

1997 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.

THE AUDITOR STATE OF HAWAII

Kekuaao'a Building
465 South King Street, Room 500
Honolulu, Hawaii 96813
Phone: (808) 587-0800
Fax: (808) 587-0830



STATE OF HAWAII
OFFICE OF THE AUDITOR

MISSION OF THE OFFICE

OF THE AUDITOR

THROUGH POSTAUDITS 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 20, 1998

Ladies and Gentlemen:

This Annual Report focuses on the work of the Office of the Auditor in calendar year 1997.

In my years with the office—first as an entry level analyst and now as the Auditor—I've had many opportunities to reflect on the basic principles of good government. These are the doctrines that persist and transcend through good times, bad times, fads, institutional change, and partisan politics.

Certainly, the principle of stewardship holds special importance. A steward is one called upon to exercise responsible care of the resources entrusted to him or her. The people who manage government programs are stewards of human, financial, physical, and informational resources that depend on constant infusions of hard-earned taxpayer dollars.

To a large extent, the publications issued by my office serve as report cards on stewardship in Hawaii state government. Your respect for the Auditor's mission has greatly helped us to do our job of assessing state agencies' performance and mustering our strengths to best serve you and the public.

Thank you once again for your support. I hope you will enjoy reading this annual report, which includes an essay on jargon and its cure.

Sincerely,

Marion M. Higa
State Auditor

TABLE OF CONTENTS

<i>1997 - A Year of Recognition</i>	2
<i>Themes of the Reports</i>	4
<i>Essay: On Jargon</i>	8
<i>Summary of Reports - 1997 Work Program</i>	10
PERFORMANCE AUDITS AND SPECIAL STUDIES	
Big Island Pilot Project (Mental Health Services).....	10
Child Support Information System	10
Collection of Court Fines	10
Decentralization in Department of Education	10
Department of Business, Economic Development and Tourism, Procurement.....	10
Department of Education, Fiscal Accountability.....	11
Department of Human Services.....	11
Legal Aid Society of Hawaii.....	11
Massage School Regulation	11
Mauna Kea Science Reserve.....	12
Motor Vehicles at the University of Hawaii.....	12
Occupational Therapy Regulation	12
Public Library System	12
Real Estate Appraiser Regulation	12
Revolving and Trust Funds	13
Small Boat Harbors.....	13
Vocational Education and Job Training.....	13
FINANCIAL AUDITS	
Department of Commerce and Consumer Affairs	13
Department of Human Services.....	14
Highways Division.....	14
Public Library System	14
MANDATED HEALTH INSURANCE ANALYSES	
Contraceptive Services	14
Mental Health and Substance Abuse Services.....	15
FOLLOW-UP AUDITS	
Hawaii State Hospital	15
Mental Health Billings and Collections	15
<i>Actions Reported on Previous Recommendations</i>	16
(Report Nos. 96-9 through 97-9)	
Department of Taxation	16
Electronic Access to Department of Education Information Systems	16
Waste Management Programs	17
Custodial Services	19
Department of Land and Natural Resources	22
STD/AIDS Prevention Program.....	23
Personal Services Contracts, Department of Education	25
Correctional Industries Program, Procurement	26
Kona Community Hospital (Financial Audit).....	26
Department of Defense (Financial Audit)	28
QUEST Demonstration Project	29
After-School Plus (A+) Program	30
Revolving and Trust Funds.....	32
Department of Education, Textbook Costs	32
Department of Transportation, Information Systems Procurement	33
Special Compensation Fund, Workers' Compensation	33
Incentive and Innovation Grants, Department of Education	34
Harbors Division (Financial Audit).....	35
UH at Manoa, Non-Instructional Personnel	37
Office of Hawaiian Affairs.....	38
Optional Retirement Plan, UH Faculty	42
UH Faculty Workload.....	42
<i>Office of the Auditor Appropriations and Expenditures for the Fiscal Year Ended June 30, 1997</i>	
44	

1997 - A Year of Recognition

The year 1997 brought special honors to the Office of the Auditor which are shared by our staff for a job well done. This recognition is yet another sign that our work makes a difference and is admired both in Hawaii and across the nation.

1997 IMPACT AWARD

We received a 1997 Impact Award from the National Legislative Program Evaluation Society, a section of the National Conference of State Legislatures. The award recognized our recent *Audit of the Administration of the Purchase of Service System* for having a significant impact on the functions of Hawaii state government.

Purchase of service is the expenditure of public funds for services provided by a private organization for a government agency or program to members of the public. This includes services to children and youth, the economically disadvantaged, the mentally and physically challenged, the elderly, and others. Many state agencies use purchase of service extensively.

We conducted the audit at the Legislature's request and found many problems with the purchase of service system under Chapter 42D of the Hawaii Revised Statutes. We recommended that purchase of service be brought under the central leadership of the State Procurement Office. The Legislature has implemented the essence of our recommendation.

CERTIFICATE OF APPRECIATION

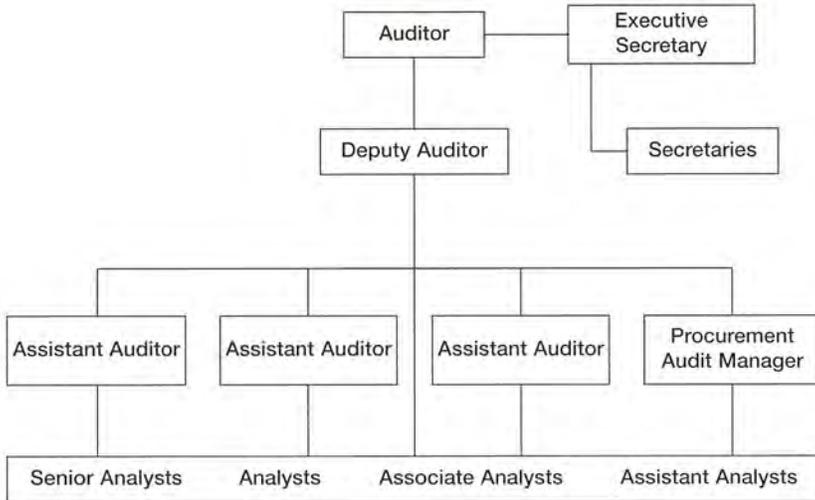
At a floor ceremony attended by Auditor Marion Higa's family and staff, the House of Representatives of the Nineteenth Legislature of the State of Hawaii presented Ms. Higa with a certificate of appreciation for her "tireless efforts to improve government operations."



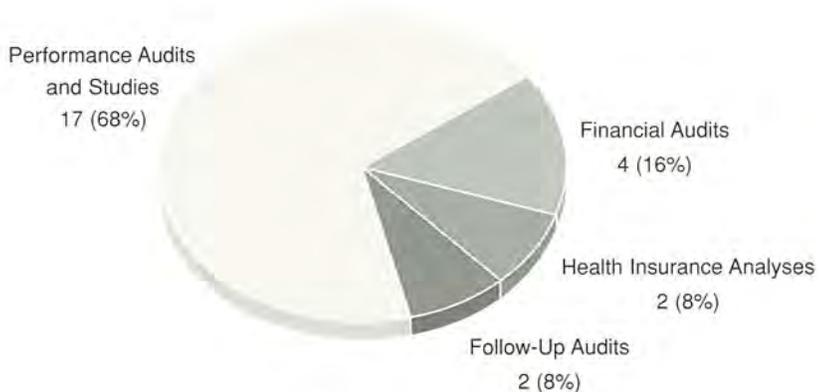
Marion M. Higa
State Auditor

The certificate praised our work in such areas as education, Hawaiian affairs, financial management, and purchase of service. The House thanked the Auditor for giving Hawaii's elected officials, public servants, and citizens "the facts, insight, and recommendations necessary to provide for a more efficient, cost-effective, and 'user-friendly' government."

ORGANIZATION OF THE OFFICE OF THE AUDITOR



TYPES OF REPORTS - 1997



The office also performed 86 quick reviews of proposed special and revolving funds.

STAFF OF THE OFFICE OF THE AUDITOR

Marion M. Higa
State Auditor

Leslie I. Tanaka
Deputy Auditor

J. James McMahon
Assistant Auditor

Van Lee
Assistant Auditor

Analysts

Andrew H. Aoki
Steven M. Araki
Urs C. Bauder
Melanie A. Chinen
Maria B.J. Chun
Susan Hall
Sherry N. Hayashi
Kellie H. Kakugawa
Al Katagihara
Melvia C. Kawashima
Ji Sook (Lisa) Kim
James T. Koshiba
Gansin K.S. Li
Robert A. McClelland
Rumiko A. Okuma
Richard P. Roll
Tony Smalley
Jim Sterling
Joseph W. Trias

Office Services

Evelyn Kanja
Debbie M.A. Higa
Pat Mukai

Themes of the Reports

We have published 25 full reports since our previous annual report. These included 17 performance audits and special studies, 4 financial audits, 2 analyses of proposed health insurance, and 2 audit follow-up reports. Highlights of the reports begin on page 10. We also produced 86 short reviews of proposed special and revolving funds for the 1997 legislative session.

The work of our office has always been marked by variety. The year 1997 was no exception. Our recent reports explored such diverse topics as public education, human services, boat harbors, telescopes, privatization, health insurance, court-imposed fines, and legal aid.

Here are some themes of the reports.

ACCOUNTABILITY IN PRIVATIZATION

Interest in privatizing government functions is surging. Actually, privatization is nothing new. For many years, state agencies have contracted with private profitmaking or nonprofit organizations to provide everything from construction to consulting to health programs. Now, however, Hawaii's policy makers are considering privatization of more functions in new ways—for example, handing over the operation of prisons to a private company.

Our recent reports contain many lessons for privatization. The central message is that government needs to manage privatization in a manner that ensures accountability to taxpayers for costs and results. Privatization will not absolve the State of responsibility.

For example, in 1997 we found that the Department of Business, Economic Development and Tourism has improved its contract planning—defining the need for services and the results desired (an important step in using the private sector). However, the department remains weak in managing its contracts, which results in

poor accountability over the contractors and weak controls over contract payments. And problems in evaluating contract outcomes have resulted in uncertainty about whether the department's objectives were attained and its fiduciary responsibility to effectively and efficiently manage public resources achieved.

Other examples:

- We found no evidence of monitoring of 75 percent of the contracts we reviewed in welfare-to-work programs of the Department of Human Services.
- Problems in the management of a multimillion dollar contract with a private health organization by the Child and Adolescent Mental Health Division of the Department of Health, resulted in moneys paid for services not rendered.
- The Board of Education did not adequately review a major outsourcing contract of the public library system. Adequate review might have prevented some of the problems that subsequently arose.

We also took a firm position on discussions of whether to consider alternative forms of management of the State's small boat harbors, such as privatizing them or using a form of community based management. We argued that other issues must be addressed first, such as standardizing services and properly identifying costs.

STRONG FINANCIAL MANAGEMENT

Our audits continue to reveal significant problems in how agencies manage their finances. In one such audit, we found that the Department of Commerce and Consumer Affairs is charging business registration and professional licensing fees that do not reflect a reasonable relationship between the revenue derived and the cost or value of services rendered. In another, we found the Department of Human Services making erroneous payments. The Highways Division of the Department of Transportation is not maximizing its investment income.

We also reported problems in the collection of moneys owed to the State. The Department of Human Services is not doing a good job of collecting overpayments. The Adult Mental Health Division of the Department of Health has not standardized billing and collection activities at the Community Mental Health Centers. The Judiciary needs strategies for collecting fines.

PURPOSEFUL PROGRAM REFORM

In 1997 we assessed two major reform efforts within the Department of Education. One was the department's effort to decentralize decision making in the public school system. We found that the department has not provided the level of support schools need to assume their new responsibilities and has not given schools sufficient autonomy and flexibility.

The other reform effort consisted of the state librarian's initiatives for the public library system named Project SLIMMER and reengineering. Project SLIMMER was designed to increase decision-making authority at the individual libraries through self-directed work teams and increase non-general fund revenues to the libraries by allowing them to charge certain fees. Reengineering attempted to flatten the library system administration, reduce operational costs, and increase employee service by redeploying staff to the individual libraries and out-

sourcing technical services. We found that the state librarian did not successfully plan and implement the reforms, which undermined their goals and contributed to staff dissatisfaction.

