fund balances in its checking accounts and had failed to investigate unidentified child support collections in a timely manner. *In our 1995 follow-up*, Report No. 95-18, we found that the department and the agency have made progress toward solving the problems. For example, a certified public accountant was hired as assistant administrator, old accounts are being reconciled, and unidentified child support payments are being returned.

Actions Reported on Previous Recommendations (Report Nos. 94-6 through 95-8)

This follow-up is based primarily on our review of activity in the 1995 legislative session and state agencies' responses to our October 1995 request for information concerning actions they have taken on our recommendations.

For selected reports, we also revisit the agencies to obtain additional information on actions taken. In these cases, we subsequently issue detailed follow-up reports.

Report Title: **The Feasibility of Applying the Micro-Financial Analysis Model to Expenditures for Public Education in Hawaii: What Reaches the Classroom?**

Report No.: 94-6

RECOMMENDATIONS

Data should be collected at school sites to see what resources expended by the state and district offices actually translated into staff and programs on site. This should be done for FY1993-94.

The Department of Education should build the Micro-Financial Analysis Model into its financial management system to permit schools, districts, and the state office to track and analyze expenditures on a regular and ongoing basis.

The department should use the resulting data base for strategic planning to improve education.

The department should use data from the Micro-Financial Analysis Model to relate student outcomes to expenditures so that an assessment can be made of the relationship between the use of resources and student outcomes.

ACTIONS REPORTED

The department says that distributing the expenditures of centralized services and functions of the state and district offices to schools would require significant time and effort. The issue is whether the uses of the information outweigh the cost of acquiring it. A major commitment of time, money, and training would be needed to establish the infrastructure to obtain school-by-school data for strategic planning and to relate student outcomes to expenditures.

The department is moving the Planning and Evaluation Branch from the Superintendent's Office to the new Office of Accountability and School Instructional Support and plans to reorganize the branch around the Comprehensive Assessment and Accountability System (CAAS). That system, now under development, will incorporate student assessment and personnel, school, and system evaluation information to determine the efficacy and effectiveness of the educational enterprise.

In addition, the Board of Education is considering a generic approach or strategy to systematically evaluate school improvement. Together, the CAAS and the school improvement strategy would provide better information and data for strategic planning to improve student outcomes. Selected financial data, from those available, would be included in the school and system components of CAAS.

RECOMMENDATIONS

Chapter 451A, Hawaii Revised Statutes, should be repealed to leave regulation of hearing aid dealers and fitters to the federal Food and Drug Administration, Federal Trade Commission, and state Office of Consumer Protection.

If the statute is continued, the Legislature should consider amending it to delete the examination requirements and terminate the Board of Hearing Aid Dealers and Fitters.

The Department of Commerce and Consumer Affairs should:

- a. Amend the board's operational manual to eliminate the policy of periodic inspections of medical authorization and waiver records;
- b. Either seek an FDA waiver for the state statutory requirement that consumers be informed if the hearing aid is used or reconditioned, or seek legislation deleting the requirement;
- c. Delete the proposed rule requiring that an otorhinolaryngologist perform the medical evaluation of children 17 years or under; and
- d. Ensure the reliability of the applicant files by requiring original documents from the source whenever possible.

ACTIONS REPORTED

The chapter was not repealed.

The statute was not amended in these respects.

The department reports that the periodic inspection requirement and procedures have been deleted.

The department says that the board disputes the need for a waiver based on communications with the FDA and will not delete the requirement.

The board considers the medical evaluation legally proper and will retain it.

The board agrees that ensuring reliability is important but when original documents are unobtainable, it will accept a photocopy of a diploma.

RECOMMENDATIONS

The Legislature should continue the regulation of boxing contests.

The Legislature should consider amending Chapter 440, HRS, to:

- a. Eliminate licensing requirements for amateur promoters, and for timekeepers and match makers;

ACTIONS REPORTED

Act 279, SLH 1994, made Chapter 440 permanent prior to issuance of our report.

The statute was not amended in these respects.

*Report Title: **Sunset Evaluation Update: Boxing Contests***

Report No.: 94-8

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RECOMMENDATIONS

- b. Eliminate the requirement that professional promoters submit a credit report, current financial statement certified by a certified public accountant, tax clearance, and surety bond to obtain a promoters license;
- c. Eliminate the requirement for trust or escrow accounts for promoters to meet their financial obligations; and
- d. Allow the Boxing Commission to determine the appropriate method of assuring proper payment of promoters' obligations and the frequency of health and safety clinics for boxing.

The Boxing Commission should take steps to amend its rules to eliminate unnecessary licensing requirements and ensure that licensing requirements for professional boxers and referees are consistently enforced.

ACTIONS REPORTED

The commission says it has initiated a rules review, and modifications are in process. The commission has taken steps to correct the licensing oversights noted.

*Report Title: **Sunset Evaluation Update: Pawnbrokers***

Report No.: 94-9

RECOMMENDATIONS

The Legislature should continue the regulation of pawnbrokers in Chapter 445, Part V, HRS.

The Legislature should amend Part V to allow the counties to deny, suspend, or revoke a pawnbroker license for persons convicted of a felony that relates directly to the person's possible performance as a pawnbroker. A criminal history check should be conducted before a license is issued or reissued.

ACTIONS REPORTED

Act 279, SLH 1994, made Chapter 445 permanent prior to issuance of our report.

The statute was not amended in these respects.

Report Title: *Sunset Evaluation Update: Motor Vehicle Industry Licensing*

Report No.: 94-10

RECOMMENDATIONS

The Legislature should continue to regulate the motor vehicle industry.

The Legislature should consider amending Chapter 437, HRS, to:

- a. Repeal all the licensing requirements for motor vehicle salespersons, auctioneers, manufacturers, factory branches and representatives, distributors, and distributor branches and representatives;
- b. Allow licensees to conduct business outside the country for which the license was issued;
- c. Repeal the provisions requiring motor vehicle salespersons to be employed full-time and work for only one motor vehicle dealer; and
- d. Repeal the provision for a Motor Vehicle Industry Licensing Board.

ACTIONS REPORTED

Act 279, SLH 1994, made Chapter 437 permanent prior to issuance of our report.

The statute was not amended in these respects.

Report Title: *Sunset Evaluation Update: Regulation of Motor Vehicle Repairs*

Report No.: 94-11

RECOMMENDATIONS

The Legislature should continue to regulate motor vehicle repairs.

The Legislature should consider amending Chapter 437B, HRS, to:

- a. Repeal the provisions that regulate motor vehicle mechanics;
- b. Repeal the provisions for a Motor Vehicle Repair Industry Board; and
- c. Repeal the provisions that relate to the board's contracting with the University of Hawaii for a certification program.

The Department of Commerce and Consumer Affairs should seek a written opinion from the state attorney general on what information the department can provide for settlement agreements that would not jeopardize due process. The department should also enforce the requirements outlined in the statutes and departmental policies on minutes of the executive session meetings.

ACTIONS REPORTED

Act 279, SLH 1994, made Chapter 437B permanent prior to issuance of our report.

The statute was not amended in these respects.

The department says that ongoing education is more beneficial than a definitive line drawn by the attorney general's office on what can be provided to boards and commissions. The department has clarified the depth of detail required for executive session minutes to its staff.

Report Title: *Sunset Evaluation Update: Elevator Mechanics*

Report No.: 94-12

RECOMMENDATIONS

The Legislature should continue the regulation of elevator mechanics.

The Legislature should amend Chapter 448H, HRS, to terminate the Elevator Mechanics Licensing Board and transfer the board's functions to the director of the Department of Commerce and Consumer Affairs.

