

# 1999 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 *operational audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with the schedule and criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds and existing trust and revolving funds* determine if proposals to establish these funds and existing funds meet legislative criteria.
7. *Procurement reports* include studies and audits relating to the State's procurement of goods, services, and construction.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

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**STATE OF HAWAII**  
**OFFICE OF THE AUDITOR**

**MISSION OF THE OFFICE  
OF THE AUDITOR**

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THROUGH POSTAUDITS OF THE  
ACCOUNTS, PROGRAMS, AND PERFOR-  
MANCE OF STATE AGENCIES, THE  
OFFICE SEEKS TO ASSURE THE  
ACCOUNTABILITY OF GOVERNMENT  
AGENCIES FOR THEIR IMPLEMENTATION  
OF POLICIES, MANAGEMENT OF PRO-  
GRAMS, AND EXPENDITURE OF PUBLIC  
FUNDS. THE OFFICE REPORTS ITS FIND-  
INGS AND RECOMMENDATIONS TO  
THE GOVERNOR AND THE LEGISLATURE  
TO GIVE POLICY MAKERS TIMELY, ACCU-  
RATE, AND OBJECTIVE INFORMATION  
FOR DECISION MAKING.

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

April 28, 2000

Ladies and Gentlemen:

This Annual Report highlights the work of the Office of the Auditor in calendar year 1999. This report as well as each of the audit reports we issued this year helps to identify some of the major issues facing state government.

After serving the community as auditor for eight years, this session I was deeply honored by the unanimous vote appointing me to serve as State Auditor for another eight-year term. I would like to take this opportunity to reaffirm my efforts and that of the office to maintain our reputation for providing a clear, complete, and accurate picture of state government. The office remains committed to seeking out facts and providing you and the public with timely, accurate, and objective information.

Thank you all for your appreciation and support. I hope our report supplies perspective about where we have been and where we can go in the next eight years.

Sincerely,

Marion M. Higa  
*State Auditor*

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THE CHIEF JUSTICE

# 1999 – A Year of Increasing Visibility

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This year witnessed a particularly heightened interest in our audit findings and recommendations. Positive public reaction to our work may stem from a greater awareness of its importance and of our role in state government. We also notice and are pleased by an increased propensity of the Legislature to use our reports in crafting their deliberations. Although the tenor of the community's and the Legislature's response to our audit reports evokes a sense of pride and some genuine personal satisfaction among our staff, our primary purpose is not to please the public or to curry favor, but to provide an objective assessment of government operations. Thus, when we are called upon to brief the Legislature on our audits or to provide other commentary, we hope that the value and impact of our reports extends beyond their release.

Our *Actuarial Study and Operational Audit of the Hawaii Public Employees Health Fund*, Report No. 99-20, is an example of a report that generated considerable interest and prompted much discussion at the Legislature. We were called upon to testify before a variety of Senate and House committees to discuss the findings in the report. We discussed at some length the potential liabilities including projected costs for the State and counties for providing retiree health benefits. Discussions also extended beyond legislative walls. In addition, we made several presentations to gatherings of state and county government officials in which we highlighted the implications of providing such benefits to public employees. As evidenced by continued requests for information on this audit, there is an exceptionally high level of interest in this subject, and we are pleased that our study continues to serve as a catalyst for discussion of the future of public employee benefits.

Several other reports that we issued this year have generated and are likely to continue to generate relatively high interest because of the impact of the services or operations that we reviewed. These reports include, but are not limited to, our *Management and Financial Audit of the Department of Public Safety*, Report No. 00-05, our *Follow-Up Management Audit of the Child Support Enforcement Agency*, Report No. 00-06, and our *Audit of the Convention Center Authority*, Report No. 00-08.

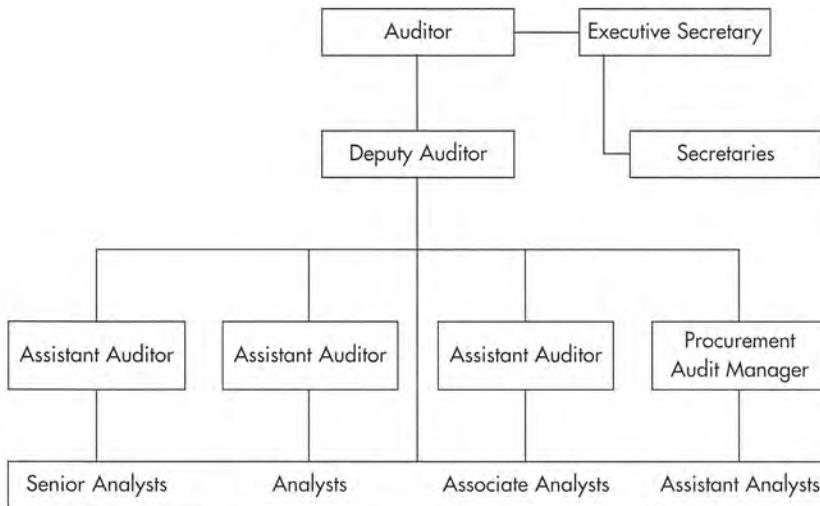
Perhaps one unintended outcome of the ongoing discussion about our reports is an increased curiosity about our staff and how we do our work. For example, when we are asked to speak to various organizations and conferences, many attendees want to know where we find our staff, what their educational and professional background is, and what we look for when we hire new employees. The short answer to these types of questions is that we seek staff who have a variety of backgrounds and experiences because such diversity tends to strengthen or broaden the scope of our work. However, one constant that we look for is an interest in and a commitment to state government – and particularly to improving public service.

Other questions tend to revolve around how we decide which agency or programs should be audited each year. Many of our audits stem from legislative requests. For example, in response to Senate Concurrent Resolution No. 86 of the 1999 Regular Session, we conducted a follow-up management audit of the Child Support Enforcement Agency. We also conduct a number of "self-initiated" audits each year. In other words, we don't have to wait for a legislative request — we can also determine our own work priorities.

What do we consider when we do this? There are several factors we look at such as the capabilities of our staff, how an audit might complement other work in the office, and whether there are issues or concerns about an agency that have gone unanswered.

Also, some people may wonder if we ever get audited ourselves. Yes, we do. Our peers formally review us every three years. After each of the three reviews conducted during the 1990s, the National State Auditors Association has concluded that we have an effective quality control system and our work meets government auditing standards. This type of review of our office is something that we tend to welcome. We need to keep on our toes too.

**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*

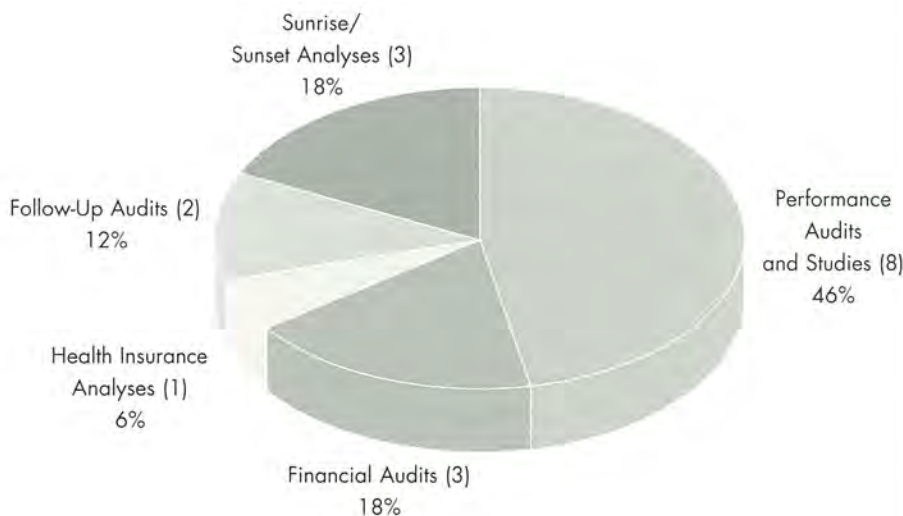
*Analysts*

**Urs C. Bauder**  
**Patricia A. Card**  
**Melanie A. Chinen**  
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**Lisa K.P. Hankins**  
**Rachel N. Hatt**  
**Sherry N. Hayashi**  
**Al M. Katagihara**  
**Melvia C. Kawashima**  
**Eunice Leung**  
**Gansin K.S. Li**  
**Robert A. McClelland**  
**Rumiko A. Okuma**  
**Tony Smalley**  
**Ryan K. Tanaka**  
**Janet M. Taylor**  
**Joseph W. Trias**

*Office Services*

**Evelyn Kanja**  
**Debbie M.A. Higa**  
**Pat Mukai**

**TYPES OF REPORTS - 1999**



**The office also performed 69 quick reviews of proposed special and revolving funds.**

# Themes of 1999 Reports

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We have published 17 full reports since our previous annual report. These included 8 performance audits and special studies, 3 financial audits, 1 analysis of proposed health insurance, 3 sunrise or sunset reviews of occupation regulation, and 2 follow-up reports. Highlights of the reports begin on page 10. We also produced 69 short reviews of proposed special and revolving funds for the 1999 legislative session.

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## Agencies We Audited Can Have a Profound Impact on the Quality of Life in Hawaii

Collectively, the agencies we audit affect virtually every Hawaii resident. This fact underscores the importance of our work. Should those agencies faithfully adopt our recommendations they can improve operations, reduce and control costs, and ensure their goals are achieved. However, a resident may ask, "What does this mean for me?" We believe that the bottom line is better services to the public.

Hawaii's taxpayers want to travel on safe, relatively uncongested roads and highways, work within a robust economy, and send their children to good schools. They also desire to live in a healthy environment and not worry about the safety of their families. Agencies we audited this year are charged with addressing six broad areas of concern to Hawaii's taxpayers.

### Transportation

The Department of Transportation is responsible for the establishment, maintenance, and operation of the state's transportation facilities. These include highways, airports, and harbors. We looked at one piece of the transportation system—highways—in our *Management Audit of the Highways Division of the Department of Transportation*, Report No. 00-09. The division has over 1,000 employees and an annual budget of over \$250 million to ensure that people can travel safely and economically on public highways.

### Economic Development

A potential loss of convention-related business could have a long-lasting and far-reaching impact on the state, since Hawaii's economy is heavily dependent on tourism. Therefore, the Legislature has found that the construction and operation of a convention center is crucial to the well being of the State and its counties. The Convention Center Authority, attached administratively to the Department of Business, Economic Development and Tourism, was charged

by the Legislature with overseeing the development, management, operations, and maintenance of the \$200 million Hawaii Convention Center to boost the convention-visitor segment of Hawaii's tourism industry. We continued our assessment of the Convention Center Authority's progress in addressing outstanding issues such as traffic and noise in our third audit of the authority - *Audit of the Convention Center Authority*, Report No. 00-08.

### Education

The Department of Education manages the statewide system of public schools and public libraries. The public school system is responsible for all public schools providing educational programs and services in grades K through 12. Other programs administered by the department include the After-School Plus (A+) Program and a community/adult education program. In order to nurture more autonomous and flexible decision-making at the school level, the Legislature has allowed for up to 25 new century charter schools. These schools are funded with public moneys but are allowed to operate independently—free from most state rules and regulations. We were required to determine the appropriate allocation of state general funds to new century charter schools which was summarized in our *Allocation to New Century Schools Project*, Report No. 00-04.

The College of Education of the University of Hawaii at Manoa provides pre-service training to students in the professional field of education. It also provides information on educational issues to school and community groups, develops school curricula, and conducts research in educational matters. It is the primary training ground for teachers in the state's public school system. We reviewed the college's program development and evaluation processes in our *Follow-Up Audit of the Management of the College of Education*, Report No. 99-22.

### Health

Since the 1960s, states have enacted a variety of laws mandating the health coverage that insurers must provide. These laws require insurers to cover specific medical conditions

and treatments, particular groups of people, and services of certain health practitioners. State law requires that we study the effects of proposed legislative measures that would mandate health insurance for specific services, diseases, or providers. We examined the impact of the inclusion of marriage and family therapists within insurance benefits in our *Study of a Proposal to Mandate the Inclusion of Marriage and Family Therapists Within Mental Health and Alcohol and Drug Abuse Treatment Insurance Benefits*, Report No. 00-01.

Health benefits have become a significant component of the total compensation package for public employees and a significant cost to public employers. The Hawaii Public Employees Health Fund provides health and group life insurance benefits to public employees, retirees, their dependents, and reciprocal beneficiaries. Together with Ernst & Young LLP, we examined the health and life insurance benefits of the fund in our *Actuarial Study and Operational Audit of the Hawaii Public Employees Health Fund*, Report 99-20.

### ***Public Safety***

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The Department of Public Safety safeguards the public by confining and rehabilitating inmates in secure correctional facilities and enforcing laws to preserve the public peace. Sound management of correctional institutions is crucial in meeting the department's mission of ensuring public safety and preparing inmates for reintegration into society. We looked at the department's ability to follow through on this mission in our *Management and Financial Audit of the Department of Public Safety*, Report No. 00-05.

Child support means payment for the necessary support and maintenance of a dependent child as required by law. Typically, a parent who does not have custody of the child owes child support to or on behalf of a child to the parent or other person having custody of the child. One of the primary purposes of the Hawaii Child Support Enforcement Agency, a division of the Department of the Attorney General, is to help nonwelfare custodial parents remain self-sufficient by assisting them with the collection of child support. We revisited the agency's mission, functions, and operations in our *Follow-Up Management Audit of the Child Support Enforcement Agency*, Report No. 00-06.