EFFECTIVE COMPUTERIZATION

A properly planned and implemented automation system can eliminate manual, time-consuming, laborious tasks. Information systems also can provide accurate financial data to allow the Legislature and agency executives to make informed decisions.

But in 1997, we found several agencies struggling with computerization:

- Without a management information system specifically designed for managed care purposes, the Med-QUEST Division of the Department of Human Services continues to face problems in determining eligibility and has had difficulty evaluating client data.
- The state librarian did not ensure that a new computer system would be able to identify materials provided to individual libraries by a national company that had been contracted to provide materials selection, acquisition, cataloging, processing, and distribution.
- The Adult Mental Health Division of the Department of Health is not adequately planning for its proposed management information system. The division is developing a system without knowing whether it will be cost-effective.
- The Department of Education's expenditure reports are not as clear, meaningful, and useful as reports generated by other software which the department has already been provided.
- The Judiciary lacks a uniform automated information system to track and account for outstanding fines and restitutions on an organization-wide basis.

EVALUATION OF PROGRAMS AND OPERATIONS

Program and operational evaluations help ensure that an organization's plans are carried out as intended and its goals are achieved. Evaluations also help the Legislature in making budgetary decisions. In 1997, we found that several agencies are not effectively evaluating their work.

For example, the Department of Human Services failed to develop adequate mechanisms to evaluate two major demonstration projects—Pursuit of New Opportunities (PONO), which addresses welfare reform, and QUEST, which attempts to reform Medicaid by moving from fee-for-service to managed care.

The Legal Aid Society of Hawaii engages in some program evaluation, but the evaluations are inadequate to assess quality of services. Its client satisfaction survey is a limited tool, its assessment of outcomes and costs is limited, and its reliance on evaluations conducted by funding sources is insufficient. A meaningful program evaluation should embrace the American Bar Association's standard that a review of the society's entire operation be conducted on a regular basis.

Finally, we found that not all departments effectively evaluate their vocational education programs and job training programs. The community colleges have a comprehensive evaluation system, while the evaluation efforts of the Department of Education are inconsistent. The Department of Public Safety lacks an evaluation system.

IMPORTANCE OF POLICIES AND PROCEDURES

Writing a manual is not glamorous. We know—we've been there. But an important responsibility of management is guidance through written policies and procedures that help ensure the proper and consistent implementation of programs.

In 1997, we found, for example, that the Department of Human Services still lacked formal policies and procedures for its Food Stamp Employment and Training Program—a problem that we had identified in a previous audit. Consequently, the department cannot ensure that it provides clear guidance to personnel and it cannot effectively protect itself against waste, loss, and misuse of its resources.

We also found that the Department of Health has no department-wide, written policies on sick leave, overtime, and progressive discipline. As a result, the Hawaii State Hospital has little guidance and support in establishing its own policies.

In addition, we found that weaknesses in contract management and evaluation at the Department of Business, Economic Development and Tourism may be partly due to the lack of a policies and procedures manual for contract administration. Also, the University of Hawaii lacks standardized policies and procedures to ensure that its motor vehicles are operated only for official business by authorized personnel. And Department of Education personnel assigned to the licensing of massage schools appear unsure of general licensing policies, instructor certification procedures, and the location of specific licensing files because no policies and procedures manual has been developed.

SUMMARY

Many of the kinds of problems identified above are not unusual in government agencies across the nation, whether federal, state, county, or municipal. The problems are not easily solved.

In the real world, government executives face difficult decisions that none of us envy. Where should my agency focus its efforts to best carry out its mission? What is the proper balance between giving a contractor some freedom and looking over the contractor's shoulder? Is privatization desirable? How do I organize my resources to effectively marshal and protect my agency's

financial resources?

When should I consider major reforms, how much planning is needed before moving ahead, and how much is too much planning? What risks in program reform are reasonable? How will computerization help?

What resources should go into formal monitoring and evaluation of contracts and programs? What policies and procedures should I put into writing to guide my staff? Indeed, what are the costs and benefits of any effort to enhance my agency's operations?

Furthermore, efforts at improvement are often limited by bureaucratic constraints in such areas as staffing.

Despite these difficulties, we believe that our reports are growing in usefulness as our government leaders seek new approaches to cost-effectiveness. Ultimately, of course, the people of Hawaii through their elected representatives will decide what state government should do, how to do it, and how much to spend. Our reports are simply intended to help in making these decisions.

WHO AUDITS THE AUDITOR?

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 profes-

sional 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.

Essay: On Jargon

SHPDA. BHMIS. TANF. USPAP. COTA. No, we're not spouting epithets. We're simply parroting a few of the abbreviations and acronyms we've had to sort out as we examine government programs.

Acronyms are a type of jargon. According to *Webster's Ninth New Collegiate Dictionary*, the word jargon has several possible meanings:

- * a confused unintelligible language
- * a strange, outlandish, or barbarous language or dialect
- * a hybrid language or dialect simplified in vocabulary and grammar and used for communication between peoples of different speech
- * the technical terminology or characteristic idiom of a special activity or group
- * obscure and often pretentious language marked by circumlocutions and long words

Jargon—at least the nonbarbarous kind—can serve usefully as shorthand among people who share an understanding of the “mystery language.” Sports terms like RBI, punt, off side, and “nothing but net” are examples.

Unfortunately, while jargon has its proper time and place, too often it muddles communications. For example, Exhibit A is a list of technical terms from the State's written plan for providing educational and mental health services to children to comply with the *Felix v. Waibee* consent decree.

The list is supposed to assist the reader and has good intentions. But using all those abbreviations can get in the way of effective communication—usually when “insiders” use the jargon to communicate with “outsiders.” The obfuscation may be unintentional—but our eyes glaze over anyway.

The list raises a more troubling question. Why should so many terms be necessary for an understanding of the State's activities under *Felix*? Perhaps the activities them-

selves have become too complex. Can a system of care with so many required agencies, organizations, and other components really be expected to succeed in serving those in need?

Acronyms are just the tip of the iceberg. For example, one state program used the term “barrier removal” to describe its efforts to identify and resolve problems—such as a history of domestic violence—that could make it more difficult for those on public assistance to achieve personal and financial self-sufficiency. “Barrier removal” seems a singularly cold and calculating phrase to describe helping someone solve his or her personal problems. Interestingly, our audit found that the state program in question had not clearly defined “barriers,” was expensive, and rarely led to self-sufficient employment.

Another example, taken from an implementation plan for a “comprehensive student support system” under *Felix*:

All school-communities will design and carry out their own unique action plans that identify items critical to the implementation of CSSS at the school level using the State CSSS model to guide them. The local action plan may include information about school-level policies, guidelines, activities, procedures, tools, and outcomes related to having CSSS in place; roles of the school-level team of teachers and students; roles of the school-level cadre of planners and Student Support Team; partnerships and collaboration; training; identification, assessment, referral, screening, and monitoring of students; data collection; evaluation; etc. If there are existing action plans, projects, or initiatives that similarly address the CSSS goals, then the cadre of planners is encouraged to coordinate and integrate efforts to fill in the gaps and prevent duplication. The action plan should be an integral part of the school's School Improvement Plan, not separated but integrated, because CSSS also focuses on the achievement of positive student outcomes. These actions are critical for

building the school-community's organizational capacity to install a collaborative process or mechanism to help to connect students and families to the appropriate programs and services at the schools and the local school-community. This capacity also strengthens and enhances a school-community to be proactive rather than reactive, responding to the individual needs of its students and families.

This strikes us as “obscure and often pretentious language marked by circumlocutions and long words”—one of the dictionary definitions of jargon.

Jargon can—and does—strike anywhere. As auditors, we plead guilty—or at least no contest—to the use of jargon. For example, we refer to our office handbook of policies and procedures—our Manual of Guides—as the MOG (a mixture of fog and vog?). Also, our office is a willing accomplice to the nationally accepted acronyms of the auditing field, such as GAGAS (Generally Accepted Government Auditing Standards), GAAP (Generally Accepted Accounting Principles), and FASB (the Financial Accounting Standards Board—not to be confused with FASAB, the Federal Accounting Standards Advisory Board). Furthermore, we sometimes rely too heavily on auditing jargon such as “management controls” when reporting our findings.

So we'll try not to preach. But all of us in government do need to be alert to the confusion our jargon can cause. And we should do all in our power to avoid that confusion. That means speaking and writing in plain (not necessarily dull) language and not communicating with legislators and the public in our favorite but murky lingo. And those receiving our messages should not hesitate to call us on the carpet if we stumble in our resolve.

Most important, those of us in government agencies need to examine whether our jargon may be a symptom of a deeper malady, such as confused, unrealistic thinking. The value of jargon, then, may lie not in its use as a convenient shorthand but in its ability to warn us of lurking problems needing immediate attention.

P.S.:

SHPDA= State Health Planning and Development Agency

BHMIS= Behavioral Health Management Information System
 TANF= Temporary Assistance to Needy Families
 USPAP= Uniform Standards of Professional Appraisal Practice
 COTA= Certified Occupational Therapy Assistant

Exhibit A Abbreviations & Acronyms

ADHD/	Attention Deficit Hyperactivity Disorder
BD/LD	Behavioral Disorder/Learning Disorder
AG	Attorney General
AMHD	Adult Mental Health Division
B & F	Department of Budget & Finance
CAMHD	Child and Adolescent Mental Health Division
CASSP	Child and Adolescent Services System Program
CCC	Community Children's Council
CLC	Cabinet Level Council
DAGS	Department of Accounting and General Services
DDD	Developmental Disabilitation Division
DHRD	Department of Human Resource Development
DHS	Department of Human Services
DOE	Department of Education
DOH	Department of Health
HAR	Hawaii Administrative Rule
IDEA	Individuals with Disabilities Education Act
IEP	Individualized Education Program
IFSP	Individual Family Plan
ISP	Individual Service Plan
ITP	Individual Treatment Plan
MFASIS	Mental Health Field Assessment and Statistical Information System
MOA	Memorandum of Agreements
MP	Modification Plan
OCY	Office of Children and Youth
OMT	Operational Management Team
OYS	Office of Youth Services
POS	Purchase of Services
RFP	Requests for Proposals
SAC	State Advisory Council
SCC	State Children's Council
SED	Severely Emotionally Disturbed
SIT	State Independent Team (until 6/30/95) State Implementation Team (after 7/1/95)
TAP	Technical Assistance Panel
UH	University of Hawaii

*From: State of Hawaii, Implementation Plan
 Felix vs. Waihee Consent Decree, October 31, 1995.*

Summary of Reports -1997 Work Program

PERFORMANCE AUDITS AND SPECIAL STUDIES

*Audit of the **Big Island Pilot Project on Mental Health Services**, Report No. 98-1*

The Legislature requested this audit because of concerns over the cost, quality, and availability of mental health services to 1,500 children and youth under the Department of Health's contract with Kapi'olani HealthHawaii for the Big Island Pilot Project. We found that the department's Child and Adolescent Mental Health Division failed to manage the \$8.8 million contract to ensure that services were provided professionally and cost effectively. The division overpaid Kapi'olani Health Hawaii between \$2.3 and \$3.5 million for services not rendered. The division also made payments without proper support. It allowed Kapi'olani to pay providers for services not previously authorized and to pay them without required documentation.



*Audit of the Implementation of the **Child Support Enforcement Agency's Information System**, Report No. 98-12*

The Child Support Enforcement Agency in the Department of the Attorney General is implementing a new automated child support enforcement computer system known as KEIKI. We found that the failure to properly plan and manage the project and alleged contractor shortcomings have resulted in costs over \$30 million, loss of federal reimbursements, numerous delays, and a system that is still not operational. The agency attempted to implement an unrealistic project within a relatively tight time frame. Management failed to create a steering committee, assign sufficient technical staff, and effectively use available state resources and contract deliverables. The agency did not ensure that the system could be maintained after implementation.