The department should amend Chapter 53, Hawaii Administrative Rules, to establish a suitable late fee for late renewals of the elevator mechanic license and amend its renewal application form accordingly.

ACTIONS REPORTED

Act 279, SLH 1994, made Chapter 448H permanent prior to issuance of our report.

The statute was not amended in these respects.

The department says the board has proposed to amend its rules to establish a restoration assessment along with other fee adjustments.

Report Title: *Sunset Evaluation Update: Medicine and Surgery*

Report No.: 94-13

RECOMMENDATIONS

The Legislature should continue the regulation of physicians, physician assistants, and emergency medical service personnel.

The Board of Medical Examiners should:

- a. Place priority on clarifying the requirements for the supervision of physician assistants;
- b. Expedite the adoption of rule amendments for the certification of EMTs and MICTs to avoid further discrimination against mainland-trained applicants;
- c. Reevaluate the equivalency exam after a sufficient number of Hawaii-trained emergency medical service personnel have taken it;
- d. Develop tracking procedures for disciplinary actions against physician assistants and emergency medical service personnel similar to the tracking of physicians, and participate in reporting disciplinary actions to national organizations;

ACTIONS REPORTED

Act 279, SLH 1994, made Chapter 453, HRS, permanent prior to issuance of our report.

The board says it agrees with this recommendation and revised its rules accordingly.

The board disputes the allegation of "discrimination against mainland-trained applicants," but says proposed rules drafted with the help of the Emergency Medical Personnel Advisory Committee to delete the equivalency examination requirement need to be expedited.

The board has discontinued administering the equivalency exam.

The proposed rules require that applicants supply information regarding disciplinary actions. The board is reporting disciplinary actions to national organizations.

Report Title: **Sunset Evaluation Update: Medicine and Surgery**

Report No.: 94-13

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RECOMMENDATIONS

- e. Work with the department and the board's executive officer on ensuring that executive meeting minutes comply with Chapter 92, HRS;
- f. Request a written opinion from the attorney general as to what information the board is entitled to receive in reviewing settlement agreements; and
- g. Develop policies for exceptions to relicensure requirements after an automatic termination of a physician license and consider establishing an inactive status option.

ACTIONS REPORTED

The board says all parties have complied, and will continue to diligently comply, with Chapter 92, HRS.

The board has taken this matter under advisement and has not yet determined whether to seek an opinion.

The board disagrees with this recommendation.

Report Title: **Study of Mandatory Health Insurance for Newborn Infant Adoptees**

Report No.: 94-14

RECOMMENDATIONS

The Legislature should consider retaining the mandated health insurance coverage for newborn adoptees by amending Act 268 of 1991 to remove the repeal date of June 30, 1995.

ACTIONS REPORTED

Act 47, SLH 1995, removed the repeal date.

Report Title: **Sunrise Analysis of a Proposal to Regulate Refrigeration and Air Conditioning Mechanics**

Report No.: 94-15

RECOMMENDATIONS

Do not enact House Bill No. 2661.

ACTIONS REPORTED

The bill was not enacted.

*Report Title: **Sunset Evaluation Update: Podiatrists***

Report No.: 94-16

RECOMMENDATIONS

The State should continue the regulation of podiatry in Chapter 463E, HRS.

The Board of Medical Examiners should amend its rules to accomplish the following:

- a. Eliminate arbitrary restrictions with regard to the number of times applicants may retake the PMLexis within a given time period;
- b. Require a check of the data bank of the Federation of Podiatric Medical Boards for the disciplinary history of applicants;
- c. State the PMLexis passing score in its rules;
- d. Specifically state in its rules that only the application and examination administration fee shall be forfeited when an applicant requests a postponement in taking the PMLexis; and
- e. Clarify the criteria for endorsement of the PMLexis taken in other states.

The board, through the Professional and Vocational Licensing Division, should review the periodic reports on disciplinary cases issued by the Federation of Podiatric Medical Boards and require more stringent verification of exam results for the national board examinations.

ACTIONS REPORTED

Act 279, SLH 1994, made Chapter 463E permanent prior to issuance of our report.

The board reports that it has revised most of its rules as recommended. It disagrees with the recommendation to clarify the criteria for endorsement of the PMLexis taken in other states because there is no provision for endorsement in the statute. However, the board is indirectly accomplishing this recommendation by rule amendments allowing acceptance of the PMLexis from other jurisdictions.

The board is implementing these recommendations.

*Report Title: **A Study of Special Fund Assessments and Reimbursements***

Report No.: 94-17

RECOMMENDATIONS

The Legislature should consider amending Sections 36-27 and 36-30, HRS to:

- a. Remove all exemptions of special funds from the statutory assessments for central services and departmental administrative costs, and
- b. Include all revolving and trust funds other than those that already pay all of their operating costs.

ACTIONS REPORTED

The statutes were not amended in these respects.

Report Title: A Study of Special Fund Assessments and Reimbursements

Report No.: 94-17

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RECOMMENDATIONS

The Legislature should also amend statutes establishing special, revolving, and trust funds to remove their specific exemptions from Sections 36-27 and 36-30, HRS.

The Department of Budget and Finance should establish a sound methodology for reasonably estimating central services expenses and departmental costs associated with the special funds, trust funds, and revolving funds. The department should develop clear and consistent guidelines for calculating reimbursements to the general fund.

The Department of Hawaiian Home Lands should be required to transfer past due assessments to the general fund.

ACTIONS REPORTED

The Department of Budget and Finance says that the Department of the Attorney General has determined that the computation of the assessment for central services assessment should be based on the gross receipts of the special funds. This opinion will be incorporated into the assessment computation.

The Department of Hawaiian Home Lands reports that the assessments have not been paid for because the department believes that (1) the assessments violate the Hawaiian Homes Commission Act, 1920, as amended, the Admission Act, and the Hawaii State Constitution; and (2) the funds are trust funds to be used exclusively for the benefit of native Hawaiians.

Report Title: A Follow-Up Review of Security Staffing in the Department of Public Safety

Report No.: 94-18

RECOMMENDATIONS

The Legislature should authorize the Department of Public Safety to test its proposed “estimated” shift relief factor of 1.88 at the Oahu Community Correctional Facility. In doing so, the Legislature should:

- a. Require the department to identify precisely the base to which the factor is to be applied;
- b. Require the department to project and justify the amount of normally expected or unavoidable overtime for FY1995-96;
- c. Set a limit against excessive overtime or a target for overtime savings at the affected institution;
- d. Require the department to monitor closely its performance in this area; and

ACTIONS REPORTED

Act 170, SLH 1995, requires the department to implement all elements of a model system for managing its security staff.

In implementing the security management model the department must (1) develop formal policies and procedures; (2) evaluate each post and position for both need and priority; (3) conduct reviews of institutional post orders; (4) assure that leave schedules are followed; (5) develop a system for monitoring and auditing security staffing performance; and (6) develop a system to manage overtime problems at correctional institutions.

Act 170 requires the department to report to the Legislature its progress in implementing a security management model, 20 days prior to the 1996 and 1997 regular sessions.

RECOMMENDATIONS

- e. Require the department to report on its performance to the Legislature during its 1996 session.

The Department of Public Safety should expedite the filling of the position of chief of security using the existing proposed position description, which focuses on security management at the correctional institutions.

The department should continue to give high priority to developing and implementing information and control systems that will result in reliable data for determining the shift relief factor. The department should also ensure the adequacy of the base by developing clear criteria for evaluating the need for and location of security posts and positions. It should then evaluate all posts and positions on the basis of these criteria.

The department should continue its efforts to maintain accurate leave records and timesheets. In this connection, the department should pursue the development of an automated system to replace its current manual system for recording leave time.

