

1996 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 IMPLEMENTATION
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, 1997

Ladies and Gentlemen:

This Annual Report describes activities of the Office of the Auditor for calendar year 1996.

I believe that the work of the past year demonstrates my continuing commitment, shared by our staff, to performing high-quality audits and preparing accurate, clear, and concise reports. Members of the public often approach me to say, "Keep up the good work!" For those who may feel that my office ignores the good things that are happening in state government, this annual report contains an essay speaking to their concerns.

The satisfaction that I find in serving as Auditor results largely from my fascination with the workings of government. This interest has also led me to active involvement in the governance of the National Conference of State Legislatures and its National Legislative Program Evaluation Society. With your support, this personal interest will continue to serve the public interest in accountability.

Sincerely,

A handwritten signature in cursive script, reading "Marion M. Higa".

Marion M. Higa
State Auditor

1996 - A Year of Seeing Results

During 1996, the Office of the Auditor increasingly saw the results of a variety of actions that we have been taking to improve our contribution to state government. Many of our efforts are now bearing fruit; here are a few.



Marion M. Higa
State Auditor

TEAM APPROACH TO PROJECT PLANNING AND IMPLEMENTATION

We never embark on our audit fieldwork at a state agency without a clear written plan developed by the State Auditor and her staff. Following preliminary work, the project team that will carry out the audit on a day-to-day basis—the analyst-in-charge assisted by other team members—drafts the plan. It includes the purpose, objectives, and scope of the audit and the methodology that will be used to carry it out.

Before being finalized, the draft plan is discussed in detail at a meeting attended by the project team and the office's senior management team—the Auditor, deputy auditor, and three assistant auditors. These meetings are designed to generate extensive input and discussion involving staff with a wide range of audit experience. While the meetings may be lengthy and intense, we believe that this team approach offers the best prospects for preparing a plan that effectively and efficiently focuses the project's work.

The "audit plan meetings" also lay the groundwork for similar efforts later in the audit. Meetings with management are held when the project team has compiled and analyzed relevant evidence and is ready to propose findings and recommendations. These meetings are rigorous, as the Auditor and other managers evaluate the evidence presented and the logic and the persuasiveness of the message to be conveyed in the Auditor's final report. The meetings are also supportive, offering encouragement and suggestions to the project team.

Teamwork continues through the completion of each project, with managers, analysts, and secretaries all contributing to the final product. Staff from outside the project are routinely called upon to edit and proofread project drafts and to check the accuracy of facts presented.

We believe that the team approach to planning and completing our audits has now demonstrated its value in building commitment at all levels of our organization and producing high quality audit reports.

INCREASING USE OF TECHNOLOGY

Like other modern organizations, the Office of the Auditor exists in a world of computer technology. In 1996 we continued to take advantage of information technology to assist us in performing our work. We built on past efforts and gained more experience.

We're now accessing the Internet for information helpful in planning our audits. This can put us in touch with audit shops across the nation that may have conducted similar work, and other valuable resources. E-mail often speeds up communications and saves long-distance telephone calls. Another tool, of course, is the tried and true technology of word processing, which enables us to more efficiently draft and revise our audit plans.

Each of our audit staff now benefits from having a desktop computer, and laptops are also available so that our analysts can readily gather, process, and summarize information on site at the various agencies that we audit. The spreadsheet programs used by our staff are invaluable.

Our audit reports, which typically range from about 20 to 50 pages, are produced entirely in-house from first draft to printed and bound report. Computers greatly facilitate this process. Our report drafts are easily edited and our audit staff can rough out a pie chart, bar graph, or other exhibit on computer, to be "polished" by our secretarial staff before final publication. Consultants such as certified public accounting and actuarial firms, which assist us by developing certain technical reports, transmit the text to us electronically via the Internet for our review and editing.



Analysts

Shari Tasaka (left)

and Connie Takata

use the Internet to conduct research for an audit project.

Our secretarial staff do the final formatting of all reports on our desktop publishing system. The secretaries can turn drafts around at a moment's notice for final editing and proofreading. Computers also help us to tailor cover letters when distributing the reports.

Computers have also enabled us to establish creative new links with the state agencies that we audit. For example, when conducting our annual review of revolving and trust funds, we obtain fund financial summaries directly from the agencies on diskettes. Each year we also ask agencies to update us on actions they have taken on our recent audit recommendations.

Obtaining their responses on diskettes allows efficient editing prior to publication in our annual report (see pages 16 to 47 below).

Computer links have taken an interesting turn with respect to the state Department of Education. The Legislature directed us to regularly assess the department's fiscal accountability and required the department to give us electronic access to its computer-based information systems. We have begun to establish the needed connections. We also have purchased software that will assist us in more accurately identifying costs in the public school system.

We've moved cautiously to avoid the pitfalls of unplanned computerization. But we've been willing to take some calculated risks when the advantages of automation appeared to outweigh the costs. Through our Technology Committee, we're examining other uses of computers for the future, focusing on how best to manage automation cost-effectively in pursuit of our mission.

EXPANDED FOLLOW-UP PROGRAM

In 1995, we began conducting follow-up fieldwork and issuing informal reports concerning agency actions taken in response to our previous audits. In our 1995 annual report, we announced that after this brief period of experimentation, we would formalize the process and begin conducting full follow-up audits of selected agencies.

In 1996, we conducted six of these follow-up audits, focusing on certain activities that we had previously audited at the Department of Education, the Department of Health, the Department of Land and Natural Resources, and the Department of Taxation. We found a mixture of progress and continuing problems. The Department of Taxation was particularly impressive in its management achievements since our previous audit.

The follow-up audits have already proven their worth in helping us assess the impact of our work and providing updated information to the Legislature, the Governor, and the public.

ACCESSIBILITY OF THE AUDITOR

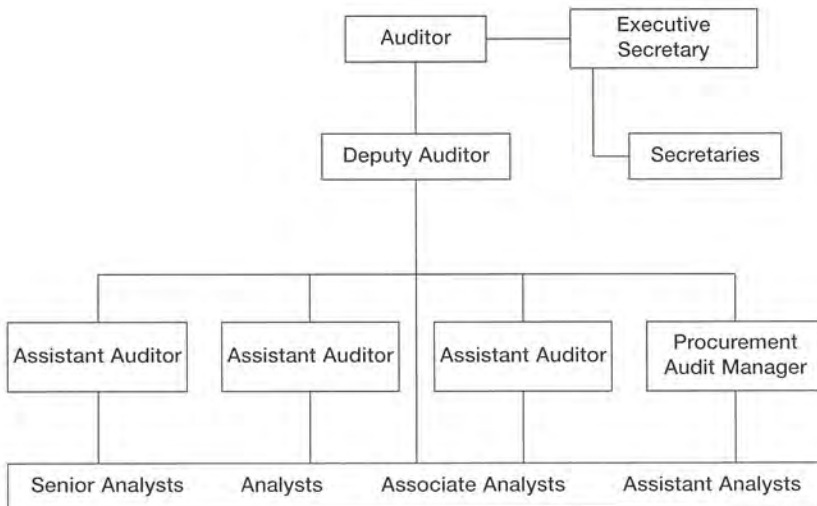
It is the practice of the current State Auditor to be readily available to provide briefings to the legislative committees on our reports, and testimony on any bills drafted to implement the reports. The Auditor also has been available for interviews by reporters from the local media concerning our work.

Although the results of such efforts are difficult to measure, the Auditor's accessibility appears to have been instrumental in raising awareness and understanding of the improvements needed in state programs. It is this accessibility that also contributes to our office's accountability to the institutions and the taxpayers whom we serve.



Analysts Rumiko Okuma (left) and Cheryl Tokunaga review the audit workplan prior to fieldwork.

ORGANIZATION OF THE OFFICE OF THE AUDITOR



TYPES OF REPORTS - 1996



The office also performed 65 quick reviews of proposed special and revolving funds.

STAFF OF THE OFFICE OF THE AUDITOR

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Themes of the Reports

Our 1996 work program resulted in 22 published reports including 13 performance audits and studies, 3 financial audits, and 6 audit follow-up reports. The reports are highlighted beginning on page 10. We also prepared 65 brief reviews of proposed special and revolving funds for the 1996 legislative session.

Our reports covered a variety of subjects including Hawaiian affairs, procurement, computerization, financial management, education, health care, and employment benefits. The following major themes emerged.

IMPORTANCE OF “MANAGEMENT CONTROLS”

The term “management controls” includes the plans, policies, organizational structure, and procedures adopted by managers of state agencies to ensure that program goals are met and resources are safeguarded. Accountability for the use of public funds requires that auditors closely examine the efficacy of agencies’ management controls. This is particularly so with government programs constantly being asked to change and “reinvent” themselves.

For example, in 1996 we found that two innovative programs—the A+ Program of the Department of Education and the QUEST demonstration project of the Department of Human Services—need stronger management controls. A+ provides after-school care for latchkey students and QUEST takes a new approach to financing health care for those in need. Both programs suffer from inadequate controls to determine eligibility and staffing. We also reported that another more “routine” activity—the custodial services that are supposed to keep state facilities safe, sound, and sanitary—lack basic controls such as cleanliness standards and work checklists.

The news about management controls is sometimes better. We found that the Office of Hawaiian Affairs has developed some effective management controls over its long-term investments, including a strengthened investment policy. OHA could further improve its controls over its programs through better planning, budgeting, monitoring, and evaluation.

COMPLIANCE WITH PROCUREMENT LAWS

The Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes) imposes many requirements on state agencies to promote economy, efficiency, and effectiveness in the State’s procurement of goods, services, and construction. We found in 1996, as we have in the past, that some agencies are not complying with the law or rules. These include the Department of Transportation in its procurement of information systems, the Department of Education in its contracting for personal services, and the Department of Defense in its purchase of equipment. In another audit, we found that circumvention of the procurement code resulted from the Correctional Industries Program of the Department of Public Safety—an inmate work training program—buying computers and simply reselling them to state agencies.

The procurement code makes our office responsible for monitoring agencies’ purchasing practices. We will continue to do this vigorously, to help foster agency compliance.



*Deputy auditor
Leslie Tanaka (standing)
discusses audit findings
with team members
Richard Roll (left),
Richard Yuen (center), and
James McMahon, supervisor.*

BETTER FINANCIAL MANAGEMENT

As in previous years, we found that agencies' financial management often needs improvement. For example, the Department of Education does not have reliable information on its textbook costs. The Department of Defense failed to transfer federal reimbursements to the general fund. The Harbors Division of the Department of Transportation lacks controls over its cash receipts and billings, and the Kona Community Hospital should have more timely financial statements for management.