### ***Public Employee and Consumer Protection***

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State agencies are staffed by persons appointed to civil service positions or positions exempt from civil service. Under certain conditions, an agency may decide to fill a position by appointing a person on a temporary or emergency basis. From an agency perspective, these appointments help agencies cope with rather inflexible and cumbersome hiring practices. From a labor union perspective, filling positions with a temporary or emergency appointment for an extended period allows agencies to evade the principles of the civil service system. We described the practices and the impact of temporary and emergency staffing in our *Audit of Temporary and Emergency Staffing of State Agencies*, Report No. 99-23.

The Hawaii Regulatory Reform Act ensures that the regulation of an occupation takes place only for the right reason: to protect consumers. Regulation is an exercise of the State's police powers and should not be taken lightly. It should protect the health, safety, and welfare of consumers and not the profession. It should be avoided if it artificially increases the costs of goods and services to consumers unless the cost is exceeded by the potential danger to the consumer. Regulation should be eliminated when it has no further benefits to consumers. We examined professional occupations to ascertain the level of risk to the public in the following three reports:

- *Sunrise Analysis of a Proposal to Regulate Professional Mental Health Counselors and Professional Rehabilitation Counselors*, Report No. 99-21;
- *Sunset Evaluation Report: Social Workers*, Report No. 00-02; and
- *Sunset Evaluation Update: Speech Pathologists and Audiologists*, Report No. 00-03.

### **Themes of Our Reports**

The following themes emerged in our review of agencies and programs this year. We found deficiencies in agency operations, failures to adequately monitor and control costs, and incomplete management controls.

#### ***Deficiencies in Agency Operations***

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The attempts to reform Hawaii's civil service may influence agency efforts to operate efficiently and effectively. While temporary appointments in state agencies are sometimes



useful, they are also problematic. These problems include a potential reduction in staff productivity and a disruption in service delivery.

Public service is a key mission of state agencies. However, we found some agencies lacked an awareness of or concern for this fundamental purpose. For example, the Child Support Enforcement Agency failed to adequately respond to and address client inquiries and problems. The agency is difficult to reach by phone. In addition, the agency does not respond in a timely manner to clients' correspondence and does not always act upon, and sometimes loses, documents mailed to the agency.

Failure to monitor agency operations may imperil the public. We found widespread security breaches in our audit of the Department of Public Safety. For example, we found that firearms and tools were often missing and that tools were not always adequately secured. We also found inmates were not provided with adequate access to health care, and inmate grievances were not addressed in a timely manner, depriving inmates of their rights as protected under federal law and rules.

### ***Failure to Monitor and Control Costs***

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A recurring theme in our audits is the need to control costs in government. We found that the presence of union plans competing with the Hawaii Public Employees Health Fund for enrollees will continue to drive state and county costs higher. Altogether, the effect of smaller families and younger employees moving to union plans has been to increase overall employer contributions for active employees by \$3.3 million per year. We also found that the fund's cost of providing benefits for employees and retirees has increased dramatically over the past decade. Our most likely estimate of this accrued liability is \$4.5 billion.

Three agencies we reviewed this year had a difficult time controlling their costs. The Department of Public Safety spent \$13.3 million on overtime during FY1998-99, a four percent increase from the previous fiscal year. Also, an extraordinary \$2 million in staff overpayments had not been collected, and thousands of dollars in state resources were unaccounted for. We also found that in one year the amount of overtime expenditures at the Child Support Enforcement Agency increased from about \$45,000 to about \$300,000, and a year later in FY1998-99 increased further to about \$440,000, signaling potential abuse.

In addition, overtime expenditures in the Highways Division of the Department of Transportation exceeded \$2.4 million during FY1997-98, nearly 20 percent more than the previous fiscal year. Also, the division's failure to ensure the fair and equitable distribution of overtime among staff can lead to employee grievances and additional personnel costs resulting from such grievances.

### ***Incomplete Management Controls***

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Management controls include the plans and policies adopted by agencies to ensure that program goals are met and resources are safeguarded. The College of Education has failed to establish policies and procedures to guide the development of its teacher preparation programs. The college has failed to ensure that all programs have goals and objectives that clearly outline student learning objectives and college expectations. Additionally, the college's evaluation efforts continue to lack direction and coordination.

The need to establish a rigorous and objective evaluation was also at issue for the Convention Center Authority. Lacking this mechanism, the authority cannot be sure that the convention center operator has met the terms and conditions of its contract. In addition, the authority may not be able to defend its recommendation to extend the State's contract with the convention center operator.

# *A Retrospective on the Office of the Auditor – Comments by Marion M. Higa, State Auditor*

**R**ecently in celebration of Marion's appointment to a second term as State Auditor, several members of the office solicited her comments about the history of the office and its place in state government. The following are a few of her responses to their questions.

## **For those of us who have been here for a short time, can you tell us a little of the history of the office?**

We have to go back to 1950 when the State Constitution was drafted. When the constitutional drafters established the position of the Auditor they envisioned a "watchdog" of government. They believed that they were creating one of the most important positions in government and they had extremely high expectations for this official. For example, they assumed that the State Auditor would eliminate waste and inefficiency in government operations and ensure that public funds have been expended in accordance with legislative intent. Although some of the specific expectations of our office have evolved over time, the tenor of these hopes continues in the mind of the public and the Legislature, and rightfully so.

However, it was not until 1965 that the Auditor was appointed and appropriations were made that we really became operational. Hawaii first had to obtain statehood. Clinton Tanimura, our first State Auditor, directed this office for the first 23 years of its existence from 1965 to 1988. We owe him a great deal of gratitude. So much of what we do now can be attributed to the foundation that he built. Many of the procedures and standards of operation that he established we still follow today. He also solidified the position of this office in state government and forcefully articulated our independence and powers.

But I don't think that the influence of his work was limited to Hawaii. I believe that his efforts inspired the development of other audit agencies across the nation. In 1965, we were perhaps the second or third such office in the entire country that focused on performance auditing. As other audit shops were formed in various states, they naturally looked to Hawaii, and what Clinton was doing, for inspiration and guidance. In a real sense Clinton Tanimura was a pioneer for state auditors around the country.

Our second State Auditor, Newton Sue, headed the office on an acting basis from 1988 to 1991, and he continued



*President of the Senate Norman Mizuguchi and Speaker of the House Calvin Say congratulate State Auditor Marion Higa on her appointment to another eight-year term.*

to wisely direct its evolution. Our work became more formalized as we adopted generally accepted government auditing standards.

## **On a more personal note, can you tell us how long you have been with the office?**

I have been with this office for over 29 satisfying years. I started as an assistant analyst like most others who come to work here and rose through the ranks. I remember working on or directly supervising many education audits as well as other audits of the community hospitals, the Office of Hawaiian Affairs, and the Hawaii Visitors Bureau. In late December 1991 I became the Acting Auditor and was appointed by unanimous votes of the Senate and House of Representatives to my first eight-year term that began in July 1992. This session I was again appointed to an eight-year term by unanimous votes of each house.

## **How do you feel about your first eight years as an Auditor?**

The past eight years have been a very exciting and satisfying period for me both personally and professionally. I am grateful for the chance to be of service to the community and to help make a difference in state government. Every year we seem to reach a new plateau of accomplishment. The work that we have done is highly appreciated by the public and the Legislature. It is also recognized among our peers – other audit agencies as well as the associations to which we belong. Our reports are noted for being crisp, clear, and objective. Also, I am proud of the many accomplishments of our office in my first term.

## **Speaking of accomplishments, what are the most significant accomplishments of the office in the past eight years?**

I could point to so many. Let me start with the quality of our staff. We initiated a systematic training program for our entire office. The nature of the work the staff does is extremely complex. Thus, while recognizing their accomplishments, we have committed considerable money and effort to ensure that our office has an ongoing training program. I believe that the money and the time have been well spent. And I am confident that it has resulted in a team of managers, analysts, and support staff whose competence, professionalism, and objectivity would match up well against any government agency in the country.

Another thing is the visibility of our work. I speak of this, not because we want to be self-promoting, but because the visibility can affect the degree to which we have a positive impact on government operations and finances. If the public, the media, and the Legislature view our reports as important vehicles for improving agencies and programs, agencies are much more likely to implement our recommendations. Our audit reports are recognized in our state capitol as providing an accurate picture of state government.

The recognition extends beyond our shores. We have consistently won awards for audit excellence. For example, our audit of the Hawaii State Public Library System in 1998 was our second consecutive impact award from our peers in the National Legislative Program Evaluation Society. This type of award is an important validation of our work.

I also believed that it was important for Hawaii to be represented at the national level. Thus, I was a member of the executive committee of the National Legislative Program Evaluation Society from 1992 to 1995. Then I served on the executive committee of the National Conference of State Legislators (NCSL) from 1995 to 1998 as one of 20 elected staff representatives from around the country. Most recently, I have been serving as part of the NCSL leadership team for legislative staff as staff vice chair of the Assembly on State Issues. Working in these arenas also brings recognition to our work.

## **You have talked about the past a little bit. Can we turn to the future? What are your expectations for the next term of office?**

Of course we want to continue to maintain the standards of excellence that we believe are so important to our work. But there are areas that we want to continue to refine or to improve. For example, we can make our reports more accessible, and we have already come a long way in that respect. We have just opened a website on the Internet. Anyone can now go online and download summaries of any of our reports conducted since 1990. We think that will enable more people to know what we do, and it will make it easier for them to find how government agencies really operate.

In addition, we are always striving to be more efficient. Thus, we have been revising our own policies and procedures to provide clearer direction to staff, and hopefully make it easier for them to do their work.

## **If someone were to ask us, what does an Auditor do? What should we tell them?**

Perhaps I can best answer that by quoting E.L. Normanton who wrote an excellent book about accountability and auditing government. He said, "The modern state auditor is no longer a policeman, enforcing the rules of regularity, although the auditor must take reasonable note that they are observed. He is not even confined to the role of the critic, although this critical sense should be very strongly developed. Above all, the auditor is an impartial and studious fact finder about government. The essential mission is to seek out the complex facts of modern administration and inform legislators without fear, favor, or partiality."

## **Can you tell us how the work of the Office of the Auditor is different from the work of other state agencies?**

Go back to the expectations in 1950. We are the watchdog of government. Who else can assume that role? Agencies and individuals must give us the information we request. We can do financial and performance audits at legislative direction or upon our own initiative. We can do studies and any other work as called for by the Legislature. Our work helps to establish accountability in government and generally increase the effectiveness of government administration.

## **Is it possible to work more closely with the agencies that we audit?**

There is some danger there. Independence and access to information are both necessary for our work. We have to be absolutely independent from the executive and judicial branches. Also, although we are one of three legislative service agencies in the state, we have some measure of independence from the Legislature itself. No state auditor can afford to be without independence. The auditor needs it, just like a judge needs it, in order to be impartial and fearless in criticism.

## **Do you feel that your work has had an impact on state government?**

First, I want to talk about independence again. Perhaps one of the things that the public and the people who work in the agencies and programs we audit need to know, is the requirement for us to have independence in our work. Everyone who is employed in government service is working toward the same end. Our office shares the same broad goal of other agencies – we all want government services to be as efficient and as effective as possible. But we do not share the same means. And to be a true watchdog, we should be looking at programs differently from those who implement the programs. To look at them in the same light, and to work too closely with those whom we audit, is to lose some measure of objectivity and independence.

Second, those who established our office expected it to have a positive impact. If we don't have a positive impact, then we shouldn't be in existence. Government agencies must be

accountable for their work. By taking a critical look at agencies and programs we help them be accountable.

What do I mean by "taking a critical look"? I don't mean that we are always negative or that we only look to fault an agency or program. Taking a critical look is conducting a very careful, exact, and thorough evaluation. This helps us to provide objective recommendations to improve.

## **Should state agencies view us as a threat?**

No, they shouldn't. Sometimes auditors are perceived as a threat to agencies. We recognize that state agencies have a tough job to do under conflicting demands and often with inadequate resources. But we cannot sweep poor performance or inadequate safeguarding of public funds under the rug.

There are several things we do to communicate clearly with agencies and to minimize the perception that we are just "out to get them." For example, we are willing to share with auditees basic information about our procedures, and we are willing to answer their questions and alleviate their concerns to the extent possible. Also, we have no hidden agendas. We inform agencies of our objectives and, to a certain extent, the scope of our work. And we stick to the objectives and scope of our audits.

We are authorized by law to hold our working papers confidential. In a few instances in which we released only very limited information from those working papers, that was done to help agencies correct some specific practices. We fiercely defend what we consider assaults on our confidentiality provisions.

## **Do you have any other thoughts on what people should understand about our office?**

Just this. The uniqueness of the Office of the Auditor is that we bring to the Legislature an impartial view of how government agencies perform. The information we provide helps the Legislature in making rational decisions—and sometimes very tough decisions—about public programs and how much to finance them. This is the role that we have been given, and this is the role that we should have.