The department should mount a continuing and broad effort to implement all elements of the security management model. In doing so, the department should:

- a. Develop formal policies and procedures;
- b. Carefully evaluate each post and position at correctional facilities for both need and priority;
- c. Conduct an overall review of institutional post orders;
- d. Take steps to assure that leave schedules are followed to the extent practicable; and
- e. Develop a system for monitoring and auditing security staffing performance.

The department should fully implement its new sick leave policy and continue its efforts to identify and stop patterns of abuse of leave and overtime.

ACTIONS REPORTED

The department reports that negotiations between the Office of Collective Bargaining and the United Public Workers union have delayed the drafting of policies and procedures. The outcome of this negotiation will affect the guidelines for implementing the security management model.

The department is working with the union on evaluating the need and priority for correctional posts and positions.

Each correctional facility has completed its post descriptions. The Maui, Kauai, and Hawaii facilities will be revising their post descriptions as Capital Improvement Projects expand the facilities.

The department reports that current negotiations with the union on other issues have delayed consultation on leave scheduling.

The department has developed a Security Post and Work Position Plan, which summarizes the number of security posts, work positions, and the total staffing complement required to operate a facility's security program. The form is to ensure that posts and positions do not exceed what was authorized and allows constant monitoring and periodic auditing to determine the need to revise or adjust the plan.

The department continues to work on policies and instructions to guide employees on the proper and accurate use of the DPS Form 7. The department also implemented a program that requires employees who have been identified as having a "pattern of sick leave abuse" to validate their claims of illness with a medical evaluation by Straub Clinic. If the employee fails to report for an examination or fails to return to work after being medically cleared, disciplinary proceedings are initiated.

The department also explored using "hand geometry" to track attendance, but after union negotiations, it was determined that hand geometry could not be used for time and attendance. Moreover, several "hand geometry" stations were vandalized by unknown staff and investigations have been unsuccessful.

Report Title: Review of Revolving and Trust Funds of the University of Hawaii and the Departments of the Attorney General and Business, Economic Development and Tourism

Report No.: 94-19

RECOMMENDATIONS

No recommendations.

ACTIONS REPORTED

Report Title: Financial Audit of the Department of Taxation

Report No.: 94-20

RECOMMENDATIONS

The department should strengthen the procedures used to collect unpaid taxes by:

- a. Re-programming the department's computer systems to identify taxpayers who have not filed the required tax returns;
- b. Documenting the approvals obtained for the payment plans of delinquent taxpayers; and
- c. Re-examining its practice of not initiating foreclosure proceedings and actively monitoring the financial condition of taxpayers to determine when liens should be enforced through foreclosure proceedings.

The department should make photocopies of delinquent tax checks requiring additional investigation, deposit the checks promptly, and credit the payments to a suspense account.

The department should implement a depository system for general excise tax and state income withholding tax payments, including interest and penalty assessment payments.

ACTIONS REPORTED

The department reports that it is working with the Internal Revenue Service Fresno Center to identify non-filers instead of reprogramming its computer system.

The department is adopting new collection procedures to instill independent thought and accountability at the collector level.

With the assistance of the attorney general and training, the department says it is using every tool available to aggressively collect delinquent taxes, including foreclosures.

The department now identifies and deposits large checks immediately and deposits checks on a first-in, first-out basis. If the check requires additional investigation, the department uses a photocopy/suspense account feature. However, the suspense account procedure is not justified for delinquent accounts because checks are processed within one month.

For various reasons, the department will not implement a federal depository system. Instead, the department will implement Act 121, SLH 1995, which authorizes electronic funds transfer (EFT) for payment of general excise and withholding taxes, among other taxes, for taxpayers with tax liabilities of \$100,000 or more the previous year. The department recognizes that EFT will not cover all taxpayers until its new computer imaging and processing system is in place.

Report Title: **Financial Audit of the Department of Taxation**

Report No.: 94-20

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RECOMMENDATIONS

The department should be allowed to fill the vacancies in its Collection and Audit Divisions.

The department should consider acquiring a new income tax computer system to increase the efficiency and effectiveness of processing income tax returns and selecting income tax returns for audit.

The department should assess the relative importance of preparing letter rulings as compared to the department's other functions. It should also devise a fairer system of responding to requests for letter rulings.

The department should develop a formal training program to increase its auditors' proficiency and tax knowledge on a continuing basis. In addition, the department should designate an individual as the training officer to be responsible for developing and coordinating the department's training program.

The department should contact the Department of the Attorney General to determine the procedures for closing the inactive agency accounts.

ACTIONS REPORTED

The department reports that the department of Budget and Finance restricted the filling of all vacancies. However, the department intends to work with B&F to address the filling of vacancies.

The department says its Systems Replacement Project's first step is establishing a personal computer network infrastructure. Additional steps will require additional funding. Key features have been identified and the new system will integrate the net income and general excise tax systems.

In addition to letter rulings, the Technical Review Office also revises tax forms, reviews tax exemption forms, and prepares legislative testimony. The office is trying to reduce its inventory of requests for letter rulings.

The department has developed a formal training program for its auditors. The department also has designated an auditor as a trainer/coordinator to ensure training is timely and predictable. Managers will later assume this responsibility and ensure that proper training is provided.

The department coordinated with the attorney general. Trust and agency account balances have been identified, property presumed abandoned will be advertised, and funds thereafter transferred to B&F. The total amount of these properties is \$100,795.08. The department transferred the remaining balances in the accounts to the general fund.

Report Title: Management Audit of the Aquaculture Development Program in the Department of Land and Natural Resources

Report No.: 94-21

RECOMMENDATIONS

The chair of the Department of Land and Natural Resources should require the Aquaculture Development Program to develop a management strategy for accomplishing its mission and report annually on the extent to which it is achieving specific program objectives. The objectives should be clearly linked to program activities and overall mission.

To ensure linkage to mission and measurable goals, the chair should also require the program to report on the potential commercial or economic benefits of the contracts it awards.

ACTIONS REPORTED

The department reports that the program has refocused its mission, and existing program goals, objectives and policies are being re-evaluated. The department agrees a new management strategy is desirable. The strategy will be directed towards implementing and achieving specific and measurable objectives and activities, and linking program planning and implementation concepts.

The department will incorporate reporting requirements in the proposal review and execution process if state funding for aquaculture research and development is restored.

Report Title: Financial Audit of the Department of Agriculture

Report No.: 94-22

RECOMMENDATIONS

The department should immediately transfer to the general fund the \$800,000 appropriation and the \$2.2 million in fees earned by the Hamakua Sugar Loan Guaranty Trust Fund. Fees not yet received should be transferred to the general fund as they are received.

The department should strengthen its loan administration procedures by:

- a. Conducting supervisory reviews of loan account information entered into the computer;
- b. Separating the duty of making changes to loan account information from reviewing and authorizing the changes;
- c. Modifying the computer loan program so that it can generate monthly statements that clearly reflect the application of previous payments, the resulting outstanding balances, and the currently due principal and interest amounts;

ACTIONS REPORTED

The department says that \$800,000 was transferred to the general fund in March 1995 and an additional \$3 million was passed through the Agriculture Loan Revolving Fund to the general fund in May 1995.

Loan officers review information entered by clerical staff and initial a checklist to verify that information is accurate.

Clerk typists in Kona and Oahu enter payments and adjustments into the computer. The account clerk verifies the information and posts the payments.

The division is now using coupon books for payments. The division continues to send out annual statements indicating the principal and interest paid for the year.