Many of our findings in the financial area result from the three or four financial audits that we perform each year in collaboration with certified public accounting firms. These audits frequently reveal that agencies' financial statements present fairly their financial position and the results of operations for a given fiscal

year—a real plus for the agencies. But often these audits also uncover deficiencies in other areas that the public needs to know about.

ACCOUNTABILITY IN EDUCATION

A traditional function of state government is providing basic and higher education. In 1996, we examined many education activities. As examples, we found that the incentive and innovation grant program of the Department of Education—which channels funds to public schools for innovative projects—has made improvements in its operations but has yet to show results in terms of student performance. Scrutinizing the department's A+ Program, we found that it is sometimes not clear whether the program is serving only those students that it is intended to serve.

We also focused our attention on how the University of Hawaii is managing both its instructional and its non-instructional personnel. We found a lack of clear expectations as to faculty workload. We also learned that at the Manoa campus there is no central responsibility for allocating non-instructional personnel appropriately.

We have focused here principally on the problems uncovered by our audits. The essay on the following pages highlights some of the good things we find as we go about our work.

Essay: The Good We See

In a recent audit, we praised the Office of Hawaiian Affairs for establishing a sound foundation for its long-term investments. Soon after, an editorial in The Honolulu Advertiser said that “OHA should be proud of the applause it received from the generally critical auditor.” (March 6, 1997)

The *Advertiser* was correct in portraying us as generally critical. Our reports tend to focus more on agencies’ weaknesses than on their strengths. One reason is our constitutional and statutory mandate to perform post-audits, investigations, and examinations with attention to “evidence of any unauthorized, illegal, irregular, improper, or unsafe handling or expenditure of state funds or other improper practice of financial administration.” These words prod us to serve as a government watchdog—especially of how agencies handle their funds—and to detect trouble spots within agencies that might otherwise go unnoticed.

We also adhere to a long-standing tradition among performance auditors: in order to recommend how agencies can become more effective and efficient, we must first identify where they may be falling short. And we have rejected shifting from our customary auditing model to a consulting model, a role that might be less critical and more supportive of agencies but which could threaten our independence and objectivity.

While we acknowledge and accept our role as critics, however, we want to provide some balance and perspective by highlighting here some of the good things that we see in state government.

AGENCIES COPE WITH SPECIAL CONSTRAINTS

While government agencies have certain things in common with private organizations—such as the requirement to comply with health and environmental laws—they also must work within constraints not imposed on businesses. Yet they are able to accomplish much despite these limitations.

An example of a constraint is the State’s civil service system. In our 1994 *Audit of the Process of Staffing State Programs*, we concluded that the system during the past 50 years has become less effective in achieving its goal of providing qualified personnel for state agencies.

The Department of Human Resources Development has recognized the inefficiencies in the system and has been trying to reform it. But in the meantime, difficulties in filling positions and delays in classifying positions persist. Other obstacles include the bureaucratic hurdles that must be cleared in the executive branch in order to reorganize an agency. Despite such difficulties, state agencies manage year after year to provide a wide range of public services.

FINDINGS ARE OFTEN POSITIVE

Our reports often contain positive findings attesting to agencies’ successes. The 1996 audit of OHA is one example that garnered much media attention, perhaps because questions concerning OHA’s funding have been much in the news lately. But we’ve also given kudos to other agencies.

For example, in recent years we have issued reports finding that:

- the new director of the Department of Taxation took positive steps to enhance tax collections
- the Department of Health upgraded its administration of STD/AIDS contracts
- standards and procedures used in the Department of Commerce and Consumer Affairs for reviewing requests for insurance rate increase requests were fair and thorough
- the Department of Education improved the operations of the Incentive and Innovation Grant Review Panel
- the High Technology Development Corporation had strong controls over its contractual services
- the Judiciary made progress in implementing some of our previous recommendations

While our reports also contain “negative” findings with suggestions for improvement—and these usually outnumber the positive ones—we feel that the mix of good news and bad news overall shows our commitment to fairness.

Furthermore, we often observe impressive achievements in agencies that do not necessarily find their way into a particular audit report—because they are not within the scope. For example, over the years we have observed great improvements in the operations of the Professional and Vocational Licensing Division of the Department of Commerce and Consumer Affairs. And we routinely encounter committed, professional officials and staff of many agencies working long hours to get the job done.

IN CONCLUSION

The value of our reports lies in the background information they provide on each agency and program that we audit; the findings—positive and negative—that we make; our recommendations for change; and the public debate and discussion that we generate. As in the past, we will continue working to ensure that our reports are both critical and constructive.

IT'S A FACT

The Office of the Auditor receives a “peer review” every three years.

In 1992 and 1995, the National State Auditors Association

concluded after a detailed review

that we have an effective quality

control system and our work meets

professional auditing standards.

Our office also undergoes annual

independent financial audits by

certified public accounting firms.

These audits have consistently

found that our financial statements

present our financial position and

the results of our operations fairly

in all material respects.

Summary of Reports - 1996 Work Program

PERFORMANCE AUDITS AND SPECIAL STUDIES

*Audit of the **After-School Plus (A+) Program of the Department of Education**, Report No. 96-20*

The A+ Program, the first state-subsidized after-school care program in the nation, is funded by general fund appropriations and fees paid by parents. Program costs were about \$13 million in school year 1995-96, including about \$4 million paid through parent fees. We found that the Department of Education has not managed program resources properly. It has not adequately screened program participants for eligibility, thereby increasing program costs and compromising the intent of the Legislature to serve latchkey public school students. Also, the department has not ensured that program sites operated by the department are staffed appropriately. We found other programmatic and financial shortcomings including unequal access by children to school facilities and program services; not ensuring proper collections and deposits; and not using cost information to properly manage the program.



*Procurement Audit of the **Correctional Industries Program**, Report No. 96-16*

The Correctional Industries Program in the Department of Public Safety was established to provide inmates with the opportunity to acquire marketable work skills while they produce goods and services for the state. We found that the program purchased items for agencies without benefit of bids or documented quotes, and simply resold the items to state agencies without using the items to manufacture goods or services. This resulted in circumvention of the Hawaii Public Procurement Code. Further, the program added an overhead charge of as much as 37 percent, for the service of simply ordering the items for the state agencies, costing them thousands of dollars unnecessarily. We also found that forcing state agencies to buy all printing services from the program is inefficient and unnecessary.

*Audit of **Custodial Services Programs of the Department of Accounting and General Services, the Judiciary, the Department of Education, and the University of Hawaii**, Report No. 96-12*

Custodial services programs at state facilities directly affect state employees and the public. These services are supposed to keep buildings clean and safe, and prevent their premature deterioration. The agencies we audited spend a total of more than \$36 million each year for custodial services and supplies. We found that program managers have failed to consistently establish and use fundamental management controls including (1) common cleanliness standards, (2) custodial task lists, checklists, and inspection forms, (3) formal training programs, (4) sufficient use of cost data, and (5) membership in relevant professional organizations. We surveyed 718 tenants of the four agencies and found that 70 percent were satisfied with the custodial services but 30 percent were not.



*Status Report - **Gaining Electronic Access to the Department of Education's Computerized Information Systems**, Report No. 96-10*

Section 296-92, Hawaii Revised Statutes, directed the Department of Education to provide our office with electronic access to the department's computer-based information systems. This report summarizes our progress in obtaining access. At the time of the report, we had completed the cabling and hardware connections needed to establish direct electronic connection to the department's Financial Management System. Persistent software incompatibilities should soon be resolved. We established access through the Internet to the department's Data Warehouse, where data from the department's other information systems are deposited for historical purposes, and we are working on improving our downloading and report generation capability.

*Audit of the **Department of Transportation's Procurement of Information Systems,**
Report No. 97-2*

In recent years, the Department of Transportation has received several million dollars in legislative appropriations to fund the development of computer related projects. We found that the department failed to follow state guidelines for information systems development as required. The department also neglected to provide appropriate guidance to its divisions in developing or acquiring information systems. In addition, vital needs assessments were not done. As a result, systems were costly, delayed, and underutilized. The department also failed to fully comply with the requirements of the Hawaii Public Procurement Code concerning public posting for sole source purchases, solicitation of price quotes for small purchases, and justification for making purchases from other than the vendor submitting the lowest quotation.



*Review of **Fiscal Accountability in the Department of Education: How Accurate Are Textbook Costs?**, Report No. 97-1*

During FY1995-96, the Department of Education reported expenditures of approximately \$4.1 million for textbooks and \$15.9 for educational supplies. Despite a financial management system that should provide the department with accurate, timely, and comprehensive financial information, we found its expenditure data on textbooks and other instructional materials to be unreliable. The department has not clearly defined the two Object Codes under which schools typically account for the purchase of most instructional materials, making it difficult for management to effectively capture useful expenditure information. We also found that the account code structure is incomplete and does not account for the actual costs of the diverse types of instructional materials being used.

*Audit of the **Office of Hawaiian Affairs,**
Report No. 97-7*

The Office of Hawaiian Affairs is a corporate body and public agency that has over \$245 million in cash and investments and conducts programs to improve the conditions of persons of Hawaiian ancestry. We concluded that OHA needs better working relationships and clearer direction for its programs. OHA's trustees and staff need to rise above internal discontent and discord that could compromise OHA's mission, and move ahead to meet challenges in program planning, monitoring, evaluation, and budgeting. The firm of KPMG Peat Marwick LLP assisted us in reviewing OHA's controls over its cash and investments. The firm found that OHA has established a foundation of sound investment policy and investment management, and now needs to build on this foundation by planning strategically to link investments to programs.



*Study of the Feasibility of an **Optional Retirement Plan for University of Hawaii Faculty,**
Report No. 97-8*

The Legislature has been considering whether to provide faculty members of the University of Hawaii with a retirement plan alternative other than the existing state Employees' Retirement System. The current system primarily rewards long-term service to the State. Our study, conducted with Deloitte & Touche LLP, found that a fundamental policy question is whether to depart somewhat from this philosophy by providing one group of state employees—university faculty—with a different type of retirement plan that includes rewards for short-term service. A closely related question is how important retirement options are to the university's competitiveness in recruiting and retaining qualified faculty—an issue on which our study found differing perspectives. Our study offers several alternative retirement plans that vary in costs, employee benefits, and other factors.

