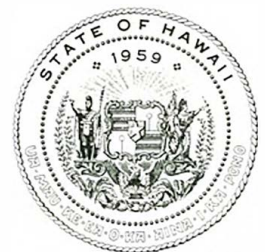




# 1998 ANNUAL REPORT

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

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STATE OF HAWAII  
OFFICE OF THE AUDITOR

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MISSION OF THE OFFICE  
OF THE AUDITOR

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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 29, 1999

Ladies and Gentlemen:

This Annual Report describes activities of the Office of the Auditor for calendar year 1998. The report gives me an opportunity to share with you my pride in completing another year of service to the people of Hawaii.

To re-elected and first-time members of the Senate and House and to our re-elected Governor, I pledge my continued commitment--and that of my hard-working staff--to providing you with clear, concise, and useful audit reports. My faith in the value of the office's efforts remains strong. I still believe our reports continue to serve as catalysts for discussion, debate, and action toward improving government. Thank you for helping this to happen.

Sincerely,

Marion M. Higa  
*State Auditor*

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# *1998 - A Year of Delegations Abroad and Dedication At Home*

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After completing three years of service on the Executive Committee of the National Conference of State Legislatures, Marion was selected to participate in two American delegations abroad. In June, through a joint program that NCSL conducts with the Partnership of Parliaments, she traveled to Germany to review issues involved in the German version of federal-state and state-state revenue sharing. Later in September, she traveled to Japan with delegations from Canada, Australia, New Zealand, and the U.S. to learn about comparative federal-state-municipal relations.

The auditor's staff also traveled out of state this year, representing the office and Hawaii in Sacramento, California. Four staff members attended the training conference of the National Legislative Program Evaluation Society (NLPES), a section of NCSL which is an effective forum for promoting professional skills and accountability. The NLPES conference provides an arena where attendees can discuss improvements in methodologies, techniques in project management, the use of teamwork and focus groups, and presentation techniques. Two of our managers traveled as well, leading peer review teams for the audit offices of New York and Kansas.

In June, external evaluators from Illinois, California, Tennessee, and Texas audited and evaluated our office for adherence to our policies and procedures and the government audit standards to which we subscribe. Reviewed every three years, we are happy to report our office's quality control system received its third consecutive successful evaluation.

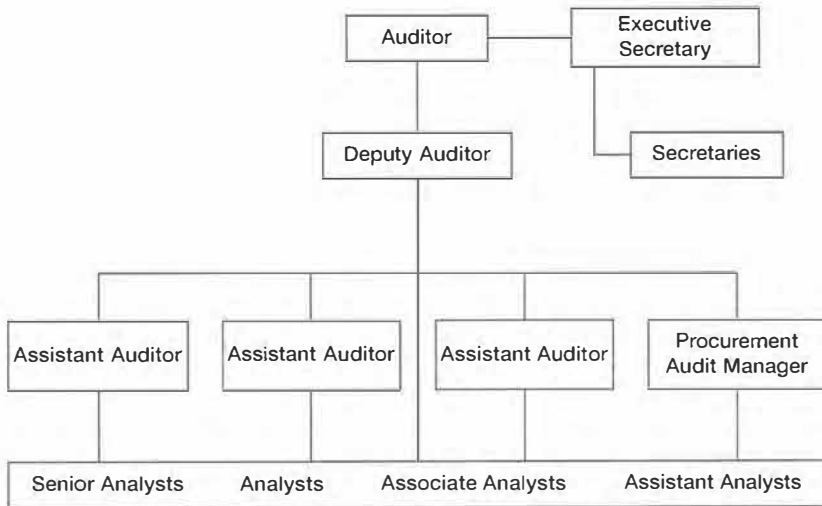
We are also proud to report that we won our second consecutive impact award from NLPES for our audit of the Hawaii State Public Library System. The award is a testimony to the professional dedication of an office that aspires to maintain excellence and to serve Hawaii by providing reports that create an impact here and beyond our shores.

Our effectiveness in bringing accountability for the resources and programs authorized by our Legislature stems from an exposure to other auditing experiences and a reach beyond our shores to discuss with others how to best achieve our mission.



*Marion M. Higa  
State Auditor*

## ORGANIZATION OF THE OFFICE OF THE AUDITOR



## 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*

Wesley K. Machida  
*Assistant Auditor*

### *Analysts*

Steven M. Araki

Urs C. Bauder

Patricia A. Card

Melanie A. Chinen

Maria B.J. Chun

Adam L. Coutu

Susan Hall

Lisa K.P. Hankins

Rachel N. Hatt

Sherry N. Hayashi

Al Katagihara

Melvia C. Kawashima

Ji Sook (Lisa) Kim

Eunice Leung

Gansin K.S. Li

Robert A. McClelland

Rumiko A. Okuma

Richard P. Roll

Tony Smalley

Jim Sterling

Ryan K. Tanaka

Joseph W. Trias

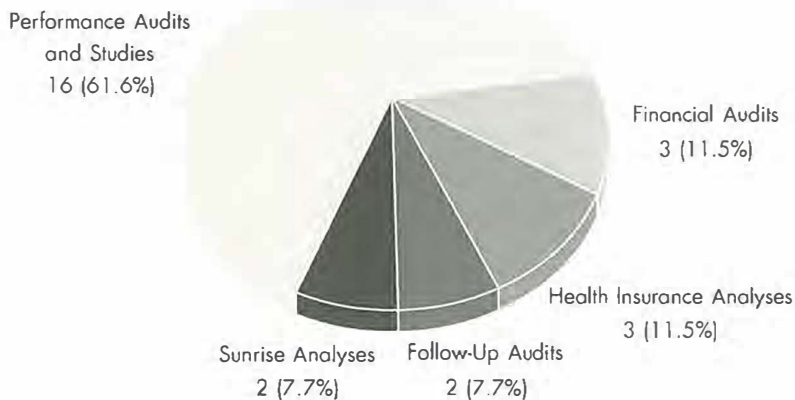
### *Office Services*

Evelyn Kanja

Debbie M.A. Higa

Pat Mukai

## TYPES OF REPORTS - 1998



The office also performed 66 quick reviews of proposed special and revolving funds.

# Themes of 1998 Reports

*We have published 26 full reports since our previous annual report. These included 16 performance audits and special studies, 3 financial audits, 3 analyses of proposed health insurance, 2 sunrise reviews of occupation regulation, and 2 follow-up reports. Highlights of the reports begin on page 10. We also produced 66 short reviews of proposed special and revolving funds for the 1998 legislative session.*

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Our 1998 reports identified a variety of issues and concerns common to virtually all government programs. Some common themes emerged in our review of a diversity of agencies and programs this year. In response to legislative requests or on our own initiative, we audited art, health, education, tourism, social service, and transportation programs. We reviewed their missions, mandates, contracts, manuals, operational guidelines, position descriptions, expenditure reports, budgets, and information systems. The following themes came to the forefront in a number of our audits this year.

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## **LACK OF CLEAR PURPOSE**

A government program must have a clear purpose. When state agencies clarify the purpose of their programs, the public and agency staff can more easily understand them. In addition, efforts to achieve goals are better focused and accomplishments can be measured.

On the other hand, lacking a clear purpose, programs can flounder and resources can be wasted or diverted from their original intent. We encountered several programs this year that lacked the necessary clarity. We found this to be an issue in our reviews of a multi-million dollar educational initiative, a newly-established convention facility, and a well-established arts agency.

Hawaii participates in a federal school-to-work initiative which attempts to address the nation's serious skill shortage through partnerships between educators and employers. However, the Hawaii School-to-Work

Opportunities Executive Council has had a hard time explaining what school-to-work involves. Its original vision statement was wordy and vague. A new statement still did not clearly define the purpose and goals. Consequently it is difficult to garner support for the initiative. For example, some teachers question its "staying power" and have viewed school-to-work as yet another "educational fad" that will come and go. In addition, there is confusion as to how existing educational programs fit into the system.

The Hawai'i Convention Center has been in operation since January 1998. Events have received positive local and national attention. Despite a regard for the center's attractions and the success of its early events, some see the center as a waste of public moneys. However the most important issue is that the specific purpose of the convention center is unclear. Thus, a number of questions cannot be answered. For example, should the center be open only to out-of-state groups or can local groups also use it? How can the success of the convention center be measured? Is it ok for the center to lose money as long as it brings more tourism dollars to Hawaii?

The State Foundation on Culture and the Arts is responsible for stimulating, guiding, and promoting culture and the arts and history and the humanities throughout the state. The foundation has a clear mission statement and a long-range plan. However, it still needs stronger and clearer direction. The nine-member commission responsible for directing the foundation has not identified what it wants the foundation's programs to achieve. For example, the foundation has more than 4,900 works of art in its collection. But the commission has not determined when, if ever, the foundation

has enough works of art or whether it should continue to purchase works of art.

---

## **LACK OF MANAGEMENT CONTROLS**

A recurring theme in many of our reports over the years is the need to establish sound management controls. Such controls as reviews at key decision points and ensuring that personnel follow established procedures help to ensure that client rights are protected, the interests of the State itself are protected, actions are taken in a timely manner, and consistency of effort is maintained.

When agencies lack adequate management controls, operations are not carried out efficiently and effectively, reports of activities are not accurate, and state assets are not safeguarded. Management controls are needed to ensure that resources are not wasted. The more vulnerable segments of our population are poorly served when state agencies cannot focus scarce resources to help them.

In 1997, the Department of Human Services investigated over 5,200 cases of alleged abuse and/or neglect and confirmed about 50 percent of the reported cases. However, the department has not established sufficient management controls to ensure that all child abuse and neglect reports are investigated when appropriate. Management controls are necessary to ensure that supervisors have reviewed the decisions of intake staff to dismiss reports of suspected abuse and neglect. We also found that intake staff who receive reports of abuse and neglect do not routinely log all reports. The failure to log all reports discourages individuals from reporting suspected abuse and neglect.

The Department of Education's After-School Plus (A+) Program currently serves about 22,500 children at 177 public school sites but the department continues to experience difficulties in administering the program. It continues to allow ineligible students to participate in the program. We estimate that a total of 2,700 students may have been improperly participating in school year 1997-98, costing Hawaii's taxpayers about \$364,500.

Sometimes a department may establish sufficient policies and procedures but program staff will fail to follow them. This was the case in the A+ Program, where the department formulated policies and procedures to track program collections. Unfortunately, program fees continue to remain uncollected and program sites tolerate extremely late payments.

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## **NEED FOR RELIABLE FINANCIAL DATA**

Government programs are responsible for collecting and reporting reliable financial data. Focusing improvements in this area also helps increase the efficiency and effectiveness of a program's entire operations. Good financial data begins with accurate record keeping such as tracking staffing time or property leases or screening for eligibility.

The Department of Health's Adult Mental Health Division directs the operations of the State's adult mental health programs and facilities. The division's contracts with private providers are usually for services that the State does not provide such as crisis intervention and consumer and family support. In FY1997-98 it spent \$7.4 million on private provider contracts. We found that the division did not have reliable and complete cost data. Thus, it was not possible to determine whether privatizing the division's current direct services was feasible.

Hawaii's public land trust consists of approximately 1.2 million acres of which all but about 17,000 acres are managed and controlled by the Department of Land and Natural Resources (land department). The land department is responsible for ensuring that the Department of Hawaiian Home Lands receives 30 percent of the state receipts from the leasing of sugarcane lands and from water leases. Both departments have failed to give adequate attention to the revenue entitlements. DHHI has not ensured the accuracy of the entitlements it receives and the land department does not adequately monitor leases and permits for sugarcane lands and water licenses.



The cost of complying with the *Felix* consent decree is reportedly continuing to rise. However, the State cannot clearly and accurately identify funding and expenditures related to the decree. While the State reportedly spent almost \$270 million during FY1997-98 on *Felix*-related programs and services, it is unable to determine the true costs. Consequently the State is unable to measure the extent to which state efforts are in compliance with the decree.

Approximately \$18 million has been transferred into the Works of Art Special Fund since the fund was established in 1989. However, the State Foundation on Culture and the Arts does not know how much is owed to the fund by other state agencies. The foundation lacks a tracking system to identify which capital improvement projects should be assessed, which projects have transferred the required amount, whether the amount was correctly calculated, which agencies are delinquent, and how much is due to the special fund.

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## **CONTRACT AND PROCUREMENT ADMINISTRATION**

The 1993 Hawaii Public Procurement Code requires the Office of the Auditor to periodically audit procurement practices within government for compliance with the law and all applicable rules. We have also paid close attention over the years to how state agencies monitor their contracts with private providers.

The state's airports system consists of 16 airports which handled 37.3 million passengers during the 1997 calendar year. There are significant deficiencies in the Department of Transportation Airport Division's procurement process. Maintaining competition in the selection of a contractor helps to protect the State's limited resources. We found two contracts for an information system that lacked competition. We also found a possible improper procurement of a sole source contract and inadequate planning for contracted work. Consequently, the division's proposed new information system may cost millions more than originally budgeted.

The Department of Public Safety prepares and serves

three meals a day, seven days a week for over 4,000 inmates and staff at eight state correctional facilities. Operating costs for this program for FY1997-98 were approximately \$9.1 million. Correctional facilities violated the Hawaii Public Procurement Code's small purchases and competitive sealed bidding provisions.