# *Summary of Reports - 1999 Work Program*

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## **PERFORMANCE AUDITS AND STUDIES**

- Actuarial Study and Operational Audit of the Hawaii Public Employees Health Fund, Report No. 99-20
- Audit of Temporary and Emergency Staffing of State Agencies, Report No. 99-23
- Allocation to New Century Schools Project, Report No. 00-04
- Management and Financial Audit of the Department of Public Safety, Report No. 00-05
- Review of Revolving Funds, Trust Funds, and Trust Accounts of the Department of the Attorney General, the Department of Business, Economic Development and Tourism, and the University of Hawaii, Report No. 00-07
- Audit of the Convention Center Authority, Report No. 00-08
- Management Audit of the Highways Division of the Department of Transportation, Report No. 00-09
- Comparison Study of the Salary Structure of Educational Officers in the Department of Education, Report No. 00-13

## **SUNRISE/SUNSET ANALYSES**

- Sunrise Analysis of a Proposal to Regulate Professional Mental Health Counselors and Professional Rehabilitation Counselors, Report No. 99-21
- Sunset Evaluation Report: Social Workers, Report No. 00-02
- Sunset Evaluation Update: Speech Pathologists and Audiologists, Report No. 00-03

## **FINANCIAL AUDITS**

- Financial Audit of the Employees' Retirement System of the State of Hawaii, Report No. 00-10
- Financial Audit of the Department of Land and Natural Resources, Report No. 00-11
- Financial Audit of the Judiciary, Report No. 00-12

## **MANDATED HEALTH INSURANCE ANALYSES**

- Study of a Proposal to Mandate the Inclusion of Marriage and Family Therapists Within Mental Health and Alcohol and Drug Abuse Treatment Insurance Benefits, Report No. 00-01

## **FOLLOW-UP AUDITS**

- Follow-Up Audit of the Management of the College of Education, Report No. 99-22
- Follow-Up Management Audit of the Child Support Enforcement Agency, Report No. 00-06

*Actuarial Study and Operational Audit of the **Hawaii Public Employees Health Fund**, Report No. 99-20*

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This project was conducted by the Office of the Auditor and Ernst & Young LLP, which provided actuarial and related services. Health benefits are a significant component of the total compensation package for public employees and a significant cost to public employers. We found that the presence of union plans competing with the health fund for enrollees will continue to drive state and county costs higher—by \$3.3 million per year. Furthermore, the health fund’s annual experience report understates certain cost increases in the public employee health benefit program because of limited information on the union plans. We also found the health fund’s cost to provide health benefits for active employees and retirees as well as the post-retirement health benefit liability have increased almost five-fold over the past decade. By the year 2013, the liability is expected to grow to an estimated \$11.4 billion. Moreover, we found that the Board of Trustees of the health fund needs to attend to pressing operational matters. Finally, we found that the board has never audited the union plans’ use of the funds paid to the union plans, has taken too long to replace the health fund’s inadequate computer system, has yet to implement a required long-term care plan, and can improve customer service.

*Sunrise Analysis of a Proposal to Regulate **Professional Mental Health Counselors and Professional Rehabilitation Counselors**, Report No. 99-21*

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We found that the regulation of professional mental health counselors and professional rehabilitation counselors is not warranted. The occupations pose little risk of serious harm to consumers. Some protections already exist for customers of mental health counselors and rehabilitation counselors. Our previous reports on counseling-related professions concluded that potential harm results not from a lack of competency but from unethical actions, fraud, sexual abuse, and financial irresponsibility. Such harm is difficult to prevent through regulation, which focuses on verifying the practitioner’s technical competency, not character. Moreover, charging fees sufficient to cover the State’s costs of regulating these occupations could raise the costs of services to consumers and unnecessarily restrict entry into the profession. Regulation would benefit practitioners more than consumers. We also found the bill proposing regulation to be confusing and difficult to implement, if enacted.

*Follow-Up Audit of the Management of the **College of Education**, Report No. 99-22*

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The College of Education has made some changes since our previous audit. It has clarified and achieved consensus on its mission, but, despite some improvements, the college continues to fall short of satisfactory management of its program development process. Consequently, the college can neither ensure that programs are adequately planned and implemented efficiently and effectively nor ensure the consistency of knowledge, skills, and abilities acquired by its students. In addition, little has been accomplished in regard to our 1995 finding that the college’s evaluation process should be developed for all programs.

*Audit of **Temporary and Emergency Staffing of State Agencies**, Report No. 99-23*

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Under certain conditions, an agency may decide to fill a position by appointing a person on a temporary or emergency basis. Temporary appointments and emergency appointments can be useful in meeting the challenge of staffing state programs effectively. However, these appointments also entail significant problems. Temporary appointments can pose problems for staff recruitment, retention, and productivity. Key problems include the lack of job security and the “right of return.” Also the State’s use of emergency appointments is sometimes questionable. The problems include situations where people serve in emergency appointments for lengthy periods and situations where emergency appointments may be used for other purposes. The Department of Human Resources Development needs to re-examine—and modify as appropriate—state agencies’ use of temporary and emergency appointments. The current interest in civil service reform provides an opportunity for the department to do this.

*Study of a Proposal to Mandate the Inclusion of **Marriage and Family Therapists** Within Mental Health and Alcohol and Drug Abuse Treatment Insurance Benefits, Report No. 00-01*

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State law requires benefits for alcohol dependency, drug dependency, and mental health services to be included within the hospital and medical coverage of all health insurance plans. Senate Bill No. 860, House Draft 1, of the 1999 legislative session would include marriage and family therapists among the types of practitioners covered under this law.

Such practitioners prescribe, perform, and/or supervise the provision of alcohol or drug dependence nonresidential (out-patient) treatment services, day treatment services, mental health nonresidential treatment services, or partial hospitalization services. There is little known public demand to include marriage and family therapists under the law. Only a small portion of the public use marriage and family therapy to treat mental illness or substance abuse and even fewer see marriage and family therapists for treatment. The proposed legislation might have a negative impact on the quality of health care. Various groups reported that the scope of practice is beyond the training and experience of marriage and family therapists. Exposing consumers to the potential risk appears unnecessary because other licensed and qualified health providers are currently providing the necessary services. Finally, it is unclear whether the bill would actually require health plans to include marriage and family therapists as network providers.

*Sunset Evaluation Report: **Social Workers,**  
Report No. 00-02*

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We evaluated the regulation of social workers under Chapter 467E, Hawaii Revised Statutes, and concluded that the State should no longer regulate social workers. The regulatory law should be allowed to expire as scheduled. There is little evidence of harm to consumers. The benefits of regulation are uncertain and other protections are in place. However, if regulation of social workers is continued, the regulatory law needs attention. Because the law created a title protection or certification program that regulates the use of a title but not the right to practice the occupation, there is no "license" to practice social work as such. Amendments in social workers' scope of practice, exemptions from "licensing," "licensing" requirements, and grounds for enforcement may be appropriate. Administrative rules implementing one of the law's provisions are also needed. Also, if regulation of social workers is continued, the Department of Commerce and Consumer Affairs should improve the operations of this regulatory program. Improvements are needed in tracking disciplinary actions, administering "licensing" examinations, handling late "license" renewals, preparing "licensing" forms, and recording temporary "licenses."

*Sunset Evaluation Update: **Speech Pathologists and Audiologists,** Report No. 00-03*

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Speech pathology and audiology are interrelated disciplines

that deal with disorders of speech, language, and hearing. Our last sunset evaluation of speech pathologists and audiologists, conducted in 1987, found that the two professions posed minimal risk to the public and did not warrant state licensure. However, our current study found that the practices of speech pathology and audiology require specialized skills and technical knowledge and that potential harm exists from incompetently performed assessments and/or treatment procedures, errors of omission, and misdiagnosis. Furthermore, both professions now perform a number of invasive procedures that pose risks ranging from patient discomfort to electrical shock and even death. We also found that because of their high potential for causing harm to the public, licensure is the most appropriate form of regulation for speech pathologists and audiologists in Hawaii. Only through licensure will unqualified persons be restricted from practicing the professions. Finally, we concluded that a professional regulatory board within the Department of Commerce and Consumer Affairs is the most appropriate means of administering a licensure program.

*Allocation to **New Century Schools** Project,  
Report No. 00-04*

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The 1999 Legislature required the State Auditor to determine the appropriate allocation of state general funds to new century schools. Currently, Waiālae Elementary and Lanikai Elementary are the only new century schools in Hawaii. In this, our second year of making the allocations, we refined our methodology to better accommodate four kinds of costs: 1) fixed personnel costs of the school, 2) variable costs of the school, 3) special education and *Felix* consent decree-related costs, and 4) costs for services or functions that a school could negotiate with the Department of Education to assume. Fixed, variable, and negotiable costs are included in the allocation; special education/*Felix* consent decree costs are excluded. We presented allocations for FY1999-2000 to the two new century schools.

*Management and Financial Audit of the **Department of Public Safety,** Report No. 00-05*

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We found breaches in prison security that seriously jeopardize public safety. We also found that inmates were not provided with adequate access to health care services. Moreover, failure to address inmate grievances in a timely manner results in inadequate protection from cruel and unusual punishment and deprives inmates of their rights a

protected under federal law and rules. The director of public safety failed to provide the leadership and guidance needed to efficiently staff facilities and control the department's extraordinary overtime costs. The department's management of state resources and inmates' funds is also seriously deficient. Nearly \$2.4 million in salary overpayments to public safety staff remained uncollected, inmates were not properly paid, and thousands of dollars in state resources were unaccounted for. The department also failed in its fiduciary responsibilities to victims and children of inmates.

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*Follow-Up Management Audit of the **Child Support Enforcement Agency**, Report No. 00-06*

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Hawaii's Child Support Enforcement Agency is a division of the Department of the Attorney General charged with enforcing child support orders (generally issued by family courts). The agency collects support payments from noncustodial parents and disburses the collected amounts to state and federal governments and custodial parents. We found that the agency has failed to address longstanding weaknesses in its financial management and has not implemented recommendations of previous audits pertaining to financial management. The agency's leadership lacks a well-defined mission and a coherent strategy for addressing the agency's problems. Unless the agency reexamines its mission, functions, and operations from the ground up and establishes effective management controls, it is unlikely to improve its financial management and address other major deficiencies. The agency needs a strategy to make better use of its new computer system. "Bad data" is stored in computer records, there is no strategy to "clean" the bad data, and staff training has been inadequate. The agency's leadership has not acknowledged inclusion of customer service and satisfaction as part of its mission, and has not moved aggressively to make better use of available resources. The agency also lacks formal controls and benchmark measures for staff productivity.

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*Review of **Revolving Funds, Trust Funds, and Trust Accounts** of the Department of the Attorney General, the Department of Business, Economic Development and Tourism, and the University of Hawaii, Report No. 00-07*

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Of the 82 funds and accounts we reviewed this year, 56 were revolving funds, 12 were trust funds, and 14 were trust accounts. Our review was based on 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 linkage between benefits and charges made on users and 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.

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*Audit of the **Convention Center Authority**, Report No. 00-08*

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In our third report of the Convention Center Authority since September 1998, we found that the authority's management controls are generally in place but need to be tightened in two important areas. The authority needs to establish a more rigorous and objective evaluation mechanism to ensure that SMG, the convention center operator, has satisfactorily met the terms and conditions of its contract. The authority needs to give SMG clear objectives, monitor the accomplishment of those objectives, and rigorously evaluate the provider's performance, using a defensible evaluation standard. The authority also needs to establish procedures to ensure that it is in full compliance with the State Procurement Code. Other issues are currently unresolved and could adversely affect the operations and maintenance of the convention center. The most important issue is the need to retain public oversight. In addition, three major punchlist items are still unresolved. We also found two issues outside the control of the authority place the State at some financial risk. Finally, we found that the authority and SMG have mechanisms in place to receive and to respond to the concerns of neighborhood residents and organizations and are monitoring traffic and noise issues.

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*Management Audit of the **Highways Division** of the Department of Transportation, Report No. 00-09*

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The Highways Division is responsible for the development and preservation of an efficient and safe highway system. We found that the division's failure to adequately plan for the construction and maintenance of the state's highways increased costs unnecessarily and prevented the department from addressing other pressing needs. The division's failure to properly scope construction projects resulted in costly contract change orders that were not subject to the competitive bid process. Lax financial management practices have also



resulted in unnecessary costs. Non-compliance with Hawaii's procurement code is a recurring problem. We found that the division does not adequately monitor and review the work of its design and construction contractors. Also, the division's disregard of procedures to manage the overtime of staff allows for gross abuse and unnecessary personnel costs. Finally, the division's organizational structure is fragmented and inefficient.

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*Financial Audit of the **Employees' Retirement System** of the State of Hawaii, Report No. 00-10*

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This audit was conducted with the certified public accounting firm of KPMG LLP. We found that management failed to plan for delays in contracting for bank custodian and security lending services, which placed the system's assets at risk for five months and contributed to a lost income of approximately \$1 million. Management also failed to properly monitor and enforce remedies against the bank custodian, weakening controls over \$9 billion in investments. Also, as of June 30, 1999, the system owed approximately \$17 million to the State for overpayments of the State's portion of the annual required contribution. Management also failed to properly plan a project to verify membership data, resulting in untimely execution of contracts and extensions, an unforeseen sole source contract, and little if any improvements to the present benefits process. Finally, management has not ensured timely and accurate pension payments to approximately 1,100 retirees as of June 30, 1999.