QUEST is a five-year federally approved Medicaid waiver project administered by the Med-QUEST Division of the Department of Human Services. We found that the project, now in its third year, suffers from planning, financial, and operational deficiencies that need management's immediate attention. QUEST has yet to demonstrate that it is saving the state money. Costs have increased dramatically, from about \$276 million in FY1994-95 to \$352 million in FY1995-96. Furthermore, the project fails to use adequate management controls for eligibility determination and ineligible persons may still be receiving benefits. QUEST has not developed the required management information system and the required assessment of QUEST is impossible. Also, QUEST has not met its staffing needs and has not analyzed and reviewed utilization data as required.

The Special Compensation Fund is a revolving fund that in certain circumstances pays workers' compensation benefits for injured employees instead of, or in addition to, payments by the employer or its insurer. In calendar year 1995, the fund paid about \$15.5 million or 5 percent of all workers' compensation payments in Hawaii. The Department of Labor and Industrial Relations and four other state agencies are involved in the administration of the fund. We found that the multi-agency approach is reasonable. A recent legislative decision to finance a workers' compensation facilitator unit through the fund should be reconsidered, though, in order to reduce conflicts within the Department of Labor and Industrial Relations. We also found that the fund has grown larger than necessary to meet its obligations.



This is our fourth report under a law that requires the Auditor to review all existing revolving and trust funds in state government every five years. We reviewed 22 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.



The University of Hawaii has a multiple mission of instruction, research, and service. Instruction is the most important of these. However, we found that the Board of Regents has not clearly defined its expectations regarding the amount and type of work that faculty are to perform. Furthermore, the university's administration has not sufficiently monitored workload to ensure an efficient use of resources. The lack of clear direction from the board coupled with the administration's failure to properly implement and enforce its teaching assignment policy has resulted in unequal teaching assignments at all levels that cannot be justified. We also found that deficient personnel practices at the university have resulted in unjustified supplemental payments to faculty and expenditures for service not received.

We focused on the Manoa campus's management of its executive/managerial staff, its administrative, professional and technical staff, and its civil service employees. We found that the colleges and schools at Manoa have significant flexibility in identifying and determining their own non-instructional personnel needs. While this flexibility may be advantageous, it also has drawbacks when no administrative entity assumes responsibility for ensuring that these personnel are equitably allocated to the campus sub-units and that those allocations help the sub-units address their own missions as well as campus and university missions. We also found that Manoa lacks a human resource plan for its non-instructional personnel, to ensure the right number of people with the right skills are available to do the required jobs.

We conducted this audit with the certified public accounting firm of Nishihama & Kishida, CPAs, Inc. In the firm's opinion, the financial statements of the division fairly present the financial position and results of its operations for the year ended June 30, 1996. However, we found that there is no financial reporting within the division. The division has to pay its outside auditors to prepare accounting records and schedules so that its financial audits can be completed. Also, the division lacks an adequate inventory of property owned, to ensure that all lease rents are collected. Month-to-month-lease arrangements have gone on for years. In addition, controls over cash receipts and billings at three district offices and certain harbors are seriously deficient.



FINANCIAL AUDITS

This audit was conducted with the certified public accounting firm of Grant Thornton LLP. Because of the severity of the problems noted, the firm was unable to express an opinion on the combined financial statements of the department for the fiscal year July 1, 1995 to June 30, 1996. We found that the financial records of the department were too incomplete to be audited in a timely manner. We also found that the department failed to transfer to the general fund, federal reimbursements for expenditures paid with general fund appropriations. In addition, we found improper procurement practices including apparent parceling to avoid the formal bidding requirements of the procurement law and the loss of the funds on the fiscal year end lapse date.

This audit was conducted with the certified public accounting firm of Coopers & Lybrand L.L.P. In the firm's opinion the financial statements of the hospital present fairly the financial position and results of operations for the year ended June 30, 1996. However, we found that financial statements for management are not prepared in a timely manner and budgetary reporting should be improved. We also found delays in charging patients' accounts for services provided; an inadequate billing system to process long-term care charges; and certain charges to patients that were less than the standard rate. Also, payments from third-party payers are not reviewed, other collections practices could improve collections, and there were delays in depositing certain cash receipts.

FOLLOW-UP AUDITS

Follow-Up Report No. 96-9 on a Financial Audit of the Department of Taxation

Our 1994 *Financial Audit of the Department of Taxation*, Report No. 94-20, found that the department could improve its ability to collect taxes by strengthening its internal control and administrative practices and resources. *In our 1996 follow-up*, Report No. 96-9, we found that the new director of taxation has taken positive steps, not only to implement our 1994 recommendations, but also to initiate additional actions to improve tax collections and enforce compliance. Improvements have been made in such areas as identifying nonfilers, guiding field collectors, electronic funds transfer, and computerization. However, the department has not fully implemented a formal training program for its auditors, and has not been able to fill vacancies in its audit and collections divisions.



Follow-Up Report No. 96-11 on an Audit of the Waste Management Programs of the Department of Health

Our 1994 *Audit of the Hazardous Waste Management Program of the Department of Health*, Report No. 94-3, found problems in the resources, authorization, management, and enforcement of Hawaii's waste management regulatory programs. *In our 1996 follow-up*, Report No. 96-11, we found that support for the programs remains uncertain. This has hindered the programs from effectively ensuring adequate protection from improperly disposed wastes and leaking underground storage tanks. We also found weaknesses in hazardous waste regulation, solid waste control, databases for program management, and monitoring infectious waste. Stable funding, increased inspection staff, and other improvements are needed.

Follow-Up Report No. 96-13 on a Financial Audit of the Department of Land and Natural Resources

Our 1992 *Financial Audit of the Department of Land and Natural Resources*, Report No. 92-2, found weaknesses in the administration of land leases. *In our 1996 follow-up*, Report No. 96-13, we found that the same weaknesses continue. The department lacks effective management controls to ensure that cash performance or surety bonds are released only under proper circumstances. Procedures and instructions to pursue late lease rents do not comply with state law. The department continues to have difficulty ensuring that lessee performance or surety bond requirements are met. We also found fundamental problems with the department's lease management practices. For example, master lease files are poorly organized and the department is months behind in filing lease documents.



Follow-Up Report No. 96-14 on an Audit of the STD/AIDS Prevention Program in the Department of Health

Our 1993 *Audit of the STD/AIDS Prevention Program in the Department of Health*, Report No. 93-29, found that the department's STD/AIDS Prevention Branch needed more consistent leadership and direction. Also, the department was not properly administering its purchase of service contracts for STD/AIDS prevention services. *In our 1996 follow-up*, Report No. 96-14, we found some progress. The department has filled the position of branch chief and upgraded its contract administration. We also found that further improvements are needed in strategic planning, coordination, management of the Community Health Outreach Work Project, and contract administration. In addition, we questioned an artificial arrangement to increase the compensation of a top departmental administrator.

*Follow-Up Report No. 96-15 on an Audit of the Administration of **Personal Services Contracts in the Department of Education***

Our 1994 *Audit of the Administration of Personal Services Contracts in the Department of Education*, Report No. 94-27, found that the department had spent millions of dollars for personal services contracts without knowing whether the expenditures had furthered its educational mission. Our 1994 report also found that the department had failed to ensure that the contracts were administered efficiently, economically, and fairly, and were subject to open competition. *In our 1996 follow-up*, Report No. 96-15, we found that questionable contracting practices continue. The department has not justified the need for these contracts, is contracting with a limited pool of present and former employees in violation of the principle of open competition, and has failed to comply with the state procurement law.



*Follow-Up Report No. 97-4 on a Review of the **Incentive and Innovation Grant Review Panel of the Department of Education***

The review panel makes recommendations to the superintendent of education for grants to public schools to fund experimental and innovative instructional programs, in-service training, and other activities promoting innovation. Our 1994 *Review of the Incentive and Innovation Grant Review Panel of the Department of Education*, Report No. 94-24, concluded that the panel's effectiveness was limited, due to problems in its parameters, access to funding, operations, and evaluations. *In our 1997 follow-up*, Report No. 97-4, we found that improvements have been made. However, we also found that the program has yet to show its capacity to produce genuine innovation that improves student performance in the public schools on an ongoing basis. The program may need to be redesigned by the Legislature with a focus on budgeting, management, and reporting.

Actions Reported on Previous Recommendations (Report Nos. 95-19 through 96-8)

This section is based primarily on our review of activity in the 1996 legislative session and state agencies' responses to our October 1996 request for information concerning actions they have taken on our recommendations.

For selected reports, we also revisit the agencies to follow up on actions taken. In these cases, we subsequently issue detailed follow-up reports that provide additional verified information to supplement the information provided below:

Report Title: **Audit of the Temporary Classroom Program**

Report No.: 95-19

RECOMMENDATIONS

The Department of Budget and Finance (B&F) should streamline the approval processes for allotment of design funds and permission to advertise for temporary classroom projects.

The Department of Accounting and General Services (DAGS) should reduce the use of engineering consultants by using DAGS electrical and mechanical engineers as appropriate.

DAGS should also consider using revolving lists of pre-approved, qualified engineering consultants for temporary classroom projects.

ACTIONS REPORTED

B&F agrees that the "permission to advertise" review did not add any control or accountability. Consequently, the Governor now allows combining requests for "permission to advertise" and "release of construction funds."

A recent combined request by DAGS was processed by B&F and approved by the Governor within one week of receipt by B&F. The simultaneous release of construction funds allows DAGS to award the construction contract expeditiously if the low bid is within the pre-bid basic bid estimate.

DAGS reports that its Public Works Design Branch has no staff electrical or mechanical engineers and must rely on outside consultants. The department feels that full-time engineering positions cannot be justified and economically feasible because of the seasonal nature of temporary buildings design work and the amount of electrical and mechanical engineering design work for the rest of the year. The department also explored using engineers from other agencies or DAGS offices, but found such reassignments would affect the other agencies' responsibilities to the public.

DAGS reports that amendments to the Hawaii Public Procurement Code in 1995 eliminated the requirements for advertising for specific projects and for interviewing consultants. DAGS now obtains consultant recommendations from a list of qualified consultants, has reduced the consultant procurement process to 2 to 3 days, and believes the intent of our recommendation is being fulfilled.

Report Title: **Audit of the Temporary Classroom Program**

Report No.: 95-19

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RECOMMENDATIONS

DAGS and DOE should explore alternative methods of providing temporary classrooms.

