

2000 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.

THE AUDITOR

STATE OF HAWAII

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STATE OF HAWAII
OFFICE OF THE AUDITOR

**MISSION OF THE OFFICE OF
THE AUDITOR**

THROUGH POSTAUDITS OF THE
ACCOUNTS, PROGRAMS, AND PER-
FORMANCE OF STATE AGENCIES,
THE OFFICE SEEKS TO ASSURE
THE ACCOUNTABILITY OF GOV-
ERNMENT AGENCIES FOR THEIR
IMPLEMENTATION OF POLICIES,
MANAGEMENT OF PROGRAMS,
AND EXPENDITURE OF PUBLIC
FUNDS. THE OFFICE REPORTS ITS
FINDINGS AND RECOMMENDA-
TIONS TO THE GOVERNOR AND
THE LEGISLATURE TO GIVE POLI-
CY MAKERS TIMELY, ACCURATE,
AND OBJECTIVE INFORMATION
FOR DECISION MAKING.

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

March 28, 2001

Ladies and Gentlemen:

This Annual Report provides a summary to date of the work of the Office of the Auditor in calendar year 2000. As we have done in each of our previous annual reports, we point out some of the major accomplishments of the year, indicate the principal issues addressed by our reports, summarize their findings, and list the reported actions taken by agencies in response to our prior year's recommendations.

Virtually every governmental entity is called upon to be accountable for its costs, programs, and services. Our audits are a means by which the public can be assured of the accountability of the agencies and programs under review. We also hold ourselves to this high standard and we seek through each of our annual reports to provide a full accounting of our work.

We remain firmly committed to the principles upon which our office was established. Specifically, we uphold the principles of independence that are necessary for us to provide you with the information needed to fulfill your own respective roles in state government.

Thank you once again for your support.

Sincerely,

Marion M. Higa
State Auditor

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2000 – A Year of New Directions and Established Principles

Successful organizations build upon their accomplishments. Instilling a “culture of learning” is also a vital key to their success and can promote institutional flexibility and creativity. However, while championing new directions as circumstances dictate, they are wise not to forsake the principles upon which they are established. Like such organizations, the Office of the Auditor strives to maintain a proper balance between change and adherence to established principles.

As noted in our last Annual Report, 1999 was a year of increasing visibility for our office. We were proud to note a heightened interest in our audit findings and recommendations. Fortunately, interest continues to grow and our office is being given new responsibilities. For example, our budget was expanded to enable us to continue reviewing *Felix* monitoring efforts and the resolution of legal issues. The Legislature’s intent is for us to obtain legal and program expertise to implement recommendations from our *Follow-Up Review of the State’s Efforts to Comply with the Felix Consent Decree* (Unnumbered).

One of our most important goals is the publication of timely, useful, and relevant reports. We noted last year that there was an increasing propensity of the Legislature to use our reports in crafting its deliberations. This trend has continued. For example, several issues in our fiscal powers report: *A Review and Identification of Fiscally Related Powers Conferred Upon or Assumed by the Executive Branch*, Report No. 01-04 have been addressed in bills introduced during the 2001 legislative session.

In 1996, we noted our continued efforts to take advantage of information technology to assist us in performing our work. We began accessing the Internet for information that would prove useful in planning and conducting our audits. This year we established a website on which our audit reports are available to the public. Information about our office and summaries of all reports issued since 1990 can be found at: <<http://www.state.hi.us/auditor>>. We believe that publishing our report summaries will help to improve their accessibility.

Governmental financial statements often may be unreadable. However, with the June 1999 is-

sue of the comprehensive changes to state and local government external reporting requirements introduced by the Governmental Accounting Standards Board, that may change. These standards also apply to public colleges and universities. Government agencies must include an analysis of their financial condition and must report infrastructure assets. Infrastructure assets are long-lived capital assets that can be preserved for a greater number of years than most capital assets. Such assets include roads, bridges, tunnels, dams, and street lighting systems. Inclusion of these requirements in comprehensive financial reports could provide for a more objective, complete, useful, and easily readable analysis of the financial activities of state government entities. Hawaii’s state and local governments will be required to implement this new model.

In the midst of growth and change, we need to guard against leaving our established principles behind. They have served us well and have enabled us to provide the Legislature with information needed for its deliberations. Foremost among these principles are generally accepted government auditing standards. Independence from the agencies we audit enables us to be impartial in our findings and recommendations. The generally accepted government auditing standards that we formally adopted in 1989 help to ensure that our staff have the qualifications to conduct audits. These standards also guide us in obtaining sufficient evidence to support our conclusions and in ensuring that our reports are complete, accurate, and objective.

Our commitment to an ongoing staff development process is unwavering. The issues that we face are complex and our findings may have profound implications for state agencies. Ensuring that all staff have sufficient training gives us confidence that our staff are knowledgeable and competent. Every staff member must complete at least 80 continuing professional education credit hours during a two-year period.

Finally, we must continue to be a watchdog of state government. This was a role placed upon the office from its very beginning. The Legislature and the public expect it. Our adherence to principles enables us to fulfill that role to the best of our ability.