*Audit of the **Collection of Fines, Forfeitures, and Restitutions in the Judiciary**, Report No. 98-2*

We found that while the Judiciary has taken steps to

improve collections of fines and restitutions, more vigorous efforts are needed. The Judiciary has insufficient knowledge of what is owed in fines and restitutions and has allowed millions of dollars to go uncollected over the years. Stronger commitment, central accountability, and strategies are needed. Collection is inconsistent and fragmented among the courts. The Judiciary lacks uniform policies and procedures for collections. Computer systems are inadequate, and monitoring and enforcement are weak. Expansion, coordination, and follow-through on collection efforts is needed and alternative collection practices should be examined.



*Audit of the **Decentralization Efforts of the Department of Education**, Report No. 98-4.*

We found that the Department of Education has not provided the level of support that schools need to assume their new responsibilities. The department decentralized decision making but did not give schools sufficient autonomy and flexibility. The proportion of funds over which schools have complete control is still relatively insignificant. Decision-making guidelines for school/community-based management (SCBM) need clarification and school-based budgeting has not been adequately reviewed. Finally, state law fails to define the extent to which the department and the Board of Education remain legally responsible for student-centered schools and the funding method is difficult to implement fairly. The law also fails to specify the department's role in providing the support and information needed by student-centered schools.



*Procurement Audit of the **Department of Business, Economic Development and Tourism**, Report No. 97-12*

The Department of Business, Economic Development and Tourism relies extensively on contracts to carry out its mission. Final approval of the department's procurement decisions, and oversight for the department's compliance with the Hawaii Public Procurement Code, is now highly centralized within the department. Centralization has resulted in a high level of compliance with the code. However, this level is at risk due to the

department's lack of a detailed procurement manual. The department has made noticeable progress in planning for and drafting contracts and has implemented an adequate and well documented evaluation process in making contract awards. Weaknesses in managing contracts and evaluating their outcomes may be due to the lack of a contract administration manual and insufficient oversight of project managers.



*Fiscal Accountability Audit of the **Department of Education: The Public and the Schools Need to Know the True Costs of Education**, Report No. 98-5*

This is our fourth annual fiscal accountability report of the Department of Education. In this report, we review annual reporting requirements and assess In\$ite - The Financial Analysis Model for Education™, a computer program designed to report educational expenditures by location, function, and program. We found In\$ite inexpensive, easy-to-use, and able to generate useful reports that can help increase fiscal accountability and facilitate school-based decision making. We also found that Section 302A-1004(b), HRS, which requires the Auditor to report Department of Education expenditures to the Legislature, absolves the department of reporting responsibilities and needs to be revised. Amending the law to require the department to submit reports along the five major functions specified in In\$ite would result in more useful expenditure data for legislative review.



*Management Audit of the **Department of Human Services**, Report No. 97-18*

Management deficiencies identified in prior audits continue to hinder departmental operations: the Food Stamp Employment and Training Program lacks policies and procedures, contract management for the welfare to work program is problematic, the ALEX job search system is still not operational in all First to Work units, no significant improvements occurred in the QUEST demonstration project's controls for eligibility determination and its required management information system, and the foster board payment program is unable to

provide consistent caseload information and has not implemented expenditure guidelines for board-related payments. Furthermore, the department wastes resources by failing to integrate similar programs. The department has also failed to demonstrate the effectiveness of its programs. Finally, the department provides unclear and confusing information for its payment programs to the Legislature.



*Management Audit of the **Legal Aid Society of Hawaii**, Report No. 97-10*

We found no significant reason why the Legal Aid Society of Hawaii should not be eligible to receive monies from the Indigent Legal Assistance Fund. We also found the society made some improvements based on our 1991 audit, which include conducting assessments of the executive director, increasing staff input, decentralizing some responsibilities, and forming a technology committee to computerize some operations. However, some management practices are deficient in keeping pace with informational needs. In response to government funding reductions, the society aggressively sought new funding sources without adequately tracking funding proposals at its local offices and assessing the funds' impact on services. We also found the society's method of program evaluation inadequate for evaluating the society's entire operation.



*Study on the Licensing of **Massage Schools**, Report No. 97-17*

We found that there is a reasonable need to continue state licensing and regulation of massage therapy schools to maintain minimum education standards and to protect students. Also, the federal government requires that schools be authorized by an appropriate state authority and accredited before participating in student financial assistance programs authorized by Title IV of the 1965 Higher Education Act. Legislation is needed to define the current purpose of licensing. The state Department of Education has failed to properly manage the licensing program, resulting in assignment of insufficient resources, poor communications with schools, and inadequate recordkeeping. We also found that, although

there are various alternatives and each was appropriate to some degree, the State Board for Vocational Education may be the most appropriate agency to oversee massage school licensing and regulation.



*Audit of the Management of **Mauna Kea and the Mauna Kea Science Reserve**, Report No. 98-6*

We found the University of Hawaii's management of the Mauna Kea Science Reserve inadequate to ensure the protection of natural resources. The university focused primarily on the development of Mauna Kea and tied the benefits gained to its research program. Controls were often late and weakly implemented. The university neglected historic preservation, and the cultural value of Mauna Kea was largely unrecognized. New technology such as interferometers requires the university to change its development approach and reassess its methodology for managing telescope development. The Department of Land and Natural Resources needs to strengthen the permitting process. We also found permit conditions not always enforced and administrative requirements frequently overlooked.



*Audit of the Management of **Motor Vehicles at the University of Hawaii**, Report 97-16*

The University of Hawaii uses more than 600 motor vehicles to support its administrative operations, research, and instructional activities. The university's Transportation Services Division provides services and motor vehicle support programs to the university's organizational units. We found that the university failed to develop clear guidelines and policies to manage its motor vehicles. Many organizational units did not carefully analyze all alternatives and develop sufficient justifications for vehicle purchases. We also found questionable justifications for personal use of vehicles. Also, the fleet management program enables the university to avoid the budgeting process by allowing organizational units to "bank" money in a special fund, for future purchases. Finally, the university lacked adequate policies to ensure that vehicle maintenance and documentation on vehicle use are standardized and uniform.

*Analysis of a Proposal to Expand the Regulation of **Occupational Therapists**, Report No. 97-15*

Occupational therapists and occupational therapy assistants help individuals who are disabled by mental, physical, developmental, or emotional conditions to develop, recover, or maintain the skills of daily living and work. We assessed the need for regulating the practice of occupational therapy. We found that regulation of occupational therapy is not warranted. The practice poses little risk of serious harm to consumers and adequate private protections for consumers already exist. Moreover, regulation could be costly. If the Legislature considers it necessary to regulate, simple registration of occupational therapists should be sufficient. An alternative would be to retain the existing regulatory law (Chapter 457G, HRS) because it has been implemented at little or no cost and with no apparent problems.



*Management Audit of the **Public Library System**, Report No. 98-3*

The state librarian and the Board of Education did not effectively guide two reform efforts—Project SLIMMER and reengineering—and related contracts. Project SLIMMER failed to achieve its goals of increasing decision-making authority at the individual libraries and did not increase non-general fund revenues as much as intended. In reengineering, redeploying non-customer-contact staff to the individual libraries has not demonstrated improved customer service and cost savings. The state librarian's hasty contracting for services without establishing management controls has undermined performance and increased costs. Little provision was made to catalog over \$1 million in new materials. The board approved the reform projects and a major outsourcing contract without adequate review.



*Analysis of a Proposal to Expand the Regulation of **Real Estate Appraisers and Appraisals**, Report No. 98-13*

Under Chapter 466K, HRS, real estate appraisals used in connection with federally related transactions must generally be performed in accordance with the national

Uniform Standards of Professional Appraisal Practice by persons licensed or certified as real estate appraisers by the Department of Commerce and Consumer Affairs. We studied the need to expand regulation to include all real estate appraisers and appraisals, not just those in federally related transactions. We found that the proposed expansion is not necessary under federal law or the “sunrise” criteria for new regulation. Nevertheless, expanded regulation would establish a common baseline for conducting and reporting appraisals, which could reduce some of the confusion and controversy about the appraisal process.



*Review of **Revolving and Trust Funds of the Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and the Department of Taxation,** Report No. 97-20*

Of the 30 funds we reviewed this year, 6 were revolving funds, 4 were trust funds, and 20 were trust accounts. Our review is based on various criteria developed by the Legislature and our office. For example, we determine whether each fund continues to serve the purpose for which it was created. Another example: we determine whether each revolving fund reflects a clear link between the benefits sought and charges made on the users or beneficiaries of the state program involved, as opposed to serving primarily as a means to provide the program with an automatic means of support that is removed from the normal budget and appropriations process. For each fund or account, we present a five-year financial summary, the purpose of the fund, and conclusions about its use.



*Audit of the Management of **Small Boat Harbors and Boat Ramps,** Report No. 98-11*

The management of small boat harbors and boat ramps continues to be plagued with problems. The Board of Land and Natural Resources, responsible for the overall administration of Hawaii’s boating program, has not sufficiently improved and directed that program. Harbors are unsafe, in need of repair, and boaters fail to

receive adequate services. The Department of Land and Natural Resources has not adequately managed the small boat harbors and boat ramps. The boating program lacks clear guidance, boating regulations are not enforced, and the true cost of operating individual boating facilities is unknown. The department needs to correct strategic and operational deficiencies before attempting to evaluate alternative management practices such as privatizing the small boat harbors.



*Audit of State **Vocational Education Programs and Job Training Programs,** Report No. 97-14*

State vocational education programs and job training programs provide residents with essential skills to become self-sufficient and contributing members of society, and to achieve self-fulfillment goals. Most of Hawaii’s occupational programs exist in five state agencies, with the Department of Education and the University of Hawaii as lead agencies, and the Department of Labor and Industrial Relations, the Department of Human Services, and the Department of Public Safety also involved. We found that not all departments adequately evaluate their vocational education and job training programs. Also, the many oversight bodies for these programs were created primarily to satisfy federal requirements. The need for many oversight bodies in the future may be reduced and the state labor department has led efforts to consolidate. Further consolidation should be encouraged.

FINANCIAL AUDITS

*Financial Audit of the **Department of Commerce and Consumer Affairs,** Report No. 98-10*

This audit was conducted with the certified public accounting firm of Coopers and Lybrand L.L.P. In the firm’s opinion, the financial statements presented fairly the department’s financial position and its results of operations for the fiscal year ended June 30, 1997, in conformity with generally accepted accounting principles. However, we and the firm found that the fees charged by the department’s business registration and professional and vocational licensing divisions are not in

compliance with a state law that requires fees to bear a reasonable relationship between the revenue derived and the cost or value of services rendered. The department has accumulated more than \$20 million of unencumbered cash balances in three of its special funds accounts.



*Financial Audit of the **Department of Human Services**, Report No. 98-14*

We conducted this audit with the certified public accounting firm of KPMG Peat Marwick LLP. In the opinion of the firm, except for the general fixed assets group, the financial statements presented fairly the financial position of the department and the results of its operations for the year ended June 30, 1997 in conformity with generally accepted accounting principles. But we found serious deficiencies in the department's management and internal control practices. The department is paying out millions of dollars in financial assistance in error and has not collected more than \$40 million of identified overpayments. The Med-QUEST Division has failed to adequately pursue collection of amounts due from Med-QUEST participants.



*Financial Audit of the **Highways Division of the Department of Transportation**, Report No. 98-9*

We conducted this audit with the certified public accounting firm of Deloitte & Touche LLP. Because of the serious problems found, the firm was unable to express an opinion on the division's financial statements. The financial records of the division were too incomplete to be audited in a timely manner. We also found that cash management procedures require improvement. The division is not maximizing its investment income because no formal analysis is prepared to determine the availability and need for cash by month. Finally, we found that the division failed to comply fully with the Hawaii Public Procurement Code and the administrative rules relating to a sole source contract.