ACTIONS REPORTED

[Note: Act 287, Section 123.1, SLH 1996, requires the Department of Education and DAGS to prepare bid specifications for the construction of no less than three temporary facilities using wood and other materials. The departments must report to the Legislature the comparative costs between wood and other materials, no less than 20 days prior to the 1997 Regular Session.]

DAGS reports initiating a recent project that permitted any builder to provide any type of building system and materials meeting minimum requirements. Submitted bid prices of those who based their bids on constructing conventional wooden temporary classrooms were much lower than bid prices for prefabricated, modular buildings. The pilot project reinforced DAGS' belief that the standard wood building is the most cost effective type of temporary building.

The Department of Education reports that it requested DAGS to initiate a similar project for the 1997-1998 school year to compare costs of wood and other materials. Based on preliminary cost estimates, DAGS projects no cost savings. Expectations are that the design will be completed in January 1997 and bids opened in March or April. The Department can provide results to the Legislature at that time.

Report Title: **Audit of the Annual-Report Costs of State Agencies**

Report No.: 95-20

RECOMMENDATIONS

The Governor should consider issuing annual-report guidelines in the form of suggestions to the agencies on how to produce and distribute a readable annual report at a reasonable cost. The guidelines should cover such topics as the following:

ACTIONS REPORTED

The Governor notes that from FY1991-92 to FY1993-94, the largest number of agencies consistently spent in the zero- \$2,500 range for annual reports and the number of such agencies is growing. The Governor also notes that total costs of producing and distributing annual reports had decreased.

Report Title: **Audit of the Annual-Report Costs of State Agencies**

Report No.: 95-20

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RECOMMENDATIONS

- a. the purpose and content of the annual report;
- b. the importance of weighing the costs of in-house production and distribution versus the costs of contracting out;
- c. the need to consider use of the correctional industries print shop;
- d. cost-effective graphic design, layout, colors, photos, number of pages, and paper stock; and
- e. ways to save on distribution costs.

ACTIONS REPORTED

The Governor believes that issuance of detailed guidelines could have many unintended consequences that would increase red tape and costs rather than decrease them. Instead of specific guidelines, the Governor issued a memo to all departments to use good judgment and to take note of the audit report.

Report Title: **Audit of the Information System of the Division of Community Hospitals**

Report No.: 95-21

RECOMMENDATIONS

The deputy director of the Division of Community Hospitals should hire a full-time data processing manager.

The division should assess the status of the current information system by:

- a. performing a post-implementation review of the information system to determine whether it meets its original objectives;
- b. implementing and completing revenue enhancement projects;

ACTIONS REPORTED

The Department of Health says that it has appointed an acting Information Systems Manager who has worked with the Finance and Information Systems Committee to improve the information system for all facilities in the division.

The department reports that the conversion from S/38 to AS/400 (hardware) and HBOC (software) upgrade accomplished the following objectives: improved billing; improved processing and response time; added work stations, printers, and communication lines; upgraded software, hardware, interface with ancillary departments, and ease of transmitting files; and increased system storage.

The department reports that it implemented electronic billing and an automated collections process in May 1996. A medical records coding system and Hawaii Health Information Network access to HMSA will be implemented by December 1996.

RECOMMENDATIONS

- c. establishing a policy for software use and acquisition by the hospitals to ensure compatibility with the direction of the information system;

- d. analyzing the two computer centers' capacity problem and the costs/benefits of keeping the old systems on the new computers; and

- e. developing a course of action to continue the automation of hospitals information processing.

The division should establish management controls to:

- a. monitor the information system's financial status, expenditures, and budget assessments; and

ACTIONS REPORTED

The department says a Hawaii Health Information Technology Services (HHITS) team has been created to form standards, policy, and procedures for software and hardware acquisition. An HHITS analyst reviews and verifies that all purchases comply with the approved standards.

The department reports that there is no capacity problem as technology provides unlimited data capacity at reasonable costs. The old system data will be stored on personal computers and will eventually expire.

The department reports an Information Systems Finance Committee was formed and meets monthly for continuous planning. A team of information system analysts supports the 13 facilities, creates policies and procedures, and makes strategic plans based on input from the facilities. This team supplanted the two emergency hire data systems staff previously located in the division office, thus reducing payroll.

A statewide frame relay will connect the Division Office, the attorney general's Collections Unit, DAGS's FAMIS system, the Department of Human Resource Development's on-line Form 5 information system and all 12 facilities (except Hana Medical Center), allowing them to share information.

The division is also implementing LAN (local area network) systems for all of the 12 facilities to reduce equipment needs by allowing for the sharing of printers, modems, and facsimile machines.

Acute facilities are requesting accounts payable software, materials management, and are upgrading their general ledger for improved management reporting capability. The software will give the facilities more control over their expenditures.

Report Title: **Audit of the Information System of the Division of Community Hospitals**

Report No.: 95-21

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RECOMMENDATIONS

- b. ensure that work done as a result of the assessment of the system follows state guidelines.

The division should also ensure that hospital personnel are adequately trained to operate and maintain the computer system.

ACTIONS REPORTED

The 11 long-term and rural facilities are in the final process of approving a major integrated software system covering both clinical and financial needs. Another team is working with the Collections Unit of the attorney general's office to select a collections software.

Hilo and Maui information systems staff are trained together to uphold high standards. Hilo, Kona, and Maui have increased their staff trained in current computer technology.

Report Title: **Sunset Evaluation of the Forfeiture Program**

Report No.: 95-22

RECOMMENDATIONS

The Legislature should consider amending Chapter 712A, the Hawaii Omnibus Criminal Forfeiture Act, as follows:

- a. Require the government in civil judicial forfeiture cases to prove by a "preponderance of the evidence" that the property is subject to forfeiture.
- b. Require courts to limit the scope of a forfeiture to the extent that they find the effect of the forfeiture grossly disproportionate to the nature and severity of the crime.
- c. Repeal the Criminal Forfeiture Fund so that some forfeiture proceeds can be deposited into the state general fund for legislative appropriation.

ACTIONS REPORTED

Act 104, SLH 1996, requires the government in certain forfeiture cases to initially prove by a preponderance of the evidence that the interest in the property is subject to forfeiture.

Act 104 also requires the courts to limit the scope of a forfeiture judgment (in cases involving property used or intended for use in the commission of, attempt to commit, or conspiracy to commit a covered offense, or which facilitated or assisted such activities) to the extent that they find the effect of the forfeiture grossly disproportionate to the nature and severity of the owner's conduct.

The statute was not amended in this respect.

RECOMMENDATIONS

The Legislature should require the Department of Education to identify all personnel costs by function and location in the Financial Management System (FMS).

The Department of Education should work with the Governor to ensure that support agencies institute tracking methods to report school level expenditure annually on a school-by-school basis.

The superintendent should require record keeping and reporting of state and district personnel that accounts for their time by function, program and school site. The Department of Education should report to the Legislature whether this information can be incorporated into FMS for the purpose of generating program expenditure reports by cost and location.

The Department of Education should improve its financial management by:

- a. Requiring program specialists and schools to routinely review FMS expenditure reports for accuracy, and

ACTIONS REPORTED

No legislation was enacted. However, Senate Concurrent Resolution No. 164, S.D.1 requests the Senate President and the House Speaker to form a Joint Interim Committee on Education Budget Reform responsible for developing a revised appropriations structure for public education. The committee is to submit its report to the 1997 Regular Session with recommendations for a new appropriations structure.

The department reports that it will explore alternatives with the Governor and the other support agencies. However, the department expects these agencies may encounter "similar difficulties" if they must provide actual managerial overhead cost on a school-by-school basis.

The department is willing to conduct a pilot project to provide the kind of information the Legislature needs, if the Legislature appropriates the necessary resources. The department believes that one of the most essential components is a new payroll/personnel system which would improve the State's support infrastructure for all agencies. At this time, the department has no viable alternatives for support agencies and the department district and state personnel to account for their time by function, program, and school site to institute tracking methods to report school level expenditures.

The department concurs with this recommendation and encourages administrators to review Financial Management System expenditure reports. The Department established a School Support Group in the Office of Business Services and one of its functions is to train the school level administrators and clerical personnel in the business functions of the school on a scheduled basis during the school year.

Report Title: **Status Report on Monitoring Fiscal Accountability of the Department of Education: Case Study-Royal Elementary School**

Report No.: 95-23

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RECOMMENDATIONS

- b. Establishing clear criteria for the use of object codes. The department should evaluate the application of object codes in determining costs by function and report its findings to the 1997 Legislature.

ACTIONS REPORTED

The department reports that its use of object codes complies with the State Comptroller's requirements. DAGS compiles and analyzes information on a statewide basis, making consistency in the application of object codes essential. In addition, through the education department's data warehouse, reports may be programmed by object codes by functions. All Program I.D.'s are identified to a function, therefore, reports of lower level detail information such as the object code by function will require additional computer programming.

Report Title: **Management Audit of the College of Education**

Report No.: 95-24

RECOMMENDATIONS

The College of Education should achieve consensus within the college in clarifying its mission. It should seek the assistance of the university administration, the Board of Regents, and the Legislature if it believes Section 304-20, HRS, prevents it from clarifying its mission.

ACTIONS REPORTED

The College of Education reports that it has a newly conceptualized mission statement that reflects its primary functions of instruction, research, and scholarship. Developed in collaboration with the College of Education Faculty Senate, the mission statement was approved in February 1996 by the university Board of Regents. The mission statement will be forwarded as one part of the university's package of bills to the Legislature as a means to amend Section 304-20, HRS.

RECOMMENDATIONS

The College of Education should provide clearer guidance to its program development process by:

- a. Establishing a set of policies and procedures that direct and guide its undergraduate programs by identifying responsible parties for developing programs, and identifying program approval authority within the college.

- b. Ensuring that all proposals for new programs provide the information required by university policy and that such proposals contain cost and impact statements.

- c. Developing clear goals and objectives for each of its degree-granting and certificate-granting programs that include skills and abilities that students will acquire as a result of enrolling in those programs.

ACTIONS REPORTED

The college merged two instructional departments (Curriculum and Instruction and Field Services) to create a Department of Teacher Education & Curriculum Studies, as an initial step in its reorganization. The new department consists of faculty members who have responsibility for developing, implementing, and evaluating teacher preparation programs at the undergraduate, post-baccalaureate, and graduate levels, as well as academic advising and counseling. As new programs and their subsequent courses are developed, they are forwarded to the College of Education Faculty Senate, which as an advisory council created by the Board of Regents, recommends actions (for example, approval) to the dean. In addition, the College Faculty Senate reviewed its charter and is reconsidering governance procedures.