*Report Title: **Financial Audit of the Department of Agriculture***

Report No.: 94-22

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RECOMMENDATIONS

- d. Establishing procedures to determine whether participating institutions are in compliance with Hawaii Administrative Rules for the participatory loans; and
- e. Following loan administration procedures in its manual requiring submission of annual financial statements by borrowers and conducting and documenting the required on-farm visits.

The Agricultural Park Special Fund and the Irrigation System Revolving Fund should be repealed and balances in these funds transferred to the general fund. The programs can be supported through general fund appropriations.

ACTIONS REPORTED

The division now requires certified copies of the recorded documents to insure that closings did occur and that documents are in fact recorded.

The division will continue to seek annual financial statements for all borrowers, but will continue to concentrate on delinquent borrowers.

Neither fund was repealed.

*Report Title: **Audit of the Process of Staffing State Programs***

Report No.: 94-23

RECOMMENDATIONS

The Legislature should support efforts to reform the civil service system by amending Chapter 76 to:

- a. Liberalize provisions on position classification; and
- b. Clarify the rationale for and categorization of exempt positions.

The Department of Human Resources Development should continue to play a leadership role in reforming the civil service system. As part of this effort, the agency should:

- a. Work in partnership with other line agencies and help agencies to simplify and expedite their internal personnel processes;
- b. Move towards a “broad-banding” classification system; and

ACTIONS REPORTED

The statute was not amended in these respects.

The department is working with line agencies in developing the automated Human Resources Management System to simplify and expedite the agencies’ processes.

The department will initiate legislation in 1996 to simplify the present classification system. The present statutes do not provide the flexibility needed for “broad-banding.”

Report Title: Audit of the Process of Staffing State Programs

Report No.: 94-23

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RECOMMENDATIONS

- c. Issue guidelines on the use and applicability of the exempt process and establish oversight of the process.

The Department of Budget and Finance should develop a clear set of guidelines and principles for agencies to follow in instituting reorganizations.

ACTIONS REPORTED

The department also is developing legislation to restructure the exempt process to clearly define boundaries between state “exempt service” and “civil service.”

B&F did not respond to our inquiry on actions taken.

Report Title: A Review of the Incentive and Innovation Grant Review Panel of the Department of Education

Report No.: 94-24

RECOMMENDATIONS

The superintendent of education should ensure that the panel reviews and makes recommendations and decisions on all grant proposals and projects funded by the incentive and innovation grant program.

The Legislature should appropriate funds for the incentive and innovation grant program with the specific proviso that funds are to be fully utilized solely for the program’s purposes.

The Legislature should require the Department of Education to submit annual reports detailing the expenditures of grant funds, projects receiving awards, amounts awarded, and any evaluations that have been made.

The review panel should develop clear grant selection criteria and written policies and procedures to ensure that the criteria are consistently applied to all grant proposals. The grant criteria and selection procedures should include the following:

- a. Criteria defining when and how a proposal is innovative;
- b. Requirements for panelists affiliated with a specific project or school to disclose this information and refrain from panel discussions;

ACTIONS REPORTED

The department reports the panel reviewed all grant proposals at its May 7-8, 1995 meeting. Of the 29 projects being considered for continuation as multi-year grants, the panel terminated 3 projects for lack of progress and awarded grants to the remaining 26 projects. Four new proposals were also recommended for funding.

No proviso was enacted.

No legislation was enacted.

The panel has defined “innovative.”

The panel has adopted procedures to address conflict of interest.

Report Title: A Review of the Incentive and Innovation Grant Review Panel of the Department of Education

Report No.: 94-24

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RECOMMENDATIONS

- c. A standardized form and format; and
- d. A detailed budget and budget narrative.

The Department of Education and the review panel should evaluate all grant projects independently from the internal evaluations done by the schools. The review panel should consider the evaluation reports in making grant awards.

ACTIONS REPORTED

The panel changed and added forms to clarify criteria and maintain consistency.

The panel changed the 1996-97 application requirements to include budget details on items larger than \$1,000.

The department and the panel report that in considering funding for 1995-96 projects, the panel uses evaluation reports written by the Curriculum Research & Development Group of the University of Hawaii and by an evaluation team made up of one review panelist, a state educational specialist, and a district educational specialist who visited all projects.

Report Title: Evaluation of the Continuing Education Program for Real Estate Brokers and Salespersons

Report No.: 94-25

RECOMMENDATIONS

The Legislature should consider allowing Section 467-11.5, HRS, to be repealed on July 1, 1995 as scheduled, in order to end the requirement of mandatory continuing education for real estate brokers and salespersons.

If the program is not repealed, the following improvements should be made:

- a. The Legislature should consider amending Section 467-11.5, HRS to require that mandatory continuing education be limited to mandatory courses designed to ensure that licensees maintain a minimally acceptable level of competency.
- b. The Real Estate Commission should identify the minimal competencies that need to be maintained through its continuing education program before adding elective courses.

ACTIONS REPORTED

The continuing education requirement was not repealed. Act 241, Section 11, SLH 1995, removed the sunset date of July 1, 1995 for the requirement.

The law was not amended in this respect. The Legislature amended the law to allow a curriculum level above the current minimal competency entry level.

The commission responded by referring to Act 241.

*Report Title: **Evaluation of the Continuing Education Program for Real Estate Brokers and Salespersons***

Report No.: 94-25

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RECOMMENDATIONS

- c. The commission should amend its rules to remove burdensome and restrictive requirements for certification as a continuing education provider or instructor.

ACTIONS REPORTED

The commission says it is currently undertaking rule amendments to reduce requirements on continuing education providers and instructors, while maintaining an acceptable level of consumer protection.

*Report Title: **Study of the Impact of the 1986 Reforms on Liability Insurance in Hawaii***

Report No.: 94-26

RECOMMENDATIONS

The Legislature should consider deleting the October 1, 1995 repeal dates for Section 2, 4, 5, 6, 7, 17, and 20 of Act 2, Special Session Laws of Hawaii 1986, thereby making the entire act permanent.

ACTIONS REPORTED

Act 130, SLH 1995, deleted the October 1, 1995 repeal date for these sections, making the 1986 tort reform law permanent.

*Report Title: **Audit of the Administration of Personal Services Contracts in the Department of Education***

Report No.: 94-27

RECOMMENDATIONS

The superintendent of education should establish a management system for the acquisition of additional personal services. The management system should include:

- a. A requirement that staff from the Planning and Evaluation Branch of the Office of the Superintendent develop policies and procedures to ensure the educational effectiveness of such services;
- b. The designation of the Procurement and Distribution Section in the Office of Business Services as the lead office to develop, coordinate, and issue up-to-date policies and procedures for the acquisition of additional personal services that would ensure fair and open competition, efficiency, economy, and compliance with all laws and rules on procurement; and
- c. The assignment of responsibilities to the Office of Personnel Services to ensure compliance with all personnel laws, rules, policies, and state ethics laws.

ACTIONS REPORTED

The department says it has revised its procedures in the administration of personal services contracts to comply with provisions in the state procurement law and its subsequent administrative rules.

The Procurement and Distribution Section of the Office of Business Services has coordinated the development, issuance, and distribution of policies and procedures for the procurement of personal services as prescribed in the new procurement law. Implementation of procedures resolves the concerns regarding blanket exemptions, open competition, designation of appropriate levels of control, reduced paperwork and processing, and parceling.

The department will be implementing its newly completed guidelines for temporary contract employees. New contracts will be processed through the payroll system rather than the purchase order procurement system. The new guidelines and procedures have been disseminated within the department and will go into effect in January 1996.