*Financial Audit of the **Public Library System**, Report No. 98-8*

This audit was conducted with the certified public accounting firm of KPMG Peat Marwick LLP. In the firm's opinion, the library system's financial statements presented fairly the system's financial position and its results of operations for the fiscal year ended June 30, 1997. These statements are in conformity with generally accepted accounting principles. However, KPMG and our office found that the state librarian did not comply with state laws requiring that revenues in the Libraries Special Fund and the Library Fee for Enhanced Services Special Fund be distributed to the individual libraries. Instead, \$2 million was used to pay a vendor and \$500,000 was transferred into the State's general fund during fiscal years 1995-96 and 1996-97. We also found that the library system's liberal borrowing rules and inadequate controls over cash receipts increase the risk for abuse, theft, and loss.

MANDATED HEALTH INSURANCE ANALYSES

*Study of **Proposed Mandatory Health Insurance Coverage for Contraceptive Services**, Report No. 98-7*

Hawaii's insurance laws do not require health plans to provide contraceptive services. Rather, the laws require insurers to give employers the option to include contraceptive services and contraceptive prescription drug coverage in the plans they select for their employees. We found limited evidence that inadequate health insurance coverage for contraceptive services has resulted in persons lacking these services or causing them financial hardship. Demand for full coverage of contraceptive services is primarily from local organizations and providers. There is very little demand for this coverage from unions and employer groups. Insurers have indicated that employers faced with a mandate to cover contraceptive services may choose to drop their drug plan coverage to save money. The effect would be loss of contraceptive coverage and prescription drug coverage.

*Study of Proposed Mandated Additional **Mental Health and Alcohol and Drug Abuse Insurance Benefits**, Report No. 97-19*

House Bill No. 427 of the 1997 legislative session would mandate that insurance coverage for mental health and alcohol and drug abuse treatment be no less extensive than that provided for other medical illnesses. Interest and momentum for “parity” in insurance coverage for mental health and substance abuse services follows Congress’ enactment of the Mental Health Parity Act of 1996. Thus far, nine states have parity laws. We found that the lack of a definition of parity affects the assessment of House Bill 427. Depending on the insurance plan, there are limits on coverage for other medical illness services. Parity, then, would mean varying limits on mental health services, depending on the plan. We found that there appears to be adequate access to mental health services for members who use these services. We concluded that mandating parity in coverage for all mental health and substance abuse services is not warranted at this time.

*Follow-Up Audit on the Management of **Billings and Collections for the Department of Health’s Outpatient Adult Mental Health Services**, Report No. 97-13*

The Adult Mental Health Division of the Department of Health provides outpatient services through a network of community mental health centers. Our 1995 *Audit of the Management of Billings and Collections for the Department of Health’s Outpatient Adult Mental Health Services*, Report No. 95-25, found that various obstacles prevented maximization of the centers’ revenues. *In our 1997 follow-up*, we found that although the individual centers are doing their best to generate revenues, the division’s failure to properly manage the centers’ activities has resulted in a loss of potential revenues. The centers continue to operate without a division-wide, overall billing system; they depend on state general funds to pay for expenses that should be paid for with special funds; and the division is not adequately planning for its proposed management information system.

FOLLOW-UP AUDITS

*Follow-Up Audit of the **Hawaii State Hospital**, Report No. 97-11*

The Hawaii State Hospital is a psychiatric facility for the care of mentally ill persons and persons who are both mentally ill and drug-addicted. Our 1995 *Management and Fiscal Audit of the Hawaii State Hospital*, Report No. 95-34, found problems in the hospital’s personnel management, financial management, inventory controls, and other areas. *In our 1997 follow-up*, we found that management of the hospital has improved, but significant challenges remain. Problems with sick leave abuse, excessive overtime, and personnel evaluations continue. Progress in financial management and inventory controls is mixed, and subsidies for employee meals are too high. Management problems posed by the hospital’s forensic population—those committed by court order—remain unresolved.

Actions Reported on Previous Recommendations *(Report Nos. 96-9 through 97-9)*

This section is based primarily on our review of activity in the 1997 legislative session and state agencies' responses to our October 1997 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: **Follow-Up Audit of the Department of Taxation**

Report No.: 96-9

RECOMMENDATIONS

The Department of Taxation should continue to follow its new collection procedures and initiatives and continue to pursue implementation of a new income tax computer system.

The department should be allowed to fill vacancies in its audit and collections divisions.

The department should continue its training initiatives and develop a formal training program for its auditors.

ACTIONS REPORTED

The department reports that it continues to follow its new collection procedures. Monthly reports on action taken by collectors are reviewed to ensure compliance with the procedures, as well as periodic one-on-one review by supervisors and managers.

A manual is being revised on operational and technical aspects of collection functions with guidance in such areas as daily operations, tax compromises, levies, and liens.

The department is negotiating with a vendor for its Systems Replacement Project. The department hopes the consultant will start redesigning and implementing an integrated tax information management system by January 1998.

The department reports receiving a waiver allowing it to fill all vacant positions in these divisions without the governor's approval. Every effort is being made to fill the positions by June 30, 1998.

On May 23, 1997, the Compliance Division implemented formal monthly training programs for collections and audit staff. Still in effect is the 20-hour training plan, which addresses the needs of branch staff and provides standardized training. The department supplements its training through joint Internal Revenue Service training, bringing in out-of-state instructors, and sending staff to training by accounting, legal, and tax organizations.

Report Title: **Status Report - Gaining Electronic Access to the Department of Education's Computerized Information Systems**

Report No.: 96-10

RECOMMENDATIONS

No recommendations.

ACTIONS REPORTED

RECOMMENDATIONS

The Department of Health should provide sufficient support to the waste management programs to enable them to meet their stated goals. This should include:

- a. Securing stable funding within existing budget constraints;
- b. Achieving federal authorization for the hazardous waste and underground storage tank programs as soon as possible; and

- c. Working to fill vacant positions with qualified staff.

The department should improve enforcement in the hazardous waste program by increasing field presence through an increase in the number of inspection staff.

The department should improve its landfill monitoring and enforcement activities by:

- a. Increasing the number of staff working on inspection and enforcement; and

ACTIONS REPORTED

The department reports making significant progress in compliance monitoring and enforcement, partly due to developing a strategic plan for the environmental management programs.

Despite cuts in general funds, the department secured increased funding from federal, state special and revolving funds. The overall budget for the Solid and Hazardous Waste Branch has remained relatively consistent over the past four years.

In 1996 the department delayed authorization, to incorporate new regulations on used oil and universal waste. The Environmental Protection Agency (EPA) has indicated a commitment to delegate the hazardous waste program to the State. The department will complete and submit the draft authorization package and submit the draft revised regulations for the governor's approval.

The department reports significant progress in developing a state underground storage tank (UST) program. The program plans final State Program Authorization submittal to EPA by July 1999.

The department reports that recruitment and retention of qualified staff remains a problem for all environmental programs. Work with the department's personnel office continues toward a long term solution.

The solid waste program filled a new permitting/enforcement engineer position, a vacant special waste engineer position, and a new UST section supervisor position.

The department reports that the hazardous waste program has been successful in issuing enforcement cases. Although the number of inspectors has not increased, the department now uses a "targeting" method and is streamlining inspections of small facilities. Also, the EPA may be willing to fund another full-time inspector.

The department reports significant levels of improvement in overall landfill oversight, but that the solid waste program lacks staffing to provide regular inspection of neighbor island facilities. Nevertheless, these facilities are being inspected as opportunities present themselves.

RECOMMENDATIONS

b. Ensuring that illegal dumpers come into compliance.

The department should strengthen its regulation of underground storage tanks by:

- a. Increasing the number of inspectors in order to increase field presence;
- b. Monitoring compliance with preventative requirements; and
- c. Developing enforcement capabilities in preparation for EPA authorization.

18

The department should ensure the accuracy of its databases for tracking waste generators in the underground storage tank and solid waste programs.

The department should coordinate its monitoring of infectious waste management by:

- a. Designating a program to take the lead in coordinating monitoring; and

ACTIONS REPORTED

The solid waste program has directed much of its monitoring and enforcement activities on illegal dumps on Oahu. Even with increased staffing, the department cannot provide sufficient support on the neighbor islands.

The department has increased inspections at underground storage tank facilities to prevent releases of gasoline and diesel fuel and to reduce the severity of releases.

Compliance inspections increased from about 90 in 1996 to 400 in 1997. At the current rate, each facility will be inspected every two years.

Facilities that are not in compliance are warned and given 45 days to comply. A joint state-EPA follow-up inspection is conducted for all facilities that are significantly out of compliance. During 1997, the EPA cited 20 Hawaii facilities during joint inspections with fines of \$7,150.

The department reports that a substantial effort is required to automate the current databases for the solid waste program.

EPA Region 9's hazardous waste program developed a new PC-based data application, the Alternate RCRA Information System (ARIS), replacing the current Regional level main-frame system. Since July 1997, EPA has done all data entry, tracking, and reporting from the ARIS platform. Every month, ARIS translates all data elements into the national data system.

The department has committed to be a manual implementor of ARIS and plans to assume ownership of ARIS in the future. The underground storage tank program has converted to version 2.41 of UST-Access. This database allows staff to track the status of releases at USTs.

The Solid Waste program monitors all commercial medical waste treatment facilities. The Hospital Facilities Branch monitors on site treatment by large health care facilities. The regulations for individual generators (doctors and dental offices and small clinics) are self-implementing. No plans exist to extend oversight to individual generators, due to budget constraints and the lack of significant health risks.

RECOMMENDATIONS

- b. Requiring counties and other agencies to report infectious waste spills to the Hazard Evaluation and Emergency Response office or to the designated lead program.

ACTIONS REPORTED

The department has not established any infectious waste spill threshold or additional reporting requirements. However, staff of the Hazard Evaluation and Emergency Response Office respond to reports of medical waste spills or advise others on how such waste should be handled.

Report Title: 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

RECOMMENDATIONS

The Department of Accounting and General Services, the Department of Education, the Judiciary, and the University of Hawaii should cooperatively adopt a formal cleanliness standard that pertains to the custodial services programs in each agency. In addition, each of the four agencies should develop procedures to ensure that this standard is applied in every unit served by their respective custodial services programs.

The Department of Accounting and General Services, the Department of Education, the Judiciary, and the University of Hawaii should each ensure that custodial services managers consistently use the following management tools to monitor and measure the completion of custodial tasks:

- a. Task lists that remind custodians of the frequency and nature of the tasks to be performed. These should also be distributed to building users to ensure that the users are knowledgeable of all tasks to be performed;
- b. Checklists that record the completion of assigned tasks and identify areas to be repaired; and
- c. Formal inspections that document the quality of work that has been performed.

ACTIONS REPORTED

DAGS reports that for the past four years it has been using standards developed by the Association of Higher Education Facilities Officers (Association of Physical Plant Administrators) in delivering custodial services to DAGS-managed facilities. The standards are part of a task listing provided to its custodial staff. The Judiciary reports that it has adopted the same cleanliness standards and incorporated them in developing the task list and checklist. The University of Hawaii reports that UH-Manoa and the community colleges have adopted the same cleanliness standards. UH-Manoa and the community colleges strive to maintain Level 2 - Ordinary Tidiness.

DAGS reports that task lists outlining work assignments and frequency have been distributed to each worksite. The department will distribute a statement of objectives and summary of major tasks to building coordinators. A pilot program for custodial checklists will begin by the end of November 1997. Implementation of a revised custodial inspection form is being discussed with the United Public Workers union.

DOE reports that its "Department Procedures For Custodial Services" lists the frequency and nature of tasks to be performed. Copies of this procedure are given to each school. The custodian's work schedule also lists the frequency and nature of work to be performed. The work schedules are posted and periodic workshops provide custodians with training on tasks to be performed. The procedures provide check-

RECOMMENDATIONS

The Department of Accounting and General Services, the Judiciary, and the University of Hawaii should each develop formal training programs to identify and develop the knowledge, skills, and abilities that custodial workers need to perform their jobs safely and competently.

ACTIONS REPORTED

lists and the custodian's work schedule identifies the areas to be cleaned. DOE's "School Inspection Program" provides for a formal inspection of the quality of work performed. The procedure also provides checklists for school administrators, head custodians, and others to inspect the cleaning practices of school facilities.

The Judiciary reports that a task list, checklist, and inspection form, developed by the Judiciary's Facilities Management Office, are being used by custodial staff.