The college reports that it endeavors to ensure that all program proposals forwarded to the university administration and Board of Regents for approval contain the appropriate cost and impact statements. Typically, a proposal is returned if information is omitted inadvertently.

The college says it tries to articulate clear goals and objectives for each of its programs and to specify them in program publications. However, the college notes that philosophical differences may form the basis for how program goals and objectives are articulated and delineated in various college publications.

Report Title: **Management Audit of the College of Education**

Report No.: 95-24

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RECOMMENDATIONS

- d. Clarifying how resources are to be allocated to its cohort programs, whether sufficient resources are available, how faculty roles and workload may change and how students may reapply to the cohort programs.

- e. Ensuring that each course has a specific objective or series of objectives common to all instructors who teach that course.

The College of Education should develop a coordinated evaluation process for all programs.

ACTIONS REPORTED

The college reports that it has allocated all available resources to its teacher, counselor, and administrator preparation programs, while being under budget restrictions and lacking enough faculty members to staff its programs. The college could not fill 20 vacant faculty positions and operates with 83 faculty FTE. Consequently, maintaining current campus programs is increasingly difficult. In addition, the college is clarifying changing faculty roles and responsibilities, balancing instructional, research, and service workload in its field-centered programs, and readmission policies for students who withdraw temporarily from its cohort-based programs.

The college reports that it attempts to ensure delineation of specific objectives and maintenance of course integrity for each of the courses offered. However, the principle of academic freedom requires individual faculty members to determine the priority ranking of objectives and choice of instructional materials and textbooks.

The college says it is designing and implementing an evaluation process with both formative and summative activities. Formative evaluation assesses program operations on an ongoing basis and is the foundation for program change. Summative processes allow the college to determine its teacher education programs' quality and effectiveness and whether personnel are competent for their settings. The evaluation plan is in its initial development. The evaluations will provide:

- feedback to faculty members about the effectiveness of their teaching;
- a measure of faculty members' teaching effectiveness;
- a measure of course and program quality to improve existing courses and aid in developing new courses;
- data for initiating basic research on teaching; and
- a standard against which the college's programs may be measured in the accreditation process

Report Title: **Management Audit of the College of Education**

Report No.: 95-24

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RECOMMENDATIONS

The university should ensure that program reviews are conducted of the Bachelors of Education in Elementary Education and Bachelors of Education in Secondary Education programs despite their non-departmental status.

ACTIONS REPORTED

The president of the university reports that the Bachelor of Education degree programs in both Elementary and Secondary Education were reviewed in 1994 as part of the State Approval of Teacher Education (SATE) accreditation process under the Standards of the National Association of State Directors of Teacher Education and Certification. The college's August 1996 reorganization places the B.Ed. programs within the newly created Department of Teacher Education & Curriculum Studies. The programs will be reviewed in the next cycle of the university-wide Council on Program Reviews (COPR).

Report Title: **Audit of the Management of Billings and Collections for the Department of Health's Outpatient Adult Mental Health Services**

Report No.: 95-25

RECOMMENDATIONS

The chiefs of the state-run community mental health centers should make maximizing billings and collections a top priority.

ACTIONS REPORTED

The department reports that all center chiefs consider billings and collections important priorities. The Adult Mental Health Division is reorganizing the five Oahu community mental health centers into one large center to more equitably distribute resources and workload. The Kalihi-Palama center, Oahu's centralized billing unit, will handle all outpatient mental health service reimbursements for Oahu. The three neighbor islands' billing activities are at different stages, but all centers are billing and chiefs are more committed to the reimbursement process.

The chiefs of the state centers who have not already done so should implement management controls to ensure that staff complete all necessary procedures, forms, and records necessary for billings and collections.

All centers now have a position dedicated to billing and collections. Diamond Head's billing clerk position is currently vacant and recruitment is in process. All centers have local systems in place for capturing and documenting billable services.

The Adult Mental Health Division should re-evaluate and adjust the centers' special fund subaccount ceilings within the legislative appropriation for the special fund.

The division reports that this recommendation has been implemented.

Report Title: **Audit of the Management of Billings and Collections for the Department of Health's Outpatient Adult Mental Health Services**

Report No.: 95-25

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RECOMMENDATIONS

The division should adopt an aggressive, pro-active role and assume its responsibilities in guiding, supporting, and monitoring the community mental health centers' billings and collections. Specifically, the division should:

- a. plan and implement a division-wide, overall billing system for the state-run community mental health centers that includes proper automation, standard policies and procedures, management controls, and an on-going training program;
- b. designate a qualified staff member to concentrate on implementing the division's billing and collection responsibilities, who would serve as a resource person, coordinator, and advocate for the division and the centers; and
- c. maintain proper documentation and historical information crucial to the division's billing and collection efforts.

ACTIONS REPORTED

The division reports that the reorganization into a primarily centralized billing unit on Oahu accomplishes this recommendation. The division is developing standard policies and procedures both at the administrative and the local level. Division personnel conduct training on billing with chiefs and technical personnel within the centers. Additionally, with the accreditation of the hospital (and soon the certification of the Health Care Financing Administration), Hawaii State Hospital will be able to bill for some of its services.

The division reports that a hiring freeze was recently lifted and the Adult Mental Health Division is establishing a Public Health Administrative Officer IV position dedicated to reimbursement issues across the division.

The division negotiates all provider agreements for center services, including agreements with Community Care Services, the contractor for the Health Quest mental health services carve-out, and with HMSA Basic Plan. Negotiations are nearly completed for limited services with other Quest Basic Plan contractors for certain services on a short term basis. Additionally, the Department and the MedQUEST Division of the Department of Human Services are amending the state Medicaid plan to include more reimbursable services for mental health, outpatient, and inpatient services.

Report Title: **Audit of the Management of Billings and Collections for the Department of Health's Outpatient Adult Mental Health Services**

Report No.: 95-25

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RECOMMENDATIONS

The division should purchase an integrated billing software package that will meet at least the requirements that we have identified, and should provide ongoing training and technical support for the software package. The division should also install comparable hardware at all of the state community mental health centers to support an on-line, integrated billing system for all centers.

ACTIONS REPORTED

The Adult Mental Health Division issued a Request-for-Proposal for a new management information system with full billing, managerial, and clinical software applications. Division personnel are on site reviewing one of the systems on the mainland. Planned implementation will begin with a six month demonstration project at several centers, followed by full implementation statewide. Since the division received an increase in its special fund ceiling, the system will be paid for entirely from special funds.

Report Title: **Sunrise Analysis of a Proposal to Regulate Marriage and Family Therapists**

Report No.: 95-26

RECOMMENDATIONS

We recommend that House Bill No. 764 not be enacted.

ACTIONS REPORTED

The bill was not enacted.

Report Title: **Sunrise Analysis of Two Proposals to Regulate Nutritionists**

Report No.: 95-27

RECOMMENDATIONS

We recommend that Senate Bill No. 1499 and House Bill No. 966 not be enacted.

ACTIONS REPORTED

The bills were not enacted.

Report Title: **Study of Proposed Mandated Health Insurance for Acupuncture Services**

Report No.: 95-28

RECOMMENDATIONS

No recommendations.

ACTIONS REPORTED

RECOMMENDATIONS

The Airports Division of the Department of Transportation should follow a competitive negotiation process in selecting its contractors.

The Airports Division should develop and enforce an internal control structure which requires that:

- a. A thorough evaluation of the need for and the availability of resources to pay for a project be documented before contracts are entered into, and
- b. Contracts include clearly defined outcomes, outcome measurements, scope, and contractor compensation before they are executed.

The Airports Division should develop and implement internal control procedures designed to adequately monitor the effectiveness of project managers.

The chief of the Child and Adolescent Mental Health Division of the Department of Health should establish controls and procedures over filing contracts, as well as clear payment policies and procedures.

ACTIONS REPORTED

The department reports that the Airports Division follows relevant procedures and guidelines of the State's new procurement law as implemented by Chapter 3-122, Hawaii Administrative Rules.

The Airports Division developed and is enforcing a better internal control system in the two key areas:

- a. The division developed the Statewide Airport System Plan to define system needs and the sources and methods of financing for the six-year Capital Improvement Program and the long-range planning goals. The request for appropriations to the Legislature is submitted accordingly.
- b. The scope of consultant contracts to issue Request for Qualifications is clearly defined. The lump sum fee is negotiated with the most qualified consultant. The process allows for a technical competition from which the division enters into cost negotiations with the one selected as most qualified. The contract period and the resulting product requirement are clearly defined.

The Airports Division developed and is implementing better internal control procedures to monitor the effectiveness of the project managers. The Engineering Branch's Project Management Procedural Manual advises internal staff, and internal auditors assist the branch in evaluating consultant rates and overhead factors before accepting fees. The division does not contract with consultant project managers to assist in monitoring contracts at this time.

The department reports that the Child and Adolescent Mental Health Division implemented a reorganization plan which effects a dedicated Contract Management Unit. The unit builds in efficiencies by combining program and contract compliance monitoring. The Fiscal Unit performs financial monitoring of contract agreements.

RECOMMENDATIONS

The chief of the Child and Adolescent Mental Health Division should see that the program specialist is properly qualified and trained to:

- a. establish and enforce a policy ensuring complete and organized contract files;
- b. establish and enforce monitoring and evaluation policies and procedures; and
- c. formulate a manual to guide staff in the performance of their contract administration duties.

Staff of the Child and Adolescent Mental Health Division should be properly trained in the performance of their contract monitoring and evaluation duties.

ACTIONS REPORTED

The division also established procedures for payment policies, and with other behavioral health divisions and the Administrative Services Office developed policies and procedures for adherence to Chapter 103D.

The department reports that contract files have been reorganized into a standardized file format with six sections: contract; fiscal monitoring reports; program monitoring reports; quarterly and monthly activity reports; correspondence; and miscellaneous information and file documentation.

Controls and procedures over filing and organizing contracts include: contract logs; dated file sign-out procedures; ASO log number; and staff person removing the file. A database tracks contract information by program categories. Reports can be generated regarding any of the following areas: ASO log #, vendor, services, address, phone number, fax number, contact, program specialist assigned, service category, program name, client age served, funding, and catchment area served.

The division developed a contract manual which includes policies and procedures on: administration; program and fiscal monitoring; payment processing; and compliance with Chapter 103D.