In School Year 1997-98, the State's student transportation program transported over 34,000 regular education and special students to and from school and, in some cases, during the school day. The Department of Accounting and General Services spent over \$18 million on contracts with private providers to deliver this service. We found that the department's "50 percent" special provision violates the intent of fair and open competition. The provision is inefficient, inconsistently applied, and is costing the State thousands of dollars.

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## **DETERMINING THE COST OF GOVERNMENT PROGRAMS**

The total cost of government programs should be identified. Efforts to correctly identify all costs helps programs budget more effectively and may allow them to obtain the funding they need.

The Program of All-Inclusive Care for the Elderly, or PACE, is a program in other states that may help address the needs of the frail elderly population. By providing services at centers or through home care, PACE programs seek to control costs by preventing or minimizing unnecessary use of hospitals or nursing homes. Hawaii's PACE demonstration project does not effectively track its program costs per participant. Thus, it cannot determine the amount of adjustments needed to ensure that revenues cover program costs.

Utilities expenditures are an important cost for the Department of Education because all schools require access to adequate utility services. These utility programs include electricity, telephone, water, sewer, and gas. The department's expenditure reports do not provide complete and accurate utilities expenditures by location. Consequently, a clear picture of the depart-

ment's actual utility costs cannot be found in these reports. In addition, the department may have difficulty defending its budget request to the Legislature if it does not have reliable expenditure information.

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## SUMMARY

Government programs are expected to have a clear purpose. Managers cannot determine the effectiveness of their efforts until they know why they provide services and what they expect to achieve from those services.

Taxpayers expect that government funds are being spent wisely and appropriately. Thus managers and administrators must ensure that financial data is reliable, contracts with private providers are closely monitored, purchases are made in compliance with the law, and costs identified and fairly allocated.

The work of our office helps to identify whether these expectations are being met.

## TOEING THE LINE

THE OFFICE OF THE AUDITOR IS FORMALLY  
REVIEWED BY OUR PEERS FROM THE  
MAINLAND EVERY THREE YEARS. AFTER EACH  
DETAILED REVIEW IN 1992, 1995, AND 1998, THE  
NATIONAL STATE AUDITORS ASSOCIATION  
CONCLUDED THAT WE HAVE AN EFFECTIVE QUALITY  
CONTROL SYSTEM AND OUR WORK MEETS  
GOVERNMENT 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: Who Does Audit Work and How?

*Perhaps some people who first hear about the work of our office believe that we are staffed almost entirely by accountants. Although there are a few among our staff who are justly proud to be members of the "bean-counting profession," the image of auditing state government is far from the truth of the experience! Each year we review and assess a veritable spectrum of government programs providing services to different segments of the population, and each program may have its own unique issues, methods of operation, and concerns. Our staff is as varied as the programs and agencies we audit.*

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Imagine a garden in which only red roses are blooming. Even though each bud may be a splendid specimen, the total collection of flowers in that patch would be entirely unremarkable. Much more engaging to the eye would be a floral arrangement that is at once harmonious, complementary, and distinctive. We tend to feel the same way about our staff--accountants provide essential services to our office, but their work needs to be complemented by those who are skilled in such areas as public policy, contracting, and sample design. The Office of the Auditor is like a garden in which each staff member brings his or her own special hue and fragrance. Combined, the talents and abilities of our staff help to make this office a strong and remarkable place in which to provide a service to the government and the citizens of this state.

The Office of the Auditor is unlike many offices in state government. Virtually everyone who works here must perform a wide variety of tasks during the course of an audit and quickly become familiar with the issues and problems an agency faces in its day-to-day operations. Consequently, we are a team of individuals in which there are few, if any, specialists. Our management team, analysts, and support staff are a good mix of personnel who can effectively address most issues facing state government.

We actively seek staff diversity because we believe that a variety of backgrounds and experiences helps us to com-

prehend and assess any governmental problem and to recommend a workable solution. We believe that this diversity helps us to be a strong and objective organization. The diversity of our staff--the dynamic mixture of education and former work and life experiences--strengthens our teams, contributes to a fruitful dialogue on each audit so that the final product--the audit report--can and does meet standards of objectivity and full and fair reporting.

Like many other audit offices across the country we have found through trial and error that no specific education, experience, or training can guarantee that a member of the office can do the work required. However, we have found that a certain degree of work maturity, proficiency in written and verbal communication skills, and an "audit temperament" are valuable contributions to the office. In addition, the ability and willingness to be a team member is a critical element of success in this office, as it is in most other arenas.

What kinds of education and licenses do our staff possess? Not surprisingly, a good number are certified public accountants and others possess law degrees. Several have graduate degrees--one has a doctorate in psychology--and many have masters degrees in business administration, history, sociology, human resources, public administration, or education. Some have not yet obtained advanced degrees, but hold undergraduate degrees in such diverse fields as literature, mathematics,

public policy, urban and regional planning, chemistry, accounting, and political science. Regardless of the level of education, each staff member brings a perspective from his or her formal education that helps us enlighten one another during the course of our work.

We also have diverse work experiences--some of us came from the public sector while others had been working in private companies prior to joining the office. Some of us have worked in similar environments and because of that have found the transition to the type of work we do here to have been a relatively smooth one. Several have worked at other levels of government or served in the military. Some have retired from the military or still serve at reserve status. Not a small number have been teachers in public and private schools. We also have staff who have been writers and editors, or who have worked in such diverse fields as construction management, printing, and cross-cultural training.

This diversity serves us well. Audits involve a multitude of tasks including researching laws, interviewing program personnel, reviewing files, assessing contracts, surveying clients, and testing financial transactions. In essence, we do whatever needs to be done to assess a program and its operations. Our staff perform these tasks in a multitude of environments--they visit boat harbors, schools, libraries, health centers, district courts, community colleges, hospitals, prisons, and telescope sites. They go anywhere that our government operates.

Staff use many tools in their work such as word-processing, spreadsheet, database, and statistical programs. They must be adept at many things--putting an interviewee at ease, scanning large and sometimes quite complex documents to find the most important data, writing clear summaries and reports, unraveling budgets, and tracing legislation. This type of demand is something that each of them faces willingly, thoughtfully, and conscientiously.

This essay is in a sense a tribute to our entire staff who are each qualified and well-trained when they come to this office. However well-qualified they are, they also know that their training is on-going. The nature of the work requires that they continue to be trained and qual-

ified. Every two years everyone has at least 80 hours of continuing professional education. Some of that comes from the conferences to which we send our staff. Some training is conducted in-house--we may contract professionals to cover such topics as fraud auditing, electronic data process auditing, sampling techniques, and report writing.

Thus, the nature of work in the Office of the Auditor means that each of us continually develops new understandings about government and how to serve the public. We value this demand, and each of us gains professionally and personally from the diversity of our work and the variety of people with whom we perform it.

# Summary of Reports -1998 Work Program

## PERFORMANCE AUDITS AND SPECIAL STUDIES

*Study on the Privatization of the Child and Adolescent Mental Health Program, Report No. 99-12*

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The Child and Adolescent Mental Health Division of the Department of Health is responsible for providing and coordinating the effective and efficient delivery of mental health services to children and youth up to age 17. We found that the division needs to manage privatized services more effectively. The division is implementing a new "system of care" but does not yet provide quality assurance and regularly assess the system's programs and services for effectiveness. In addition, its inability to manage contracts with private providers is an ongoing problem. Also, the division has been remiss in managing three demonstration projects, raising doubts about its ability to provide services effectively and efficiently through privatization. Finally, the division has been unable to analyze and control the cost of private provider contract services.



*Study of Privatizing Adult Mental Health Program Services, Report No. 99-11*

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The Department of Health's Adult Mental Health Division is responsible for administering a comprehensive mental health system to care for and improve the mental health of individuals 18 years and older. The Legislature requested this study to examine the extent to which direct services currently provided in the adult mental health program could be assumed by private providers. Our assessment of whether privatization of current services could be successful was inconclusive because the information and data necessary to perform proper analyses were lacking. Controls over the recording and tracking of staff time were insufficient and there were inadequacies in the division's computer system. Contract monitoring was inconsistent, performance measures for evaluating contractors were inadequate, and contractual requirements were not enforced. The division's lack of proper operational plans contributed to a poorly integrated mental health system and the ineffective use of private providers.

*Audit of the Program of All-Inclusive Care for the Elderly (PACE) Hawaii, Report No. 98-15*

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The State's Program of All-Inclusive Care for the Elderly (PACE Hawaii) is a community-based, managed care system that uses a proactive, interdisciplinary team approach to provide long term health and social services to the elderly. We found that despite six years of effort, PACE Hawaii has yet to implement the full-fledged PACE model. PACE Hawaii's management controls are insufficient and cannot demonstrate that a state-sponsored PACE replication program is viable. Further, it is failing to adequately identify and assess the impact of the program on the State and cannot prove the soundness of critical elements of the program. Medicaid payment rates could not be verified nor could a break even point be demonstrated prior to 1997.



*Audit of the Child Protective Services System, Report No. 99-5*

---

We found that the Department of Human Services had not ensured that all child abuse and neglect reports are investigated when appropriate and staff had failed to follow established procedures to assess the risk of harm. The department's communication within its Child Welfare Services Branch and with county police and the Family Court was ineffective. We also found that DHS and Family Court emphasis on family reunification exceeded federal requirements, thereby increasing foster care costs. DHS' weak management of its contracts with private organizations did not assure that services paid for are received and effective. While DHS and the Family Court had made significant progress to increase federal reimbursements for foster care, improvements in eligibility determination were needed.



*Audit Report of the Convention Center Authority: First Report - Design and Construction of the Convention Center, Report No. 98-16*

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The Convention Center Authority (authority) is charged by the Legislature with the responsibility of overseeing the development, management, operations, and maintenance of the \$350 million Hawai'i Convention Center. Thus far, the authority has generally assured that the newly constructed convention center

meets or will meet contract and government requirements. However, there are defects and problems that the authority has been identifying and is working with the design/build contractor to resolve. Some of these problems are potentially costly and the authority must continue to exercise diligence to protect the interests of the State and the public. In addition, confusion over noise standards for events on the rooftop terrace hinders the identification and resolution of a possible flaw in the rooftop design.



*Audit of the* **Convention Center Authority: Final Report**, Report No. 99-10

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This second of two reports examines the function and role of the Convention Center Authority, the need for state oversight of the convention center, how the convention center is marketed and promoted, contracting issues, and the authority's efforts to resolve issues affecting neighborhood residents. The most pressing issue for the convention center is to formulate a specific purpose for the facility. A clear purpose is critical in determining its operating policies, strategies for attracting groups, and mechanisms to ensure that goals are achieved and state interests are protected. We also note that state control over the operations and performance of the convention center is necessary. The authority has generally met its oversight responsibilities. Finally, the authority had a difficult relationship with some neighborhood residents.



*Fiscal Accountability of the* **Department of Education: Tracking Responsibility for Utility Costs**, Report No. 99-16

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This is the fifth annual fiscal accountability report of the Department of Education. We found that the department has shifted the responsibility for paying electricity and telephone costs to the schools, but has not adequately formulated objectives for this initiative. Consequently a potential benefit was negated, school accountability has been compromised, and energy conservation efforts are unclear. In addition, schools report that administrative support has not been provided for the additional workload of paying telephone and electricity costs. We found that the department's expenditure reports do not provide complete and accurate utili-

ties expenditures by location. Consequently, a clear picture of the department's actual utility costs cannot be gleaned from these reports. Finally, in FY1996-97 and FY1997-98, some schools did not receive sufficient allocations to cover their electricity costs.



*Assessment of the State's Efforts Related to the* **Felix Consent Decree**, Report No. 98-20

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The *Felix* consent decree is the outcome of a 1993 lawsuit in U.S. District Court that alleged that "qualified handicapped children" were not receiving the mental health services necessary to enable them to benefit from their education. We found that the State failed several times to ensure that requirements of the *Felix* consent decree were clear and as a consequence compliance has become a moving target. A primary problem is the State's failure to develop a working definition of the *Felix* class. This leads to difficulties in consistently identifying which children should be served and whether children receiving *Felix* services are actually eligible for those services. The State also does not clearly identify funding related to the consent decree. Finally, the lack of effective leadership is a major cause of the State's continued failure to satisfactorily address the terms of the decree.



*Procurement Audit of* **Food Purchases and Related Inventory Controls** of the Department of Public Safety and the Department of Education, Report No. 99-15

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We found that the Department of Public Safety lacks clear written procedures and adequate guidance for the purchase of food. Consequently, correctional facilities violated the Hawaii Public Procurement Code's small purchase and competitive sealed bidding provisions in purchasing non-bid food items. Procedures for purchasing produce are inconsistent and the department's practice of purchasing meat from its Correctional Industries Program is costly. The department also failed to establish internal controls over food inventory. We found that the Department of Education lacks fundamental internal controls over food purchasing. Segregation of duties is ignored, no independent party is monitoring food purchases at schools, matching invoices with purchase requisitions is not always performed, and the department's disbursement policies are ambigu-

ous. The department's procedures and controls over food inventory are inadequate. The department also lacks adequate control over food costs.