The university reports that at UH-Manoa, it revised its Inspection Checklist and Performance Rating sheets to include task list intervals. The checklists also provide an overall rating of the custodian's performance. Since August 1997, on Manoa's mauka campus, regular inspections by custodial managers and supervisors involving individual workers have been implemented. During the inspection, building occupants are interviewed and briefed on the tasks to be performed. On Manoa's makai campus, the task list will be distributed to building users and inspections done in January 1998. At the community colleges, task lists, checklists, and inspection documents were researched. Task lists and checklists would reflect different conditions among the campuses such as traffic density, frequency of use, age of building, and climatic conditions. UH Hilo implemented a schedule of duties which is posted in each custodial room. The Job Order Request identifies areas in need of repairs. A Janitorial Inspection Form reviews the items on the schedule of duties. Supervisors are to perform weekly and monthly inspections to ensure consistency.

DAGS reports that it established a building manager position that will handle training programs for custodial staff. The new position will "formalize" training modules and refresher courses will be scheduled. "Informal" or "on the job" training will be used to reinforce or as a retraining tool.

The Judiciary reports that its Facilities Management Office developed a training program in which all new employees will be provided on-the-job training from supervisory staff, and will view training videos in areas such as restroom maintenance, floor care, healthcare, and OSHA standards. All other employees will view the videos for refresher training.

The university reports that UH Manoa will continue to conduct two-week training for new employees on all require-

RECOMMENDATIONS

The Department of Accounting and General Services, the Department of Education, the Judiciary, and the University of Hawaii should each use custodial cost data to assess the cost effectiveness of resources used in their custodial services programs and to compare alternative service delivery methods.

ACTIONS REPORTED

ments of the job. UH Manoa also has implemented a formal two-week orientation program for all newly promoted working supervisors. Workshops on health and safety, campus security, floor care, and carpet cleaning are also provided. The athletic department will continue its one-week training for new employees. The community colleges requested that formal training be centralized from the community college chancellor's office. A day-long conference was held for support staff, with workshops on discrimination, drug awareness, safety, environmental health, preventing injuries, and other topics. The chancellor's office will continue the training programs. At UH Hilo, supervisors train working supervisors, who in turn train crew members. Procedures are being reviewed to include new safety procedures. Training will be updated, and refresher training should commence in the spring semester.

DAGS reports that the program does capture relevant data. DAGS believes the assessment of alternative delivery models, i.e. private sector services, remains a guess at best. A standard formula to calculate indirect costs such as personnel, purchasing, and clerical support is not available.

The DOE reports that it used the "Custodial Staffing Formula"—developed by a committee of principals, state office personnel, and school custodians—to allocate custodians and measure services delivered. DOE states that alternative delivery methods such as privatization have been examined, but the "Konno case" restricts consideration at this time.

The Judiciary reports that cost data is used for budgeting, planning, procurement, monitoring expenditures, operational decision-making, and determining the cost effectiveness of employing private contractors.

The university reports that UH Manoa compiles and maintains custodial cost data to assess cost effectiveness. UH Manoa has contracted out custodial services for various programs. Individual contracts are being reviewed by the state attorney general due to the recent supreme court ruling on privatization.

The community colleges continue to use actual expenditure data to assess cost effectiveness of resources used. Currently, the community colleges are not able to assess alternate delivery methods such as contracting out, due to the privatization issue with the United Public Workers union.

RECOMMENDATIONS

The Department of Accounting and General Services, the Judiciary, and the University of Hawaii should each ensure that custodial program managers belong to relevant professional organizations that help the managers to obtain the most current information on industry standards, management tools, training programs, and effective data analysis techniques.

ACTIONS REPORTED

UH Hilo uses the inspection form to analyze the effectiveness of custodial services. UH Hilo works with vendors who present new products and equipment that increase productivity.

DAGS reports that its program has joined the Association of Higher Education Facilities Officers. The Judiciary joined the International Executive Housekeepers Association.

UH Manoa continues to provide for membership in the Association of Physical Plant Administrators for the director of buildings and grounds management. The athletic department supports a membership for the makai campus coordinator. Additional membership for building coordinators depends on available funding.

The community colleges support membership in professional organizations as far as funding permits.

UH Hilo receives most of its product and equipment information from manufacturers' representatives who provide in-service, on-site training. Comparative data and management trends are obtained from trade publications. Management and supervisory training occurs through workshops by state and private organizations.

Report Title: ***Follow-Up Audit of the Financial Audit of the Department of Land and Natural Resources***

Report No.: 96-13

RECOMMENDATIONS

The Department of Land and Natural Resources should take immediate steps to eliminate the backlog of unfiled documents so that current lease status can be determined.

The department should develop and adopt formal policies and procedures covering all aspects of lease administration. These procedures should include, but not be limited to, the use of tickler systems, lease summary sheets, and better organized files and record keeping.

ACTIONS REPORTED

The department reports that in response to our recommendations, it made significant changes in the Land Division's operations. It secured master files in the Honolulu vault and adopted sign-out procedures. Enhanced security of and accountability for master files resulted in eliminating the backlog of unfiled documents. The master files are now organized into (1) a lease/document section, (2) an insurance/bond section, and (3) a correspondence section. The department also implemented summary sheets, checklists, and Project Status Forms (the latter are on the computer network, allowing access by all staff). Each district's different tickler system will be replaced with a computerized tracking system.

The department reports that the Legislature appropriated \$2

RECOMMENDATIONS

ACTIONS REPORTED

million to computerize land management, integrating land inventory, accounts receivable, and lease administration. In the course of drafting an operations manual, the department has gathered and sorted prior policies and procedures.

Report Title: **Follow-Up Audit of the STD/AIDS Prevention Program in the Department of Health**

Report No.: 96-14

RECOMMENDATIONS

The Legislature should consider requiring the STD/AIDS Prevention Branch to submit an annual report that includes such information as assessment of program impact and the cost-effectiveness of branch programs.

The chief of the branch should work with the Department of Health to develop a strategic plan for the branch. Part of this process should include developing a sharper mission statement, updated policy objectives, and comprehensive operational planning that contains the following:

- a. An assessment of community needs;
- b. Overall branch priorities;
- c. Action steps to be taken;
- d. Allocation of the branch's resources; and
- e. An evaluation of the program's specific impact on public health.

The branch chief should work to improve coordination of the branch through the following:

ACTIONS REPORTED

No legislation was enacted.

The department reports that many core activities for strategic planning are underway or completed.

In mid 1997, the branch completed a statewide HIV care services needs assessment. It also completed a statewide HIV/AIDS Epidemiologic Profile, a key part of needs assessment. A working plan for a formal needs assessment is being developed.

Priorities are regularly reexamined.

Short term action steps are in place for the branch and all program components.

The branch and two community planning groups analyze and develop allocation of state and federal funding.

The branch conducts standard program monitoring, including reporting on objectives, performance indicators, and/or variance as called for by the Legislature and federal grants. Specific program components carry out more detailed evaluations.

RECOMMENDATIONS

- a. Better communication and follow-up with his managers concerning challenges facing the branch;
- b. Completing the State AIDS Plan;
- c. Completing a policies and procedures manual; and
- d. Clarifying the branch's organizational structure.

The department and the branch should improve their oversight of the Community Health Outreach Work Project (CHOW) through the following actions:

- a. Ensure that the project tightens its needle exchange inventory control and develops a system of checks and balances that allows it to account for each needle in its base inventory, each needle distributed to outreach workers, and each needle exchanged at the various exchange sites;
- b. Establish clear personnel policies and procedures to ensure the appropriate use of human resources on the project; and
- c. Ensure adequate fiscal monitoring including internal controls over project expenditures.

The department should improve its administration of its contracts for STD/AIDS prevention services through the following measures:

- a. The department's Administrative Services Office should work closely with the Communicable Disease Division and the STD/AIDS Prevention Branch to develop a manual of policies and procedures for administration of the contracts. This manual should systematize the entire contracting process, including monitoring and evaluation;
- b. The branch should continue to improve its contract monitoring and evaluation process by improving its quarterly reporting forms, following up on questionable figures

ACTIONS REPORTED

Regular meetings are held at the administrative and unit levels. Issues are considered at the most appropriate level with an open exchange of information and ideas up and down the chain of command.

The HIV prevention state plan was rewritten and updated. The Care Community Planning Group is currently competing the HIV care services component of the state plan.

The Communicable Disease Division is completing the first draft of the division-level manual. All sections of the branch except one have developed their portion of the branch manual.

The branch submitted a reorganization plan to the department.

The CHOW inventory control system was revised and a very structured and functional inventory control system is now in place.

The work function of the worker mentioned in the report has been clarified.

Guidelines were developed for outreach petty cash. The full RCUH project expenditure report is reviewed by the branch's administrative officer. Copies of all signed approvals of major expenditures are maintained in branch files.

The branch's purchase of service contracts follow the policies and procedures developed by the Purchase of Service Team (POST) in its administration of contracts under Chapter 42D. The branch's other purchase of services contracts follow the guidelines provided for in the State Procurement Code under Chapter 103D, HRS.

The contract reporting forms now contain a narrative section where service delivery and compliance issues are discussed. Follow-up has been strengthened through development of a

RECOMMENDATIONS

reported by contractors, and evaluating service quality; and

- c. The branch should more systematically analyze the number and nature of STD/AIDS service contracts needed to carry out its mission and realistically assess its ability to administer contracts before it seeks to acquire additional contracts that may be more than it can handle.

The department should end the artificial arrangement through which the chief of the department's Communicable Disease Division receives additional compensation from the department's federal disease control funds for work that he performs as a faculty member of the University of Hawaii.

ACTIONS REPORTED

team approach to contract monitoring. The branch is examining the possibility of contracting out for fiscal monitoring services.

The branch, with the Community Planning Groups, carefully analyzes the scope and number of contracts. There is no duplication of contracted services and the number of contracts is not increasing in the current biennium.

This arrangement has been terminated.

Report Title: **Follow-Up Audit of the Administration of Personal Services Contracts of the Department of Education**

Report No.: 96-15

RECOMMENDATIONS

The superintendent of education should establish policies and guidelines that ensure public funds are spent only for personal services that are essential to carrying out the educational mission of the department.

The Department of Education should cease its practice of contracting with a limited pool of present and former employees and should instead enter contracts openly and competitively.

The department should adopt procurement practices that conform to the Hawaii Public Procurement Code. In doing so, it should:

- a. Follow rules promulgated by the Procurement Policy Board;
- b. Follow guidelines and checklists developed by the Department of the Attorney General; and
- c. Comply with the procurement directives of the superintendent of education.

ACTIONS REPORTED

Concerning the first and third recommendations, the department reports that it issued revised guidelines and policies for contracting personal services and conducted training sessions on these guidelines throughout the state for principals, state and district office administrators, and clerical personnel.

Concerning the second recommendation, the department published public notices to providers of professional services to conform to the procurement code. The department is updating and revising the guidelines for the Temporary Contract Employee Program to ensure compliance with procurement practices, the privatization law, and personnel laws, rules, policies and state ethics law.

RECOMMENDATIONS

The Legislature should amend Section 354D-6, HRS, to prohibit the Correctional Industries Program from acting essentially as a reseller of another company's products. Its product sales should be limited to those goods actually manufactured or produced by the program.

The director of public safety should remove printing services from goods and services that must be purchased from the Correctional Industries Program.

ACTIONS REPORTED

The statute was not amended in these respects.

The department reports that effective November 1, 1997, the printing waiver process was eliminated pursuant to a memorandum from the State Comptroller. The Comptroller has recommended that the Department of Public Safety pursue an Administrative Directive issued by the Governor for any Correctional Industries Services to be mandated by Section 354D-6, HRS. Based on our recommendation, the department says it will not seek an administrative directive. The department says that Correctional Industries strives to provide quality products at a competitive price in a timely manner, that our audit substantiates their efficiency in the printing area, and that Correctional Industries will rely on performance for customer satisfaction and business.