The division reorganization allows for the combining of program and contract compliance monitoring. Fiscal monitoring and program monitoring and evaluation policies and procedures have been developed.

The team contract monitoring has been implemented and contractors receive a monitoring report regarding the team's findings. Fiscal audits are also conducted separately subject to fiscal monitoring criteria.

The division strengthened reporting requirements to require quarterly reporting by contractors in contract scopes. Division contract staff must produce annual reports after completion of an on-site visit.

Report Title: **Audit of State Contracting for Professional and Technical Services**

Report No.: 95-29

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RECOMMENDATIONS

Contractors for the Child and Adolescent Mental Health Division should be prohibited from providing services until a fully executed contract is in place.

The High Technology Development Corporation should continue to exercise its effective contract administration controls. In addition, the corporation should insure that all providers of services be under a fully executed contract before work is allowed and that competitive bidding be further encouraged to insure the best price and product for the State.

ACTIONS REPORTED

The division reviewed its practices regarding work performed prior to contract execution. Given the nature of the Felix v. Waihee Consent Decree, services can require authorization (that is, placement of children and youth in crisis) on an emergency basis. As appropriate, emergency procurement is requested from the Procurement Officer. All other contracts must be executed prior to work being allowed to commence.

The corporation reports that its policy does not allow contractors to start work without a fully executed contract. Heavier workloads at the end of the fiscal year affected the normal processing time for contracts and hence, the corporation changed the start date of contracts to avoid the "fiscal year-end crunch." The corporation did not have an existing written policy or procedure allowing contractors to begin work without a contract, however, the corporation circulated an internal memorandum cautioning staff to have a fully executed contract before any work begins on behalf of the corporation.

The corporation has always maintained a policy of obtaining a minimum of three bids prior to any work performed. However, since the audit, the corporation now requests all bids in writing, and where written bids are not possible, that the over-the-phone bid information be documented in writing and filed along with other bids received for a particular job request.

Report Title: **Sunrise Analysis of a Proposal to Regulate Physical Therapist Assistants**

Report No.: 95-30

RECOMMENDATIONS

House Bill No. 1240 should not be enacted.

ACTIONS REPORTED

The bill was not enacted.

Report Title: **Sunrise Analysis of a Proposal to Regulate Respiratory Care Practitioners**
Report No.: 95-31

RECOMMENDATIONS

House Bill No. 2240 should not be enacted.

ACTIONS REPORTED

The bill was not enacted.

Report Title: **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

RECOMMENDATIONS

No recommendations.

ACTIONS REPORTED

Report Title: **A Review of Sports Promotion Activities of the Department of Business, Economic Development and Tourism**

Report No.: 95-33

RECOMMENDATIONS

The Stadium Authority should be allowed to develop its promotional capabilities before considering any additional use of the authority to promote sports generally in Hawaii.

Hawaii's sports promotion activities should remain with the Department of Business, Economic Development and Tourism and the Hawaii Visitors Bureau.

Upon considering the creation of a sports authority or commission, issues of the organization type, funding, scope, and logistics should be included as an integral part of the decision-making process. Also, the Stadium Authority could be re-evaluated for the appropriateness of having a facility-based organization assume promotion for sports events.

ACTIONS REPORTED

The Stadium Authority agrees that it should be allowed to develop its promotional capabilities. The authority successfully negotiated two non-sporting events representing substantial revenues. The stadium manager's office has also negotiated with a professional baseball team for a regular season game.

The authority concurs with this recommendation. The authority says that the thrust of its promotional efforts should focus only on the facility and it is not prepared to take on a statewide sports promotion program.

However, if a sports authority or commission were created, the authority expects to play an integral role in its administration.

RECOMMENDATIONS

The Department of Health and the Hawaii State Hospital should strengthen their personnel policies and procedures to reduce employee absenteeism and grievances and to better guide hospital employees in their work.

Employees' pay should be discontinued when leave is unauthorized and forms are unsigned.

The department and the hospital should improve the hospital's financial management system. In doing so they should:

- a. evaluate the current purchasing and payroll processes for inefficiencies and make improvements. Purchased professional services from the University of Hawaii should be negotiated by the hospital superintendent for better results;
- b. better utilize the hospital's business and personnel office staff; and
- c. improve the supervisory and record keeping controls of the industrial therapy program.

ACTIONS REPORTED

The department reports that it was necessary to strengthen or add hospital policies and procedures. Hospital administration has worked closely with staff at all levels to provide training, immediate assistance, and the confidence to be held accountable and hold others accountable for the administration of rules, policies and procedures, and collective bargaining agreements. The hospital has reduced union grievances, is settling more grievances, but is willing to make difficult and controversial interpretations of the collective bargaining agreement in grievances and to arbitrate to get resolution.

Based on the collective bargaining agreement, the hospital begins counting the days to job abandonment unless the absent employee notifies the supervisor within 24 hours of the employee's absence status. Employees who submit the required documentation may later amend their unauthorized leave without pay status.

A new business manager, experienced in the state financial system, improved the hospital's financial system. The hospital had the smallest deficit in the recent past.

UH contracts are monitored and evaluated regularly.

The hospital separated the personnel and business offices with personnel of each accountable for their respective duties and responsibilities. This resulted in greater customer satisfaction for both offices.

The Director of Occupational Therapy now has responsibility for the industrial therapy program. New policies and procedures provide specific supervisor responsibilities for accountability.

RECOMMENDATIONS

The department and the hospital should reconsider the perquisite practice of subsidized meals for hospital employees.

The hospital should strengthen its inventory controls to include:

- a. controlling access to the hospital's gasoline pump;
- b. requiring appropriate inventory recordkeeping at the housekeeping and dietary units, which includes comparing inventory counts for possible abuse and taking action on the reasons for inventory differences; and
- c. monitoring the issuance and usage of linen and clothing used in the wards for patients.

The hospital should continue its efforts in addressing the problems associated with its forensic patients.

ACTIONS REPORTED

The hospital increased the cost per meal to employees to reflect the median cost per meal throughout the other department dining facilities.

Access to the pump has been controlled through a lock with a single key, designating specific times and persons for pumping, keeping a log, and performing random audits.

The hospital changed locks on food storage areas with supervisors holding the keys. The hospital maintains and audits inventories of the storage areas which are audited by the supervisor. A computerized central supply system will separate procurement and receiving of supplies, facilitating inventory control.

The hospital conducts daily ward checks to compare linen and clothing used against requests by units. Requests that are larger than normal require the Plant Engineer's approval.

The hospital continues to address problems associated with forensic patients. A deputy attorney general assigned full-time to the hospital works with the court system and judges to resolve long-standing problems.

RECOMMENDATIONS

The Legislature should amend Chapter 42D so that it applies to grants and subsidies only. It should further amend Act 194, SLH 1992 so that the original Chapter 42D would take effect once Act 194 is repealed. In addition, the Legislature should amend the original Chapter 42D so that it eliminates the provision for an Advisory Council.

ACTIONS REPORTED

Act 13, Section 20, SLH 1996 amended Act 194, SLH 1992 to clarify that the original Chapter 42D, as amended by Act 118, SLH 1995, will take effect when Act 194 is repealed on July 1, 1996.

Report Title: **Audit of the Administration of the Purchase of Service System**

Report No.: 96-1

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RECOMMENDATIONS

The Legislature should amend Chapter 103D to delete reference to purchases of services made under Chapter 42D and include the procurement of all services.

The State Procurement Office should assume the leadership role in assisting and instructing departments on the purchase of health and human services under Chapter 103D.

ACTIONS REPORTED

In addition, Act 310, SLH 1996 extended the repeal date of Act 194, SLH 1992 to July 1, 1998 and transfers the responsibility for all purchase of service (POS) contracts under Chapter 42D to the state procurement office on July 1, 1998. During the transition period, the administrator of the state procurement office is to develop and implement a transition plan detailing procedures to process purchase of service contracts under Chapter 103D. The administrator must submit the plan and procedures to the Legislature by December 31, 1996.

The administrator of the office was involved with the passage of Act 310. He reports that his office is moving forward to provide administrative services for the procurement of health-and-human-services-type contracts. The administrator hired a consultant and is working with the Office of Planning to develop and implement the POS transition plan. The administrator met with individuals from the Governor's Office, the Legislature, the Judiciary, the Department of Education, the Department of Budget and Finance, DAGS, the POS Executive Coordinating Council, the POS Advisory Council, POS administrators in other States, and conducted public informational meetings on Oahu and the Big Island. These meetings raised and discussed POS issues and concerns. The administrator anticipates that legislation will be submitted to address various issues.

Report Title: **Audit of the Comprehensive School Alienation Program and the Pregnant and Parenting Teen Program of the Department of Education**

Report No.: 96-2

RECOMMENDATIONS

The Department of Education should clearly state the mission of public education. This mission should drive the implementation of all programs in the department, including the Comprehensive School Alienation Program and the Pregnant and Parenting Teen Program.

ACTIONS REPORTED

The department reports that the mission statement adopted by the Board of Education on November 20, 1993—to enable and empower the public school system to provide all students with the opportunity to acquire the knowledge, skills, respect for learning, and attributes necessary for them to become productive and responsible citizens—drives all department initiatives and programs.

Report Title: **Audit of the Comprehensive School Alienation Program and the Pregnant and Parenting Teen Program of the Department of Education**

Report No.: 96-2

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RECOMMENDATIONS

The superintendent of education should direct schools to discontinue the use of adult education programs for high school students and to include teen fathers in all pregnant and parenting teen programs.

The Office of Instructional Services should monitor and evaluate the Comprehensive School Alienation Program and Pregnant and Parenting Teen Program annually and submit written program evaluation reports to the superintendent, district superintendents and schools.

ACTIONS REPORTED

The department reports that Act 162, SLH 1996 requires schools to provide alternative education under certain conditions. Community schools must now be one of the alternative education options available to students age 16 and over. The department says that it makes every effort to include teen fathers in all pregnant and parenting teen programs. Unfortunately, many teen fathers do not have the time available because of their regular academic course schedule. However, the department provides teachers a class period to counsel students who need help.

The department reports that the Office of Instructional Services was restructured into the Office of Accountability and School Instructional Support (OASIS). The Comprehensive School Alienation Program and the Pregnant and Parenting Teen Program are within OASIS. OASIS's overall management monitoring schedule will include monitoring and evaluating the two programs, but due to staff limitations, monitoring of all schools will be done biennially or on a three-year cycle.