*Audit of the **Hawaii Health Systems Corporation**, Report No. 99-9*

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The corporation was established by the Legislature in 1996 to manage the State's system of community hospitals, a total of 13 acute care, long-term care, and rural facilities. The corporation's ability to establish a viable hospital system is hampered by a combination of restrictive personnel rules, an inadequate financial system, and deficient planning and implementation. The corporation's Board of Directors failed to assert adequate leadership to ensure an effective transition from a state hospital system to a corporate structure. The procurement system lacked adequate management controls, policies and procedures were unclear and contract management was inadequate. Finally, the corporation lacked strategic implementation system plans and had not adequately addressed the Year 2000 problem.



*Study of the Fiscal Impact of Providing Certain Benefits to **Reciprocal Beneficiaries**, Report No. 99-17*

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The fiscal impact of Act 383, SLH 1997--the reciprocal beneficiaries law--appears to have been minimal in the four areas that the Legislature asked us to study (workers' compensation, the Hawaii Public Employees Health Fund, the Employees' Retirement System, and prepaid health care). The minimal impact of the law can be attributed to two major factors: the small number of individuals who have entered into a reciprocal beneficiary relationship and the limits of the law itself. The law's fiscal impact could change if more people became reciprocal beneficiaries or if the law is amended to require broader coverage. We note that Section 2 of Act 383 will be repealed on June 30, 1999, unless the requirement is extended through legislation.

*Review of **Revolving Funds, Trust Funds**, and Trust Accounts of the Department of Accounting and General Services, Department of Agriculture, Department of Budget and Finance, and Department of Land and Natural Resources, Report No. 99-6*

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Of the 78 funds we reviewed this year, 21 were revolving funds, 11 were trust funds, and 46 were trust accounts. Our review is based on various criteria developed by the Legislature and our office. These funds must continue to serve the purpose for which they were created and not require continuing general fund appropriations. In addition, a revolving fund must reflect a clear link between the benefits sought and charges made on the users, and also be an appropriate financing mechanism for the program or operation. A trust fund must also meet the statutory definition of a trust fund. For each fund or account, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued.



*Management Audit of Hawaii's **School-to-Work Opportunities System**, Report No. 98-21*

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Hawaii participates in the federal school-to-work initiative under the 1994 School-to-Work Opportunities Act. Hawaii's initiative is headed by the Hawaii School-to-Work Opportunities Executive Council. We found that Hawaii's school-to-work opportunities system lacked a clear mission, goals, and outcome measures, and was nowhere near statewide implementation, nor was it close to being a system. Additionally, controls over school-to-work expenditures were weak. Some school-to-work funds were spent on items that did not directly relate to the development of a statewide system. Also, the implementation of safety inspection requirements was poor.



*Audit of the **State Foundation on Culture and the Arts**, Report No. 99-3*

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The State Foundation on Culture and the Arts needs to focus on ensuring that its programs address its mission and meet their objectives. Programs have not been reviewed and their purposes have not been clearly

defined. The executive director needs to establish certain basic management tools to direct the foundation's operations. The foundation's more than 4,900 relocatable works of art should be more accessible and placed in public and private facilities. Section 103-8.5, HRS, which requires state agencies to transfer 1 percent of all state fund appropriations designated for construction or renovations of state buildings to the Works of Art Special Fund needs to be revisited.



*Allocation to **Student-Centered Schools Project**  
Report No. 98-17*

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The 1998 Legislature required the State Auditor to determine the funding allocations for student-centered schools in the state for FY1998-99 as well as for subsequent fiscal years. We presented allocations for FY1998-99 to two student-centered schools, Waialae Elementary School and Lanikai Elementary School. We calculated "core" or basic allocations plus allocations for services that the school provides based on negotiations with the Department of Education. In addition, we added a "small school adjustment" to Lanikai's core allocation to enable it to pay its relatively higher per-pupil non-instructional fixed costs due to its small size.



*Audit of **Student Transportation Services**  
Report No. 99-1*

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The student transportation program provides subsidized school bus transportation services for eligible students traveling to and from public schools in grades kindergarten through 12th. The program also transports special education students during the school day. The Department of Accounting and General Services needs to improve the program. The methodology used to develop the base fare rate is questionable. Internal controls are inadequate to assure that students are transported effectively and at least cost. The department uses a "50 percent" special provision that prevents true competition and violates the spirit and intent of the Hawaii Public Procurement Code. The Department of Education needs to correct inefficiencies. Although the pre-paid bus pass program looks promising, it needs improvement. Planning and coordination for student transportation also can be improved and eligibility determination procedures are inefficient.

## FINANCIAL AUDITS

*Financial Audit of the **Airports Division** of the  
Department of Transportation, Report No. 99-8*

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This audit was conducted with the certified public accounting firm of KPMG Peat Marwick LLP. In the firm's opinion, except for the effects of adjustments (if any) resulting from the Year 2000 issues, the financial statements of the division present fairly the financial position and the results of its operations for the fiscal year ended June 30, 1998. However, we found significant deficiencies in the Airport Division's procurement process, including the failure to ensure competition in the contractor selection process of a new multi-million dollar Airports Management Information System. Ineffective controls over lease renewals and negotiations and untimely actions on delinquent accounts have resulted in improper billings and potentially uncollectible lease rents of more than \$180,000. The division's inability to monitor and collect outstanding receivables of approximately \$50 million is hampered because cash receipts are not applied to specific invoices. Controls over millions of dollars of cash receipts are inadequate.



*Financial Audit of the **Hawaii Public Employees  
Health Fund**, Report No. 99-18*

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This audit was conducted with the certified public accounting firm of Deloitte & Touche LLP. We found that the health fund's financial statements are not being prepared in accordance with state law and generally accepted accounting principles. Not doing so results in an inaccurate reporting of the health fund's assets, liabilities, revenues, and expenses. Had the Health Fund followed the proper accounting standards, it would have recorded revenues of approximately \$294 million and expenses of approximately \$203 million for the year ended June 30, 1998. A lack of clarity regarding the definition and measurement of rate stabilization reserves has resulted in substantial excess reserves. State law requires that amounts in excess of rate stabilization reserves be returned to the State and counties. Interest income earned on the reserves and held by insurance carriers is not being monitored, thus the fund cannot determine whether the insurance carriers are reporting the proper amounts of interest. Agreements with insurance carriers to provide health care benefits have not been



signed, thus the health fund may have difficulty enforcing certain provisions of the agreements. Finally, the health fund has not been able to implement a long-term care insurance benefit plan, as required by law, nor has it been able to return excess premiums to employees.



*Financial Audit of the University of Hawaii at Manoa*  
**Summer Session Program**, Report No. 99-18

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This audit was conducted with the certified public accounting firm of Nishihama & Kishida, CPAs, Inc. Three deficiencies were found in the Summer Session's financial accounting and internal control practices. One was serious enough that Nishihama & Kishida was unable to audit and express an opinion on the Summer Session's financial statements. Two pro rata assessments on the Summer Session Special Fund apparently violated state law. Financial statements provided by the Summer Session as of June 30, 1998 were incorrectly reported, consequently those statements could not be audited. The Summer Session ceased to exist as a reporting entity on May 31, 1998. The reporting period for the Summer Session's financial statements should have ended on May 31. Finally, the Summer Session Special fund was improperly used for the renovation of the university's Krauss Hall Complex.

## **MANDATED HEALTH INSURANCE ANALYSES**

*Study of Proposed Mandatory Health Insurance Coverage for*  
**Early Intervention Services**, Report No. 99-7

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Senate Bill No. 2948 of the 1998 legislative session would require commercial insurers and mutual benefit societies that provide family or dependent coverage to also provide for medically necessary early intervention services as part of a basic benefits package. The demand for early intervention services coverage comes primarily from the Department of Health, advocacy groups, and provider agencies. We could not determine whether the proposed coverage would affect the cost of early intervention services. Insurers cannot clearly estimate the potential direct and indirect costs of mandating services. Insurers raised concerns about mandated coverage for services that are social in nature and the State's objective in seeking new funding sources for services the State is obligated to fund.

*Study of Proposed Mandatory Health Insurance Coverage for*  
**Medical Foods in the Treatment of Inherited Metabolic Diseases**, Report No. 99-4

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Senate Bill No. 2408 of the 1998 legislative session would require private insurers, mutual benefit societies, and health maintenance organizations to provide 80 percent of the cost of medical foods necessary for treating inherited metabolic diseases. Very few individuals in Hawaii are identified by the Department of Health as in need of medical foods for the treatment of inherited metabolic diseases. Demand for medical foods treatment and insurance coverage comes from those few individuals and their families and from health professionals and provider organizations. Employer organizations and insurers oppose coverage, even though the financial impact of coverage is expected to be minimal. Legislation would not affect individuals receiving coverage under public health plans such as Medicaid and QUEST.



*Status Report on the Study of Proposed Mandatory Health Insurance Coverage for*  
**Post-Mastectomy Breast Reconstructive Surgery**, Report No. 99-2

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House Bill No. 620 of the 1997 legislative session would mandate insurance coverage for post-mastectomy breast reconstructive surgery in Hawaii employer group health policies. Health insurers would be required to provide coverage for hospital expenses, medical expenses, and health care services for all stages of breast reconstruction following any mastectomy which has been performed to treat a disease, illness, or injury. However, The 1998 federal Omnibus Appropriations Act included a cancer rights title mandating health insurers who provide medical and surgical benefits for mastectomies to provide such coverage. Most of the organizations previously identified as interested in the proposed mandate agreed that the additional state mandate did not appear necessary, and it is too soon to assess the impact of the new federal mandate.

## **SUNRISE ANALYSES**

*Sunrise Analysis of a Proposal to Regulate Certified Professional*  
**Midwives**, Report No. 99-14

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We found that because of the harm that incompetent practice can cause, the regulation of certified professional midwives and other lay midwives is warranted. Although

regulation is warranted, House Bill No. 3123, which proposes regulation of certified professional midwives, raises concerns that must be addressed before any regulation is enacted. These concerns include fragmented regulation and a lack of agreement about qualifications and practice standards for lay midwifery. We also found that if regulation of lay midwives does occur, either the Department of Commerce and Consumer Affairs or the Department of Health could administer the regulatory program.



*Analysis of a Proposal to Modify the Regulation of  
**Physician Assistants**, Report No. 98-19*

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We analyzed the probable impact of modifying the regulatory language of a physician assistant from certified to licensed. Physician assistants are, in effect, already licensed by the State. Since the Department of Commerce and Consumer Affairs and the Board of Medical Examiners currently treat physician assistants as being licensed, a change in terminology will have minimal fiscal and operational impact. Changing to the term "licensure" will allow physician assistants to prescribe and dispense controlled substances. Changing the regulatory nomenclature will have little or no effect on the public's health, safety, or welfare. Currently implemented safeguards are sufficient to ensure consumer protection.

## **FOLLOW-UP AUDITS**

*Follow-Up Audit of the **After-School Plus (A+)**  
**Program** of the Department of Education,  
Report No. 98-18*

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The Department of Education's A+ Program provides after-school services to public school latchkey students in kindergarten through grade six. In this follow-up audit, we found the department has made improvements in the management controls of the A+ Program but continues to experience difficulties in limiting the program to eligible students, efficiently staffing the program, and enforcing fiscal controls. Staffing problems continue to plague the department and result in higher student to staff ratios, the employment of unqualified staff, and the appearance of nepotism. Although the department established additional controls to ensure proper program collections and reimbursements, staff ignore these controls. The department's failure to establish clear lines of authority in the program and the lack

of disciplinary procedures have contributed to the department's inability to hold staff accountable for non-compliance with established policies.



*Follow-Up to the Study of Revenue Entitlements to the  
**Department of Hawaiian Home Lands**,  
No. 99-13*

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Hawaii's State Constitution entitles the Department of Hawaiian Home Lands (DHHL) to 30 percent of receipts derived from the leasing of sugarcane lands and/or from water leases. Although some progress has been made since our last study, the Department of Land and Natural Resources and the Department of Hawaiian Home Lands still fail to give adequate attention to the revenue entitlements for sugarcane lands and water licenses. The land department lacks a comprehensive inventory of sugarcane lands and water licenses and related leases, permits, and licenses, and does not provide sufficient information on entitlements to the DHHL. The DHHL also lacks complete information on sugarcane leases and water licenses. Both departments have failed to sufficiently plan for the future use of sugarcane lands.

# Actions Reported on Previous Recommendations

(Report Nos. 97-10 through 98-14)

*This section is based primarily on our review of activity in the 1998 legislative session and state agencies' responses to our November 1998 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.*

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Report Title: **Management Audit of the Legal Aid Society of Hawaii**

Report No.: 97-10

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## RECOMMENDATIONS

The Legal Aid Society of Hawaii should develop a formal monitoring and evaluation system to improve its ability to manage and assess its diverse funding base. This should include a methodology to assess the impact and desirability of new funding sources and a system to monitor and evaluate existing funding sources. At a minimum, the system should include:

- a. an assessment of how proposals help meet specific goals and objectives;
- b. the projected impact that the new proposal will have on existing staff workload; and
- c. how the funding will improve the society's service delivery.

The society should ensure that client satisfaction surveys are conducted on a quarterly basis and should develop a formal and comprehensive method of program evaluation that periodically evaluates the society's operation as a whole.

If the society is selected as a recipient of the Indigent Legal Assistance Fund, the Office of Community Services in the Department of Labor and Industrial Relations should require the society to submit a report by January 31, 1998 outlining how it has improved its practices in the collection and use of financial and management information.