RECOMMENDATIONS

Management should continue its efforts to improve the financial accounting and reporting system. In doing so:

- a. The hospital should finalize its financial accounting reports shortly after the end of the fiscal year;
- b. Management should ensure that expenditures are recorded in the hospital's financial accounting and reporting system and reconciled to FAMIS reports in a timely manner; and
- c. Monthly financial reports should be prepared for review by management. These reports at a minimum should include monthly financial statements, departmental comparisons of budget versus actual results, and financial and operating performance measures commonly used in the industry.

ACTIONS REPORTED

The hospital through the Hawaii Health Systems Corporation reports that it is establishing procedures to ensure meeting financial reporting objectives, safeguarding resources, and improving operating efficiency.

The hospital states that it closes the general ledger each month. Currently, a consulting firm is preparing the monthly financial statements. The hospital has recommended that the corporation invest the HBOC report writer, a software package that interfaces to the current general ledger system. This would enable the hospitals to generate monthly financial statements.

Expenditures are reconciled to the FAMIS reports monthly.

The hospital has developed a budget and is waiting for the corporation to allow the hospital access to the general ledger maintenance (a system function) so that the hospital can input the fiscal year 1998 budget. The hospital informed department directors that monthly, financial budget to actual

RECOMMENDATIONS

The hospital should enforce its policy of requiring daily submission of charge sheets to the business office for posting to patient accounts.

Hospital management should consider the implementation of an electronic billing system for long-term care charges.

The hospital should ensure that billing rates are properly maintained in the billing system by Hilo Medical Center. Monitoring procedures should include comparing billing rates in the system to billing rates authorized by the Division of Community Hospitals and recalculating formula-based billing rates on a test basis.

The hospital should not unquestioningly accept payments from third-party payors. It should determine the amount it expects to receive from third-party payors, compare payments received against those amounts, and follow up when payments received differ from what was expected.

The hospital should improve its collection practices to include discussion of charges with patients, collecting prepayments from patients prior to discharge, and accepting credit card payments and installment note agreements. It should also consider referring patients to financial institutions to arrange for loans to pay their hospital bills.

The hospital should deposit all cash receipts on a daily basis. It should discontinue the practice of holding cash receipts.

The hospital should be allowed to negotiate and enter into its

ACTIONS REPORTED

statements will be forthcoming.

The hospital reports that it has enforced its policy of requiring daily submission of charge sheets to the business office for posting.

A task force is working to install an electronic billing system for long-term care charges. April 1998 is the target completion date.

Management updated the chargemaster fiscal year 1997 and is performing another review. This should ensure proper maintenance of billing rates.

The hospital says the corporation needs information systems that provide timely clinical and financial information. The hospital has recommended that the corporation invest in software that will enable the billers to calculate the expected reimbursement from third-party payors. The hospital partially resolved this problem by having an independent contractor review Medicare and HMSA claims on a quarterly basis.

The hospital installed a grouper in the medical records department in January 1997. The grouper calculates the anticipated DRG when the medical record is coded. The hospital is working on a methodology to upload the DRG from the cascade software into the HBOC billing system. This will enable the billers to review the DRG when payment is received.

The hospital is developing formal procedures to discuss charges for services with patients, to provide an estimate of the patient's share of charges, and to determine the patient's ability to pay. In addition, the hospital plans, as part of its cash discharge policy, to collect estimated co-payments prior to discharge and accept installment note agreements. The estimated go-live date is January 1998.

The hospital reports that cash receipts are deposited on a daily basis.

The hospital negotiates for service contracts with vendors;

RECOMMENDATIONS

own service contracts with vendors. In doing so, it should ensure that rates billed for laboratory services under the contract are fair in light of third-party payor practices and the hospital's rate schedule. The hospital should also seriously consider the need for this service contract and have the contractor bill patients and insurers for services directly in a manner similar to that practiced by physicians.

The Division of Community Hospitals should continue to involve affected hospitals in resolving the issue of discounts with HMSA and Kaiser. The hospital should also consider billing patients for any discounts taken.

The hospital should discuss issues relating to the information system with management of the Hilo Medical Center to ensure that appropriate corrective actions are taken. Specifically:

- a. Passwords for all computer applications should be at least eight characters long and be changed periodically;
- b. A formal policy that governs the use of the Internet should be prepared; and
- c. Kona Community Hospital and Hilo Medical Center should prepare a formal disaster recovery plan.

ACTIONS REPORTED

however, the laboratory service contract was negotiated at the corporate level.

Negotiations with Kaiser and HMSA have been done at the corporate level.

The hospital has discussed information system issues with corporate management. It is hoped that corporate management will work with the hospital to improve the efficiency and effectiveness of the system.

The HBOC system limits the lengths for passwords for computer applications to four characters. This issue has been discussed with Hilo Medical Center.

Internet access is not an issue at the hospital. Only two computers have access, one is the physicians account and the other is the information specialist account (he researches on his own time, after hours). The hospital does not pay for the Internet accounts.

The Information Systems department at the hospital backs up the system daily. Management will purchase a fireproof safe and store the tapes off site.

Report Title: **Financial Audit of the Department of Defense**
Report No.: 96-18

RECOMMENDATIONS

The Department of Defense should immediately transfer balances due to the State's general fund and transfer any future amounts due the general fund on a timely basis.

ACTIONS REPORTED

The department reports that it transferred all fund balances identified in our audit to the state general fund. In addition, beginning in FY1996-97, the department made periodic transfers to the general fund. The department reports that, recognizing the dilemma associated with using general funds for advance payments of programmed federal expenditures, the Legislature appropriated \$300,000 in general funds for FY1997-98 to assist with cash flow management. With this amount, the department has been able to meet its cash obligations incurred under the various federal/state agreements.

RECOMMENDATIONS

The department should ensure that its accounting and financial records are properly maintained. It should further ensure that required financial audits are completed by the required deadlines.

The department should ensure that it complies with the procurement code, applicable procurement rules and regulations, and related executive memoranda.

ACTIONS REPORTED

The department reports that its Single Audit Report for the Year Ended June 30, 1996 was completed May 30, 1997.

The department says its policy is to follow all laws, rules, and executive directives applicable to the administration of its functions, including its procurement functions. The department also continues to seek ways to increase proficiency in small purchase management, such as obtaining training on small purchases in November 1996 from the State Procurement Administrator and scheduling small purchase training, conducted by the State Procurement Office, for personnel in the department's procurement office.

Report Title: **Audit of the QUEST Demonstration Project**

Report No.: 96-19

RECOMMENDATIONS

The Department of Human Services should not begin Phase II of the QUEST project until it has addressed and resolved all of the problems with Phase I.

The governor should allocate resources to the Department of Human Services to assist with the implementation of the QUEST Information System.

The Department of Human Services should prepare cost data and submit separate future budget requests for the QUEST demonstration project and for other Medicaid program costs.

ACTIONS REPORTED

The department reports that it still believes accelerating costs in the fee for service program will not be stabilized without another approach to service delivery such as QUEST Phase II. It has reconsidered the implementation date of July 1997 and will delay implementation of Phase II to FY1998-99.

The governor reports that the department settled with the information system contractor to terminate the contract and avoid costly litigation. The State can now proceed with a new procurement for an information system. The governor acknowledges the need to allocate appropriate resources to the department to assist with the implementation of a new Medicaid Management Information System (MMIS). He says that the new MMIS requested by the department has been included in the Executive Supplemental Budget.

The department reports that the 1997 legislative session separated the Medicaid budget into three separate HMS appropriation codes: HMS 230 Health Care Payments, representing fee for service payments; HMS 245 QUEST Health Care Payments, representing QUEST payments to HMOs; and HMS 603 Home and Community Based Care Payments, representing funding for Medicaid community based long term care waivers. The department will prepare cost data and submit separate future budget requests for each HMS appropriation code.

RECOMMENDATIONS

The Legislature should require the Department of Human Services to submit QUEST demonstration project costs under a separate program identification budget.

The Eligibility Branch of the Med-QUEST Division should ensure that its units are following established standardized eligibility procedures and re-verify eligibility annually as required.

The Med-QUEST Division should assess the work that needs to be done and consider alternate staffing options to ensure that qualified people are engaged to do the work.

ACTIONS REPORTED

Act 328, SLH 1997, the General Appropriations Act of 1997, contains a separate program identification code, HMS 245, QUEST Health Care Payments.

The department reports that a committee consisting of eligibility workers from the Med-QUEST Division and the Benefit, Employment, and Support Services division drafted a Standard Operating Procedures manual to be used by both divisions. Some of the procedures are already being implemented. Once the manual is finalized, eligibility staff from both divisions will be trained in the new procedures. Further simplification of the application process is being considered. Resolving eligibility backlogs depends on effective management techniques and additional staffing resources.

The department says that client confidentiality issues, federal regulations, and funding limit opportunities for alternate staffing options. The department is reviewing possible outsourcing of certain eligibility functions.

Report Title: **Audit of the After-School Plus (A+) Program of the Department of Education**

Report No.: 96-20

RECOMMENDATIONS

The Department of Education should ensure that only children eligible for the A+ Program are enrolled in the program.

The department should staff the A+ Program according to program attendance patterns and its established staffing formulas.

The department should develop a policy on nepotism. In addition, A+ site coordinators should follow the program's policies on applicant screening to ensure the most qualified candidates are hired for A+ vacancies.

ACTIONS REPORTED

All DOE site coordinators now must review all applications for eligibility and indicate approval on each application. Also, a checklist for A+ district coordinators asks whether eligibility is being checked, based on complete information provided by the parents/guardians, and whether the site coordinator is signing off on each application.

The department will allocate staff to program sites in September based on 1996-97 enrollment data. Districts will initially make enrollment adjustments in staffing for October through January based on September 1997 enrollment. At the end of the first semester, a second staffing adjustment will be made based on January 1998 enrollment. Districts will also be checking on student-staff ratios during site visitations.

The department revised its A+ operations manual to emphasize that if relatives are considered for employment, fair and equitable procedures must be followed to ensure that the most qualified person is hired. The operations manual, memoranda from the superintendent, and the visitation checklist emphasize the importance of maintaining personnel documentation.

RECOMMENDATIONS

The department should adopt a uniform policy for the provision of services including snacks, payment for enrichment classes, and access to school facilities. The district coordinators should monitor all A+ sites to ensure compliance with such a policy.

A+ Program sites should follow required collection procedures outlined in Accounting for Collections, Section VII, Collections of Monies, OBS Handbook and the A+ Operations Manual. Specifically, the department should:

- a. Reconcile enrollment to collections and terminate students with outstanding program fees within a reasonable time period;
- b. Assess all late program fees as set forth in Hawaii Administrative Rules, Chapter 400; and
- c. Reconcile all deposits to collection receipts and deposit all collections in a timely manner.

District coordinators should verify the enrollment and attendance data reported by schools.

District coordinators should verify the accuracy of private providers' invoices prior to approving payment.

ACTIONS REPORTED

The operations manual now says that the principal in consultation with the site coordinator and parents may decide upon snack options for the site; and that additional enrichment programs may be offered to students free of charge or for a fee. The visitation checklist has questions on use of facilities, equipment, and custodial services. District coordinators were instructed to visit each site at least once a semester to provide guidance and technical assistance to site coordinators. Department auditors will randomly visit sites to examine the extent to which procedures are being followed.

The department reports that it revised its fiscal reporting procedures and forms. It conducted training on the new procedures and forms. The department sent a letter to parents clarifying the new procedures, including late payments, late pick-up fees, and termination for non-payment of fees. The procedures and forms are incorporated in the revised A+ operations manual.

The new fiscal reporting forms require all DOE A+ sites to reconcile enrollment to collections on a monthly basis and clearly identify uncollected amounts. The forms also enable district and state offices to more easily examine the extent to which collections match the expected tuition amount. It is also easier to keep track of uncollected tuition for follow-up action.

The new fiscal reporting forms also provide a section where collections are reconciled to deposits. The Office of Business Services exempts from daily collection deposits sites where site coordinator's aides are not employed on a daily basis; sites with aides who work daily are expected to make daily deposits. The visitation checklist includes a review for daily deposits.