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Report Title: **Audit of the Administration of Personal Services Contracts in the Department of Education**

Report No.: 94-27

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RECOMMENDATIONS

The management system for the acquisition of personal services should:

- a. Ensure that additional services acquired from Department of Education employees are appropriate and proper;
- b. Generate sufficient data to allow for an assessment of the effectiveness, propriety, and efficiency of expenditures;
- c. Ensure open competition by preventing the practice of parceling (particularly at the Office of Personnel Services), eliminating the blanket exemption for special education services contracts, and establishing policies and procedures for small purchases that foster competition;
- d. Implement and enforce procedures for accurate dating and timely processing of contracts; and
- e. Establish controls that are appropriate to the level of control needed and eliminate all unnecessary paperwork and processing.

ACTIONS REPORTED

Training of administrators and clerical staff is being conducted at district office sites. Temporary contract employees will be administered through the Office of Personnel Services to ensure compliance with all personnel laws, rules, policies, and state ethics laws.

Staff reduction precludes the Planning and Evaluation Branch from determining the educational effectiveness of each personal services contract. That responsibility is reserved for the respective entity (i.e., the individual school or office) procuring the service. Current plans call for the Planning and Evaluation Branch, which is being moved from the Superintendent's Office to the new Office of Accountability and School Instructional Support (OASIS), to reorganize around the Comprehensive Assessment and Accountability System (CAAS). That system, now under development, will incorporate student assessment and personnel, school, and system evaluation to determine the efficacy and effectiveness of the educational enterprise. In addition, the Board of Education is considering the adoption of a generic approach or strategy to systematically evaluate school improvement. Together, the CAAS and the school improvement strategy would provide better information and data than the evaluation of personal services contracts.

Report Title: **Management and Financial Audit of the Foster Board Payment Program**

Report No.: 94-28

RECOMMENDATIONS

The director of human services should make sure that the Department of Human Services begins to budget responsibly for the Foster Board Payment Program. Specifically, the director should:

- a. Direct the administrators of the Family and Adult Services Division (FASD) and Social Services Program Development Office to oversee and coordinate efforts to generate

ACTIONS REPORTED

The department reports that as of August 1995, the demographic data on foster children and their expenditures are stored in the new Child Protective Services System (CPSS). The CPSS can

RECOMMENDATIONS

- accurate demographic data on foster children and their expenditures so that a sound data base is available for budgeting. The data should include foster children and youths placed by other agencies and private institutions;
- b. Assign responsibility for developing budget projections for the Foster Board Payment Program to the Committee on Payment Projections; and
 - c. Clearly identify the scope of the program in terms of the department's responsibilities for making payments for children placed by other agencies.

The Family and Adult Services Division should:

- a. Implement internal expenditure guidelines based on funding available to keep spending within budget. These guidelines should be uniformly and consistently implemented and amended when necessary;
- b. Ensure that case files are reviewed on a timely basis;
- c. Ensure that monthly payment reports are reviewed by the appropriate social worker or FASD unit supervisor;
- d. Require a second or supervisory review of authorization for payment and data entered into the computer system;
- e. Develop a checklist of documentation required for client files of the division;

ACTIONS REPORTED

generate a report that displays the total number of foster children placed by the department. A monthly expenditures report is forwarded to the Committee on Payment Projections.

Since February 1995, the role of the Committee on Payment Projections expanded to cover projections for board and board-related costs.

An enhanced CPSS program should provide a clear differentiation between the department's children and children placed by other agencies. The long-term solution to budget and funding problems lies in the establishment of memoranda of agreement defining the responsibilities of the department and other agencies in assuring that the department is adequately funded.

The department says that formal internal expenditure guidelines will be followed. The feasibility of developing more definitive special needs and special circumstances guidelines has been reviewed and needs further assessment. Implementation increases costs significantly.

A supervisor reviews case files every six months.

Unit supervisors are held responsible to review monthly payment reports.

Supervisors review all payment authorizations from August through October 1995 because of the new CPSS program. Afterwards, they will review all cases worked on by new or inexperienced social workers, including a check of data entries.

The department says that because of the number of forms which might be used, a checklist of forms is not feasible. Standard operating procedures already identify, by type of document (e.g. court related, payment related), where documents should be in client files.

RECOMMENDATIONS

- f. Work with the Child Support Enforcement Agency (CSEA) to coordinate and monitor child support collections. Ensure that referral forms to CSEA are completely and accurately filled out and that historical expenditure data can be provided to CSEA. Request reports from CSEA on those children for whom child support is collectible; and
- g. Work with the Administrative Services Office (ASO) to receive reports regularly on collections and receipts.

The quality control staff of the Evaluation Office should provide written reports on its monthly review of the Foster Board Payment Program and prepare semi-annual reports that summarize the actions resulting from the reviews.

The ASO should establish appropriate internal controls over collections for the Foster Board Payment Program. Specifically, it should:

- a. Establish policies and procedures to ensure that all amounts due are properly monitored and recovered, and receipts are properly recorded, deposited, and secured; and that private fund accounts are maintained;
- b. Create a written procedures manual that defines clearly the responsibilities of each position in its Collections and Recovery Section and describes specifically how each process and task is to be performed;
- c. Adequately train and properly supervise all Collections and Recovery Section employees;
- d. Immediately hire a qualified and properly trained supervisor to manage the Collections and Recovery Section;
- e. Limit access to receipts in the safe or locked file cabinets to authorized personnel;

ACTIONS REPORTED

Title IV-E income maintenance workers are assigned the task of completing all child support forms, updating case information, and referring cases to the CSEA. CSEA manually identifies all foster care cases that receive child support. This information is forwarded to the Administrative Services Office (ASO) of the human services department monthly with the money collected.

The division and the ASO have been meeting to discuss procedures and should resolve this issue by December 1995.

The quality control staff's review of the Foster Board Payment Program was to maximize Title IV-E moneys. The department eliminated the reviews due to lack of need given the work being done by the foster care income maintenance workers.

The department is developing policies and procedures and targeting December 1995 for completion. The department maintains private fund accounts to control the collections from CSEA.

The department created a project team to write the procedures. Completion is set for December 1995.

The supervisor will begin training after completion of the policies and procedures manual.

An account clerk is the acting supervisor. The ASO will recruit a permanent supervisor after the RIF process ends. Recruitment is scheduled to begin December 1995.

Changes were implemented to strengthen internal controls. Access to the safe is restricted to assigned personnel.

RECOMMENDATIONS

- f. Develop an accounts receivable subledger detailing all board overpayments and Supplemental Security Income payments to be collected and the length of time these receivables have been outstanding. This aged subledger should be updated and reconciled on a monthly basis;
- g. Conduct management reviews of aged receivables and appropriate collection procedures; and
- h. Prepare a subsidiary ledger for all individual private fund accounts detailing the account balances by foster child. Reconcile amounts from the subsidiary ledger to the private fund control accounts balances and perform monthly reconciliations thereafter. A listing of the private fund accounts should be distributed to the appropriate social workers.

The department should maximize Title IV-E reimbursements by converting state-funded adoption cases to federal funding, examining and coordinating child placement responsibilities with other agencies, obtaining accurate and complete information for board payments, and continuing discussions with the federal government to maximize the recovery of administration costs.

ACTIONS REPORTED

The coordinated effort between FASD, the Information Services Office, and the ASO is to be completed by June 1996.

After completion of the policies and procedures and training, the ASO would conduct management reviews to ensure that the procedures were followed and reports were available to management. This would occur sometime after June 1996.

The coordinated effort by FASD, ISO, and ASO should be finished by June 1996.

Since the audit, program administrators have maximized Title IV-E reimbursements by having workers review all foster care cases for eligibility.