## ACTIONS REPORTED

The society reports that it has formed a funding committee, whose purpose includes:

- maintaining information to assist staff in identifying funding resources and requests.
- evaluating proposed funding, when the appropriateness of that funding is unclear, with regard to the society's mission.
- determining appropriate budget and staffing needs required for successful implementation of the proposed project.
- evaluating the impact of new funding on staff workloads.
- evaluating the impact of new funding to determine how that funding benefits the society's client population and contributes to the financial stability of the society.

The personnel clerk has been assigned the responsibility of distributing and collecting quarterly client satisfaction surveys.

The society has a staff evaluation process that includes a formal and comprehensive method of evaluating the society's entire operation.

The Department of Labor and Industrial Relations reports that in FY1997-98 the Office of Community Services (OCS) selected the society as a recipient of the Indigent Legal Assistance Fund. The society submitted a report to OCS outlining how it improved collection practices and the use of financial and management information.

**RECOMMENDATIONS**

**ACTIONS REPORTED**

OCS also conducted on-site fiscal and program monitoring of the society during the agreement period. OCS believes that the society has improved its financial and management information practices.

(Note: Act 121, S.L.H. 1998 transferred responsibility for the Indigent Legal Assistance Fund from OCS to the Judiciary.)

Report Title: **Follow-Up Audit of the Hawaii State Hospital**

Report No.: 97-11

**RECOMMENDATIONS**

The Department of Health should provide stronger guidance to the Hawaii State Hospital in addressing its problems with sick leave and overtime.

The hospital should:

- a. require the proper completion of sick leave forms;
- b. require units to keep daily attendance records; and
- c. look into actions taken by other agencies to address problems with sick leave abuse and excessive overtime.

The hospital should consider centralizing scheduling of overtime.

The hospital should ensure that supervisors evaluate staff in a timely manner, and that all staff in direct care units who fail to meet competency requirements are placed on workplans, are directly supervised, and are prevented from working overtime.

The hospital should implement formal policies and procedures on personnel issues including sick leave, overtime, and discipline.

The hospital should continue its analysis of whether to centralize purchasing and receiving of all supplies.

The department should look into ways to shorten the review process for purchase orders, including bypassing the Department of Health's Administrative Services Office and

**ACTIONS REPORTED**

The department reports that sick and overtime issues are constantly under review and that sick leave abuse is completely under control.

The hospital strictly enforces the completion of required forms. In addition, the hospital's personnel office places an employee on unauthorized leave without pay until employee status is communicated to the office.

Hospital units and the personnel office maintain daily attendance records.

The hospital met with the Department of Public Safety and the Honolulu Police Department about excessive overtime and sick leave abuse issues.

All overtime requests for clinical areas are filled through the nursing office.

The Performance Appraisal System is well established. Appraisals are up to date and competencies are firmly in place.

The hospital is following the department's Personnel Office policies and procedures manual and collective bargaining agreements.

The hospital has centralized the purchase and receipt of most goods into either the central supply area or the warehouse area.

The hospital represents a significant portion of the behavioral health allocation and will continue to receive oversight from the Administrative Services Office. The purchase order han-

**RECOMMENDATIONS**

sending purchase orders directly to the Department of Accounting and General Services.

The department should allow the hospital to have authority over University of Hawaii contract negotiations.

The hospital should change its payroll process to ensure that management reviews and approves payroll processes, and to assume more of the responsibility for these functions.

The hospital should ensure that supervisors in the patient work program properly complete payroll justification forms, and that patients are properly supervised in their work.

The hospital should raise the price of employee meals to at least equal the median price at other Department of Health facilities, and consider eventually moving to full recovery of costs. The hospital should restrict the number of take-out meals per person.

The hospital should ensure that:

- a. mechanics fill out gasoline logs properly, and supervisors investigate discrepancies between logged and pumped amounts;
- b. the credit account for gas purchases is used for emergency situations only; and
- c. wards keep inventories of housekeeping and consumable items, and are accountable for the items.

The hospital should continue efforts to work with other agencies to coordinate forensic admissions and releases.

**ACTIONS REPORTED**

ding and reviewing process has been streamlined.

The department feels that negotiations should take place among all parties involved. The department, division, university, and hospital participated in the most recent negotiations.

The hospital's payroll process has been strengthened to require that management and the personnel office review payroll records. Any questions or concerns are referred to the appropriate supervisor for resolution. Unresolved questions are referred to the appropriate associate administrator who makes a final decision.

An occupational therapy policy limits the hours per week and total hours per job a patient can work. It requires the timely submission of timesheets and work performance reports. It also requires daily tracking of patient work performance and monthly, bi-monthly, or weekly progress notes.

Employee meal prices were raised to meet the median price at other Department of Health facilities and remain at \$2.50 per meal. Take-out meals are limited to one meal per meal ticket.

Gas pumps were locked and strict controls were put into place. The garage supervisor pumps all gasoline and keeps a log. Gas hours were established and are strictly enforced.

The gas purchases credit account has been limited to weekend emergency needs. This has been accepted and has been successful.

Wards and housekeeping have very strict inventory controls in place. Every used or dirty item that is returned is replaced. Exceptions must be requested by the unit's nurse manager through the housekeeping supervisor. The business office maintains oversight on inventory usage and replacement orders.

The department quotes Technical Assistance Collaborative, Inc., a consulting firm assisting the hospital in compliance with the Department of Justice Stipulation and Orders, as reporting the following based on a October 1998 hospital visit:

"It appears that significant progress has been made in dealing

## RECOMMENDATIONS

## ACTIONS REPORTED

with the legal barriers to discharge that many patients face. Progress has been made in resolving guardianship issues, as well as in scheduling judicial hearings for patients who require court approval. The State has also moved forward with training and education for members of the judiciary. This training appears to have been successful in getting judges to commit to the Director of Health as indicated in the law, and not to the Hawaii State Hospital. This subtle change gives the State more flexibility to discharge patients into community programs without the approval of the courts. On the admission side, positive efforts are being made to reduce the hospital's waiting list, especially those coming from the Oahu Correctional Center. Regular meetings are now being held with the Department of Public Safety to review these cases and make recommendations for community alternatives where appropriate."

The department says the hospital has made significant progress in discharging patients who no longer need acute inpatient psychiatric care.

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

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## RECOMMENDATIONS

The Department of Business, Economic Development and Tourism should develop a detailed procurement manual for use by all operating units.

The department should:

- a. Develop a contracting policies and procedures manual for use by all project managers;
- b. Ensure that all project managers are properly trained in contracting policies and procedures; and
- c. Audit project managers for compliance with departmental contracting policies and procedures.

## ACTIONS REPORTED

The department reports that it takes its responsibility to manage contracts very seriously and will continue to upgrade and improve its performance.

The department's documents, including directives, instructions, memoranda, and forms, are being transcribed and synthesized into a formal procurement manual. The department expects to complete the first draft by March 1999.

The department continually works with and trains program project managers, especially those who are new and inexperienced, in proper contracting policies and procedures.

Due to staff shortages in the contracts office, it has not yet conducted spot audits for this fiscal year.

**RECOMMENDATIONS**

The Director of Health should ensure that the Adult Mental Health Division assumes its responsibilities to direct, coordinate, and monitor the community mental health centers and address the concerns outlined in this report. Specifically, the director should ensure that the division performs the following:

- a. Implement a division-wide overall billing system for the state-operated community mental health centers. This system should include comprehensive policies and procedures for billings and collections that are fully implemented and formal monitoring and evaluation activities to ensure compliance with policies and procedures; and
- b. Obtain or designate a qualified billing coordinator to concentrate on implementing the division's billing and collections responsibilities.

The Department of Health should ensure that the Adult Mental Health Division has adequately planned and developed its proposed management information system before it begins implementation. Specifically, the department should require that the division postpone implementing the system and complete first the requirements of the Systems Development Methodology. These requirements should include:

- a. Completion and proper documentation of system requirements definition and design functions prior to actual implementation of the system;
- b. Completion of project administration documents such as work plans, status reports, and meeting minutes; and
- c. Thorough budget plans that include a system to track total costs throughout the entire project.

To ensure that appropriations from the Mental Health and Substance Abuse Special Fund more accurately reflect the

**ACTIONS REPORTED**

The department reports that the division has extensive policies and procedures governing its billing and collection process. Policies and procedures applicable to the automated billing process are being implemented and are included in the intensive training being conducted for all division billing personnel.

Since November 1997, no one has applied for the billing coordinator position. The division believes that the position's salary will probably not enable the division to attract, hire, or retain an individual experienced and qualified in computerized billing processes, requirements of various major reimbursement sources, and Medicaid/Medicare rules and regulations.

The department has and will continue to ensure that the implemented Adult Mental Health Division management information system conforms to the System Development Methodology (SDM). SDM requires that its define requirements, design, develop, and implementation phases be completed in this order.

No legislation was enacted.

**RECOMMENDATIONS**

fund's current balance, the Legislature should require the Department of Health to accurately report the special fund and special fund subaccount balances and projected expenditures of each subaccount to offset operating expenses. In addition, the Legislature should require that the Department of Health use its special fund as a primary source for payment of operating expenses prior to using general funds.

**ACTIONS REPORTED**

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

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**RECOMMENDATIONS**

The Legislature should require the Department of Education and the Department of Public Safety to submit annual performance reports to the Legislature on all of their vocational education and job training programs and services.

In the interests of streamlining, the Legislature should review the need for existing oversight bodies once they have outlived their federal requirement. In addition, the Legislature should assess the feasibility of using existing agencies or offices to fulfill the functions of any proposed, new oversight bodies.

The Department of Education and the Department of Public Safety should develop and maintain comprehensive systems of program monitoring and evaluation for all of their vocational education and job training programs and services. Specifically, these departments should request from their programs, reports on program effectiveness that measure outcomes and achievement of program objectives in light of the State's overall goals.

**ACTIONS REPORTED**

No legislation was enacted.

No legislation was enacted.

The Department of Education reports that it conducts on-site monitoring of all vocational education programs on a biennial basis. Schools are required to submit a report for "desk monitoring" in years with no on-site visits.

The Department of Public Safety reports that it conducted an external evaluation of the vocational education and job training programs at eight correctional institutions.

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

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**RECOMMENDATIONS**

Occupational therapy should not be regulated and Chapter 457G, HRS, should be repealed.

If the Legislature deems regulation necessary, simple registration of occupational therapists, or at most, continuing Chapter 457G for occupational therapists and occupational therapy assistants, should be sufficient. If retained, Chapter

**ACTIONS REPORTED**

Chapter 457G, HRS, was not repealed. Act 100, SLH 1998 amended Chapter 457G to require that persons representing themselves to be occupational therapists (and not occupational therapy assistants) not only meet certain qualifications, but also register with the Department of Commerce and Consumer Affairs. Act 100 also repealed Chapter 457G as of December 31, 2003. Section 2 of Act 97, SLH 1998 amended the occupational



**RECOMMENDATIONS**

457G should be amended to reflect the current name of the certifying organization, the National Board for Certification in Occupational Therapy.

**ACTIONS REPORTED**

therapist and occupational therapy assistant qualification provisions of Chapter 457G by (a) changing the name of the private certifying organization, and (b) exempting therapists and assistants employed in a civil service position with the Department of Health from certification (under certain circumstances). Section 2 of Act 97 will be repealed on June 30, 2000 and the provision of Chapter 457G that it amended will return to its original form.

(Note: Act 100 and Act 97 still leave some confusion as to whether both occupational therapists and occupational therapy assistants are regulated and as to the correct name of the private certifying organization.)

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Report Title: **Audit of the Management of Motor Vehicles at the University of Hawaii**

Report No.: 97-16

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**RECOMMENDATIONS**

The University of Hawaii should develop adequate procedures for the purchase of new vehicles. The procedures should include:

- a. An assessment of need, to include an analysis of how the vehicle would support the organization's mission, goals, and objectives;
- b. An assessment of alternatives; and
- c. An analysis of expected acquisition costs as well as estimated recurring future costs such as repairs, maintenance, and insurance.

The university should reevaluate its current vehicle needs. In doing so, it should:

- a. Analyze how vehicles are currently used;
- b. Examine alternatives such as sharing vehicles and using public or other transportation; and
- c. Review the current practice of providing administrators the perquisite of personal use of state-owned vehicles.

The university should do away with the fleet management program.

**ACTIONS REPORTED**

The university reports that motor vehicle acquisition policies and procedures have been developed and implemented.

The revised evaluation and assessment process provides for an analysis of anticipated acquisition and recurring vehicle costs. Vehicle usage and alternate types of transportation were evaluated. The summary of on-going results will be reviewed and corrective action will be taken as appropriate.

Ten individuals currently are granted personal use of state-owned vehicles. These individuals have fully complied with Section 105-2 (4), HRS, and have been authorized by the state comptroller. The university's president approves the use of a vehicle as part of the recruitment package for senior executives, where national searches are conducted.

The university did not originally feel that abolishing the fleet management program was in its best interest but after further review and discussion it decided to terminate the program.

## RECOMMENDATIONS

The university should require the Transportation Services Division to develop and promulgate systemwide policies and procedures for the maintenance and use of all university vehicles.

## ACTIONS REPORTED

Vehicles scheduled for replacement in FY1998 were reviewed. Notifications explaining the university's intent to phase out the fleet management program were sent to each of the departments scheduled for a replacement.

The Transportation Services Division policies and procedures manual has been revised to include written policies and procedures that set standardized preventive repair and maintenance schedules for all vehicles.