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*Financial Audit of the **Department of Land and Natural Resources**, Report No. 00-11*

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This audit was conducted with the certified public accounting firm of PricewaterhouseCoopers LLP. The department received over \$55 million in state, federal, special, and capital improvement project funds in FY1998-99 but failed to follow federal and state law and accepted accounting practices to ensure accountability over these funds. Its failure to ensure the timely submission for approval of a federal grant jeopardized its ability to maximize federal funds through appropriate reimbursements. The department also credited the subsequent year's expenditures with federal reimbursements, enabling the department to expend beyond its authorized ceiling. This undermines legislative authority by keeping resources that could be appropriated to other programs. In addition, the department failed to meet federal requirements for submitting audited financial statements, which

could jeopardize current or future federal funds. The department also lacks sufficient controls to track land lease renewals and bond insurance requirements. Failure to implement these controls places the State's assets at risk. Finally, the Division of Boating and Ocean Recreation's lack of internal control procedures seriously jeopardizes accountability over cash.

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*Financial Audit of the **Judiciary**, Report No. 00-12*

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This audit was conducted with the certified public accounting firm of Grant Thornton LLP. Several reportable conditions were found in our review of the Judiciary's system and procedures for internal controls. Internal controls over cash and the collection of cash need improvement. Weaknesses exist because of the Judiciary's inadequate segregation of duties, untimely depositing of cash, and unauthorized access to documents and data files. We found the Judiciary did not implement adequate controls and procedures to ensure the accountability over and accurate reporting of all restitution due. Collection is inconsistent and fragmented; there is a lack of uniform policies and procedures; computer systems are inadequate; and monitoring and enforcement are weak. We also found that the Judiciary violated the State Procurement Code and failed to ensure that a contract extension was executed before services were started. Finally, the Judiciary's financial reporting system is deficient and resulted in several departures from generally accepted accounting principles.

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*Comparison Study of the **Salary Structure of Educational Officers** in the Department of Education, Report No. 00-13*

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This study was conducted with the consulting firm of Fox Lawson & Associates LLC. We found that the Department of Education's classification and compensation system is inequitable. The classification system is outdated and lacks a formal job evaluation methodology to ensure that employees' duties and responsibilities are accurately reflected. The lack of a proven, formal job evaluation methodology can lead to unfair and inequitable treatment of employees, complaints, grievances, and lawsuits. Several classification series are incomplete because they lack entry and journey levels. In addition, minimum qualifications for many positions are inconsistent with the job level and some positions are inaccurately classified. We also found that the department pays higher salaries than other state agencies for comparable jobs.

# Actions Reported on Previous Recommendations

(Report Nos. 98-15 through 99-19)

**T**his section is based primarily on our review of activity in the 1999 legislative session and state agencies' responses to our October 1999 request for information concerning actions they have taken on our recommendations. For selected reports, we also revisit the agencies to follow up on actions taken. In these cases, we subsequently issue detailed follow-up reports that provide additional verified information to supplement the information provided below.

Report Title: *Audit of the Program of All-Inclusive Care for the Elderly (PACE) Hawaii*

Report No.: 98-15

## RECOMMENDATIONS

The Legislature should not approve any further expansion of the PACE Hawaii program until PACE Hawaii is able to satisfactorily demonstrate that program objectives are sufficiently met to warrant state support.

The Legislature should require PACE Hawaii and the Hawaii Health Systems Corporation to submit a report substantiating that, at a minimum:

- a. Dual waiver or full implementation of the PACE program model has been achieved.
- b. An evaluation mechanism is in place to assess the program's ability to meet its objectives.
- c. All program costs and revenue controls necessary to evaluate self-sufficiency are implemented.
- d. The cost per participant is realistically determined. All program costs should be included in this determination.
- e. A determination of the adequacy of the Medicaid capitation rate to cover cost of care has been completed.
- f. A determination of the level of commitment from the Department of Human Services to support the PACE program relative to other Medicaid sponsored/supported programs should be completed.

## ACTIONS REPORTED

Act 116, Section 67, SLH 1998, allocated funds to the program for FY1997-98 and FY1998-99 but stipulated that PACE shall not be further expanded until the program can demonstrate the ability to achieve its objectives and warrant state support.

Act 116, Section 67 also required PACE Hawaii to submit a report detailing program costs, including all unfunded liabilities, and revenues necessary to evaluate self-sufficiency to the Legislature prior to the 1999 Regular Session.

No additional legislation was enacted in 1999.

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Report Title: ***Audit Report of the Convention Center Authority: First Report—Design and Construction of the Convention Center***

Report No.: *98-16*

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## **RECOMMENDATIONS**

Because new design and construction-related problems and disputes may arise, the Convention Center Authority should continue to:

- a. Identify problems that may be the fault of the design/builder;
- b. Ensure that the burden of rectifying any new problems attributable to the design/builder falls on the design/builder; and
- c. Monitor the design/builder's progress in rectifying design and construction flaws.

At this time, the authority should accept Department of Health community noise guidelines as the noise limits for events on the rooftop terrace.

If a different noise standard is to be set for the convention center's rooftop terrace, this standard should be established by the Legislature or by an objective party empowered by the Legislature.

## **ACTIONS REPORTED**

The authority submitted a summary of the outstanding items and issues as of October 1999.

The authority reports working closely with the construction management team and the Department of the Attorney General to ensure that the design/builder will correct all problems attributable to the design/builder or that legal remedy will be exercised at the proper time.

The authority meets with the construction management team and meets with the convention center operator to determine repair progress.

The authority adopted and implemented the Department of Health community noise guidelines.

The authority supports the Department of Health as the entity to establish and monitor the noise standards.

(Note: Act 265, SLH 1999, clarified that the Department of Health has jurisdiction over noise issues regarding the convention center.)

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Report Title: ***Allocation to Student-Centered Schools Project***

Report No.: *98-17*

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## **RECOMMENDATIONS**

No recommendations.

## **ACTIONS REPORTED**

## RECOMMENDATIONS

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A+ site coordinators should review each student's application to ensure that the student is eligible for A+ services. Site coordinators should verify and document the eligibility of any student whose participation is questionable. Any student found to be ineligible for the program should be immediately terminated.

School principals who contract with private providers should review all A+ participant registration forms for eligibility as required by the *A+ Operations Manual*.

The Department of Education should improve its procedures for identifying students eligible for reduced A+ Program fees. Specifically, the department should:

- a. Require parents requesting reduced A+ fees to provide documentation of their income in order to determine whether they meet eligibility requirements; and
- b. Clarify the parameters under which families with more than one child enrolled in A+ qualify for reduced program fees. The program's guidelines should specify whether the students must live together, attend the same school, and be related by blood and/or marriage.

The department should ensure all department operated program sites comply with the A+ staffing structure. The department should consider staffing to average attendance patterns as a cost control.

The department should develop criteria for allocating special needs staff to A+ sites. The department should require that a maximum student to staff ratio be identified and followed for each student, and that each student be reevaluated annually to identify whether the student continues to need a special staffing arrangement.

Principals should be held accountable for ensuring the accuracy of timesheets to prevent A+ staff from receiving income that they are not entitled to.

## ACTIONS REPORTED

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The department reports that schools have been directed to do so and that district coordinators are visiting A+ Program sites to review applications of students for eligibility. The department also reports that ineligible students will be terminated.

Principals have been directed to review all A+ participant registration forms for eligibility. District coordinators visit private provider sites to review eligibility.

All department sites have been directed to comply with the A+ staffing structure in the *A+ Program Operations Manual*. District coordinators check on staffing compliance.

The department has revised its application procedures. All applicants requesting a reduced fee must submit documentation of income status.

The *A+ Program Operations Manual* states that "Reduced monthly fees apply when there are siblings in the same family, e.g., brother(s), sister(s), step-brother(s), and/or step-sister(s), attending the same A+ program and residing together in the same household."

The department considered the recommendation but due to safety considerations decided to retain its current procedure of basing staffing on the number of students enrolled.

The department reviewed its current procedures for allocating special needs staff to A+ sites and determined that the current procedures are adequate. Depending on the individual child's needs, the caretaker to child ratio ranges from one-to-one through one-to-six.

Principals have been informed that they are accountable for ensuring the accuracy of timesheets.

## RECOMMENDATIONS

Staff who were paid inappropriately for positions they were not hired for, positions they did not serve in, and for days A+ was not in session, should be notified in writing by the department of any overpayment. The department should pursue reimbursements in accordance with established procedures for recovery of wage and salary overpayments.

The department should reassess the staffing needs of the A+ Program, and actively recruit qualified individuals for these positions.

The department should provide A+ staff with additional training in completing the monthly collection logs and summary reports. Such training should include procedures on reconciling collections and deposits. The department should also consider revising the A+ monthly school summary report to assist staff in the reconciliation of collections and deposits.

Site coordinators should prepare monthly collection logs in advance to identify late payments. Parents should be given a written warning of late payments, and notified of the effective date of their child's termination if payment is not received by the due date.

A+ site coordinators should ensure the timely deposit of program fees. Parents should be given written notification of any check returned due to insufficient funds and required to resubmit payment within the required three school days. Students whose parents who do not resubmit payment should be terminated from A+.

A+ staff should immediately cease the practice of arbitrarily assessing program late fees.

Principals who continue to sign off on inaccurate private provider invoices and supporting documents should be held accountable for their lax review.

The department should ensure adequate segregation between cash related duties. Specifically, staff responsible for cash collections should not have access to A+ accounting records.

## ACTIONS REPORTED

The district offices worked with schools involved to examine the extent to which staff were paid inappropriately. Overpayments have been corrected through payroll adjustments for all employees who were overpaid. The site coordinator at one school experiencing undue irregularities was dismissed.

The department considered different options but decided to maintain the current staffing structure because:

1. No cost savings will result.
2. A change would jeopardize the quality of care in the program.

The department developed and disseminated a new form for the reconciliation of collections and deposits in addition to a school monthly summary report. District coordinators and A+ site coordinators were trained on the use of the new form.

Effective February 1999, if the A+ Program monthly fee is not paid within the first five A+ Program days of the month, the student is terminated on the sixth A+ Program day of the month. Form letters give parents written warning of the consequence of non-payment.

Site coordinators have been directed to ensure timely deposit of program fees and to give written notification of any check returned due to insufficient funds. A sample letter is included in the *A+ Program Operations Manual* informing the parent of the "bounced" check and consequences, i.e., termination from the A+ Program if payment is not made within the three required school days.

Site coordinators have been directed to be consistent in assessing late fees.

Principals who contract with private providers are required to ensure that private provider invoices accurately reflect the names and numbers of students served.

The department has informed districts and schools about the need to ensure adequate segregation of cash-related duties. The *A+ Program Operations Manual* has been revised to include detailed procedures.

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**RECOMMENDATIONS**

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The department should properly safeguard all A+ collections by providing designated program staff with access to the school safe during the program hours.

The department should remind A+ staff to issue receipts for all program collections, including bad check fees.

The department should clarify the A+ Program chain of authority. The department should establish formal disciplinary procedures for A+ staff who disregard the program's policies. These procedures should include written warnings and termination of staff by state and district coordinators.

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**ACTIONS REPORTED**

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Schools have been directed to provide designated A+ staff with access to a safe place to safeguard all A+ collections.

A+ staff are required to issue receipts for all program collections, including bad check fees. District coordinators are monitoring this.

The A+ Program operational organization chart has been reviewed and revised for clarity. The chain of authority for the A+ Program is the same as any other program.

As stated in the *A+ Program Operations Manual*, A+ staff should be evaluated annually. The principal has the authority to terminate the A+ site coordinator. The site coordinator is responsible for the annual evaluation, and, if necessary, termination of group leaders and program aides.

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Report Title: ***Analysis of a Proposal to Modify the Regulation of Physician Assistants***

Report No.: 98-19

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**RECOMMENDATIONS**

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Sections 453-5.3 and 453-5.4, Hawaii Revised Statutes, should be amended as proposed in S.B. No. 3234 (1998) to require each person practicing medicine under the supervision of a physician to be licensed, rather than certified, as a physician assistant.

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**ACTIONS REPORTED**

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Act 90, SLH 1999, amended both sections to require each person practicing medicine under the supervision of a physician to be licensed, rather than certified, as a physician assistant.

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Report Title: ***Assessment of the State's Efforts Related to the Felix Consent Decree***

Report No.: 98-20

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**RECOMMENDATIONS**

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The governor should ensure that the *Felix* operational management team aggressively pursues clarification of (a) the working definition for the *Felix* class and (b) the maintenance of effort requirement. After clarification is obtained, this

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**ACTIONS REPORTED**

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The governor reports that all parties stipulated to a definition of the *Felix* class submitted to the Court in an order modifying the consent decree. The Court also determined that the maintenance of effort reporting requirement could be

## RECOMMENDATIONS

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information should be disseminated to staff, including Department of Education staff. The *Felix* operational management team should confirm that the clarified meanings of these basic terms are understood by all staff of the affected departments.

The governor and the Board of Education should report all funding for *Felix* services with the same definitions of budget and expenditure terms between departments and from one year to the next.

The governor needs to ensure the *Felix* operational management team, led by the *Felix* operational manager, carries out its role of ensuring that quality services are provided consistently and in a coordinated and timely manner.

The *Felix* operational manager should ensure that the Department of Health and the Department of Human Services' Med-QUEST Division work together to develop a plan for the Child and Adolescent Mental Health Division to access federal Medicaid/QUEST funding for services provided to eligible children.

The Department of Health's Child and Adolescent Mental Health Division should establish uniform payment schedules for mental health services.