RECOMMENDATIONS

To improve its budgeting system, the Judiciary should do the following:

- a. Include in its budget instructions to programs the overall direction and priorities of the Judiciary for the budget period under consideration;

- b. Establish and include in its budget requests a contingent fund similar to the one for the executive branch described in Section 37-71(f), Hawaii Revised Statutes;

- c. Establish written guidelines and criteria for the calculation and use of any restrictions, adjustments, and transfers of appropriations to programs.

The Judiciary should expend legislatively mandated appropriations in accordance with legislative intent.

The Legislature should clarify proviso language to clearly state its intent in making appropriations to the Judiciary and tighten the authority provided to the chief justice to transfer certain appropriations.

The Judiciary should budget for all of its equipment needs and present them in its budget request to the Legislature. It should comply with its policy of not using program savings to purchase equipment.

ACTIONS REPORTED

The Judiciary reports that in July 1995 it organized an Executive Planning Team (EPT) comprising representatives of each court, circuit and administration, to assist in making management, policy, and budget decisions.

The Judiciary instituted a major change in its budget development and approval process. The Judiciary is evaluating all programs in relation to its mission and functions and their impact on public safety. The EPT serves as a leadership team to help set direction on matters of policy and budget. EPT deliberations resulted in the Judiciary's FY 1995-96 reduction package, and the 1996-97 proposed budget.

The Judiciary will delay any request for contingency funds until the next biennium budget submission because of the State's severe fiscal constraints.

One of EPT's primary responsibilities is to review, approve, and recommend to the Chief Justice any restrictions, adjustments, and transfers of appropriations to programs.

The Judiciary's policy is to expend legislatively mandated appropriations in accordance with legislative intent to the degree possible given the changing environment within which budgets are executed.

No legislation was enacted.

Effective July 17, 1995, contingency purchases not included in the Judiciary's budget will not be approved. Emergency purchase procedures are to be followed for any unbudgeted items required immediately. Future equipment requirements will be addressed in the Judiciary's budget requests.

RECOMMENDATIONS

The Judiciary should ensure that all trust account subsidiary ledgers are regularly reconciled to their general control ledgers and immediately investigate and correct any differences discovered.

The Judiciary should escheat unclaimed bails, stale dated checks, and returned checks in accordance with the provisions of the Hawaii Revised Statutes and the Judiciary's Financial Administration Manual.

The Judiciary should continue to implement recommendations from our 1989 audit and to institute better management controls. This should include:

- a. Establishing time standards for recruitment and classification actions;
- b. Distributing status reports on classification actions to the courts and programs;
- c. Assessing the duties and responsibilities of the district and circuit court clerk positions to ensure equity;
- d. Considering broad banding the classification system;

ACTIONS REPORTED

Action plans and implementation timetables address the audit findings. The Judiciary has reconciled the Fifth Circuit District Court's bail accounts, and investigated and resolved differences in the Third Circuit District Court's subsidiary and general control ledgers.

Stale dated checks are now being handled appropriately. Unclaimed bails and case deposits have been escheated in the Third Circuit Court; unclaimed bails have been escheated in the Second Circuit's District Court.

The Judiciary has taken action to research and escheat unclaimed bails in the First Circuit's District Court and assistance will be provided to rural courts.

The Judiciary's personnel office established time standards for its internal and competitive recruiting for filling vacant positions and for processing various classification actions, including developing new class specifications and reviewing reorganization proposals.

The personnel office has informed divisions and programs on the status of classification requests every quarter since December 31, 1994.

The personnel office is reviewing the duties and responsibilities of the district and circuit court clerk positions.

The personnel office is researching broad banding as it relates to pay. The Judiciary has implemented certain concepts that broaden, consolidate, and simplify the classification system, and will be pursuing additional proposals for consolidation of classes.

RECOMMENDATIONS

- e. Amending the Personnel Manual so that administrative reviews of classification actions are performed by the administrative director;
- f. Clarifying its policies and practices on temporary appointments and temporary assignments;
- g. Adopting an affirmative action plan.

The Judiciary should appoint an administrative director who holds no other office or employment.

The administrative director should pay greater attention to training for non-judicial staff. The Judiciary should consider developing a training plan and increase the resources allocated for this purpose.

ACTIONS REPORTED

Effective December 1994, the Judiciary amended its personnel manual to require all requests for administrative review of classification actions be submitted to the administrative director of the courts.

Temporary personnel actions are defined in the Judiciary's Personnel Rules and Personnel Manual of Policies and Procedures and are monitored to ensure appropriateness.

The Judiciary hired a new affirmative action officer in May 1995. The officer reviewed and evaluated the Judiciary's policies and procedures for compliance with the Equal Employment Opportunity and other civil rights laws. As a result of this review, efforts have been concentrated on the Judiciary's compliance with the Americans with Disabilities Act of 1990 (ADA). The ADA requires the Judiciary take steps to make its program and facilities accessible to disabled persons. The Judiciary has conducted ADA training, appointed ADA coordinators and is preparing a Judiciary-wide implementation plan.

The affirmative action plan and policy will be addressed when the implementation program for ADA compliance is completed.

The Judiciary stands firm on its position that it acted reasonably, expeditiously, and constitutionally when it assigned the functions of the Office of the Administrative Director of the Courts in August 1993 to the First Division of the First Circuit Court. The current Administrative Director holds no other office or employment.

The Judiciary's Office of Judicial Education and Resource Development is responsible for providing training for all Judiciary employees. The office has been working with a formal committee of administrators and supervisors in drafting a training plan for non-judicial staff.

RECOMMENDATIONS

The authority should use its unrestricted Section 8 funds for maintenance programs.

The authority should maintain a complete listing of property included in the general fixed assets account group and file all necessary documents with the state comptroller. The authority should enforce the Banyan Street Manor and Wilikina Apartment Projects management agreements which require maintenance of adequate detailed fixed asset records.

The Legislature should consider revising Chapter 358D, HRS, to allow the branch to conduct compliance audits on a rotating basis (i.e., at least once every two years). The statute should be modified to allow interviews with program participants to be conducted by branch staff during their periodic site visits.

The operating staff of the authority should be involved in future development projects of the authority. The authority should continue its follow-up on the developer's cash withdrawal from the project.

ACTIONS REPORTED

The authority says it has been expending Section 8 Funds for repair and maintenance, but will need to reassess this because of uncertain funding from the U.S. Department of Housing and Urban Development.

The authority says it maintains a listing of property included in the general fixed assets account group and files it with DAGS. Detailed fixed asset records for the Banyan Street Manor and Wilikina Apartment Projects are maintained by the property management company.

The statute was not amended in these respects.

The authority says it will monitor future developments with private developers, is monitoring the cash flow of the Waikoloa Project, and will make transfers to the General Partnership when funds are available.

RECOMMENDATIONS

To improve contract administration:

The director of the Department of Business, Economic Development and Tourism should seek the assistance of the chief procurement officer of the executive branch in developing policies and procedures to ensure proper contract administration in compliance with the new procurement law. In developing policies and procedures, attention should be paid to:

ACTIONS REPORTED

The department reports that in consultation with the State Procurement Office, the Attorney General, and DAGS, it has implemented a Contracts Management Program which comports with the procurement law and all administrative rules, policies and procedures. The program consists of project justification, implementation, monitoring, and evaluation stages.

Report Title: Audit of Contract Administration and the Office of Space Industry in the Department of Business, Economic Development and Tourism

Report No.: 95-3

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RECOMMENDATIONS

- a. Requiring a formal analysis of the need for contracting, including the expected benefit and outcome of any proposed contract. In addition, the analysis should document and present evidence that contracting for services would be the most effective and economical way to accomplish the activity;
- b. Ensuring that the scope of services in each contract is sufficiently specific to ensure that the expected outcome and benefits of the contract are achieved;
- c. Awarding contracts on an open and competitive basis to the extent feasible;
- d. Containing costs, particularly for reimbursable expenses;
- e. Developing a clearly defined monitoring procedure that makes payments based on percentage of work completed and insures adherence to contract terms; and
- f. Evaluating each contract upon its completion to determine if the intended outcomes were achieved.