The department will continue to comply with federal guidelines and monitor the Pregnant and Parenting Teen program in three ways: Vocational education personnel monitor all high schools and submit reports to district superintendents, high schools, and OASIS. OASIS personnel monitor the program and forward data in a report to the superintendent. The Office of the State Director of Vocational Education monitors the program biennially and submits a report to the superintendent.

Report Title: **Audit of the Comprehensive School Alienation Program and the Pregnant and Parenting Teen Program of the Department of Education**

Report No.: 96-2

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RECOMMENDATIONS

The Office of Instructional Services should revise its eligibility data form for the Comprehensive School Alienation Program to identify all students eligible for services, student service needs, and services provided. In addition, the office should revise its performance data forms to include indicators which clearly measure program goals. The form should include clear definitions for program performance measures which allow for uniform data reporting.

The Office of Instructional Services should work with the Office of Telecommunications in identifying the student and program information which should be stored on-line in the School Information System for program planning and evaluation. The Office of Instructional Services should report its findings to the superintendent of education and include a cost estimate and time-frame for implementation.

The Office of Instructional Services should work with the Budget Branch in revising the allocation formula for the Comprehensive School Alienation Program. The revised formula should encourage schools to be successful in preventing school alienation so that the need for alienation services decreases rather than increases.

ACTIONS REPORTED

The department reports that it is reviewing its eligibility data form to better identify all student eligible for program services, student service needs, and effectiveness and impact of services provided. Unfortunately, the current data base cannot generate lists of potentially eligible students. The department expects changes to data forms and performance measures will improve the schools' understanding of what they should measure, help them show measurable progress, and ensure uniform measurement and compliance.

The department says that OASIS is working with the Office of Information and Telecommunications Services (OITS) to identify school-by-school data that might be used to more equitably allocate Comprehensive School Alienation Program funds for school year 1997-98.

The department reports the accuracy of data from schools limits its efforts to equitably allocate resources among schools. OASIS and district superintendents are meeting to revise the allocation formula for the Comprehensive School Alienation Program for the 1997-98 school year. The formula may use data on the number of students who fall below certain grade point averages or who have failed two courses. The department is also seeking ways to include into the formula a means of encouraging schools in preventing school alienation.

Report Title: **Audit of the Comprehensive School Alienation Program and the Pregnant and Parenting Teen Program of the Department of Education**

Report No.: 96-2

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RECOMMENDATIONS

The Office of Instructional Services should distribute Comprehensive School Alienation Program and Pregnant and Parenting Teen Program funds equitably among districts and schools by adhering to allocation formulas for these programs.

ACTIONS REPORTED

The department reports that for the 1996-97 school year, it allocated program funds directly to schools based on the number of students identified as the target population and the number of students provided with services. It allocated general funds for the Pregnant and Parenting Teen Program to schools on an equitable basis using student enrollment as the base for distribution. Some districts also allocated home-hospital positions to supplement the program allocation. All programs received equitable funding for career awareness and development activities and other supplementary instructional resources for their school program.

Report Title: **Management Audit of the Commission on Water Resource Management**

Report No.: 96-3

RECOMMENDATIONS

The Commission on Water Resource Management should develop a plan to meet specific goals and timeframes for areas that need improvement. The commission should: a) identify the necessary staff resources needed to carry out its established goals, b) develop a staffing plan that identifies specific positions and responsibilities, and, c) provide justifications for any additional positions. It should seek to obtain the resources it identifies as needed. Once this is done, the commission should establish clear priorities and dedicate the appropriate staff and resources to these priorities.

ACTIONS REPORTED

The commission reports that it had identified the required staff resources to carry out its responsibilities and that increased staffing would facilitate conduct of its duties. The commission continues to evaluate its measures of effectiveness in meeting the Water Code objectives. The commission had created a staffing plan to identify specific positions and responsibilities, and has internal operating procedures to optimize staff allocation. The commission realizes the importance of a strategic plan to direct and prioritize the commission's activities and has taken steps to revise the Hawaii Water Plan with other state and county agencies. For fiscal biennium 1998-1999, the commission, through the Department of Land and Natural Resources, is requesting additional funding of \$663,704 for FY1997-98 and \$196,408 for FY1998-99 to revise and update the Hawaii Water Plan.

The commission should revise and adopt the amended Hawaii Water Plan, ensure that revisions are coordinated and that the plan developed is useful to the staff, the commissioners, and other agencies.

The commission will use Integrated Resource Planning to set priorities, identify improvements, and streamline the permitting process. The revised Hawaii Water Plan should result in more accurate projections of water demands, less contested case hearings, and overall savings for the State.

RECOMMENDATIONS

The commission should propose legislation to streamline the regulatory function to minimize the staff time required for these duties. Specifically, the commission should:

- a. Review the water use permitting process and identify areas that could be improved and streamlined; and
- b. Review whether the designation process is necessary and beneficial. It should request changes to the code that would streamline the process so that it can be implemented in a more timely manner.

The commission should revise its administrative rules, and ensure that the rules are updated on a regular basis, at least once every four years.

ACTIONS REPORTED

The commission reports that it has streamlined procedures to facilitate review and processing of permits. These actions include :

- a) The commission delegated authority to the chairperson to administratively approve the construction of monitor, sampling, and observation wells and test holes, and the sealing of unused or abandoned wells. Under certain conditions the chairperson can also approve permits for repairing or replacing pump-related equipment of equal or less capacity than the existing pump.
- b) Certain types of wells are exempt from obtaining permits.
- c) The well permit review process is streamlined. Permit applications are now noticed in the commission's bulletin and sent only to the Department of Health for review.
- d) Applicants may apply for both well construction and pump installation permits for concurrent processing in certain situations.
- e) The commission held public hearings for proposed rules establishing "Well Construction and Pump Installation Standards." After adopting standards, the commission can delegate to the chairperson authority to administratively approve permits.
- f) The commission, the Division of Aquatic Resources, and the U.S. Geological Survey are developing criteria to more effectively assess water flows.

The commission has proposed certain new administrative rules and amendments to existing rules. The amendments provide for well and pump installation standards and implement the Stream Protection and Management task force's recommendations. New rules establish the framework for discharging the commission's duty to protect Hawaiian water rights.

RECOMMENDATIONS

The Division of Community Hospitals and the Hilo Medical Center should make a concerted effort to improve the center's accounting, reporting, billing, and information system functions. In doing so they should:

- a. identify and implement changes needed to improve accounting and financial reporting capabilities;
- b. take steps necessary to improve the billing and collections practices; and
- c. improve the information processing system and establish a disaster recovery plan for the information system.

The Division of Community Hospitals and the center should make it a priority to improve staff capabilities at the center. In doing so they should:

- a. develop proper job classifications and pay scales for needed personnel in the business office;
- b. identify and provide needed training; and
- c. properly organize the billing and collection processes.

The center should continue its efforts to improve the utilization review function.

ACTIONS REPORTED

The Department of Health reports that it is evaluating software programs to link with Hilo Medical Center's current financial software. The software should meet short-term needs of materials management, accounts payable, and a general ledger module, and also allow for long-term integration with other hospital functions. The center has begun electronic billing for Medicare, HMSA, HMSA 65C+, Quest, and Medicaid claims.

The department is evaluating long-term billing programs. A software upgrade, scheduled for February 1997, will provide more detailed billing information.

The center referred accounts over 125 days to three collection agencies. Over \$8.5 million was referred and the agencies have collected \$1.5 million. Also, a healthcare consultant reviewed the center's Business Office operations and made recommendations.

Ten of the 12 acute care billing and credit staff of the Business Office now have combined duties where each staff is responsible for all billing and collection functions. Patient accounts are assigned alphabetically. In-house training occurred for seven weeks before combining the separate functions. Long-term care billing responsibilities will be distributed among all billing/credit staff uniformly.

A personnel reorganization plan was approved and some actions were processed.

A patient accounts manager position was established with the primary responsibility of recovering uninsured and uncollectible accounts.

The center's active monitoring and profiling of physician practices will improve utilization through staff education and benchmarking. The center's overall average length of stay (ALOS) of 3.09 days is below the State's ALOS of 6.16 days and national averages of 3.91 days. The center will implement clinical care path programs to improve utilization.

Report Title: **Financial Audit of the Hilo Medical Center**

Report No.: 96-4

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RECOMMENDATIONS

The Division of Community Hospitals should cease negotiating contracts that are potentially financially detrimental to the center and allow the center to negotiate its own agreements.

The center should take steps to ensure that it is paying for contract services that are authorized and that conform to the contract.

The center should evaluate the need to continue its contracts to pay for radiological, laboratory, and kidney dialysis services for its patients.

The center should take steps necessary to effectively manage its workers' compensations claims.

The Division of Community Hospitals and the center should begin to develop plans to deal with the potential problems associated with its waitlisted patients.

ACTIONS REPORTED

The center began negotiating its own contracts in 1995 and the division is no longer involved in contract negotiating. The center has negotiated a contract with HMSA with more favorable terms than prior contracts.

The formation of the Hawaii Health Systems Corporation will resolve compliance with contract payment terms.

Current contracts for radiological services have been evaluated and determined to be acceptable. Negotiations for laboratory services in 1997 will utilize outside evaluations, benchmarking, and best practices information. Dialysis services are being evaluated.

The department reports that Human Resources took active case management of workers' compensation cases in 1995. To date, 151 cases were closed with estimated savings of \$168,995.

The opening of Honokaa Hospital (a long-term care facility) and Hale Anuenue (private long-term care) eliminated the center's waitlisted patient problem. The center anticipates a greater need for long-term care capabilities and a reduced need for acute beds, and is directing efforts to retain long-term care patients.

Report Title: **Study of the Workers' Compensation Claims Process for State Employees**

Report No.: 96-5

RECOMMENDATIONS

The Legislature should consider amending Chapter 26-5, HRS, the law establishing the Department of Human Resources Development, to assign responsibility for central oversight, coordination, and reporting for workers' compensation activities related to claims by state employees to that department. The department would be held accountable and would have full authority and responsibility for the following:

ACTIONS REPORTED

The statute was not amended in these respects.