The *Felix* Operational Management Team should ensure that reimbursement of federal funds is pursued in a systematic manner and report to the Legislature on the status of efforts to maximize federal fund reimbursements.

## ACTIONS REPORTED

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discontinued. Dissemination of the definition of the *Felix* class has been carried out.

The governor reports that the *Felix* operations manager submitted to the 1999 Legislature a combined DOE/DOH budget report.

The governor reports that in September 1999, the State requested Court approval of a plan to restructure the Office of the *Felix* Operations Manager. Two new positions, one each in the Department of Education and the Department of Health, now jointly plan, direct and administer the state's activities to ensure compliance with the *Felix* consent decree with support from the *Felix* program officer.

The governor reports that a Memorandum of Agreement between the Department of Human Services and the Department of Health outlines provisions under which the Department of Human Services will pay a monthly capitated rate to the Department of Health to provide behavioral services to QUEST children and adolescents who are also in the *Felix* class.

The Department of Health reports establishing a more uniform fee-for-service schedule for mental health services.

The governor reports that the Department of Health was directed to submit claims for reimbursable expenses to the Department of Human Services for submittal to the federal level for reimbursement under the federal maximization effort. Status reports are submitted to the Legislature annually.

## RECOMMENDATIONS

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The Legislature should not provide any additional funding for Hawaii's school-to-work opportunities system until the executive council clearly defines the system's mission and goals, and clarifies how it intends to measure outcomes for school-to-work programs.

The executive council and the Department of Education must clarify the role of the fiscal agent and determine who is responsible for ensuring that partnerships are held accountable for their funding.

The Legislature should require the executive council, the Department of Education, and the University of Hawaii to determine the effectiveness of the safety surveys and whether they should be continued.

Regardless of whether safety surveys are conducted, the Legislature should require standardized worker readiness training, which should be approved by the Department of Labor and Industrial Relations' HIOSH Division.

Agencies responsible for training should help to ensure that students, teachers, parents, and work site employers are provided with more information on the work limitations of students, unsafe situation recognition and prevention techniques, and child labor laws.

## ACTIONS REPORTED

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No legislation was enacted.

Hawaii School-to-Work and the Department of Education report that the State Department of Education is the fiscal agent for funds from the U.S. Department of Labor. The fiscal agent at the local partnership level is a school or a district. The local partnership must specify the entity and responsible individual who shall serve as the fiscal agent. The executive council recognizes that it has the authority and responsibility to ensure that the local partnerships are held accountable for their funding.

No legislation was enacted.

No legislation was enacted.

Hawaii School-to-Work reports that the two agencies responsible for training under School-to-Work are the Department of Education and the University of Hawaii.

The Department of Education reports that it issued interim rules to clearly state the roles and responsibilities of each participant in the work-based learning experience. The University of Hawaii requires that its programs provide safety training for students before they are placed at worksites. The university only places students at worksites that have met Department of Labor and Industrial Relations standards.



## RECOMMENDATIONS

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The Department of Accounting and General Services should:

- a. Revise the base fare methodology to include control requirements already established under contract provisions and implement this methodology more frequently;
- b. Conduct a formal documented analysis of the "50 percent rule" to determine legality. If the department feels that the provision is warranted, it should develop a cost/benefit analysis and follow appropriate administrative procedures to establish the provision as a formal rule;
- c. Improve personnel and fiscal accountability by implementing procedures for contract monitoring, investigations, and surveying contractor performance. It should also develop a consistent method of applying fines and penalties; and
- d. Improve fiscal accountability and its West Hawaii fleet operations by implementing procedures similar to those outlined in Accounting for Collections, Section VII, *User Policy Guide and Process Flow Manual* (DOE). The department should also reconcile student transportation expenditures and encumbrances to FAMIS reports monthly to ensure the program does not exceed its authorized ceiling and lapse unused encumbered funds for expired contracts.

The Department of Education should improve:

- a. Fiscal and management controls over the pre-paid bus pass program by implementing policies and procedures outlined in the department's *User Policy Guide and Process Flow Manual*;

## ACTIONS REPORTED

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The Department of Accounting and General Services reports working with the Department of Education to implement a pre-paid school bus pass system to provide the accountability for bus fare collections. In the interim, the program has begun to enforce the fare box requirement, increase monitoring regular education school bus routes, and require the monthly submittal of daily rider reports for each route.

The department reports that it is waiting for a formal response from the Attorney General on the legality of the "50 percent rule."

The program has implemented a requirement for transportation officers to submit monitoring plans to the branch chief. In addition, the program is developing a process to provide contractors with immediate feedback on their operations. By the end of the current school year, the program expects to complete a fine and penalty schedule for each confirmed violation of the contract.

The West Hawaii student transportation officer will be issuing collection receipts to school bus drivers for each day bus fares are collected. Drivers are to record the collection from each route each day. In addition, the West Hawaii transportation officer will monitor ridership.

As of June 1999, the program has been reconciling student transportation expenditures and encumbrances to FAMIS reports.

The proposed transfer of the student transportation program from the Department of Accounting and General Services to the Department of Education may have a bearing in the implementation schedule for the pre-paid bus pass program.

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**RECOMMENDATIONS**

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- b. Procedures for reporting delays or service problems, developing projections of needed special education services in light of school year variations, and require more timely submission of special education transportation requests; and
  
- c. Controls over eligibility determination for full-subsidy ridership and bus pass processing.

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**ACTIONS REPORTED**

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A draft "Guidance for Identifying and Requesting Transportation Services for Disabled Students" is under development. Meetings have been held with state special education personnel to address special education services and calendar variations that affect the provision of bus services.

Work on proposed changes to Hawaii Administrative Rules include the pre-paid bus pass program and the attempt to streamline the student transportation process.

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Report Title: *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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**RECOMMENDATIONS**

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No recommendations.

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**ACTIONS REPORTED**

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Report Title: *Audit of the State Foundation on Culture and the Arts*

Report No.: 99-3

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**RECOMMENDATIONS**

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The Legislature should consider amending Section 9-2, HRS, to clarify the respective roles of the commission, executive director, and other staff of the State Foundation on Culture and the Arts.

The commission should provide clearer direction to the foundation by:

- a. Reexamining the *Statewide Public Art Master Plan*, clearly articulating how the plan should be modified, clearly identifying the priorities of the program, and formally identifying the action steps that the program should pursue;

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**ACTIONS REPORTED**

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Act 80, SLH 1999, clarified the roles and responsibilities of the commission and the executive director.

The *Statewide Public Art Master Plan* was accepted but was not approved for adoption due to substantial financial reductions affecting operational changes. The commission recommended a feasibility study on moving the office and development of a gallery as recommended in the *Statewide Public Art Master Plan*.

## RECOMMENDATIONS

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- b. Initiating formal reviews of the programs of the foundation, with staff participation;
- c. Continuing to develop mechanisms, such as task forces composed of commission members and foundation staff, to more systematically review and discuss program policies and operations;
- d. Restructuring its meetings to allow for program reviews or scheduling additional meetings in which such reviews can be conducted;
- e. Requiring the executive director and foundation staff to conduct regular evaluations of all programs operated by the foundation;
- f. Establishing a committee or task force to monitor and evaluate the progress of the foundation's long-range plan and to periodically report findings to the commission;
- g. Requiring the executive director and foundation staff to initiate regular needs assessments for all programs; and
- h. Establishing policies and guidelines that affect its own operations.

The executive director should improve the use of basic management tools by:

- a. Requiring a formal and complete inventory of the relocatable works of art collection;
- b. Adopting procedures for conducting future inventories on a regularly scheduled basis;
- c. Updating and revising as necessary all position descriptions, foundation administrative rules, and policies and procedures; and

## ACTIONS REPORTED

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The executive director is to provide criteria and forward these to the commission.

The chairperson appointed task forces including foundation staff members to continue review and discussion of program policies and operations.

Committee chairs were appointed. Committees are to be formed to conduct formal reviews.

The executive director is to provide evaluation criteria and an evaluation process.

The long-range plan was completed for 1998-2002.

Community input was solicited prior to development of the long-range plan. However, an objective, professional needs assessment has not been conducted due to financial constraints.

Guidelines were completed.

The foundation has been preparing for an island by island, building by building, wall to wall inventory. The initial inventory is scheduled to take two years to complete.

Procedures for future inventories are included in the new collections management policy.

The foundation has begun the process of reorganizing. As a result of the reorganization, all position descriptions, operational charts, and functional statements shall be reviewed and rewritten if necessary. A revised version of the administrative rules has been drafted. Staff have rewritten the collection management policy for the commission's review and approval.

## RECOMMENDATIONS

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- d. Requiring all program staff to provide technical support to and formally monitor organizations receiving foundation grants and document the assistance provided.

The executive director should improve the accessibility of relocatable works of art by:

- a. Exploring every available option of using gallery spaces in existing state buildings to exhibit its relocatable works of art collection;
- b. Exploring all available options for the exhibition of works of art in publicly accessible areas other than in state buildings; and
- c. Establishing policies and procedures that provide for periodically rotating works of art from one state building to another and among the islands and for displaying works of art in publicly accessible areas in public buildings. These policies should include a definite statement on how often the works should be rotated, whether they should be rotated from island to island, and the number of agencies through which they should be rotated. In addition, the policies should ensure that all state branches, agencies, or offices have access to relocatable works of art.

The executive director should also improve the protection of the works of art by revising policies on loans to state and non-state agencies. Revisions should clarify that the recipient is responsible for paying for the damage or loss of works of art resulting from the recipient's gross negligence.

The commission should continue to consult with its attorney concerning acceptable uses of the Works of Art Special Fund and propose clarifying legislation if appropriate.

The governor should require all executive agencies to transfer the appropriate and correct amount of money into the Works of Art Special Fund. The governor should also require all departments currently owing money to the fund to pay the balance owed.

## ACTIONS REPORTED

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Providing technical support is an on-going process for the program staff and is an expected part of the designated program coordinator's responsibilities.

A display services pilot project will establish six display sites for traveling exhibits. A display site survey will be completed with the physical inventory of the relocatable works of art.

The foundation already has policies and procedures for exhibiting works of art in non-state buildings.

These policies and procedures are included in the proposed collections management policy to be approved by the commission.

The protection of the works of art and revised policies are included in the proposed collections management policy.

The governor reports that Comptroller's Memorandum No. 90-21 directs all executive agencies to comply with Chapter 103-8.5, HRS. Several departments have procedures to ensure that the required amount is transferred on an allotment advice or by journal voucher.

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**RECOMMENDATIONS**

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The Legislature should consider reviewing Section 103-8.5, HRS, to specify who is responsible for calculating the 1 percent due to the Works of Art Special Fund and specify remedies for noncompliance with the statute.

The executive director should develop a tracking system to identify which capital improvement projects should be assessed, which projects have transferred the 1 percent into the special fund, whether the amount of the transfer is correctly calculated, which departments are delinquent, and how much is due to the special fund.

The executive director should also conduct a formal review of past capital improvement projects to determine how much is due to the special fund.

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**ACTIONS REPORTED**

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Act 80, SLH 1999, specified that each agency receiving capital improvement appropriations shall calculate the 1 percent amount and transfer the moneys into the Works of Art Special Fund. The act also requires the comptroller to: 1) provide each agency receiving capital improvement appropriations with information regarding items that shall be included and excluded from the 1 percent amount; 2) ensure that each agency calculates its 1 percent correctly; and 3) ensure that each agency transfers the correct amount to the Works of Art Special Fund in a timely manner.

The executive director has consulted with the comptroller's office about tracking the capital improvement projects by reviewing requests for payments. The foundation will continue to collaborate with the comptroller and the Department of Budget and Finance to develop the process for the tracking system.

The foundation will continue to collaborate with the comptroller and the Department of Budget and Finance to develop the process for the tracking system to include past capital improvement projects.

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Report Title: ***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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**RECOMMENDATIONS**

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No recommendations.

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**ACTIONS REPORTED**

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Report Title: ***Audit of the Child Protective Services System***

Report No.: 99-5

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**RECOMMENDATIONS**

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The Department of Human Services should establish sufficient management controls to ensure that all child abuse and

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**ACTIONS REPORTED**

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## RECOMMENDATIONS

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neglect reports are investigated as appropriate. Specifically, the department should:

- a. Accept for intake, all reports of suspected abuse and neglect. Reporters should be informed of either the department's decision not to investigate the report or the investigative disposition;
- b. Require that all reports of suspected abuse and neglect received by the department are recorded on intake logs and in the department's central registry for abuse and neglect (CPSS);
- c. Ensure that supervisors review and document in a timely manner all cases not referred for investigation and all cases of unconfirmed or unsubstantiated abuse. Should the department decide to facilitate such review through CPSS, it should implement adequate security controls to ensure that supervisory review cannot be bypassed through unauthorized access by staff;
- d. Track all cases referred to investigation and ensure that dispositions are made within 60 days. Investigators who fail to comply with this policy should be held accountable; and
- e. Provide training and oversight to ensure that the risk assessment matrix is properly used during case intake, assessment, and management. Social workers should be held accountable when the matrix is not used as required.

Communication between the Child Welfare Services Branch, the county police, and the Family Court should be improved. Improvements should:

- a. Ensure that background screens are routinely completed by child welfare services staff for all new reports of suspected abuse and neglect;

## ACTIONS REPORTED

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The department reports accepting calls on all reports of abuse or neglect. The department's risk and safety assessment matrix is used to determine those reports that require further action that may include investigation of the allegation or the provision of diversion services. If reporters request information, they are informed of the action to be taken, either at the time of intake, or at the completion of the investigation.