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Report Title: **Study on the Licensing of Massage Schools**

Report No.: 97-17

## RECOMMENDATIONS

The State should continue to require that massage therapy schools be licensed.

The Legislature should consider amending Hawaii Revised Statutes to define the purpose of private trade, vocational, and technical school licensing and regulation as follows: "To protect consumers against practices by private trade, vocational, and technical schools that are false, deceptive, misleading, or unfair, and to help ensure adequate educational quality at private trade, vocational, and technical schools."

If the Legislature considers transferring the massage school licensing program to the State Board for Vocational Education, any amendments to Hawaii Revised Statutes should include a definition of the purpose of regulating these schools, as stated in the second recommendation above.

If the licensing program is transferred to the State Board for Vocational Education, the board should take into account the recommendations below.

If licensing and regulation of massage therapy schools remains with the Department of Education, the department should revise its administrative rules that govern the program to achieve the objectives of the amended statutes. Specifically, the department should:

- a. Require schools to submit audited financial statements as a condition for initial and renewal licensure;
- b. Strengthen the requirements for school owners, principals, and instructors;

## ACTIONS REPORTED

Licensing was continued.

Act 57, SLH 1998 amended the statutes essentially as we recommended.

The licensing program was not transferred.

The department reports that it attempted to transfer the licensing of massage schools to a more appropriate state agency during the last legislative session, however, the transfer failed to pass.

The department will approach the Legislature again to transfer the licensing responsibilities of massage and acupuncture schools to the Department of Commerce and Consumer Affairs (DCCA) for the following reasons:

- The department believes that the SLH 1998 amendment to Section 302A-425, HRS, clearly defines the

## RECOMMENDATIONS

- c. Regulate agents and require them to obtain permits from the department;
- d. Consider developing a tuition protection fund into which all licensed schools are required to contribute;
- e. Require schools to submit teach-out plans as a condition for initial licensure;
- f. Require schools to list the names of certified faculty in their brochures; and
- g. Conduct annual site visits to schools.

If licensing and regulation of massage therapy schools remains with the Department of Education, the superintendent should ensure that the administrator of the program:

- a. Develops and implements comprehensive policies and procedures;
- b. Certifies massage school instructors and issues temporary certificates in a timely manner;
- c. Regularly monitors, contacts, and visits licensed massage therapy schools; and
- d. Maintains orderly and complete licensing files.

## ACTIONS REPORTED

licensing of private trade, vocational, or technical schools as a regulatory and consumer protection issue. These functions are not consistent with the department's primary mission.

- The department does not license real estate and cosmetology schools.
- Certification requirements are also required of massage and acupuncture practitioners by boards administered by DCCA.

The department believes that the Legislature does not allocate sufficient resources to fully carry out the recommendations to license and regulate massage schools or all other private trade, vocational, or technical schools. The department reports it has not been able to comply with many of the report's specific recommendations because it cannot justify reallocating resources from areas focused on educating students.

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Report Title: **Management Audit of the Department of Human Services**

Report No.: 97-18

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## RECOMMENDATIONS

The governor should charge the director of human services with the responsibility for ensuring that the Department of Human Services corrects past deficiencies identified in prior audits. Specifically, the department must:

- a. Develop and implement written policies and procedures for Food Stamp Employment and Training Program staff;
- b. Develop and implement written policies and procedures for contract management and provide formal contract management training to staff;

## ACTIONS REPORTED

The governor reports that although the department is faced with staffing constraints and limited resources, the department is continually striving to make improvements.

The department reports that it has finalized Food Stamp Employment and Training Program policies and procedures and has provided formal training to departmental and contractual staff. The department has also developed contract management policies and procedures.

The Administrative Management Services Office has no staff because it is waiting for positions to be approved. Thus, the office is not able to assume administrative oversight of the

## RECOMMENDATIONS

- c. Ensure ALEX or another job search database is available for clients at all units;
- d. Implement a management information system designed for managed care since the Department of Human Services does not know when the QUEST Information System will be completed;
- e. Ensure that the report of the demographic data on foster children and their expenditures are complete and accurate; and
- f. Develop ceiling amounts for foster board-related expenditures.

The department should assess the extent to which the First to Work Program and the Food Stamp Employment and Training Program can be integrated and proceed with that integration.

The director should ensure that evaluations are incorporated into existing programs. In the future, the director should ensure that the evaluation component is developed prior to program implementation.

## ACTIONS REPORTED

department's First-to-Work Program contracts.

The department is currently working with the Department of Labor and Industrial Relations to hook up ALEX in various locations statewide.

The department agrees that an information system specific to managed care should be implemented for QUEST. The division is contracting with an outside vendor who is using an interim system to process encounter records back to January 1, 1995 and to generate utilization reports. Health plans are now submitting current encounter records to this contractor.

Accurate information on foster children is available. The department has implemented the Adoption and Foster Care Analysis and Reporting System (AFCARS) in compliance with federal requirements. AFCARS is being used to provide child welfare service outcome data in the department's annual report. Expenditure data is monitored and reported by accounting and budget staff.

The department has developed ceiling amounts for certain foster board-related expenditures such as clothing. However, ceiling amounts for other foster board related expenditures, such as child placement transportation costs, are not established due to the wide variation in case scenarios and costs related to individual cases.

Due to different mandates and funding streams, the department continues to keep the Temporary Assistance for Needy Families (TANF) and Food Stamps work programs separate. Also, the Food Stamps Employment and Training Program has shifted much of its focus to serving the Able-Bodied Adults Without Dependents (ABAWD) population, while the First-to-Work Program must continue its emphasis on serving families. Services cannot always be integrated for these very different target groups.

The department is also working closely with the Department of Labor and Industrial Relations through DLNR's Welfare-to-Work grant.

Program Management Evaluation (PME) staff of the department's Management Services Office (MSO) continue to perform various program evaluation activities including the development of program evaluation instruments and systems. MSO staff are assisting the Med-Quest Division by conducting QUEST client survey activities on an ongoing basis to

**RECOMMENDATIONS**

The director should ensure that the committees on payment projections are run consistently. All of the committees should meet regularly, keep a formal record of meeting minutes, and continuously refine their projection methodology. Furthermore, any information presented to the Legislature should be clear, understandable, and accurate.

**ACTIONS REPORTED**

ensure that QUEST clients are aware of their rights.

Currently, the department has four committees serving various payment programs:

- The Income Maintenance Committee on Payment Projections is developing a new projection method to account for program changes due to welfare reform;
- The Child Welfare Services Committee on Payments continuously works to improve the information on Child Welfare Services and projection methodology;
- The Med-QUEST Division Committee on Payment Projections tracks QUEST enrollment, expenditures, and the fee for service program expenditures; and
- The Employment/Child Care Committee on Payment Projections is working to develop a standard set of information to be monitored and ways to project future costs.

Committees meet monthly or bi-monthly and keep written minutes.

Report Title: **Study of Proposed Mandated Additional Mental Health and Alcohol and Drug Abuse Insurance Benefits**

Report No.: 97-19

**RECOMMENDATIONS**

No recommendations.

**ACTIONS REPORTED**

Report Title: **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

**RECOMMENDATIONS**

No recommendations.

**ACTIONS REPORTED**

Report Title: **Audit of the Big Island Pilot Project on Mental Health Services**

Report No.: 98-1

**RECOMMENDATIONS**

The Director of the Department of Health should ensure that the Child and Adolescent Mental Health Division is staffed

**ACTIONS REPORTED**

The department reports that the Child and Mental Health Division is reorganizing to ensure an accountable infrastruc-

**RECOMMENDATIONS**

appropriately to manage and enforce its contract with Kapio‘lani HealthHawaii. In doing so the director should consider:

- a. The changing responsibilities of the division, particularly with respect to contract management and the *Felix v. Waihee* consent decree;
- b. The education, skills, and work experience needed to effectively manage contracts; and
- c. A structure that provides accountability in the division.

The Child and Adolescent Mental Health Division should enforce the terms of its contract with Kapio‘lani HealthHawaii to ensure that:

- a. authorized services are provided;
- b. the required quality assurance activities are performed; and
- c. payments are made only for services actually rendered.

The division should cease the practice of advancing moneys without adequate support.

The governor, the superintendent of education, and the director of health should continue efforts to coordinate and work together on the Big Island Pilot Project.

The director of health should look at the possibility of utilizing Family Guidance Center staff as providers of services.

**ACTIONS REPORTED**

This proposed reorganization creates a new organizational unit to manage and oversee contracts and monitor systematic outcomes. The organization’s ability to recruit and fill positions with qualified personnel correlates with its ability to effectively manage contracts. The division continues its effort to fill vacant positions with individuals who have the credentials, skills, and professional experience needed to effectively manage contracts.

To determine Kapio‘lani HealthHawaii’s compliance with the terms and conditions of the contract, the division monitored the Big Island project contract from May through June 1998. The monitoring team examined service claims paid for sub-contracted services and reviewed quality assurance activities performed by Kapio‘lani HealthHawaii.

The division and Kapio‘lani HealthHawaii management met regularly to discuss project operations and budget and fiscal data used to support the advance-payment requests.

The superintendent of education reports that the governor, the superintendent, the director of health, and members of their staff have been working closely to maintain mental health services and have been trying to improve the quality of and accountability for services.

The Department of Health reports that the contract with Kapio‘lani HealthHawaii has been terminated by mutual agreement. Subsequently, the Hawaii Family Guidance Center has increased its responsibilities on the Big Island, including the provision of case management services.

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Report Title: **Audit of the Collection of Fines, Forfeitures, and Restitutions in the Judiciary**

Report No.: 98-2

**RECOMMENDATIONS**

To improve the Judiciary’s collection of fines and restitutions, the chief justice should assign to the administrative director of the courts the responsibility of planning, directing, monitoring, and evaluating collection efforts of the courts, and

**ACTIONS REPORTED**

The Judiciary reports that the chief justice has assigned to the administrative director of the courts the responsibility of investigating, coordinating, and reporting all collection matters to the chief justice.

## RECOMMENDATIONS

ensuring that information kept on outstanding fines and restitutions is complete and accurate.

On behalf of the chief justice and in consultation with key administrators of the central Judiciary and key judges and administrators of the circuit, district, and family courts (including the traffic violations bureaus of the district courts), the administrative director should ensure adequate management controls over collections by implementing the following:

- a. A clear strategy for collections;
- b. A comprehensive statewide collections policy and procedures manual for all courts including steps to monitor and enforce all fines and restitutions and deal with delinquent and outstanding fines and restitutions;
- c. A reliable accounts receivable system so that courts are able to determine what fines and restitutions are outstanding and delinquent;

## ACTIONS REPORTED

The Judiciary reports that its administrative director and other personnel have taken significant steps to strengthen management controls over collections. They have researched and clarified measures within the Judiciary's statutory authority to collect moneys owed to the State.

The Judiciary's collections strategy is based on a clarified understanding of its authority to collect moneys owed to the State; improved accuracy and convenience in records and reports; and heightened efforts to educate the community about options available to meet court-ordered financial obligations.

The Judiciary and the Department of the Attorney General mutually agree that the Judiciary is the administrator and collector of fines and restitutions in the "first instance" (non-delinquent accounts) and the Department of the Attorney General is authorized by statute to pursue delinquent accounts. The administrator director and the Department of the Attorney General are working together to transfer delinquent cases from the Judiciary to the Department of the Attorney General.

The Judiciary organized a task force to develop policies and procedures to collect and monitor restitution owed to crime victims. The policies and procedures were approved in June 1998. Collection efforts were also aided by Act 269, SLH 1998, which allows victims in criminal cases to pursue court-ordered restitution as a civil judgment.

The Judiciary suggests that the decision as to whether to develop policies and procedures for delinquent accounts is within the Department of the Attorney General's purview.

The Judiciary retains and monitors accounts in which a payment plan has been worked out and payments are current.

In January 1998, the administrative director organized a task force to look into the development of an automated cash collection and accounting system. The estimated target date for the implementation of the comprehensive automated cash collection and accounting system is June 2001.

In the District Court of the First Circuit, an automated system to keep track of bail receipts transmitted to the court

## RECOMMENDATIONS

- d. A realistic strategy for developing a uniform automated computer system that would link the accounts receivable information of all the courts;
- e. A system for ascertaining whether each court in the Judiciary has adequate policies and procedures to ensure that all financial obligations owed are adequately monitored and enforced for compliance;
- f. Coordination of, and follow-through on, recent and new Judiciary initiatives to improve collections; and
- g. A system for examining alternative enforcement mechanisms for outstanding fines and restitutions, such as a collection unit within the Judiciary, wage garnishment, tax refund intercept, and adverse credit reporting.

## ACTIONS REPORTED

from the police department has been developed.

The Judiciary has also purchased point-of-sale cash registers for the Honolulu Division of the District Court of the First Circuit. Payments processed through these machines will eventually update TRAVIS, the court's case management system.

Task force members have spent a considerable amount of time and effort streamlining and standardizing procedures for collection and accounting for cash.

Changes in reporting methods have been made. Information is collected uniformly, compiled centrally on a monthly basis, and provided to the administrative director of the courts.

The Judiciary has implemented initiatives to encourage the public to make timely payments; propose and support legislation needed for uniform collection policy and procedures; and modify internal practices to promote centralized collection reporting.