RECOMMENDATIONS

- a. Setting policies, goals, and objectives for the system.
- b. Managing workers' compensation claims on a centralized basis for all agencies in the executive, judicial, and legislative branches.
- c. Compiling and analyzing complete and accurate workers' compensation claims and expenditure information, and information on the costs of claims administration, for all state agencies in all three branches. This information must be in sufficient detail to facilitate policy making and identification of the State's workers' compensation liability. The department would also be responsible for reporting to the Governor and the Legislature on the accomplishment and potential for improving the State's workers' compensation system.
- d. Integrating, coordinating, and monitoring workplace safety and return-to-work programs of state agencies.
- e. Evaluating the costs and benefits of innovative cost control strategies such as third-party claims administration and managed care, and examining other systems issues such as reserves.
- f. Developing a brochure that clearly and simply explains the entire claims process for all state employees. The brochure should include a description of the roles and responsibilities of employees, employing agencies, and claims managers.

ACTIONS REPORTED

RECOMMENDATIONS

The Division of Community Hospitals and the hospital should determine the propriety of discounts taken by health insurance companies. The hospital should consider pursuing collection of the discounted amounts.

The hospital should take steps to improve its revenue and collection practices. The hospital should:

- a. Ensure that patients are billed for all services and supplies by recording requisition information in patient billing records;
- b. Continue to work with the division to improve automated billing procedures and develop electronic billing capabilities;
- c. Obtain and verify insurance coverage for all outpatients and patients treated and discharged by the emergency room;
- d. Prepare patient bills soon after discharge and make sensible payment arrangements for balances due; and
- e. Verify all insurer payments.

The hospital should increase the role of the utilization review process as a means to contain costs and improve revenues.

ACTIONS REPORTED

The department reports that the Finance Committee of the Division of Community Hospitals leads the negotiations with health insurance providers. Incentives may be offered in exchange for concessions or services that would result in improved or more timely reimbursement.

The hospital is interfacing ancillary department software systems to capture patient charges on the hospital's main system. Until all functions can be automated, the hospital feels manual requisitions slips are adequate.

The hospital executed agreements with two major third-party insurers to implement electronic billing. Adding more electronic billing requires that insurers themselves be capable of accepting electronic billing.

Consistently verifying insurance coverage for all emergency room patients is difficult to achieve because these patients often arrive without proper identification and insurance documentation.

The hospital has made improvements in arranging for installment plans for patients who need them. The department says more improvements can be made and the hospital is negotiating with a bank to extend credit to patients to promptly pay hospital bills.

The hospital has implemented procedures to verify the majority of insurance payments on a test and audit basis.

The hospital is reviewing the utilization review process for better integration with Quality Improvement. The hospital also expanded the utilization review coordinator's role to include more frequent interfaces with insurers and care reviewers.

Report Title: **Financial Audit of the Maui Memorial Hospital and Hana Medical Center**

Report No.: 96-6

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RECOMMENDATIONS

The hospital should prepare budgets and financial reports which include monthly financial statements, comparisons of budgets to departmental activities, cash flow forecasts, and other performance measures.

The Division of Community Hospitals and the hospital should develop plans to meet the needs of long-term care patients and determine the fiscal impact of such plans.

The hospital should strengthen its security procedures by:

- a. Limiting employees' ingress and egress to specified doors;
- b. Limiting use of emergency exits to their designated purpose;
- c. Requiring all hospital employees to wear identification badges while on duty; and
- d. Requiring outside contractors to wear visitors' badges and notifying the security guards of their schedule.

ACTIONS REPORTED

The hospital prepares monthly financial reports and shares them with hospital administration. However, improvements in recommended areas are still needed. The transition to the Hawaii Health Systems Corporation involves a major software upgrade to improve financial reporting.

The hospital updated its strategic plan and is integrating it with its business plan. Both plans address facility requirements. The hospital expects to move most of its waitlisted long-term care patients from the hospital. Hale Makua now has more nursing home beds available to the community and has started to receive patients from the hospital. The hospital is also evaluating the feasibility of establishing short-term skilled nursing facility beds.

The department reports that security improvements have, for the most part, been implemented.

During evenings and nights, only two doors allow ingress to the hospital and both entrances have security posted. The hospital installed a coded key pad to enable ingress by authorized employees and staff without the need for security to be present. The hospital implemented a policy by which outside contractors are introduced to hospital personnel in locations where they may be working and/or accompanied by authorized personnel.

Report Title: **A Study of a Proposed Department of Housing—Final Phase**

Report No.: 96-7

RECOMMENDATIONS

No recommendations.

ACTIONS REPORTED

RECOMMENDATIONS

The Legislature should require the Department of Education to develop a comprehensive planning, budgeting, and financial accounting system that begins at the school level.

The department should develop expenditure reports by function on a school-by-school basis as required by law.

The department should take steps necessary to improve the timeliness and usefulness of the financial reports prepared for the public school system.

The department should continue its efforts to update the FMS Reports Guide and Glossary and include all reports prepared by the FMS.

The department should develop a long-range plan to make improvements to its financial management system. In doing so, the department should consider whether investing more public funds to enhance FMS is worth the expected benefits.

ACTIONS REPORTED

No legislation was enacted.

The department reports it has complied with Act 218, SLH 1995, which requires a school-by-school expenditure report by location and function. The report is stored in the department's data warehouse files. The department acknowledges that expenditures by function and location are not available in its Financial Management System (FMS). Pointing to limitations in existing systems within the department and related state agencies, the department says it is willing to explore alternatives and develop a new school-by-school expenditure system and asks that the Legislature support this initiative with additional funds.

The department says that schools currently have on-line reports on demand to make informed decisions. The FMS provides on-line status of all schools' and offices' account balances. Hard copy financial reports with historical information at the close of each month can be used by the schools to review the details of transactions.

The department reports that the User Support staff completed review of the draft revisions to the FMS Reports Guide and Glossary. The review required extensive revisions, and additional updates to reflect recent report changes are being incorporated.

The department reports that it increased FMS usability and availability, but response time still needs improvements. The department began initial groundwork for the FMS long-range plan. Quantitative measurements are under way to help determine how much various factors contribute to end-to-end system response time. Several factors are undergoing transitions and should reach a point that allows the department to evaluate and measure the effect of the changes and to use the information in determining long range directions.

RECOMMENDATIONS

The department should establish written procedures and a checklist for reviewing cash receipts at the school level by the principal or a designee independent of the accounting functions.

School business offices should monitor the issuance and use of receipt books to ensure that cash received outside of the business offices is remitted to the school business offices.

The department should ensure that each school properly records its deposits.

The department should cease using separate checking accounts for school deposits and require that schools deposit all moneys directly into the state treasury.

The department should reduce its storeroom inventory and maintain inventory levels sufficient to meet a few months' demand. It could then consider leasing a smaller warehouse.

ACTIONS REPORTED

The department reports that it accomplished this recommendation by establishing written procedures in a newly developed FMS User Policy Flow Guide.

The department concurs with the recommendation and revised the "Inventory of Pre-Numbered Forms," to improve the forms inventoried, form numbers issued, name of individual issued to, and form numbers returned and date returned. The Office of Business Services School Support Group will train the school business staff during their scheduled training sessions to remind them of the importance of maintaining adequate controls over the receipt books.

The department concurs with this recommendation and revised the recording of receipts by downloading the bank deposits made by the school and by providing the schools with a screen to code all deposits. When the receipts are coded and released, a report will be generated and a summarized Treasury Deposit Receipt (TDR), B-13 prepared to deposit funds into the State Treasury.

The department disagrees with this recommendation because of the burden it would place on school staff, additional costs for armored car services, and the benefits of the existing procedure. It states that the bank now provides the department with deposit information on electronic media which helps the reconciliation process and the bank accounts are now being reconciled monthly.

The department reports other factors should be considered and it is still studying and evaluating the options available, considered practical or impractical, and developing and improving the system to assist in these determinations.

Report Title: **Financial Audit of the Public School System**

Report No.: 96-8

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RECOMMENDATIONS

The department should ensure that cash collected by the teachers is remitted to the school business office on a daily basis.

The department should establish written procedures for district school food supervisors to monitor cafeteria collection overages and shortages.

The department should improve its written enrollment and collection procedures for the A+ Program.

ACTIONS REPORTED

The department reports that its written cash procedures emphasize that cash collections must be deposited daily into the bank account. The department will further emphasize the importance of remitting cash daily to the school business office in its training sessions for school business office staff.

The department acknowledges that there were no written procedures governing the monitoring of cash shortages and overages in the cafeteria collections. However, effective immediately, all School Food Services supervisors will review the monthly cash short and over report and investigate any high or low report. All supervisors must notify the respective school principal and School Food Services manager for a variance of \$1,000 or more, and schools must file an explanation and corrective action plan for each.

The department reports that it improved its enrollment and collection procedures by requiring A+ sites to submit to the district coordinators the following information on a monthly basis: a. Monthly log of collections and payments received; b. Total deposits for the month; and c. Enrollment counts for each fee category, that is, regular, free or reduced lunch as well as the adjusted fees according to number of children in family. District A+ Coordinators review the reports and district coordinators make site visits. In addition, the department is revising the A+ Operations Manual to include procedures for follow-up on delinquent payments.

RECOMMENDATIONS

The department should improve its processes for accounting for, and maintaining, current employee leave records.

The department should ensure that all equipment purchases are properly recorded in the fixed assets inventory and reported to DAGS as required by law.

ACTIONS REPORTED

The department concurs with this recommendation, and is presently working to have leave accounting records reflect current balances. The staff will closely monitor monthly submittal of leave forms to avoid future backlogs in submittal of forms. A leave accounting module to train employees on the computation and maintenance of leave accounting is also being developed.

The department concurs with this recommendation and is developing an inventory training module. The department sends to schools lists of items purchased which need to be transferred to the inventory file, makes phone calls as reminders, and makes site visits to assist in updating inventory records.

OFFICE OF THE AUDITOR
APPROPRIATIONS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

APPROPRIATIONS

Act 1, SLH 1995 (operations)	\$ 2,019,850
Act 1, SLH 1995 (special studies)	150,000
Act 15, Special SLH 1995 (special studies)	<u>50,000</u>
	\$ 2,219,850

EXPENDITURES

Staff salaries	\$ 1,367,302
Contractual services	275,871
Other expenses	<u>95,917</u>
	1,739,090
Excess of appropriations over expenditures	<u>\$ 480,760</u>

EXCESS OF APPROPRIATIONS OVER EXPENDITURES

Act 1, SLH 1995 (operations)	\$ 309,260
Act 1, SLH 1995 (special studies)	121,500
Act 15, Special SLH 1995 (special studies)	<u>50,000</u>
	\$ 480,760