The department records all calls regarding reports of abuse and neglect on intake logs. Reports accepted for investigation or referred for diversion services are registered in the CPSS.

Supervisors were instructed to review all cases not referred for investigation. Workers are required to discuss the disposition of unconfirmed or unsubstantiated cases with their supervisors. Cases cannot be closed without documentation of supervisory review and approval. There are adequate security controls in CPSS, as a case cannot be closed without higher authority level approval by supervisors or administrators.

The department is utilizing CPSS reports to monitor the completion of investigations within 60 days. Monthly reports are sent to section administrators and supervisors for monitoring and action.

Initial training in risk assessment was provided by the National Resource Center on Child Maltreatment in March 1998. The risk assessment process and the use of the tools have been incorporated into the department's ongoing basic child welfare services core training.

Background checks are conducted for new reports of suspected abuse and neglect. The checks include information maintained by the department, as well as criminal histories of alleged perpetrators provided by the police upon the department's request.

## RECOMMENDATIONS

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- b. Standardize written agreements between the department and each county police department to ensure that reports of serious abuse and neglect are routinely shared. At a minimum, the department should comply with the Hawaii Administrative Rules' requirement that it refer all cases involving criminal activity, including sexual abuse, to the county police. The Legislature should consider amending Chapter 350, HRS, to specify the circumstances in which the department must inform the police of reported abuse and neglect;
- c. Require the county police to immediately comply with the provisions of Chapter 350, HRS, which mandates reporters to inform the department of all cases in which abuse or neglect is suspected; and
- d. Require the department to more carefully monitor voluntary foster custody placements and service plan compliance to ensure that family court jurisdiction is sought when required. Furthermore, the department should immediately review all current voluntary foster care placements and ensure that the department has legal authority for each child voluntarily placed in foster care.

As appropriate, the Family Court should more frequently hold parents unwilling to comply with court ordered service plans in criminal contempt of court as authorized under Section 587-77, HRS. The court should also make determinations that these parents are not presently or in the reasonable foreseeable future willing or able to provide the child(ren) with a safe family home. The department and Family Court should move for permanency hearings when families are unwilling or unable to complete court-ordered services that are available and appropriate.

The Legislature should amend Chapter 587, HRS, to clarify that placement planning *must* begin within 12 months after a

## ACTIONS REPORTED

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The department reports that Memoranda of Agreement have been finalized for Honolulu, Kauai, Maui, and Hawaii counties.

The county police departments report the establishment of written agreements or interagency guidelines.

Act 271, SLH 1999, amended Chapter 350 by requiring the department to inform the police regarding a case of child abuse or neglect.

The county police departments report being in compliance with the law.

The department reviewed all voluntary foster custody cases and staff were instructed to inform clients of the timeline and to file a petition if the child cannot return to the home within the established guidelines.

The Family Court reports that communication between the Family Court and the Department of Human Services has been open and collaborative.

The department reports that the department and Family Court have been working together to ensure timely permanency hearings when it has been determined that a child's parents or caretakers have proven unwilling or unable to provide a safe home for the child. Departmental staff have been instructed to file motions for permanency in accordance with the shorter 12-month timelines contained in state and federal regulations.

The Family Court reports that criminal contempt proceedings as authorized under statute have not been expedient or effective in holding parents accountable for their failure to comply with court-ordered services. Instead, Family Court judges carefully scrutinize progress on these cases by reviewing them more frequently and proceeding to permanency when parents are not able or willing to provide their children with a safe home.

Although a specific amendment to Chapter 587, HRS, that the Office of the Auditor developed did not find its way into

## RECOMMENDATIONS

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child's placement in foster care. This will ensure compliance with the federal Adoption and Safe Families Act of 1997.

The department should improve its management of contract-ed services. Specifically, the department should:

- a. Conduct annual on-site visits to each program funded by purchase of service agreement and provide contrac-tors with timely feedback for those areas requiring cor-rective action;
- b. Identify in a monthly master list all children and fami-lies it has authorized to receive services from each pri-vate provider. Contract monitors should compare this list to contractors' invoices and activity reports prior to authorizing payments;
- c. Track all children and families receiving services and require that quarterly progress reports be submitted by the service provider and reviewed by the case worker; and
- d. Consistently review utilization levels for each private provider after the first contract year and make adjust-ments in contract levels for the upcoming contract year to ensure that costs do not exceed usage.

The department should improve its ability to capture all avail-able Title IV-E funds and to accurately claim administrative reimbursements. Specifically, the department should:

- a. Work with federal officials to develop procedures to minimize delays in AFDC linkage when parents either cannot be found or are uncooperative;
- b. Formally designate and train staff who are responsible for all components of Title IV-E determination on each neighbor island;
- c. Track all children placed in foster care to ensure that they are referred for Title IV-E eligibility determination within two days; and

## ACTIONS REPORTED

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law, Act 153, SLH 1999, was enacted with the intent of conforming Hawaii law to the federal Adoption and Safe Families Act.

The Management Services Office will review and evaluate the department's contract management and monitoring sys-tems and will provide a report.

All new staff have been hired in the purchase of service unit. These staff are revising the monitoring protocols and will begin annual monitoring.

Staff are working on developing reports from the depart-ment's automated Child Protective Services System to be used as a master list of authorized clients.

Staff have developed a uniform quarterly client reporting for-mat for key purchase of service programs.

Contracts require utilization reviews at the ninth month of each fiscal year. The Management Services Office will review the department's FY1999-2000 contracted services and reported utilization levels.

The department has consulted a federal specialist and other states to find ways of completing eligibility determinations.

Eligibility determination workers have been hired for neigh-ber islands. Formal training has been developed.

A report was developed to notify eligibility workers of place-ments.



## RECOMMENDATIONS

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- d. Properly identify in CPSS each child placed in foster care as either eligible or ineligible for Title IVE reimbursement.

The department should hold staff accountable for preventing overpayments for foster care and temporary assistance to families whose children are placed in foster care. The department should also ensure recovery efforts for outstanding overpayments. Specifically, the department should:

- a. Require social workers to update the CPSS with foster care placement information and to contact foster children to ensure that payments do not continue to families when a child has left a foster home without the department's knowledge;
- b. Require that child welfare services staff notify income maintenance workers of a child's removal from the family home when the family is receiving Temporary Assistance to Needy Families. Income maintenance workers should be held accountable for adjusting the benefit payment and recovering overpayments when notification of a child's removal is too late to prevent the overpayment from occurring; and
- c. Require income maintenance workers to flag all overpayments for temporary assistance in HAWI to ensure that these overpayments will be included in the department's recovery efforts.

The department should appoint a child welfare services staff person to be responsible for ensuring the accuracy of child welfare services' overpayment reports, recovering overpayments in a timely manner, and requesting that the attorney general write off payments that cannot be recovered as allowed in Section 40-82, HRS.

The department should improve its management of adoption assistance by ensuring that staff annually review eligibility for this program. The department should improve its management of independent living assistance payments by identifying monthly expenditures for these programs separately from foster care.

## ACTIONS REPORTED

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The eligibility determination process is completed and a code is assigned wherever and whenever possible.

Efforts are made to ensure that placement information is entered on a timely basis in the CPSS. Staff have also been informed of action that can be taken to hold payments to avoid overpayments.

Current and long standing procedures require notification to income maintenance when a child is removed from the home. The income maintenance worker establishes the overpayment claim in HAWI.

The income maintenance worker establishes the overpayment claim in HAWI and recovery is made via recoupment, billing, refund, tax intercept, or court judgement.

There are written procedures for workers to follow in preventing and collecting overpayments. Supervisors and quality assurance staff monitor compliance with the procedures. The attorney general has been requested to write off payments that cannot be recovered.

As a result of extensive consultation with federal officials, rules that require a biennial review of adoption assistance cases have been drafted. This policy has been in practice since October 1998. Independent living expenditures are limited to higher education and these are reported separately on all current reports.

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Report Title: *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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**RECOMMENDATIONS**

**ACTIONS REPORTED**

No recommendations.

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

Report No.: 99-7

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**RECOMMENDATIONS**

**ACTIONS REPORTED**

No recommendations.

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

Report No.: 99-8

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**RECOMMENDATIONS**

**ACTIONS REPORTED**

The Department of Transportation's Airports Division should:

- a. Maintain competition in the selection of contractors;
- b. Adhere to the Hawaii Public Procurement Code and related administrative rules;
- c. Adequately plan for contracted work by requiring that the scope, outcome, and cost of the project be clearly identified before entering into a contract; and
- d. Maintain a filing system that ensures that contract files are organized, complete, and easily accessible.

The department reports that a policy memorandum to all division personnel emphasizes the importance of ensuring competition.

Periodic reminders are made to division personnel to comply with the Hawaii Procurement Code and applicable administrative rules and procedures.

The airports administrator reviews all contracts to ensure that the scope of work, expected results, and cost of the project are clearly identified before the contract is executed.

Airports Division managers advise all project managers that contract files are to be organized, complete and readily accessible.

## RECOMMENDATIONS

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The Property Management Section should update the accounts receivable system in a timely manner and review its tickler control file to ensure that all billings are properly processed.

The Airports Division should enforce collection policies and procedures and take immediate action to minimize potential losses from delinquent rents.

The Airports Division should implement an aged accounts receivable ledger capable of applying cash receipts to the related invoices to effectively identify, monitor, and collect outstanding accounts receivable.

The functions of depositing, recording, reporting, and reconciling cash transactions should be segregated in the Financial Management Section to ensure that cash receipts are safeguarded and properly recorded.

To comply with the State's requirement that operating systems be capable of processing Year 2000 data by September 1999, the Airports Division should:

- a. Immediately finalize and adopt a formal Year 2000 project plan to ensure that all assets are compliant. The plan should identify potential Year 2000 failures and risks, milestone dates, methodologies to monitor progress against milestones, expected internal and external resources, testing strategies, and contingency and risk management plans;
- b. Inventory and assess all business-critical embedded technologies and third party systems for risk to Year 2000 problems exposure. Confirmation of timely remediation should be made with the appropriate responsible parties and contingency plans developed in the event timely remediation is not achieved;
- c. Establish a quality assurance protocol to ensure that risk management issues related to the Year 2000 remediation effort are identified and mitigated on a timely basis and comply with previously established milestone dates; and

## ACTIONS REPORTED

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Instructions are issued to enter billing amounts for new or renewed leases into the accounts receivable system on a timely basis. The tickler file is routinely reviewed to identify upcoming dates for reopening of rentals and expiration dates of leases.

A contract was executed with the Attorney General's Office to provide collection services to the division. Specialized assistance is being provided to initiate legal action for the recovery of debt.

Enhancements to the aged accounts receivable ledger were identified in the requirements analysis for the new AIRMIS 2000 system.

The functions of depositing, recording, reporting and reconciling cash receipts have been segregated to establish tighter controls over cash transactions.

The department developed and implemented a comprehensive, coordinated and detailed Year 2000 Project Plan to ensure timely completion of all elements of the project.

The department reported conducting an inventory and assessment of all business-critical embedded technologies. It confirmed remediation progress. The department reports being in the process of completing the development of contingency plans to address possible failures of high risk third party systems.

The department reports being in the process of completing the establishment of a quality assurance protocol to ensure that risk management issues are mitigated.

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**RECOMMENDATIONS**

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- d. Establish a Year 2000 executive committee at the administrative level to coordinate the millennium compliance efforts of the Airports Division.

The Airports Division should continue to work closely with Duty Free Shoppers (DFS) to resolve the matter of delinquent concession fees. The finalized agreement must contain provisions that meet the Airports Division's cash flow requirements and provide adequate collateral in the event of non-payment. The Airports Division should also develop a three-year financial projection to quantify the effects of DFS's deferment and perform periodic reviews of Royal Hawaiian Insurance Company, Inc., a wholly-owned subsidiary of DFS, and its ability to perform under the terms of the concession bond.

The Airports Division should continue its efforts to resolve issues raised by the U.S. Department of Transportation's Office of the Inspector General (OIG). In the future, the Airports Division should perform thorough reviews of transactions that may be construed by the OIG as improper use of airport revenues and maintain closer communications with the FAA regarding the use of airport revenues.

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**ACTIONS REPORTED**

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A Year 2000 executive committee has been established.

Negotiations with DFS are being handled as a legal matter. DFS paid the delinquent fees but not the interest and late fees. The issue of the interest and late fees is not resolved. Various financial projections to quantify the effects of DFS revenues were developed and submitted to the state negotiators.

The Airports Division provided funding for the Attorney General's Office to secure financial auditing services to review the financial situation of DFS and issues concerning the concession bond.

Leases and permits for the agencies identified in the OIG audit have been drafted and are under review by the Attorney General's Office. Provisions are included for retroactive rent due as well as prospective rent. The Airports Division has referred transactions to the FAA for the FAA's prior review if compliance questions are raised.

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Report Title: ***Audit of the Hawaii Health Systems Corporation***

Report No.: 99-9

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**RECOMMENDATIONS**

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The Board of Directors of the Hawaii Health Systems Corporation should develop a transition plan. At a minimum, the plan should include:

- a. Detailed descriptions of implementation tasks that still need to be done to complete the transition of the Division of Community Hospitals to a competitive and viable public benefit corporation;
- b. Justification for additional legislation that may be necessary to achieve goals;

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**ACTIONS REPORTED**

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The Board of Directors required management to develop a strategic plan for transitioning the corporation to a self-sustaining, competitive corporation. Management presented strategic initiatives designed to make the system more competitive and viable.