The Department of the Attorney General has the authority to exercise enforcement mechanisms including wage garnishment and tax intercepts. However, centralized collection reports monitored by the administrative director will ensure that the Judiciary obtains and uses accurate information for those matters within its control and influence.

(Note: Act 264, SLH 1998 authorizes the Judiciary to prepare lists of delinquent fines and restitutions, which in its judgment are uncollectible, and releases the Judiciary from accountability for collecting these amounts. The uncollectible must be deleted from other books kept by the Judiciary but only if it has been delinquent for at least two years. Fines or restitutions so written off may be transferred back to the Judiciary's accounts receivable under certain circumstances. The Judiciary must annually summarize for the Legislature the types and amounts of uncollectible fines and restitutions that were deleted or transferred back. Act 66, SLH 1998 adds the Judiciary to the agencies for whom the Department of Accounting and General Services may seek to set off any debts due to the agency against any income tax refund or other refund due to the debtor by the State.)



**RECOMMENDATIONS**

The state librarian should plan for the future of the library system by identifying structural and procedural changes that will improve operations. He should plan in comprehensive detail the steps needed to guide any change. To ensure the effectiveness of the system the state librarian should make the following his priority:

- a. Updating functional statements to clearly define position descriptions and responsibilities of staff;
  
- b. Clearly identifying and planning for any increased decision-making authority to be delegated to the branch libraries; and
  
- c. Planning for and providing training to assist staff in their transition to their new roles and increased responsibilities.

The state librarian should ensure meaningful input from staff of the individual libraries when implementing reform efforts that will directly affect them.

The state librarian should establish criteria and guidelines for implementing each of the enhanced services. Furthermore, he should ensure that enhanced services fees are distributed to and expended by branch libraries as required by Chapter 312, HRS.

The state librarian should ensure more effective planning for current and future library material acquisition, selection, and cataloging needs. Better planning should include more analysis of options, realistic timeframes, and fall-back alternatives. Furthermore, the librarian should continue efforts to redeploy library catalogers to assist with cataloging needs in order to address the immediate backlog of library materials currently unavailable to the public.

The Automation Advisory Group should identify current and

**ACTIONS REPORTED**

The state librarian reports that as the library system progresses through its reorganization, position descriptions are being rewritten to reflect job duties accurately and completely. The reorganization plan presented to the Board of Education in November 1995 has been tabled in favor of unit-by-unit and, ultimately, individual by individual reorganizations.

The state librarian's first official act was to restore selection responsibility and authority to the local libraries.

The state librarian has identified staff training as a high priority in the library's 1999-2001 biennium operating budget proposal.

By December 25, 1998, the state librarian will complete visits to each of the 49 libraries and all of the library system's departments. All staff have had the opportunity to express their concerns and needs at the meetings. Approximately 50 staff members are involved in five different committees that are researching and making recommendations for systemwide programs.

Criteria and guidelines have been established. The operating budget's loss of state funding resulted in zero dollars for library material purchases. Thus, the enhanced services funds were divided among the branches and departments to make up in a very small way for the loss.

The state librarian has proposed development of a centralized acquisitions and cataloging unit, consulted with affected staff and the union, and is in the process of implementing it.

The state librarian terminated the Dynix contract in an

**RECOMMENDATIONS**

future management information needs and address how these needs can be met through the library's automation system.

The state librarian should develop management controls to assess whether vendors provide the contracted goods and services on a regular basis. Payment should be withheld for non-compliance with contracts.

The state librarian and the Board of Education should examine the position of special assistant to the state librarian to ensure that if the position is needed, the resources committed to it are used as productively as possible.

The state librarian should develop better working relationships with staff of the libraries and reconsider personal decisions—such as inviting his wife to key meetings—that can create negative perceptions.

The Board of Education should more closely review major policy and management initiatives of the public library system by insisting on detailed plans, scrutinizing the plans, asking appropriate questions, evaluating information presented, and monitoring progress. The board should also more carefully review proposed contracts before approval.

**ACTIONS REPORTED**

attempt to settle the CARL lawsuit. A team of library system staff is designing functional specifications that will be included in an RFP leading to a newly procured automated system.

The state librarian has designed several technical service operations. She does not believe in vendor contracts for library material purchases. In the newly designed technical services unit, vendor performance will be judged by the following criteria: discounts, fill time, accounting office service, fill rate, and shipping charges.

The state librarian and board report that the special assistant to the state librarian performs several critical and necessary functions in the library system. State libraries typically have at least one assistant or deputy in the state librarian's office staff. The state librarian relies heavily on this position as she works to reorganize and strengthen the library's existing infrastructure.

The state librarian states she has worked diligently to develop good working relationships with library staff at all levels.

The board reports that the state librarian has shared all of her reorganization proposals and plans with its Library Committee. The board's Ad Hoc Committee on Evaluation has worked with the state librarian to formulate semi-annual and annual assessment mechanisms to monitor her progress in managing the library system.

Report Title: **Audit of the Decentralization Efforts of the Department of Education**

Report No.: 98-4

**RECOMMENDATIONS**

The Department of Education should, when giving new responsibilities to the schools, identify the ability of the schools to undertake those responsibilities, and provide the necessary training, information, and support staff.

The department should formally establish the learning support centers, staff the centers with the personnel needed to support school improvement efforts, clarify the responsibilities of the centers, establish procedures for the complexes to

**ACTIONS REPORTED**

The department developed plans to establish and fully staff complex learning support centers. However, those plans were interrupted when the State's budgetary crisis emerged and the Legislature required the department to shift personnel from state and district offices to the school level. In shifting personnel to the school level, and considering the State's continued budgetary constraints, the department will not be able to expand the level of support staff necessary to fully comply with our recommendation.

The department has taken some steps to improve the learning support services; however, budgetary constraints have severely limited its efforts.

## RECOMMENDATIONS

govern the centers, and provide the parameters within which the complexes will determine the services to be provided.

The Board of Education should clarify the definition of consensus to prevent individuals and/or parties from derailing school reform efforts via SCBM.

The board also should cease the establishment of categorical funding programs.

The board and the department should exercise their oversight responsibilities by periodically conducting formal reviews and evaluations of the school-based budget process.

The Legislature should cease the practice of establishing categorical programs.

The Legislature should also require the department to provide general funds to schools in one lumpsum.

The Legislature should consider amending Section 302A-1123, HRS, to help shape a charter school system consistent with the requirements of the Public Charter Schools Program as enumerated in Title X, Part C of the Improving America's Schools Act. In particular, amendments should:

- a. clarify the legal responsibility and liability of the department and the student-centered school boards;
- b. improve the funding provision by allowing for a formal process of budget negotiation and review, specifying criteria to determine which funds and functions are to remain with the department, and identifying how funding inequities created by the per pupil allocation are to be addressed; and
- c. clarify the duty of the department to provide information and technical assistance to student centered schools.

## ACTIONS REPORTED

The Board of Education amended Board Policy #2402, SCBM Waivers and SCBM Exceptions. The amended policy no longer requires a consensus of the school community to obtain an SCBM waiver or exception.

The board has not established any new categorical funding programs, and has no plans to do so.

The board reports that its Select Committee on Budget and Fiscal Accountability will evaluate the effectiveness of school-based budgeting once the superintendent of education completes the department's comprehensive assessment of needs in January 1999.

No categorical programs were established.

No legislation was enacted.

Act 308, SLH 1998 clarified the administrative responsibilities of the department and the Board of Education with respect to student-centered schools.

Act 308, SLH 1998 amended the funding provision and assigned the State Auditor the responsibility of determining the appropriate allocation based on the operational and educational requirements of the schools.

No legislation was enacted.

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Report Title: **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

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**RECOMMENDATIONS**

The Legislature should recommend that the Department of Education use *InSite - The Finance Analysis Model for Education*<sup>TM</sup> to produce expenditure reports by location and function.

The Board of Education should require the department to do the following:

- a. Use *InSite - The Finance Analysis Model for Education*<sup>TM</sup>;
- b. Present *InSite* expenditure reports to the board on a regular basis; and
- c. Make *InSite* reports widely available to departmental and school staff and members of the public.

The Legislature should amend Section 302A-1004(b), Hawaii Revised Statutes, to:

- a. Specifically require the Department of Education to provide an expenditure report to the Legislature prior to each legislative session, and
- b. Require the aforementioned report to include a breakdown of expenditures by location and function.

**ACTIONS REPORTED**

No legislation was enacted.

The board reports that the department's Office of Information and Telecommunication Services is implementing *InSite*. The board has also purchased new computer equipment to accommodate *InSite's* technical requirements.

The board will use *InSite* internally, thus making it unnecessary to require the department to present such expenditure reports.

Upon the board's approval, *InSite* reports will be posted on the board's web page and be accessible to all of the department's personnel and the public.

No legislation was enacted.

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Report Title: **Audit of the Management of Mauna Kea and the Mauna Kea Science Reserve**

Report No.: 98-6

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**RECOMMENDATIONS**

The University of Hawaii should ensure that the Institute for Astronomy carries out the following responsibilities in a timely manner:

- a. Begin the master planning process for the next itera-

**ACTIONS REPORTED**

The university reports that it began a complete overhaul and update of its Master Plan for Mauna Kea in Spring 1998. Group 70 International was retained to guide the effort and provide professional advice. The university's goal is to have its Board of Regents approve the updated plan by the end of the 1999 calendar year.

## RECOMMENDATIONS

tion immediately. In doing so, the Institute for Astronomy should specifically:

- 1) include the Department of Land and Natural Resources in the early planning process;
  - 2) solicit public input early in the process;
  - 3) develop milestones, specific timeframes to complete and implement the plan, and other controls to ensure that the plan is implemented; and
  - 4) ensure that the plan addresses cultural and historic issues.
- b. Ensure that the new master plan and environmental impact statement specifically identify on maps:
- 1) areas suitable for types of astronomical developments;
  - 2) critical habitats of plants, invertebrates, and other rare or endangered species; and
  - 3) areas where no development should be planned (no-build zones).

## ACTIONS REPORTED

Representatives of the university administration, the Institute for Astronomy, and Group 70 International met with the Department of Land and Natural Resources to discuss land access, enforcement jurisdiction, and preservation of historical sites.

To obtain broad-based public input, the university established the Mauna Kea Advisory Committee comprised of 24 knowledgeable individuals who represent a diverse cross-section of views regarding the future of Mauna Kea. The committee is charged with advising the university on all aspects of its Master Plan update.

The advisory committee was formed in May 1998 and is anticipated to complete work in six to nine months, but may continue as long as necessary.

Cultural and historical issues are being extensively addressed. Archival-historical research will be conducted and an oral history study will seek to identify culturally significant sites and native practices associated with Mauna Kea and formulate recommendations to protect its cultural resources.

To protect Mauna Kea's historic sites, the updated Master Plan will include a Historic Preservation Management Plan. State Historic Preservation Division experts have completed their fieldwork and are completing a detailed description and evaluation of the 94 sites located within the preserve.

Group 70 International is using a computer-based Geographic Information System (GIS) database as the foundation for the physical planning. The GIS database will help to identify telescope sites that offer good astronomical characteristics and minimize the impact on other mountain resources.

The arthropod (invertebrate animal) habitat data will be obtained from an extensive study, which is currently underway by the Bishop Museum.

## RECOMMENDATIONS

- c. Establish controls, including, but not limited to:
  - 1) development and implementation of rules and regulations for development and public access in the summit and Hale Pohaku area;
  - 2) hiring of ranger/guides to staff the Hale Pohaku Visitor Information Station on a daily basis;
  - 3) at a minimum, registering of public visitors to receive education and safety information; and
  - 4) periodic inspections and documenting of inspections to control trash.
- d. Remove remnants of old equipment or seek Board of Land and Natural Resources' approval to abandon remains.
- e. Develop a forum for continuous community input.

As part of the new master plan, the Institute for Astronomy should develop a new method of measuring the impact of future development on Mauna Kea and present this method to the Board of Land and Natural Resources for approval. The new method should assess the impact of each project, as well as the impact of total development. The university should use this methodology to state a specific carrying capacity. It should also address facilities other than telescopes and areas not necessarily in the Science Reserve. The method used should include methodology that distinguishes and gauges the impact on land area, biota/fauna, and sites of historic/cultural significance.

The Department of Land and Natural Resources should:

- a. Review and rewrite applicable Environmental Impact Statement mitigating measures as specific Conservation District Use Permit conditions. These measures should be enforceable.

## ACTIONS REPORTED

Public access and control are key areas in which the university is looking to the committee for advice and guidance.

Making the station a seven-day-per-week operation is the department's top priority. Currently, the station is open during the day on Friday through Tuesday and has two full-time employees present on Saturday and Sunday.

At the station visitors learn how to have a safe and environmentally friendly visit to Mauna Kea. Visitors also learn about Mauna Kea's geological and biological features and the astronomy complex located at its summit. Guided tours of the summit are available every Saturday and Sunday afternoon.

The Mauna Kea Observatories Support Services monitors the trash situation weekly and resolves problems as they develop. This includes reminders to construction projects to control loose items at their sites and periodic campaigns to retrieve trash.

The weather tower on the northwest plateau and the concrete guy-wire anchors on Puu Poliahu that both led to this audit recommendation have been removed.

The university will look to the advisory committee for advice on this issue.

The updated Master Plan will take into account the individual and cumulative impact of current and projected activity on Mauna Kea. The previous emphasis on using telescope count as a way of gauging the scope of development and assessing impact will not be continued. The plan will identify specific telescope sites and the types of facilities projected for those areas.