The department reports that districts are verifying enrollment and attendance data in two ways: paper review of reports submitted; and on-site visitations using the new visitation checklist and reviewing site records. The superintendent directed district coordinators to visit each site at least once a semester and visit sites needing further technical assistance more frequently. Department state staff will also visit district offices.

The revised operations manual clarifies fiscal procedures. Private providers must submit a new form monthly along

RECOMMENDATIONS

ACTIONS REPORTED

with a list of students enrolled in each tuition category. The principal must give approval regarding the accuracy of the list. The districts must match the information on the provider’s form with invoice amounts.

*Report Title: **Review of Revolving and Trust Funds of the Office of the Governor, Office of Hawaiian Affairs, and the Department of Education***

Report No.: 96-21

RECOMMENDATIONS

ACTIONS REPORTED

No recommendations.

*Report Title: **Fiscal Accountability in the Department of Education: How Accurate Are Textbook Costs?***

Report No.: 97-1

RECOMMENDATIONS

ACTIONS REPORTED

The Department of Education should develop clear code definitions and guidelines on how textbook expenditures should be coded in the department’s Financial Management System by schools and department offices.

The department should provide training to school level personnel on how to properly code expenditures for textbooks and other instructional materials.

The department should update its coding system to account for the purchase of “textbooks” which do not meet or fit the traditional textbook definition.

The department reports that the object-of-expenditure codes for books in the FMS User Policy & Process Flow Guide—Textbooks (7711), Library Books (7706), and Reference Books (7710)—have been redefined.

The School Support Section of the Administrative Services Branch of the Office of Business Services conducted workshops in all seven districts with school administrative services assistants during September and October 1997. Definitions and commodity codes for textbooks, library books, and reference books were covered to prevent future erroneous coding of purchases.

New object-of-expenditure codes have not been added for “textbooks” which do not meet or fit the traditional textbook definition at this time. CD-ROMs may have “textbook” type instructional material, but CD-ROMs have been included as Computer Software because they are identified as storage mediums used to store various software programs and materials. The object-of-expenditure code need not be expanded to identify CD-ROMs for textbooks, CD-ROMs for library books, and CD-ROMs for administrative or other non-instructional purposes. This requirement is met by the program I.D. assigned to the accounting transaction.

RECOMMENDATIONS

The Department of Transportation should ensure that its divisions follow the State's standard, System Development Methodology, for acquiring and developing information systems.

The director of transportation should ensure compliance with the provisions of the Hawaii Public Procurement Code.

ACTIONS REPORTED

The department reports that it is taking steps to guide and train its information systems staff in proper planning for systems development. It is developing its procedures manual to adopt a systems development methodology. The department is working with the Information & Communications Services Division for approval of a software product as a standard for system development.

The department is continuing its procedure of posting all intents to purchase through sole source process in its Contracts Office. For small purchases, the department is seeking to reduce violations of the procurement law through better procedures, employee training, and progressive discipline.

RECOMMENDATIONS

The existing administrative structure of the Special Compensation Fund should be left as is. To help reduce the risk of unfairness and other problems posed by the conflict of fund responsibilities in the Department of Labor and Industrial Relations, the Legislature, if it continues to fund the department's new Workers' Compensation Benefits Facilitator Unit, should do so not from the Special Compensation Fund but from the general fund.

The Department of Labor and Industrial Relations should improve the management of the fund's balance by establishing a formula that more appropriately matches revenues and expenditures.

ACTIONS REPORTED

No legislation was enacted.

The department says it uses a formula to guide it in establishing levies that will generate revenues to match expenditures from the Special Compensation Fund. The department reports that total Fund revenues collected were \$18.2 and \$16.5 million for FY1995-96 and FY1996-97, respectively, and total Fund expenditures were \$19.8 and \$16.7 million for the same two years. The department says that it is always cognizant in establishing fund levies that it is often difficult to predict, especially in certain economic cycles, such factors as the state's insured unemployment rate, business bankruptcies, corporate downsizing, corporate relocation out of the state, and other factors that tend to distort the results of the department's formula computations.

RECOMMENDATIONS

The Legislature should consider appropriating funds for the incentive and innovation grant program as a research and development cost as set forth in Sections 37-62 and 37-71, Hawaii Revised Statutes, instead of as an operational cost, as is currently the case.

The requirements of Section 302A-301, HRS, should be amended as follows:

- a. The Department of Education must seek funding for the grant program as a research and development cost in the executive budget request (the incentive and innovation grant trust fund is repealed);
- b. The department must assist the Incentive and Innovation Grant Review panel in defining “innovation” for purposes of grant selection with sufficient precision to provide guidance for grant applicants and with sufficient substance to reflect widely held understandings of innovation in the educational field;
- c. All grant proposals must (in addition to the existing statutory requirements) clearly demonstrate the school’s capacity to administer the grant project, cover its costs, and support the project when the grant expires;
- d. All grants must be for a three-year period, and annual renewals of funding shall be conditioned on the school demonstrating to the panel that the project is being conducted fundamentally as described in the proposal;
- e. The department must consult with projects that have received grants to establish what data need to be collected for evaluation purposes consistent with the evaluation plan set forth in the school’s proposal. The department must conduct or contract for evaluations that focus on the degree to which a project has improved student performance and is transferable to other schools. Evaluations must be conducted during a project’s second year. Evaluation costs will be financed through the research and development appropriation;
- f. If a school decides a project is worth continuing at the end of the grant period, the department must work with the school to identify what other school activities the project

ACTIONS REPORTED

No legislation was enacted.

No legislation was enacted.

RECOMMENDATIONS

will replace. The department will examine the impact of the project on student performance and the transferability of the project to other schools. Following consultation with the schools and consideration of these issues, the department, as appropriate, will identify certain projects for incorporation into certain schools' ongoing programs, by replacing an existing activity with the innovative approach, if possible. Funding for the project will then be integrated into the department's annual operating budget. Projects that require additional funding over and beyond what the school was previously receiving will submit program change requests through the normal budgetary process; and

- g. The department must establish a formal mechanism for the sharing of information about innovative projects throughout the school system and report annually to the Legislature concerning program expenditures, grants awarded, individual grant projects, the results of project evaluations, the impact on student achievement, and the transferability of individual schools' projects to other schools.

ACTIONS REPORTED

Report Title: **Financial Audit of the Harbors Division**
Report No.: 97-5

RECOMMENDATIONS

The Department of Transportation and the Harbors Division should take steps necessary to ensure that needed financial reports are prepared for management.

The department should not approve any proposed reorganization of the Financial Management Staff that does not clearly assign responsibility for preparation of needed financial reports.

The Harbors Division should take steps to improve its property management. It should:

- a. Prepare a complete inventory of property under its jurisdiction

ACTIONS REPORTED

The department reports that its Fiscal Office is now preparing and distributing 10 revenue and expenditure reports to Management, District offices, and Engineering. This process is continual and through user input, reporting will become more meaningful resulting in improved decision-making.

The Harbors Division will be submitting a reorganization proposal to the director. This reorganization of the Fiscal Office will address the reporting responsibility of the financial management staff.

The Harbors Division is converting its existing property listing into an interim inventory of properties under its jurisdiction and control showing properties in use or available for disposition. This was accomplished in part by using a data-

RECOMMENDATIONS

- tion as required by the Departmental Staff Manual;
- b. Cease its practice of renewing revocable permits for non-maritime related activities;
- c. Determine which of its properties are excess properties and transfer them to the Department of Land and Natural Resources;
- d. Execute lease renewals in a timely manner; and
- e. Develop a reliable method of identifying lease escalation dates in a timely manner.

The division should take steps to improve controls over cash collections and billings.

- a. The division should implement controls for over-the-counter collections on Kauai;
- b. The division should require Kauai and Maui district offices to verify the numerical sequence of pre-numbered receipts accompanying bank validated deposit slips;

ACTIONS REPORTED

base/spreadsheet program containing expanded data for tracking and reporting purposes. This interim property inventory will be incorporated into the future GIS system.

The Property Management Office is establishing and identifying properties and areas that are:

- 1) In use or available for disposition. Revocable permits are issued or continued where conversion to a lease is not practical.
- 2) Scheduled for development, redevelopment, demolition, and/or major construction/reconstruction. Harbors Division issues and recommends continuance of revocable permits in areas subject to development/construction plans. Relocation of existing permittee(s) allows converting revocable permits to leases in areas where such non-maritime uses are consistent with the master plan.
- 3) Required for operation. When necessary, short-term use of harbor facilities will be disposed by right-of-entry, rather than a revocable permit.

Although the Department Staff Manual allows the issuance of revocable permits for inconsistent uses, the department's intention is to convert permits to leases and easements, where appropriate and consistent with the implementation of the 2020 Master plan or required for the benefit of harbor users or the general public.

The Harbors Division has no excess properties for transfer to the Department of Land and Natural Resources.

A tickler file has been established to track lease renewals for timely action.

A spreadsheet has been established to track and identify lease escalation dates for timely action.

The department has implemented controls and written procedures for over-the-counter collection. All unused receipt books have been secured and small boat harbors employees have relocated to their own office space. Internal audits will be conducted regularly on District offices to assure compliance with cash procedures.

The District offices are verifying the numerical sequence of the receipts. In addition to verifying that all receipts are accounted for, they also assure that the last receipt issued for the day is the same number for the following day. Internal

RECOMMENDATIONS

- c. The district offices should segregate cash handling and recording duties if possible. If staff size makes this infeasible, the division should require that other management controls be followed to review cash transactions; and
- d. The division should assure that fees charged by district offices are proper and consistent.

ACTIONS REPORTED

audits will assure compliance.

Whenever possible the District manager is reviewing cash transactions.

The department reports that it is reviewing inconsistencies of fees for water and electricity and will take necessary steps to correct inconsistencies.

Report Title: **Audit of the University of Hawaii at Manoa's Non-Instructional Personnel**

Report No.: 97-6

RECOMMENDATIONS

The president of the university should establish a central oversight authority for the Manoa campus that is responsible for the following: reviewing non-instructional personnel needs of the various units; prioritizing these needs in relation to the focus and direction of the university; and periodically reviewing the results of these efforts and taking corrective action as necessary.

The president of the university should ensure that a human resource plan is developed and implemented for the Manoa campus. The president should ensure that the plan is:

- a. Tied to the university's mission and strategic plan;
- b. Able to justify the allocation of non-instructional personnel; and
- c. Able to provide for a needs assessment and periodic evaluation of non-instructional resources.

ACTIONS REPORTED

The university states that the Manoa Executive Council (MEC) is the central oversight authority for administration of the Manoa campus. The Manoa executive vice chancellor conferred with the MEC in developing a staffing plan process in FY1996-97 that required all programs to prioritize all vacant positions. These priorities were reviewed by the Manoa vice presidents and the Manoa executive vice chancellor according to the criteria of ensuring access and ensuring achievement of the goals of the university's strategic plan. Priorities meeting the criteria were forwarded to the president as part of the Manoa staffing plan, which is updated each quarter and approved by the president.

The MEC is reviewing the draft of the Manoa Strategic Plan which is based on the University of Hawaii System Strategic Plan. Once approved, the draft will be circulated to all members of the campus community for comment and thereafter submitted to the Board of Regents for approval in principle. After board approval of the Manoa Strategic Plan, Manoa's human resource plan, addressing the allocation of instructional and non-instructional personnel, will be developed.

In the meantime, Manoa has moved forward in developing personnel evaluation procedures. For the evaluation of non-instructional personnel: Civil service employees continue to

RECOMMENDATIONS

ACTIONS REPORTED

be evaluated under procedures developed by the Department of Human Resources Development. Executive/managerial employees are being evaluated annually. In November 1996, Manoa began implementation of procedures for annual and comprehensive evaluation reviews of all Manoa deans and directors. Administrative, professional, and technical employees will be evaluated effective January 1, 1998. Procedures have been adopted and training of personnel on the procedures is in progress.