The corporation provided a copy of a presentation that describes initiatives necessary to complete transition into a viable public body corporate and politic and an instrumentality and agency of the State.

A corporation bill seeks authority for the Board of Directors to make substantial changes in levels of service. The

## RECOMMENDATIONS

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- c. Specific time frames for when the tasks will be completed;
- d. A communication plan for the community and hospital staff on issues involving the reorganization of the community hospitals; and
- e. An implementation plan for its personnel system with specific time frames by which personnel related tasks will be accomplished.

The administration should establish formal policies and procedures for accounting practices, distribute the procedures to the facilities, and ensure that they are followed.

The board should amend its procurement policies. Specifically, the board should:

- a. Require a formal analysis of the expected benefits and outcome for all contracts, an assessment of alternatives, and any recommendations by in-house staff which relate to the objectives of the contracts;
- b. Require that the scope of services specified in contracts contain specific objectives and deliverables which can be measured and evaluated;
- c. Develop clearly defined monitoring procedures;
- d. Require an evaluation of each contract upon its completion to determine if objectives have been achieved;

## ACTIONS REPORTED

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corporation reports that it does not have "full and complete" control over its labor dollars and is unable to make necessary benefit and management changes to align costs with revenues. The corporation seeks exemption from certain civil service statutes and the establishment of separate collective bargaining status to enable the corporation to manage labor costs.

The corporation is pursuing a four-year plan to restructure, increase revenues, and reduce costs in order to become a self-sustaining system that no longer requires financial support from the State.

The corporation reports developing a number of effective communication vehicles.

The corporation developed and implemented a human resources plan. The corporation also completed the transition of personnel functions from the Department of Human Resources Development.

The corporation reports having facility-specific as well as system-wide policies and procedures related to accounting and business office practices.

Contracts normally are initiated by a staff member who has determined a need for and outcome desired for the contract. In high dollar cases, the finance committee reviews the proforma and approves to the next level, the Board of Directors.

Procurement requests must have a clear-cut scope of services. These requests are reviewed by corporation management and the Board of Directors.

Newly revised policies and procedures provide for acquisition management review every six months.

The semi-annual acquisition review team will evaluate the outcomes reached by each contract. Additionally, the appointed contract administrator must determine final acceptance of the product before final payment is made.

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**RECOMMENDATIONS**

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- e. Require complete contract documentation for personal services contracts; and
- f. Ensure hospitals follow contracting procedures.

The administration should improve the management of information systems by:

- a. Developing a strategic plan to define the long-term information systems needs; and
- b. Establishing standards, policies, and procedures to control information systems acquisitions.

The administration should ensure that all computer and automated medical equipment are Year 2000 compliant to preserve uninterrupted quality patient care, to maintain business operations, and to avoid liability.

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**ACTIONS REPORTED**

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Newly revised policies and procedures specify the documentation required for personal services contracts.

Corporate Materials Management Office provides the Regional Materials Management Team with periodic updates.

The corporation reports being in the process of completing the Long-Range Information Technology Strategic Plan.

The corporation reports drafting formal policies and procedures for the selection and procurement of enterprise-wide software systems.

The corporation reports completing Y2K remediation and has taken action to preserve uninterrupted quality patient care to maintain business operations and to avoid liability.

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

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**RECOMMENDATIONS**

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The Legislature should consider amending Chapter 206X, HRS, to clarify the purpose of the convention center, how the convention center should generate tourism revenues for the state, and how the effectiveness of the facility should be assessed.

The Legislature should consider extending the sunset date of Chapter 206X, HRS, determining the agency or department to assume the present functions of the Convention Center Authority, and requiring the Convention Center Authority to cooperate in ensuring the orderly transfer of its functions.

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**ACTIONS REPORTED**

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Act 98, SLH, 1999, clarified the target market for the convention center by noting that it is appropriate for the authority to give first priority to out-of-state bookings. Second priority is given to smaller corporate meetings, special events, and other local events open to the public. The Legislature also stated that the effectiveness of the convention center is to be determined by its ability to generate new tourism revenues for the State and not its ability to generate revenues to support its operations.

Act 98, SLH, 1999, extended the sunset date of the Convention Center Authority from June 30, 1999, to June 30, 2000.

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**RECOMMENDATIONS**

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The Convention Center Authority should develop clear booking policies in line with the directives of the Legislature.

The Convention Center Authority should ensure that it runs the necessary additional sound tests and adopts other measures to continue to monitor rooftop noise.

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**ACTIONS REPORTED**

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The Convention Center Authority recently passed revised administrative rules that reflect the future booking policy for offshore and local events. The revised rules are currently under review and will go to public hearings.

The authority has committed to perform sound tests on six representative rooftop events, prior to requesting a permanent liquor license for the rooftop area. To date, four of the representative tests have been done and custom designed sound amplification equipment has been purchased to minimize the impact to the surrounding community.

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Report Title: *Study of Privatizing Adult Mental Health Program Services*

Report No.: 99-11

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**RECOMMENDATIONS**

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The Department of Health should report to the Legislature on steps taken to improve contract administration practices that are necessary to support privatization of direct services. The report should include:

- a. Designating a contract administrator to be responsible for establishing a contract monitoring system;
- b. Improving its monitoring of contract providers;
- c. Establishing adequate performance measures to evaluate the effectiveness of its contractors;
- d. Requiring timely submission of monitoring reports by its contractors; and
- e. Executing its contracts in a timely manner.

The Adult Mental Health Division should establish a systematic process for consistently monitoring contractors. The process should include:

- a. Designating a contract administrator to establish the system;

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**ACTIONS REPORTED**

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The department reports that a contract administrator has been designated to establish a contract monitoring system.

Contract monitoring is being improved with the use of utilization management and review.

Performance measures are being utilized to evaluate the effectiveness of contractors.

Contractors are required to submit timely monitoring reports.

The department reports that the Adult Mental Health Division is doing all it can to execute contracts in a timely manner.

A contract administrator has been designated to establish a systematic contract monitoring process.

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**RECOMMENDATIONS**

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- b. Implementing monitoring schedules; and
- c. Coordinating fiscal and program monitoring efforts.

The Department of Health should ensure that the Adult Mental Health Division holds contractors accountable and enforces the following contract provisions:

- a. Submitting reports in a timely manner; and
- b. Submitting reports that contain all of the elements required by contract.

The division should consider again the inclusion of a liquidated damages provision in its contracts to enforce contractual requirements.

The division should take the necessary steps to execute all purchase of service contracts in advance of their effective date.

The division should develop operational plans that identify specific staff assignments, timelines, milestones, and performance standards and ensure that day-to-day operations progress toward the division's strategic goals.

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**ACTIONS REPORTED**

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Monitoring schedules have been implemented.

Fiscal and program monitoring efforts are being coordinated.

The department reports that the division is enforcing the timely submission of reports to the extent possible.

The department reports that the division is enforcing the submission of reports that contain all of the elements required by contract to the extent possible.

The division has been advised that liquidated damages are usually appropriate only for construction contracts or contracts for tangible goods.

The department reports that the division is taking the necessary steps to execute all purchase of service contracts in advance of their effective dates.

The division is developing operational plans that will ensure that day-to-day operations progress toward the division's strategic goals.

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Report Title: ***Study on the Privatization of the Child and Adolescent Mental Health Program***

Report No.: 99-12

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**RECOMMENDATIONS**

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The director of health should ensure that the chief of the Child and Adolescent Mental Health Division takes the steps necessary to ensure effective privatization, as follows:

The division should address all *Felix* compliance issues. Specifically, in implementing its new "system of care" the division should:

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**ACTIONS REPORTED**

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The Department of Health reports that it has undertaken significant initiatives to ensure effective privatization of services.

The Child and Adolescent Mental Health Division has undertaken a major initiative in managing all aspects of the quality of care provided.



## RECOMMENDATIONS

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- a. Integrate a comprehensive evaluation system for quality assurance in its contract monitoring manual;
- b. Provide additional training for staff to prepare for a smooth transition; and
- c. Prioritize the implementation of an interagency management information system.

The division should establish a comprehensive contract management process. Specifically, the division should:

- a. Implement checks and balances to ensure that service authorization requests are valid and that authorized services are actually delivered;
- b. Finalize clinical standards for assessing the quality of services;
- c. Coordinate monitoring activities among the different sections within the division and the family guidance centers; and
- d. Enforce accountability requirements for services by requiring sufficient information from providers.

The division should strengthen its oversight of the Hawaii Ohana and Mokihana projects by clarifying management responsibilities and working relationships.

The division should conduct an analysis of in-house costs to determine if its contracted services are cost-effective. The

## ACTIONS REPORTED

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The division has instituted a comprehensive quality assurance and improvement program that encompasses systematic monitoring.

The department reports that the division is cognizant of the need for training staff and providers. The department also reports that training is a part of the division's comprehensive quality assurance and improvement program.

The *Felix* Interagency Management Information System has been a priority and is part of the consent decree implementation plan. Database connectivity between Department of Health and Department of Education main databases was established. It was discovered, however, that the Department of Education's four major databases did not share data. The Department of Education issued a request for proposals to integrate its information management system and has targeted March 2000 as the deadline to have "clean" data to share with FIMIS.

The department reports that the division has a comprehensive system of checks and balances to ensure that service authorization requests are valid and that authorized services are actually delivered.

The department reports that a review team performs a records validation review at least annually.

The department reports that the division finalized its clinical standards manual and ensures that providers maintain client charts with progress notes to document the provision of services.

The department reports that the division continues to analyze cost and population projections more effectively by using

## RECOMMENDATIONS

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division should also improve its method of projecting population to accurately determine its funding needs.

## ACTIONS REPORTED

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baseline data gathered over the past years. The department reports continuing with its efforts to refine its forecast of the division's population for budgeting purposes.

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Report Title: *Follow-Up to the Study of Revenue Entitlements to the Department of Hawaiian Home Lands*

Report No.: 99-13

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## RECOMMENDATIONS

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To more effectively manage and monitor revenue entitlements to the Department of Hawaiian Home Lands, the Department of Land and Natural Resources should:

- a. Identify, through a comprehensive inventory, all sugarcane lands, state lands, and sugarcane lands disposed of subsequent to November 7, 1978. This inventory should include a complete and accurate list of all leases and permits for sugarcane lands and water licenses.
- b. Comply fully with the 1980 memorandum of understanding by maintaining up-to-date information on leases and permits for sugarcane lands and water licenses, ensuring that sufficient information is given to the Department of Hawaiian Home Lands on any action taken on the use or disposition of state lands and sugarcane lands, and affording the Department of Hawaiian Home Lands an opportunity to participate in the decision-making process for the disposition of sugarcane lands. When full compliance is achieved, the departments should evaluate the adequacy of the existing memorandum to ensure that the Department of Hawaiian Home Lands receives its full revenue entitlements.
- c. Develop formal rules, policies, and procedures to assist staff with the management of sugarcane lands and water licenses. This would include clear policies and procedures for maintaining files, identifying and monitoring sugarcane lands and water licenses, transferring revenues to the Native Hawaiian Rehabilitation Fund, and providing the Department of Hawaiian Home

## ACTIONS REPORTED

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The department sought the legal opinion of the Attorney General on the interpretation on what is required in the 30 percent entitlement. The department was advised that key passages in the relevant provisions of law are confusing and ambiguous, but that work on the opinion was ongoing.

The department anticipates basic information regarding leases and permits subject to the 30 percent entitlement will be more easily tracked and transferable to the Department of Hawaiian Home Lands with the new State Land Information Management System (SLIMS). The department executed a contract with a vendor to provide the software package integrating the accounts receivable, land inventory, and property management functions.

This recommendation will be addressed as part of the computerization project. The department entered into a contract with a vendor to assist the department in developing the formal policies and procedures manual for all Land Division operations.

**RECOMMENDATIONS**

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Lands timely information on land actions affecting their revenue entitlements.

- d. Work with the Department of Hawaiian Home Lands to develop formal procedures to plan for the future use of sugarcane lands. These procedures should ensure that the Department of Hawaiian Home Lands is involved in the planning process prior to the disposition of any lands. The Department of Land and Natural Resources should report to the 2000 Legislature on its progress towards developing policies and procedures for the overall management of sugarcane lands and water licenses.

To more effectively verify the revenue entitlements it receives, the Department of Hawaiian Home Lands should comply with the 1980 memorandum of understanding and assist the Department of Land and Natural Resources in identifying and maintaining up-to-date information on the leases and permits for sugarcane lands and water licenses. Once this is done, the department should verify the accuracy of the entitlements it receives.

The Legislature should amend Section 171-95, HRS to require an appraisal of all public lands, where trust obligations are involved, conducted in accordance with current uniform standards of professional appraisal practice, before such lands are conveyed to another governmental agency.

**ACTIONS REPORTED**

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The department identified an overall lack of planning for all state lands and intended to establish a new planning function. The department filled a special-funded planner position. This individual is currently assessing potential sites for development.

The Department of Hawaiian Home Lands did not report on its actions.

No legislation was enacted.