The Department of Land and Natural Resources reports that including such measures as permit conditions will improve the department's ability to monitor and enforce the conditions of Conservation District Use Permits (CDUP) and ensure that the measures are better followed.

## RECOMMENDATIONS

- b. Include conditions that require implementation of management plans. Projected implementation time-frames should be included.
  
- c. Establish controls to ensure that future administrative requirements are met in a timely manner. This would include, but not be limited to:
  - 1) Permit conditions requiring that subleases be approved before beginning construction.
  
  - 2) Specific internal deadlines to ensure that leases and land withdrawals are handled before and not after the fact.
  
- d. Clarify and ensure that the responsibility for monitoring violations and enforcing rules not related to the Department of Land and Natural Resources rests with the university.
  
- e. Complete the Historic Preservation plan and ensure implementation.
  
- f. Adopt rules for Chapter 6E, Historic Preservation Program.

## ACTIONS REPORTED

The department will include conditions on new CDUPs that require the implementation of management plan elements with specific time frames. Approval of new revisions to the Revised Management Plan for University Management Areas and/or the Mauna Kea Science Reserve Complex Development Plan should include conditions and time frames for compliance with specific plan elements that require implementation.

The department's Land Division will work with the Institute for Astronomy to ensure that future subleases for telescopes and telescope support facilities are approved before construction is allowed to begin.

The division is addressing operational issues to better ensure that leases and land withdrawals are handled in a timely manner. The division has begun a computerization project aimed at improving the ability to track the progress of lease issuance and to report on items not being handled in a timely manner.

The department and the Institute for Astronomy are currently discussing administrative arrangements to ensure that land use regulations are enforced and applicable laws on Mauna Kea are clearly defined and understood.

The Historic Preservation Plan is still being prepared with the department's Historic Preservation Division providing staff expertise and time and the Institute for Astronomy providing financial support.

Significant progress has been made on Historic Preservation Division administrative rules. In November 1998, draft administrative rules were submitted to the governor for authorization to take the rules to public hearing.

(Note: House Concurrent Resolution No. 177, H.D. 1, S.D. 1 of the 1998 session requested that the University of Hawaii and the Department of Accounting and Land and Natural Resources adopt the recommendations of the State Auditor's report.)

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Report Title: **Study of Proposed Mandatory Health Insurance Coverage for Contraceptive Services**

Report No.: 98-7

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**RECOMMENDATIONS**

No recommendations.

**ACTIONS REPORTED**

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

Report No.: 98-8

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**RECOMMENDATIONS**

The Legislature should amend Sections 312-3,6(d) and 312-22(d), HRS, to require that the state librarian's annual reports to the Legislature include actual accounting of the Libraries Special Fund and the Library Fee for Enhanced Services Special Fund. This should include receipt sources by individual libraries and expenditure of these receipts by individual libraries.

Prior to authorizing the transfer of library special funds into the State's general fund, the governor should require the state librarian to document that any transfer from a library special fund into the State's general fund is in excess of the fiscal year requirements as specified in Section 37-53, HRS.

The library system should minimize the risk of theft and loss of library materials by:

- a. Limiting the number of materials a patron may borrow and have outstanding at any given time; and
  
  
  
  
  
  
  
  
  
  
- b. Requiring patrons to submit a picture identification when borrowing library materials.

The library system should modify the Dynix system to identify and accrue patrons' fines and fees on a daily basis. This information should be used to deny the borrowing privileges of patrons who have fines or fees amounting to \$10 or more, as required by administrative rule.

**ACTIONS REPORTED**

No legislation was enacted.

The governor reports that the state librarian is already required to document transfers from the library special funds to the State's general fund through a formal written request addressed to the director of finance. This policy is stated in Executive Memorandum No. 98-04, FY1999 Budget Execution Policies and Instructions.

The state librarian reports that public libraries in the United States do not limit the number of items borrowed by patrons. Only compact discs are limited to five per patron. Books and videos are unlimited due to the varying needs of all patrons. Book borrowing limits were vigorously opposed at previous administrative rules hearings. The library system believes that rules should allow and encourage the public to read or borrow as many books as they desire.

Only a library card is required to borrow library materials. A picture identification would present tremendous problems for patrons who may not have picture identifications.

The Dynix contract has been terminated, thus time-consuming and costly modifications to the profile would be inefficient at this time. The new automated system will provide the opportunity to reassess all these controls. The state librarian and her staff generally do not support the \$10 threshold.

The system denies a patron's borrowing privileges if the account balance is \$10 or more. Accounts that are \$10 or more and more than 90 days delinquent are referred to a collection agency.



**RECOMMENDATIONS**

The library should bar-code all circulating materials including magazines in order to properly account for all items in the library's collection.

Cash should be deposited on a timely basis in accordance with established policies. We also recommend that the library system consider the feasibility of night deposit drops.

The library system should properly safeguard its cash by keeping the safe locked during business hours and allowing for access only by authorized personnel. A cash box with not more than \$50 should be used for change in lieu of an open safe.

The library system should require libraries to reconcile the cash register tape to the daily circulation report.

The Pearl City Public Library should consider performing close-out procedures on the morning following the day of transactions, consistent with the practice of other libraries we visited.

All libraries should prepare the daily cash summary form on a daily basis and retain a copy as required by the interim guidelines. In addition, cash overages or shortages should be investigated in a timely manner.

The library system should segregate the authorization of transactions, custody of assets, and recordkeeping functions, or implement review procedures when segregation of duties is not feasible. Specifically, the library system should consider using standardized forms to authorize the waiving of fines and fees and implementing supervisory review of forms to ensure propriety of cash receipts.

The library system should prepare an aging report and an exception report of outstanding fines and fees to improve its ability to monitor receivable balances.

The library system should monitor all accounts which have been transferred to its collection agency.

**ACTIONS REPORTED**

The library generally bar-codes and creates bibliographic access to all library materials. Some materials get a generic bar code so the library can measure circulation. All books, compact disks, videos, and some magazines are bar-coded. Fewer than half of the libraries circulate magazines. The library believes that incurring staff time and costs to bar-code a small number of magazines would not be practical.

All libraries have been instructed to deposit cash on a timely basis in accordance with the library's policies and procedures. The library system is conducting internal audits to assist in maintaining fiscally prudent practices.

All safes should be locked during business hours. A cash box with less than \$50 is used for change.

The library system requires all libraries to submit reconciled cash register tapes with cash deposits and daily circulation reports with any needed explanations. The library system is developing an automation RFP which would address this recommendation.

Pearl City Public Library is performing close-out procedures on the morning following the day of transactions.

All libraries have been instructed to prepare cash summary forms daily and all cash overages or shortages are reviewed bi-weekly.

The library system will look into these areas and try to develop a standard form to authorize waivers for fines and fees.

The library system is developing an RFP for an automation contract which would address this recommendation.

The library system monitors and reviews all accounts transferred to the collection agency using the agency's monthly reports and reports the accounts to the Board of Education.

**RECOMMENDATIONS**

The library system should consider requiring patrons under the age of 18 to show evidence of their birth date when applying for a library card. The library system should also consider the feasibility of re-programming the Dynix system so that the patron category is automatically updated at age 18.

All future contracts should include provisions requiring that payments made by the library system correlate directly to the performance of the contracted tasks by the vendor or supplier.

**ACTIONS REPORTED**

Under new administrative rules scheduled to take effect February 1999, any patron under the age of 18 applying for a new card is required to have a parent present with picture identification and consent.

The library system is working directly with the State Procurement Office towards performance-based contracting on all future contracts.

Report Title: **Financial Audit of the Highways Division of the Department of Transportation**

Report No.: 98-9

**RECOMMENDATIONS**

The Highways Division's management should determine the causes of the fiscal staff's failure to properly maintain the division's accounting records and to prepare financial statements on a timely basis. The division should take the steps necessary to correct this problem.

The fiscal staff should revise the types and numbers of financial reports being generated in order to be more relevant and useful to management personnel. The staff should ensure the accuracy of their reports and render them on a more timely basis.

The Highways Division should implement procedures to monitor its projects more effectively. More relevant information should be provided to the project engineers on a more timely basis. Possibly consolidating responsibilities among division personnel should be considered.

**ACTIONS REPORTED**

The department reports that its inability to properly maintain the Highways Division accounting records, complete the year-end closing process, and produce timely financial statements is largely due to the existing Highways Accounting System, which is 17 years old, cumbersome, and no longer meets the division's needs.

The division is in the process of implementing a new Performance Accounting System whose target completion date is July 1, 1999. The system has been developed to specifically meet the division's needs and the concerns previously addressed by our office.

When it implements the system, the division will be able to streamline the amount of reports generated and provide only relevant and necessary reports. The system will also have ad-hoc features to provide users with on-line inquiry capabilities.

The division distributes to all branches and districts:

- A monthly Status of Charge Codes Report which identifies funds allocated, expended, and encumbered, as well as available balances.
- A monthly Department of Transportation, Highways Division Status Report which lists all current Highways Division Projects.

The division has also designed the system to be interactive, allowing project engineers access to current financial information. The system will also provide more timely Status of Charge Codes Report information.

## RECOMMENDATIONS

The Highways Division should ensure that all district offices complete their annual inventory of fixed assets within the time period required. Division managers should help establish work priorities for any district office that has difficulty complying with this requirement.

The Highways Division should improve its cash management activities by preparing analyses to determine the availability and need for cash by month and investing excess cash for those periods in relation to the availability and need for cash.

The Legislature, governor, Department of Transportation, and Highways Division should consider the negative long-term impact that the transfer from the State Highway Fund to the general fund may cause. It would be more cost effective to use the Highways Division's operating funds for its operating and capital improvement purposes than it would be to issue revenue bonds.

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

## ACTIONS REPORTED

To provide quality assurance and ensure that proper documentation is maintained, the division is also proposing to establish a unit to conduct internal audits of projects.

In April 1998, the Oahu district offices completed an annual inventory of fixed assets and will continue to meet future inventory and fixed asset requirements.

The division conducted a formal analysis of its cash management activities. In addition, the Department of Budget and Finance is implementing an investment pool system in which the divisions will participate.

The governor reports that short-term and long-term scenarios of the impact resulted in an estimated future gas tax increase, however, the immediate need to balance the anticipated general fund deficit took precedence. Through the passage of Act 270, SLH 1997 and restrictions on special maintenance expenditures, excess funds became available to transfer to the general fund.

The governor believes it is more fiscally sound to issue revenue bonds instead of using operating funds for operating and capital improvement projects because future revenues can be used to pay off the debt service over the life of the infrastructure.

The department reports that the transfer from the State Highway Fund to the general fund was mandated by Act 270 SLH 1997, therefore, the transfer was beyond the division's control. As a result, various highway projects have been deferred and will require a sooner than expected increase in the state fuel tax. The division will continue to review the situation to ensure proper maintenance of the State's highways and to apprise policymakers of any changes.

The Highways Division contends that the original contract, dated June 29, 1990, fell under the old procurement law and that the April 18, 1996 amendment to the "Sole Source Contract" was "grandfathered." As a result, the "Notice of Amendment to Sole Source Contract" was not completed or submitted to the Chief Procurement Officer. The division reports that it will comply with the provisions of the Hawaii Public Procurement Code.

**RECOMMENDATIONS**

The department should make adjustments necessary to ensure that regulatory fees assessed on businesses and professions bear a reasonable relationship to the cost or value of services rendered.

The Legislature should consider transferring excess cash from the Insurance Examiners Revolving Fund to the general fund before June 30, 2000.

The insurance commissioner should review annual no-fault insurance assessments with an eye toward bringing the annual assessments in line with annual no-fault administrative costs.

The department should ensure that all checks received are deposited daily into the state treasury.

**ACTIONS REPORTED**

The department reports that its Business Registration Division (BREG), Professional and Vocational Licensing Division (PVL), and Regulated Industries Complaints Office (RICO) are completely self-sufficient. These divisions receive no general fund support for their operations and must rely on revenue from fees.

BREG has completed a review of filing fees in six "best practices" states and has concluded that Hawaii's filing fees compare well from a price perspective with the fees in those states.

PVL also completed a review of fees for various licensing areas within its jurisdiction with those in nine western states and concluded that fees are generally lower than or equal to fees assessed in those states.

RICO fees are based on a detailed study. After further review and discussion, the department continues to believe that RICO's fees conform with section 26-9(1)(1).

No legislation was enacted.

The insurance commissioner has not levied an assessment on the motor vehicle insurers since calendar year 1993.

Act 251, SLH 1997 repealed the peer review cost containment program effective January 1, 1998. The act still allows insurers to submit challenges on accidents that occurred up to December 31, 1997, which results in continued revenues from filing fees. However, since January 1998, the filing fee revenues have steadily declined.

The department expects that this fiscal year's projected filing fee revenues will be less than the fund's expenditures. Therefore, part of the surplus from prior years will be used to cover the revenue shortfall. Assessment revenue will become a necessity for the department beginning next fiscal year. The department's aggregate assessment will not exceed the fiscal year expenditure budget.

Departmental procedures will be reviewed to determine if the change will be cost effective. The department has been aware

## RECOMMENDATIONS

## ACTIONS REPORTED

that all checks should be processed as soon as possible. Operational considerations and cost effectiveness weighed against making such a change in the past.