The department should correct weaknesses in administering contracts by doing the following:

- a. Require any changes to the scope, term, and/or compensation of the contract to be in the form of a formal contract amendment;
- b. Allow no work to begin before a formal contract is executed; and
- c. Require complete contract documentation for personal services contracts.

ACTIONS REPORTED

The justification stage requires a formal analysis of the need for contracting providing expected outcomes and benefits, including exposition of its effectiveness and reasons for being the most economical way to accomplish the activity.

In the implementation stage, the contracts staff ensure that the scope of services is sufficiently specific to ensure that expected outcome and benefits are achieved.

Staff ensure that contracts are awarded on an open and competitive basis to the extent feasible.

All reimbursable expenses are clearly defined and limits on these expenditures are established. Payments are made on deliverables and achieved milestones and no advance payments are allowed.

The monitoring stage includes the issuance of a "Contract Administration Verification Report," which serves as a checklist of all contract requirements and identifies payments with predetermined outputs.

In the evaluation stage, the program evaluates the project's objectives, outcomes, and results in terms of the original objectives and outcomes stated in the project request process.

The department verifies payment requests for conformance against the Contract Administration Verification Report. Deviations in payment schedules are not allowed unless accompanied by a formal contract amendment.

Report Title: Audit of Contract Administration and the Office of Space Industry in the Department of Business, Economic Development and Tourism

Report No.: 95-3

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RECOMMENDATIONS

The department should request an opinion from the State Ethics Commission on the propriety of allowing department personnel to accept frequent gifts from contractors.

The Legislature should amend Chapter 201, Part V to transfer Office of Space Industry programs involving the Maui High Performance Computing Center to the High Technology Development Corporation.

The department should cease expending funds on a space launch facility unless clear evidence of private investment interest in such a facility can be demonstrated.

The department should correct inadequacies in contract administration. It should have clearer definitions of the scope of services to be rendered, competitive and fair awarding of contracts, and limits on expenses that are reimbursable.

ACTIONS REPORTED

The department says that our audit report cited an isolated incident that could have been perceived as unethical behavior. The department has always encouraged staff to attend the “Ethics for State Employees” workshop conducted by the Hawaii State Ethics Commission.

The statute was not amended in this respect.

The department has ceased all efforts to promote a space launch facility. Under the Contracts Management Program, the facility cannot be justified and will not be pursued unless there is clear evidence of private investment interest.

(See actions reported above.)

Report Title: Audit of the Department of Human Services’ JOBS, Food Stamp Employment and Training, and General Assistance Work Program

Report No.: 95-4

RECOMMENDATIONS

The Director of the Department of Human Services should direct the Self-Sufficiency and Support Services Division Administrator (SSSSD) to:

- a. Give careful attention to the cost-effectiveness of using multi-disciplinary teams to assess “barriers.” In addition, a determination should be made of what constitutes barriers and which ones warrant corrective action under the work program.

ACTIONS REPORTED

The department reports that the JOBS program no longer has a multi-disciplinary team. The contract between the department and the Department of Health terminated. The Self-Sufficiency and Support Services Division amended procedures to do barrier assessments only under certain circumstances.

Report Title: Audit of the Department of Human Services' JOBS, Food Stamp Employment and Training, and General Assistance Work Program

Report No.: 95-4

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RECOMMENDATIONS

- b. Create a better balance between education and training and getting clients into jobs by placing more emphasis on job placement activities and establishing more linkages to jobs with private sector employers.
- c. Build time limits into participation in program activities. In addition, clearer limits and time-frames are needed for the conciliation process. Adopt administrative rules for the Food Stamps employment and training conciliation process.
- d. Pursue revisions to Hawaii's JOBS program design to allow working clients to leave the JOBS program.
- e. Establish outcome or performance measures for the work programs.
- f. Update the PRIDE program policy and procedures manual. Establish a policy and procedures manual for the Food Stamps employment and training and General Assistance work program.
- g. Establish policies and procedures for contract management, oversight, and monitoring; and ensure that staff responsible for SSSSD's contracts receive formal training on contract management.
- h. Give priority to operationalizing the ALEX system at all units.

ACTIONS REPORTED

The department has set more requirements on participants to seek employment and reduced its support for post-secondary education beyond a two-year degree. Strategies for partnership with the private sector are being prepared.

Program activities have time limits and the conciliation process has been redefined to provide clearer time frames. SSSSD has also drafted administrative rules for the Food Stamps program.

The department says that an AFDC recipient who is non-exempt from JOBS and who accepts 30 or more hours of work per week does not become exempt due to the employment.

A partnership agreement with the Administration for Children and Families addressed the need to collaborate on outcome-based performance measures. The SSSSD monitors the placement activities for all employment and training programs.

The department updated the PRIDE policy and procedures manual and will establish a policy and procedures manual for the Food Stamps Employment and Training Program by July 1996. The General Assistance Work Program is being abolished.

The department provided state guidelines on contract management through interim rules. The staff also use the state procurement code.

The department says it is working on providing ALEX to the JOBS WORKS! Staff.

*Report Title: **Status Report on Monitoring Fiscal Accountability of the Department of Education***

Report No.: 95-5

RECOMMENDATIONS

The Legislature should require the Department of Education to report its expenditures by location and function. The reports should account for differences in functional costs at the state, district, and school levels.

The superintendent of education should develop management controls to assure the accuracy of state and district office costs that are attributed to school sites.

ACTIONS REPORTED

Section 62 of Act 218, SLH 1995, requires the department to prepare a school-by-school expenditure report for the following six categories: (1) administration; (2) facilities and operations; (3) teacher support and development; (4) student support; (5) instructional support; and (6) classroom instruction.

A similar report is required for learning support centers and state and district administration. The report is to be submitted to the Legislature 20 days prior to the 1996 and 1997 sessions.

The department says the infrastructure required to obtain school-by-school data for strategic planning and to relate student outcomes to expenditures currently does not exist.

*Report Title: **Study of the Families Together Initiative, Final Report***

Report No.: 95-6

RECOMMENDATIONS

The Families Together Initiative program should be continued and its funding placed in perspective with the funding for other social services programs. The Legislature should not expand funding for the Families Together Initiative beyond its current level.

The executive board of the Families Together Initiative should be dissolved and interagency coordination should be outlined in a memorandum of agreement.

ACTIONS REPORTED

Section 40 of Act 218, SLH 1995, requires that any excess federal fund reimbursements under Title IV-A and Title IV-E above the federal fund appropriation for child welfare services and child placement board and related client payments for FY1995-96 and FY1996-97 be returned to the general fund.

The Department of Human Services (DHS) reports that as of July 1, 1995, the Families Together Initiative has been renamed the Partnership for Families (PFF). The executive board has dissolved. A memorandum of agreement with the Department of Health (DOH) covers the transfer of funds to DHS for the PFF program. Judiciary, Office of Youth Services, DOH, and DHS representatives constitute an ad hoc committee to discuss changes to policies and procedures.

Report Title: **Study of the Families Together Initiative, Final Report**

Report No.: 95-6

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RECOMMENDATIONS

The Department of Human Services should present a separate funding request for the FTI program to the Legislature. Funding for positions and wrap around programs now included in the \$4.8 million yearly appropriation should be separately requested.

The Interagency Coordination Team should not be expanded without additional contributions from participating agencies.