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Report Title: *Sunrise Analysis of a Proposal to Regulate Certified Professional Midwives*

Report No.: 99-14

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**RECOMMENDATIONS**

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House Bill No. 3123 should not be enacted.

**ACTIONS REPORTED**

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No legislation was enacted.

## RECOMMENDATIONS

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The Department of Public Safety should improve food purchasing practices by:

- a. Requesting the inclusion of neighbor island facilities into the milk price list produced by the State Procurement Office;
- b. Enforcing the small purchase provision of the Hawaii Public Procurement Code;
- c. Filling the procurement officer's position as soon as practicable;
- d. Establishing clear written procedures and reporting requirements on non-bid and exempt purchases;
- e. Enforcing state record retention guidelines that are applicable to purchasing documents and inventory records;
- f. Assessing and discontinuing the intra-departmental meat purchasing program if competitive market prices for similar meat items are more cost-effective; and
- g. Providing food service managers with necessary administrative tools (computers, fax machines, copy machines) to increase their operational efficiency. A computerized food services management system may be a solution.

The department should improve food inventory controls by:

- a. Establishing and enforcing a standardized inventory recording system and monthly reporting format;

## ACTIONS REPORTED

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The Department of Public Safety reports that it has incorporated the neighbor islands in the milk price list.

The department reports that it has enforced the small purchase provision of the Hawaii Public Procurement Manual.

The department has hired a new procurement officer.

The department reports that non-bid and exempt purchases procedures are followed in accordance with guidelines set forth by the Hawaii Public Procurement Manual and the food service manual.

Statewide food service managers are complying with the department's guidelines that apply to purchasing and inventory records. The program manager who conducts checks at facilities does enforcement.

The central branch office obtains three quotations from statewide meat suppliers. Guidelines of the exempt (fresh meats) purchasing procedures of the Hawaii Public Procurement Manual are being followed.

In the last fiscal year, upgraded computers and printers were purchased for each food service unit. The computers will be equipped with the department's purchase order program.

The department has established a standardized perpetual inventory system. In addition, food service staff conduct a physical inventory each month which is submitted to the central branch office.

## RECOMMENDATIONS

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- b. Observing physical inventory taking and spot checking food inventory and its related records;
- c. Ensuring that wardens enforce sign-in procedures for correctional officers' meals;
- d. Updating the budgeted food cost per meal figure and re-evaluating the menu to align actual cost to budget; and
- e. Utilizing the Department of Accounting and General Services' expenditure reports to determine accuracy, completeness, and reasonableness of the cost information reported in the food service managers' monthly report.

The Department of Education should monitor food-purchasing practices on a regular basis. More specifically:

- a. School personnel assigned to cafeteria management and district supervisors should routinely review purchasing documents for compliance with applicable law, rules, and procedures. Any non-compliance should be reported to the branch and the principal; and
- b. District supervisors should take an active role in scrutinizing food service managers' actual purchases by using the expenditure report and feedback report for verification. Unusual purchases should be investigated and reported to the branch and the principal.

The department should require its Procurement Office to establish and enforce standard contract monitoring procedures.

The department should require the principal to designate personnel authorized to approve invoices for payment. The Vouchering Section should obtain a listing of authorized personnel's signatures for invoice payments and verify signatures on invoices.

## ACTIONS REPORTED

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Staff members are responsible for maintaining the perpetual inventory while other staff members are responsible for taking the physical inventory. Periodic spot checking of inventory and related records is ongoing.

The wardens have enforced sign-in procedures for correctional officers' meals at the facilities.

The central branch office is re-evaluating current menus to reduce food costs per meal and to stay within budget allocations.

The central branch office utilizes these expenditure reports to validate the food service managers' monthly report and other cost records.

The Department of Education reports that changes have been made to comply with the laws, rules, and procedures. Violations of the procurement laws and procedures are reported to the principal and the School Food Services Branch.

Supervisors were re-trained to scrutinize the purchases and to identify unusual purchases based on the expenditure and feedback report. Food cost thresholds have been identified to monitor costs. Instructions to report excessive food costs include informing the principal and requiring post costing of menus.

The department reports implementing this recommendation.

Specific instructions requiring the principal to designate personnel authorized to approve invoices for payment will be finalized by end of November 1999. The department does not agree that it would be efficient to send a list of authorized signatures to the Vouchering Section for verification. However, this recommendation is under discussion to determine if there is a more efficient and effective way to do it.

## RECOMMENDATIONS

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The department should require the School Food Services Branch to:

- a. Strictly enforce the small purchase provision of the Hawaii Public Procurement Code;
- b. Identify non-bid menu items, include them on the department's price list, and also establish clear written procedures and reporting requirements for small quantity, non-bid items excluded in the list;
- c. Report exempt food purchases annually to the State Procurement Office as required by the procurement code;
- d. Establish written procedures and reporting requirements for exempt food purchases outside of the U.S. Department of Defense purchasing program;
- e. Enforce the effective use of the standard purchase requisition; and
- f. Establish and implement a training program for food service managers on food purchasing and recordkeeping.

The department should monitor food inventory and its related records on an on-going basis. School personnel assigned to cafeteria management and district supervisors should routinely review food inventory and perpetual inventory records, including unannounced audits. Any unresolved discrepancies should be reported to the branch and the principal.

The department should require the School Food Services Branch to:

- a. Establish standard inventory record keeping procedures and related forms, and enforce stricter key and access control policies and procedures to identify and document authorized personnel who have access to the key and/or food inventory;

## ACTIONS REPORTED

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The School Food Services Branch is actively enforcing the small purchase provision of the Procurement Law.

The School Food Services Branch and Procurement Section have identified non-bid menu items and have begun to include them in bid proposals. This will be an on-going effort expected to take a year to finalize.

This will be done as required by the School Food Services Branch and the department's Procurement Office.

The procedures were not put into writing, however, the Procurement Section is including the exempt food purchases of the School Food Services Program in the annual report as required.

The School Food Services Branch and Procurement Section implemented a new purchase order system and trained managers to use it.

A training program on food purchasing for managers has been implemented. Recordkeeping training was also implemented.

This recommendation was implemented.

Standard procedures, forms and training have been established. Managers were requested to review cafeteria kitchen and storeroom key distribution and access with their respective principals. The principal must determine access to and responsibility for the equipment, food and supplies in the school kitchen.

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**RECOMMENDATIONS**

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- b. Enforce federal record retention guidelines;
- c. Provide food service managers with adequate training and written instructions on the use of the feedback report; and
- d. Adjust the budgeted food cost per meal to properly reflect cost variables for grade level, districts, and for breakfast and supplementary items.

The department should require its Accounting Section to revise the monthly feedback report format to:

- a. Properly present monthly inventory balances; and
- b. Properly present actual food cost per meal by reflecting the number of breakfast and supplemental items served and weighted cost variables.

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**ACTIONS REPORTED**

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Annual record retention and enforcement is part of the manager training conducted by the supervisors.

Written instructions were circulated. Training will be provided during this school year. One-on-one training will be provided to schools with high variances.

Schools are requested to post-cost one cycle of lunch and breakfast and supplementary menus served to determine the actual costs.

A request was made to modify the feedback report to properly present the monthly inventory balances and present actual food cost per meal by reflecting the number of breakfast and supplementary items served and weighted cost variables.

In lieu of revising the monthly feedback report, the schools are instructed to post-cost one cycle of menus to manually determine actual cost to use as a guideline towards meeting food cost parameters.

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

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**RECOMMENDATIONS**

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The Department of Education should review the decision to shift responsibilities for telephone and electricity costs to schools, assess the impact of this decision, establish objectives as appropriate, and ensure that any responsibilities given to the schools are accompanied by sufficient resources and support.

The department should standardize an expenditure and encumbrance report for each of the utility Object Codes sorted by Organization ID and Program ID for use by utility program managers, schools, and the public to track complete utility expenditures.

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**ACTIONS REPORTED**

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The department has reviewed its decision, and has determined that the shift of responsibilities for telephone and electricity costs to schools will remain. The impact on schools of one or two more invoices to be paid per month is not a significant workload issue in itself. The adequacy of resources and support has been the concern of schools primarily due to other major duties and responsibilities.

A request for a new Object Code report for utilities was submitted to the Financial Management System, however the request for programming a new report is currently pending.

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**RECOMMENDATIONS**

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The department should ensure that schools are using correct Object Codes to code their utility expenditures.

As part of future budget requests for the electricity program, the department should present to the Legislature a complete and accurate forecast of the department's electricity needs, which would include:

- a. An estimate of any shortfalls from previous fiscal years based on a comparison of actual electricity costs to allotted electricity funds;
- b. Actual 12-month electricity costs from the most current available billing reports;
- c. An estimate of the projected rate increases;
- d. The projected costs of electricity for new facilities and any additions and modifications that will be completed during the fiscal year; and
- e. A justifiable projection of increases for miscellaneous growth factors, such as new technology.

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**ACTIONS REPORTED**

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The department informed the schools to use the proper Object Codes.

This was done and submitted in the FY1999 to 2001 budget request.

Actual 12 month electricity costs for calendar year 1997 were most currently available and were used in preparing the FB1999 to 2001 budget request.

Based on historical data, a five percent per year rate increase was used in the FB1999 to 2001 budget request.

A listing of the projected electricity costs for new facilities was included and forwarded with the FB1999 to 2001 budget request.

An estimated two percent increase for miscellaneous growth was included in the FB1999-2001 budget request.

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Report Title: *Study of the Fiscal Impact of Providing Certain Benefits to Reciprocal Beneficiaries*

Report No.: 99-17

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**RECOMMENDATIONS**

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No recommendations.

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**ACTIONS REPORTED**

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## **RECOMMENDATIONS**

The Hawaii Public Employees Health Fund's management should comply with state law and account for and report the Health Fund's financial activities as required by generally accepted accounting principles. In addition, management should ensure that the accounting staff improve their knowledge of generally accepted accounting principles applicable to the Health Fund.

Management should clarify the definition of a rate stabilization reserve, enforce the provisions of the contracts with the insurance carriers which require the return of excess reserves to the State, and negotiate adequate interest rate earnings on reserves to the Health Fund.

During the next contract renewal period, management should negotiate the minimum interest rates to be earned by the insurance carriers. In addition, the Health Fund should require the carriers to provide a quarterly report on the interest earned and the reserve amounts held. The Health Fund could then determine the accuracy of interest earnings reported by insurance carriers.

Management should ensure that contracts with insurance carriers are timely and properly executed.

Management should work more closely with the Legislature and the Departments of Budget and Finance and the Attorney General in resolving the issues relating to (a) the adoption of a long-term care insurance benefit plan and (b) the disposition of excess reserves created by employee contributions.

## **ACTIONS REPORTED**

The Health Fund reports that it has and shall comply with both state law and generally accepted accounting principles.

The Health Fund eliminated rate stabilization provisions from all contracts in July 1999.

The Health Fund asked its consultant to track on a quarterly basis the interest earned and the reserve amount held by each carrier.

The Health Fund reports that it will work with the Attorney General's Office to execute all contracts on a timely basis.

The Health Fund is issuing a Request for Proposals for a fully-insured long-term care insurance benefit plan. The contract is expected to be awarded in June, with open enrollment to follow, and insurance policies issued by December 2000. In the 2000 legislative session the Board will seek the Legislature's approval to offer the return of approximately \$20 million in excess employee contributions and interest.

## **RECOMMENDATIONS**

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The Outreach College (formerly Summer Session and Continuing Education programs) and the university should comply with Sections 37-53 and 36-30, HRS.

The Outreach College should exercise care in accurately and timely presenting financial statements.

The university should use special funds for the purposes for which the funds were established.

## **ACTIONS REPORTED**

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The university reports that Section 37-53, HRS, allows for the transfer of special funds to the general revenues of the State when it is determined to be in excess of the fiscal year requirements with the approval of the governor or the director of finance if so delegated. The university asserts that it acted properly with respect to the lapsing of Summer Session fund balances into the State Treasury as a response to the governor's budget restriction.

The university also reports that Section 36-30, HRS, mandates that special funds be assessed for departmental administrative expenses. The statute also exempts certain funds from this requirement. The university asserts that it acted properly when Summer Session special funds were expended for library services.

The need to strengthen the fiscal administration of the Outreach College was discussed with the interim dean of the Outreach College. The interim dean has been given the authority to fill vacant positions including any that may improve fiscal and accounting services. At an appropriate time, a follow-up internal audit will be conducted to assure that financial reports are comprehensive, timely, and accurate.

The university takes its fiduciary responsibility to tuition and fee paying students seriously and supported legislation in 1998 which now specifically requires the university to assure that special funds clearly are used to the benefit of those charged user fees.

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**OFFICE OF THE AUDITOR  
APPROPRIATIONS AND EXPENDITURES ON A BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

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**APPROPRIATIONS**

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Act 1, SLH 1998 (operations)	\$ 2,019,850
Act 1, SLH 1998 (special studies)	150,000
	<u>\$ 2,169,850</u>

**EXPENDITURES**

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Staff salaries	\$ 1,411,960
Contractual services	515,075
Other expenses	168,169
	<u>\$ 2,095,204</u>
Excess of appropriations over expenditures	<u>\$ 74,646</u>

**EXCESS OF APPROPRIATIONS OVER EXPENDITURES**

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Act 1, SLH 1998 (operations)	\$ 74,646
Act 1, SLH 1998 (special studies)	-0-
	<u>\$ 74,646</u>