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Report Title: **Audit of the Management of Small Boat Harbors and Boat Ramps**

Report No.: 98-11

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## RECOMMENDATIONS

The Board of Land and Natural Resources and its director should establish a comprehensive statewide boating program. To ensure the efficient and effective administration and operation of state run small boat harbors and boat ramps, the board and its directors should:

- a. Establish a strategic plan addressing the overall goals, objectives, and measures of effectiveness for the boating program;
- b. Establish statewide standards for the minimum services to be provided at each of the boating facilities; and
- c. Develop a multi-year program and financial plan addressing the need for repairs at the boating facilities.

The Board of Land and Natural Resources, in conjunction with the Division of Boating and Ocean Recreation, should establish adequate management and financial controls to ensure the safe and efficient operation of state run small boat harbors and boat ramps. These controls should at a minimum include:

- a. A policies and procedures manual that establishes minimum standards for boating facilities, clear and concise administrative rules, and clear procedures issuing permits and conducting vessel inspections.
- b. A financial accounting system able to track expenditures by facility, account for all moneys owed to the division, and provide timely and useful expenditure

## ACTIONS REPORTED

The department reports that a comprehensive program exists. The department will continue to work with the National Association of State Boating Law Administrators to ensure its program maintains the high standards expected on a national level.

A planning workshop addressed the issues of adequate funding and personnel and an additional planning workshop is planned for the first quarter of calendar year 1999 to address overall goals, objectives, and measures of effectiveness.

The facility types most often provided result from customer demand. Local user demand has and will continue to create variations in services and fees. New fee proposals are being finalized and will be brought to public hearing as soon as possible.

The multi-year plan continues to address structural repairs and dredging for all state small boat facilities. A prioritized list of 39 CIP requests was submitted for legislative consideration.

The Boating Accounts Receivable/FOXPRO system is fully operational and all field personnel have been trained in its use. The department is continuing to establish a fully operational facility management system that will include all expenditures, revenues, encumbrances, and vessel registrations. This is being done in conjunction with efforts to meet Year 2000 compliance standards.

Information pertinent to a policies and procedures manual is being collected from both internal and external sources. The production of clear and concise rules is an ongoing effort. Draft rules that drastically reduce verbiage and redundancy have been prepared. These are under final review and are anticipated to be submitted to the Department of the Attorney General in late January or early February 1999.

The newly implemented accounts receivable system and the department's Automated Revenue Accounting System accounts for all moneys owed to the division and provides

**RECOMMENDATIONS**

information to the Legislature, the division, harbor staff, and the general public.

The Board and Land and Natural Resources should delay the implementation of alternative forms of management until it has established a comprehensive statewide boating program, formulated clear policies regarding those practices, established sound contract management controls, and adequately trained staff to monitor and evaluate contract performance.

**ACTIONS REPORTED**

aged receivable reports to management. The department continues to use the Financial Accounting and Management Information System to track expenditures by facility. The department has begun producing quarterly revenue and expenditure reports by facility and district for administrative, division, and harbor staff use.

The department appreciates our views and recommendations, however, if it finds an alternative management scheme that can correct the noted deficiencies, it intends to recommend that the board consider implementing that particular management strategy.

(Note: Act 183, SLH 1998 created a temporary Maritime Authority Commission to examine and plan the creation of a Hawaii Maritime Authority, an independent public entity that would set statewide policy on all matters relating to Hawaii's maritime lands and facilities.)

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Report Title: **Audit of the Implementation of the Child Support Enforcement Agency's Information System**

Report No.: 98-12

**RECOMMENDATIONS**

The Child Support Enforcement Agency should complete a support and maintenance plan. The plan should include:

- a. An evaluation of its data processing organizational structure to best serve the agency, maintain and support the system, accommodate future enhancements, and efficiently allocate responsibilities; and
- b. An analysis of positions that can be transferred or eliminated due to the more efficient computer system and reduced work processes.

The agency should increase the involvement of the Information and Communications Services Division in the implementation of the system and give greater weight to the division's recommendations.

**ACTIONS REPORTED**

The agency reports that it is developing a data processing organizational structure to best serve the new automated system (KEIKI) and the agency. The data processing organizational plan is anticipated to be in place within the next year.

Since the implementation of KEIKI in July 1998, the agency determined it will need additional positions to support KEIKI and to provide necessary services required to collect and enforce child support. KEIKI has made child support more efficient and reduced many work processes; however, the computer processes more work and generates more tasks, which requires more staff to maintain the daily operations.

The department states that it never projected or expected that KEIKI would result in a reduction of agency staffing levels. Instead, the agency projected that the new system would reduce the rate at which new staff would be required but not a reduction in the overall workforce.

The agency reports that it has strengthened its communications with the Information and Communications Services Division (ICSD) and sought the division's input in numerous

## RECOMMENDATIONS

## ACTIONS REPORTED

facets of system and project support. The agency was worked closely with ICSD to plan and implement upgraded main-frame hardware.

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Report Title: **Analysis of a Proposal to Expand the Regulation of Real Estate Appraisers and Appraisals**

Report No.: 98-13

## RECOMMENDATIONS

Primarily for the sake of consistency in regulation, the Legislature should strongly consider passing House Bill No. 566 requiring appraisals in both federally and non-federally related real estate transactions to be performed by state-licensed or state-certified appraisers following the Uniform Standards of Professional Appraisal Practice. In weighing whether to expand regulation of real estate appraisers and appraisals in this manner-and whether to grant exemptions-the Legislature may wish to consider the costs, benefits, and legal issues that are summarized in our report.

## ACTIONS REPORTED

Act 180, SLH 1998 required all persons practicing as real estate appraisers to be licensed or certified and to comply with the Uniform Standards of Professional Appraisal Practice approved by the director of commerce and consumer affairs.

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Report Title: **Financial Audit of the Department of Human Services**

Report No.: 98-14

## RECOMMENDATIONS

The governor, director of finance, and director of human services should re-evaluate the current allocation of resources at the department of human services. In that evaluation, the following should be considered:

- a. The current level and cost of quality assurance controls;

## ACTIONS REPORTED

The governor reports that he has spoken with the director of finance and the director of human services regarding the current allocation of resources.

The Department of Budget and Finance reports that modest revenue increase projections, numerous competing needs to fund education programs, and mandatory costs such as debt service, entitlements, court orders, and consent decrees make it difficult to expand or reallocate resources for any department. However, within these constraints, B&F is continuing to work with DHS to evaluate the allocation of resources and cost of quality assurance controls.

DHS reports that based on discussions with the governor and the director of finance, the department has concluded it is doing the best that it can do with existing resources.

The governor reports that in preparing the biennium budget, the director of finance examined DHS's efforts to improve quality assurance efforts and the identification, monitoring, and collection of overpayments.

The department reports it has allocated resources to improve the dated Automated Recovery System (ARS) and the identi-

**RECOMMENDATIONS**

- b. The annual savings that would result from improvements in quality assurance practices; and
  
- c. The redistribution of resources to effectuate savings from improved quality assurance practices and improved identification, monitoring and collection of overpayments.

The director of human services must exercise stronger oversight of the Med-QUEST Division. The director must take steps to ensure that the division:

- a. Minimizes the payment of QUEST premiums on behalf of clients who do not pay or will not pay their required share of the premiums;

**ACTIONS REPORTED**

fication, monitoring, and collection of overpayments. A system modification was completed in October 1998. New cash receipts procedures are planned for implementation in January 1999. The new ARS will automate cash receipts and transaction postings. DHS plans to develop a new overpayment recovery system rather than continue to fix existing system deficiencies.

The governor and B&F report that the FB2000-01 biennium budget includes a request to improve the Med-QUEST Division's eligibility determination efforts by converting 158 positions from temporary to permanent. This will enable the division to train and keep workers, thereby reducing errors made in determining eligibility.

DHS reports that accounting staff have used budgeted personnel costs for a vacant position to fund staff overtime to manually process and post daily transactions and maintain updated information within ARS and the Hawaii Automated Welfare Information System (HAWI).

B&F reports that in FY1999, \$400,000 in general funds and \$145,000 in federal funds are appropriated for DHS to continue its efforts to develop a new Automated Recovery System.

DHS reports that two investigators were added to the Investigations Office. There are now four full time investigators to pursue overpayment recoveries. Investigators review overpayment claims and identify potential sources of income or assets owned by the responsible individual. Certain overpayment claims are forwarded to the Department of the Attorney General for civil collection, wage garnishment, or real property liens.

Recipients are disenrolled from the QUEST plans when their share payments are two months in arrears. Upon termination, the Med-Quest finance office initiates action to recover any overpayments caused by the non-payment of premium shares.

Policy changes, effective December 27, 1997, resulted in QUEST premium shares being largely eliminated. Individuals formerly eligible under a premium sharing arrangement due to income are now totally ineligible for



## RECOMMENDATIONS

- b. Collects all amounts due from QUEST clients;
- c. Ceases the practice of paying its fiscal agent without reviewing supporting documentation;
- d. Takes steps to review supporting documentation of past disbursements to its fiscal agent to identify potential Medicaid overpayments and pursue collection of those overpayments; and
- e. Ceases the practice of allowing Medicaid payments to providers that do not have contracts to provide services to Medicaid patients.

The department should make it a priority to modify the HAWI system to be able to accurately process data for the Year 2000.

The department should take steps to improve internal controls in a number of other areas; specifically the department should:

- a. Develop and retain documentation of data and assumptions used to develop its health care program forecasts and modify the foster care program forecasting model to include projected case load information;

## ACTIONS REPORTED

QUEST. Self-employed adults and their spouses whose incomes do not exceed 100% of the Federal Poverty Limits are the only remaining individuals eligible with premium shares. Thus, there should not be significant QUEST overpayments due to non-payment of premium shares.

The division continues to bill past due premium share accounts each month. Accounts with no activity and those for bankrupt recipients have been written off in accordance with Hawaii Administrative Rules.

The division researched payments over a 34-month period and found that 25 out of 1,071 claims were incorrectly priced. The division has recovered all the related overpayments.

To avoid similar problems in the future, the fiscal agent has revised and expanded claim auditing activities to incorporate a review of all "manually priced claims." The RFP for fiscal agent services will require an annual claim review audit by an independent auditing organization.

As stated in the response to "c." above, the division has taken steps to ensure that the present fiscal agent processes claims accurately and will take further steps in the future procurement of fiscal agent services.

To participate in the program, all medical assistance providers are required to complete and sign an application. When signed, the application serves as a contract between the provider and program, in which the provider agrees to comply with the Medicaid program requirements. The Medicaid fiscal agent pays for services in accordance with the Hawaii Administrative Rules.

As of November 1998, the Information System Office completed all of the HAWI system major Year 2000 remediation tasks. The HAWI system is now operational with all Year 2000 requirements.

The Committee on Payment Projections discusses and evaluates medical assistance payments. The division also provides monthly data on eligibility, enrollment, claims, and payments to committee participants. Meeting notes are distributed to participants and are used to develop health care program forecasts.

## RECOMMENDATIONS

- b. Require its Medicaid Investigation Unit to maintain adequate records to ensure that cases are properly and appropriately disposed of;
- c. Ensure that cash receipts collected by and for the Med-QUEST Division are deposited on a daily basis;
- d. Use the Evaluation Office to conduct quality assurance reviews to improve internal controls; and
- e. Take steps to ensure that federally required contractor performance reviews are performed on a timely basis and federal reporting deadlines are met.

## ACTIONS REPORTED

The department modified its foster care program forecasting model.

Since January 1998, the Medicaid Investigation Unit has maintained detailed records of all complaints received, actions taken, and final case dispositions.

The division's finance office deposits cash receipts on a daily basis. As of February 1998, the department has implemented procedures to ensure that on a timely basis, checks are properly routed to the division for depositing.

On an ongoing basis, the Evaluation Office reviews a sample of client case files for the Temporary Assistance to Needy Families, Food Stamp, and Medicaid programs. The office also assists the Med-Quest Division by conducting:

- annual MQD-QUEST Plan Code Validation Review activities, and
- ongoing QUEST client survey activities to ensure that QUEST clients are aware of their rights.

The Financial Management Office has issued policies and procedures for petty cash and imprest funds. Auditors in the Evaluation Office have resumed reviews of these financial transactions and internal controls.

Financial reviews of contractors are currently performed as required by the Office of Management and Budget (OMB) Circular A-133. More on-site reviews are being conducted by the department's auditors as a result of changes to this circular. The FY1997 single audit report was submitted before the federal reporting deadline.

(Note: Act 293, SLH 1998 added a statutory provision requiring the recovery of medical overpayments made to providers and authorizing various methods for recovering overpayments.)

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OFFICE OF THE AUDITOR  
APPROPRIATIONS AND EXPENDITURES ON A BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

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APPROPRIATIONS

Act 1, SLH 1997 (operations)	\$ 2,034,850
Act 1, SLH 1997 (special studies)	<u>150,000</u>
	\$ 2,184,850

EXPENDITURES

Staff salaries	\$ 1,341,073
Contractual services	298,870
Other expenses	<u>143,678</u>
	1,783,621
Excess of appropriations over expenditures	<u>\$ 401,229</u>

EXCESS OF APPROPRIATIONS OVER EXPENDITURES

Act 1, SLH 1997 (operations)	\$ 251,229
Act 1, SLH 1997 (special studies)	<u>150,000</u>
	\$ 401,229