The Families Together Initiative program should determine “success” by using multiple outcome measures. The safety of the child should be the primary criterion.

The Families Together Initiative program should identify specific factors for determining “imminent risk” to ensure that decisions on eligibility for FTI will be more standardized.

The Department of Human Services should consider FTI to be part of a continuum of services needed by families. The FTI program should evaluate and plan for wrap around services to be used in conjunction with FTI.

ACTIONS REPORTED

The department reports that it requested funding for the PFF program separately for the current biennium.

The Interagency Coordination Team disbanded. Child Welfare Program Development staff coordinate applications for service and claim Title IV-A funds.

The department agrees that the safety of the child should be the primary concern. DHS Program Development staff are revising the criteria of success to be broader and to reflect child safety.

The department says that FTI serves clients from four state agencies, each working with specific target groups, so the reasons and processes for out-of-home placements are varied and preclude standardized factors for determining “imminent risk.” A professional social worker now screens each referral to ensure consistency in applying the criteria for acceptance to these various target groups.

“Wrap around” service needs are unique to each agency’s target groups and therefore are addressed by each agency instead of by PFF. The ad hoc committee will look at extending the service period for homebased services beyond the current 4-6 week maximum so that this program will better fit into the continuum of services for each agency.

Report Title: **A Preliminary Study of a Proposed Department of Housing**

Report No.: 95-7

RECOMMENDATIONS

No recommendations.

ACTIONS REPORTED

RECOMMENDATIONS

The Procurement Policy Board and the Procurement Office should be consolidated as a central authority to issue rules, interpret the procurement law and rules, and audit, monitor, and enforce its implementation.

The Legislature should amend Chapter 103D, HRS, to:

- a. Eliminate the designated chief procurement officers and require the administrator of the Procurement Office to issue delegations of purchasing authority; and
- b. Have the comptroller designate chief procurement officers for the executive branch and have the heads of the Judiciary, Legislature, and counties designate their respective chief procurement officers.

The new Procurement Office should:

- a. Establish formal written procedures for procurement officials to follow when clarification and interpretation of the procurement law and rules are required;
- b. Immediately develop a procurement orientation and training program specifically on the new law and rules for state and county officials;
- c. Develop a procurement manual with standardized forms and instructions on the use and application of the source selection methods;

ACTIONS REPORTED

The board says this recommendation should be implemented to avoid conflicting roles and responsibilities. However, the board will not propose remedial legislation this year because it focused on promulgating permanent rules for the procurement code. The board will later submit appropriate legislation.

The law was not amended in these respects.

The office says that the board adopted Procurement Directive 94-01 which directed all questions concerning the law and interim rules to the Procurement Office in writing. The office agrees that written procedures will be helpful. But with different procurement requirements due to the differing environments, having written procedures early could have led to misinterpretation of the law and rules.

The office has coordinated training seminars, meetings with each executive branch department, and site visitations with several state and county agencies to assist with understanding the procurement code and rules. However, the office says that due to the timing of the law and the short time to develop interim rules, it did not have a consistent base to establish a more comprehensive training program. The office is developing a procurement manual and a training tool to assist procurement officials.

The office is ready to proceed with developing its manual and anticipates including standard forms.

Report Title: **An Audit of Hawaii's Implementation of the New Procurement Law**

Report No.: 95-8

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RECOMMENDATIONS

- d. Amend Sections 3-122-75 and 3-122-76, Hawaii Administrative Rules, to prohibit the creation of different thresholds within the small purchase limits and specify quotation methods; and
- e. Investigate noncompliance of procurement problems and issues, recommend measures for improvement, and when necessary, apply sanctions for violators as provided under the law.

ACTIONS REPORTED

The office reports that the Procurement Policy Board found that the lower thresholds in the rules are adequate and that each chief procurement officer be given authority to determine the types of quotations acceptable for the officer's jurisdiction.

The office dealt with several procurement violation issues throughout the past year. The office reviewed procedures that led to errors, and is developing procedures and tools for compliance auditing.

Report Title: **A Study of the State Capitol Renovation Project**

Unnumbered consultant's report, April 1995

RECOMMENDATIONS

The most cost-effective approach to complete the capitol renovation project is to proceed with the replacements and final cost items to make the Capitol functional. These include new electrical switch gear, new pool cleaning and filtration system, and new signage, graphics and finish drapes. Omission of items at this point would result in short term savings, but much higher longer term costs. Additional funds necessary to complete this work should be appropriated.

The consultant made a wide range of additional recommendations designed to improve future projects. These included mandatory periodic cost and time schedules, examinations of the procurement process, assigning one project manager to oversee the project from beginning to end, dispute review boards for larger construction projects, and adequate identification of existing conditions in any renovation project.

ACTIONS REPORTED

The Department of Accounting and General Services reports that because of budget constraints it modified and retrofitted the electrical switch gear and has not experienced any problems under 80 percent load. The department tested a filtration system and found it effective for pool cleaning. The signage and graphics contract will be supplemented with additions to enhance functionality. The contract also includes tracks for finish drapes, which may be added if funds are available.

The department is amending its General Conditions to require updated project schedules. The procurement process has improved due to changes in the Procurement Code.

The department responded in detail to the other recommendations.

RECOMMENDATIONS

The Conference of Personnel Directors should establish a labor-management oversight committee of representatives from the State, including the Judiciary, and the four counties, to oversee the development and implementation of a quantitative, point-factor job evaluation system that is tailored to the full complement of jobs in the Hawaii public service. Compensable factors should be explicit, comprehensive, relevant to Hawaii, and gender-neutral.

The State's public employers should develop a procedure that encourages comparisons across bargaining units so that consistency of job worth can be established and maintained over time.

The Department of Human Resources Development, the Judiciary, and the four counties should routinely maintain the classification and compensation system, auditing and updating their position descriptions and class specifications on a regular basis. They should consider developing innovative and cost effective approaches to improving job classification and fostering wage equity.

ACTIONS REPORTED

The Department of Human Resources Development says that the Conference is proposing to delete the statutory requirement for interjurisdictional conformance in compensation matters. The Conference finds quantified systems lack flexibility. Further, job-evaluation (pricing) is a non-negotiable matter under the Collective Bargaining Law. Thus, while system improvements are pursued, they will not take the form of this recommendation.

The Conference is not implementing this recommendation because comparing wages across bargaining units conflicts with the purpose of the Collective Bargaining Law and consistent salary range designations across bargaining units would involve extensive work for no discernible purpose.

The department agrees with the intent of this recommendation to assure currency of job information and is working on approaches to achieve that end.

OFFICE OF THE AUDITOR
APPROPRIATIONS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

APPROPRIATIONS

| | |
|---|---------------------|
| Act 1, SLH 1994 (operations) | \$ 1,972,500 |
| Act 1, SLH 1994 (special studies) | 150,000 |
| Act 150, SLH 1994 (salary adjustments) | 76,146 |
| Act 279, SLH 1994 (oversight functions) | 200,000 |
| | <u>\$ 2,398,646</u> |

EXPENDITURES

| | |
|--|-------------------|
| Staff salaries | \$ 1,456,882 |
| Contractual services | 532,010 |
| Other expenses | 205,681 |
| | <u>2,194,573</u> |
| Excess of appropriations over expenditures | <u>\$ 204,073</u> |

EXCESS OF APPROPRIATIONS OVER EXPENDITURES

| | |
|---|-------------------|
| Act 1, SLH 1994 (operations) | \$ 49,783 |
| Act 1, SLH 1994 (special studies) | 70,500 |
| Act 150, SLH 1994 (salary adjustments) | 0 |
| Act 279, SLH 1994 (oversight functions) | 83,790 |
| | <u>\$ 204,073</u> |