Report Title: **Audit of the Office of Hawaiian Affairs**

Report No.: 97-7

RECOMMENDATIONS

ACTIONS REPORTED

The Board of Trustees of the Office of Hawaiian Affairs should:

- a. Enforce its policy that all trustee requests for staff assistance be channeled through the administrator;
- b. Adopt time limits within which the chair must place a committee's recommendations to the board on the full board's meeting agenda (no later than two board meetings after the chair receives the recommendations); and adopt a formal re-referral process that includes written notice to all trustees of the re-referral and its reasons, and time guidelines;
- c. In its budget request to the Legislature, create separate budget program IDs for (1) trustees, their staff, and related expenses, and (2) the administrator and her staff; amend the personnel organization chart to reflect the trustees' exclusive control over their secretaries; and amend the *Administrative and Financial Manual of Guides* to reflect that only the board chair approves or authorizes expenditures by trustees;
- d. Ensure that all board policies are compiled and easily accessible by trustees and staff;

OHA reports that trustee requests for staff assistance go to the administrator, who coordinates the follow-up. Since the board reorganized in October 1997, the chairperson and the administrator meet weekly.

Since the reorganization, the committee recommendations are placed on the agenda no later than two board meetings after the chair receives the recommendation. No re-referrals of committee/board action have occurred since October 1997. The Committee on Policy and Planning will review and develop the Auditor's two policy recommendations.

The recommendation on the separate program IDs has been referred to the Committee on Budget and Finance for review and recommendation to the Board of Trustees for submission of OHA's next biennium budget request. The organization chart cannot be changed until the board adopts a policy to change the trustee secretaries to patronage positions. At present, only the board chairperson approves or authorizes trustee expenditures. However, this matter will be referred to the Committee on Policy and Planning for review and development of recommendations for board adoption and inclusion in the *Administrative and Financial Manual of Guides*.

All trustees and the administrator have received a compilation of board approved actions between 1992 and 1997. The Committee on Policy and Planning has drafted a Board of Trustees Manual compiling OHA bylaws, a board operations

RECOMMENDATIONS

- e. Adopt a comprehensive, ongoing planning process that includes updating master and functional plans; preparing a long-range strategic plan connecting all financial assets (especially the funds in long-term investments) to OHA's goals and objectives; and approving clear written guidelines on the application of the blood quantum requirement;

- f. Require a regular assessment of all programs, projects, and activities to ensure that they comply with planning goals and objectives; and

- g. Strengthen the budgetary process by budgeting for all resources and expenditures.

OHA's administrator should:

- a. Work with trustees to establish a system to prioritize trustees' requests in order to treat all requests fairly;
- b. Compile and update an official set of board policy decisions for the easy reference of trustees and staff;
- c. Assign the task of drafting and updating blood quantum guidelines to an appropriate division;
- d. Work with the divisions to ensure that the monitoring of contracts, grants, and loans provides sufficient confidence that their terms and intended benefits are being achieved. Opportunities for site visits should be increased, and where they are difficult for lack of staff or travel funds, the

ACTIONS REPORTED

guide, and the OHA policies and procedure manual. In addition, the administrative services officer has developed a computerized system to track board actions from committee introduction to final disposition.

The administrator, planning officer, and Committee on Policy and Planning are preparing a master and functional plan planning process for the board's consideration.

Administration staff committee meetings have discussed strategies to correlate OHA's portfolio corpus to its programs. Discussions addressed correlating asset allocation, multi-year operating budgets, and Grants, Subsidies, Purchase of Services, and Donations Programs. In addition, the Planning and Research Division is revising its 12/19/97 staff proposal entitled "Planning Framework & Planning."

The Committee on Program Management evaluates all OHA programs and development processes to improve effectiveness, ensure a positive impact on beneficiaries, and determine whether to continue, modify, or terminate any program.

Since October 1997, the committee has begun evaluating performance measures, data collection, and reviewing former evaluation methods.

Since October 1997, the Board of Trustees has limited any action on unbudgeted board appropriations.

OHA reports that its administration treats all trustee requests equally and for the most part, on a timely basis.

OHA created a database of summarized board decisions. The database contains about three-quarters of all board decisions from 1992 to present and should be completed in 1998.

OHA is seeking beneficiary input first because of the extremely sensitive nature of this matter. The task is ongoing.

Concerning recommendations "d" and "e":

A *Technical Manual of Evaluation Services in OHA* has been prepared. The manual describes an evaluation system designed to make evaluation and monitoring conceptually and

RECOMMENDATIONS

- administrator should develop guidelines for a systematic selection of those to target;
- e. Develop a system for evaluating programs and projects that ensures useful results and includes (1) strengthened procedures for selecting what activities to evaluate and (2) the establishment of evaluation criteria as a part of the planning process for a program or project;
 - f. Provide all trustees with improved interim financial reports, such as a balance sheet, an operating statement, and a more useful variance report; and
 - g. Develop a formal budgeting procedures manual that incorporates all aspects of budget management such as planning, budget preparation, and financial reporting.
- The Board of Trustees of the Office of Hawaiian Affairs should:
- a. Take pride in significant improvements made through its revised investment policy and continue to improve documentation and guidelines related to investment objectives and goals;
 - b. Develop a comprehensive strategic plan for the use of its long-term investments, including strategies for implementing its stated objective of assisting native Hawaiians and decisions on which long-term programs are to be supported. Then OHA's Committee on Budget, Finance and Policy should formulate an appropriate investment strategy, asset mix, and approach to meet the needs of the strategic plan. The committee should also reconsider inflation-proofing OHA's long-term investment portfolio in connection with the development of a strategic plan;
 - c. Execute a formal, written contract with OHA's broker of record that clearly defines the terms of the contractual agreement, including qualifications, compensation, and reporting requirements;
 - d. Consider dedicating one meeting each quarter to discuss

ACTIONS REPORTED

technically feasible. Additionally, an evaluation curriculum is being developed. Upon completion, these documents will be reviewed by the administrator and staff, the appropriate board committee(s), and then go to the board for adoption.

OHA has developed a summary level financial report which provides key information in a simple format. Key financial information is also presented in OHA's newspaper, *Ka Wai Ola*. OHA is also developing a reporting package that includes a balance sheet and operating statement that comply with GAAP. In July 1997, OHA revised its variance report to make it more useful.

OHA is developing a budget procedure manual incorporating all aspects of budget management and complying with statutory requirements.

OHA thanks us and will continue to improve documentation and guidelines related to investment objectives and goals.

The Committee on Budget and Finance and the Committee on Policy and Planning continue to develop a comprehensive strategic plan to manage short and long-term investments in order to accomplish program objectives. The plans-in-progress are designed to: provide a venue to determine appropriate asset allocation to meet funding needs; provide stability in operating funds from year to year through multi-year funding cycles; encourage efficiency in the use of OHA funding and allowances to hedge for inflation; analyze OHA's spending to target future cash flow; and obtain monthly feedback from investment advisers.

The Board of Trustees is reviewing the efficacy of and necessity for retaining a broker of record for OHA.

One meeting of the Committee on Budget and Finance each

RECOMMENDATIONS

OHA's investment performance, policies, procedures, and strategic plan. The chair of the budget committee should provide trustees with copies of the money monitor's reports at least one week before this quarterly meeting. When calling the meeting, the board's chair should set aside sufficient time for trustees to pose investment-related questions to the money monitor or the committee. In addition, the board should consider conducting ongoing educational sessions to provide trustees with a better understanding of the concepts, techniques, and management activities of long-term investing;

- e. Establish and adhere to communication protocols. The chief financial officer should be the single contact person for trustee-initiated requests for information and data requests about OHA's investment activities (all these communications should be sent to the chief financial officer through the administrator); and
- f. Establish policies and procedures for reviewing the amount of funds kept in OHA's short-term investment accounts to determine whether part of those funds should be redeployed to the long-term investment portfolio.

OHA's administrator should enforce procedures requiring that the transfer of excess funds from the state treasury to OHA's interest-bearing First Hawaiian Bank STIF account be accomplished on a timely basis.

ACTIONS REPORTED

quarter already includes OHA's investment monitor's presentation on OHA's investment performance. The committee chair allows for questions and complete discussion. The monitor's written report is distributed to trustees at least one week before the meeting. Also, the investment monitor has provided educational sessions for the trustees and the committee is exploring additional sessions.

A recent educational session dealt with concepts, techniques, and management activities of long-term investing. Expert money managers addressed alternative equity investment in relationship to OHA's Investment Policy for the Native Hawaiian Trust Fund.

In the second quarter of 1998, the Committee on Budget and Finance will meet with the money monitor and money managers to review their performance and obtain suggestions for portfolio performance.

This practice is in place. The administrator is notified when trustees contact the CFO/ASO for information and data requests about OHA investment activities. Responses are prepared in writing and submitted through the administrator to the requesting trustee.

OHA's short-term investment account, as part of OHA's portfolio corpus, is governed by OHA's existing Investment Policy. OHA is reviewing its assets allocation policy, which includes short and long-term investments.

OHA continues to minimize excess cash on hand. Improved financial reports which include cash forecasting and monthly financial reports complement OHA's efforts.

OHA continues to dispute the Auditor's conclusion that the cash balance in its treasury account is excessive. However, in its continuing effort to improve operations, OHA implemented a cash forecasting system which is being beta-tested.

RECOMMENDATIONS

If the Legislature decides to authorize an optional retirement plan for University of Hawaii faculty, it should consider the alternative approaches that we presented in this report. Each of the alternatives has tradeoffs that can be weighed by decision makers in light of our analysis.

ACTIONS REPORTED

No legislation was enacted.

RECOMMENDATIONS

The Board of Regents of the University of Hawaii should clearly state the amount of time instructional faculty at each campus must direct to the teaching, research, and service components of their work. A minimum teaching assignment should be identified for instructional faculty at each campus.

The president of the university should do the following:

- a. Require the chancellor of each campus to clearly identify non-lecture courses and to develop equivalencies for these courses to be used for calculating teaching assignments;
- b. Review these equivalencies to ensure equity across campuses;
- c. Issue a report to all chancellors identifying the courses for which equivalencies are approved;
- d. Review university policies with college provosts, deans, and department chairs to ensure that faculty overload requests are processed in accordance with terms of the current agreement between the Board of Regents and the University of Hawaii Professional Assembly; and

ACTIONS REPORTED

The president reports that the university is in a re-opener conversation with faculty collective bargaining representatives regarding teaching assignments and equivalencies. The Board of Regents continues to discuss minimum teaching assignments. The university believes it is best served by a policy that provides for judgments and variability in the implementation process.

The community colleges are convening a task force to review this matter. The university acquired new software and is overhauling student registration processes at all campuses, which will involve revisiting data definitions, policies, and procedures. In the process, equivalencies for faculty workload will be addressed. Clarification and expansion of definitions will help ensure equitable equivalencies across campuses.

The president says that assignment of equivalencies at the individual level requires professional judgments by program heads and provosts/deans. Variations can be expected given units that have responsibility for different levels and types of instruction, different program emphases, and unit missions, and that employ faculty with different qualifications and for whom there are different expectations.

Current policy provides for non-classroom (non-lecture) equivalencies and non-instructional equivalencies.

The university has taken action to insure that overload requests are processed in accordance with the terms of the Agreement between the Board of Regents and the University of Hawaii Professional Assembly. Senior vice presidents with responsibility for academic programs must maintain a system for documenting overload requests in their units. Overload

RECOMMENDATIONS

- e. Issue a directive disallowing the practice of college-wide teaching assignment reductions.

ACTIONS REPORTED

payments must not be processed without appropriate documentation.

The university is in discussions about the teaching assignment policy. This is expected to clarify campus and college practices and eliminate perceptions of inappropriate practices.

OFFICE OF THE AUDITOR
APPROPRIATIONS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30,1997

APPROPRIATIONS

Act 1, SLH 1996 (operations)	\$ 2,019,850
Act 1, SLH 1996 (special studies)	150,000
	<u>\$ 2,169,850</u>

EXPENDITURES

Staff salaries	\$ 1,378,419
Contractual services	450,893
Other expenses	96,306
	<u>1,925,618</u>
Excess of appropriations over expenditures	<u>\$ 244,232</u>

EXCESS OF APPROPRIATIONS OVER EXPENDITURES

Act 1, SLH 1996 (operations)	\$ 244,232
Act 1, SLH 1996 (special studies)	-0-
	<u>\$ 244,232</u>