**STAFF OF THE OFFICE
OF THE AUDITOR**

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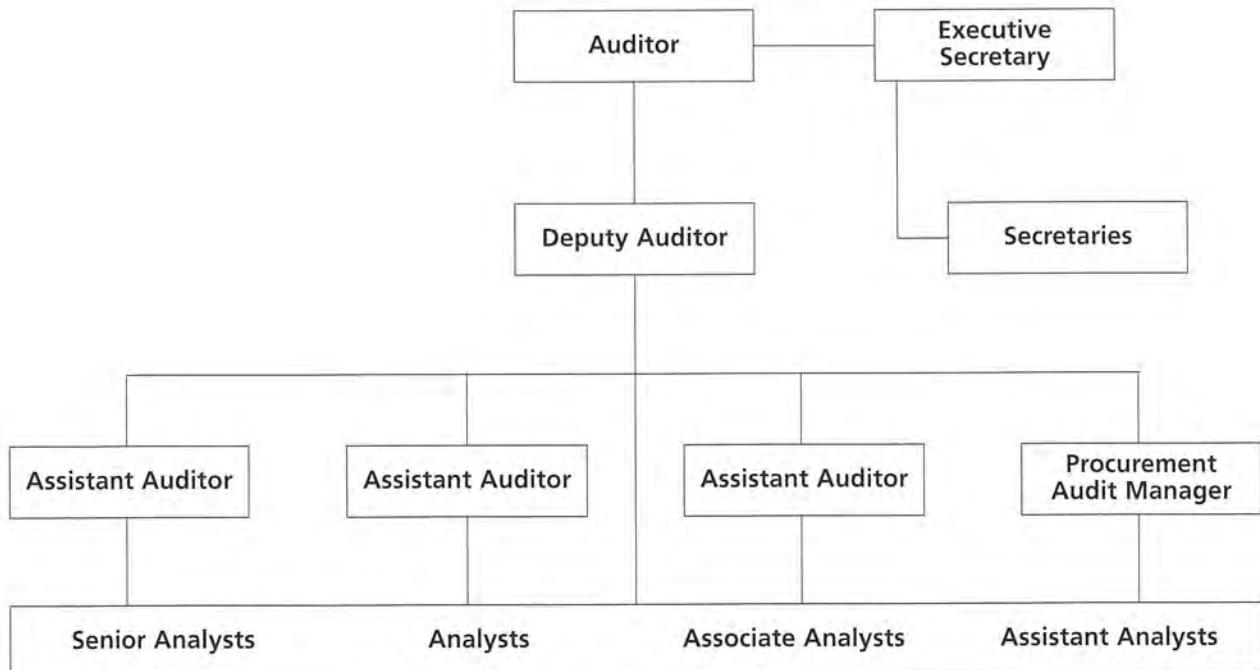
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ORGANIZATION OF THE OFFICE OF THE AUDITOR



Themes of 2000 Reports

We have published nine full reports since our previous annual report. These included seven performance audits and special studies, one sunset review of occupational regulation, and one follow-up report. Highlights of the reports begin on page 8. We also produced 81 short reviews of proposed special and revolving funds for the 2000 legislative session. Collectively, our reports addressed several vital issues affecting the functioning of government programs.

FISCAL ACCOUNTABILITY

Decisionmakers in government programs need complete and accurate information to make informed decisions. This information enables them to develop goals and objectives, and assess as well as prioritize their programs. The information must be organized and presented in a meaningful way. To promote a greater awareness of the need for fiscal accountability, we reviewed a software program (*InSite—The Financial Analysis Model for Education*[™]) that could assist decisionmakers in the Department of Education to collect and review systemwide and school-level expenditures.

We noted that the program would enable the department to track expenditures over time so that it could modify programs and operations as necessary. In addition, tracking expenditures would reveal changes in spending patterns and signal the need to shift educational priorities.

The potential benefits that could accrue to the department from using a tool such as *InSite*[™] were in sharp contrast to current reporting mechanisms. The department's report lacked complete data that would enable decisionmakers to compare costs across programs, such as special education against general education. The report also lacked the detail that the Legislature, the public, and the Board of Education needed for reviewing and assessing educational programs.

MONITORING PROGRAMS AND SERVICES

In a *Follow-up Review of the State's Efforts to*

Comply with the Felix Consent Decree, our consultants noted that the lack of an appropriate working definition of the *Felix* class has produced the unintended consequence of creating an open-ended entitlement for special education children and children with mental health issues and problems. A working definition is necessary to ensure that services provided to *Felix*-class children are effective and the least intrusive. The lack of a working definition means that there is no assurance that the services provided to *Felix*-class children are provided to the appropriate children.

In addition, the Departments of Education, Health, and Attorney General are not assessing the effectiveness of services to *Felix*-class children. By the terms of the consent decree, children, parents, and taxpayers are entitled to effective services, as well as services that are least restrictive. Without an assessment of the effectiveness of services, it would be impossible for the Departments of Education and Health to know how to match diagnoses to services and how to provide the most effective and least restrictive services to *Felix*-class children.

DATA COLLECTION

State agencies need to use information systems to collect data reliably and accurately. They also would be well served to use those systems to reduce the cost and time in collecting that data. We noted that the Department of Human Services' Information Systems could but did not adequately share information, thereby reducing their effectiveness. Automated interfaces between computer systems would omit several manual tasks, make data more readily available, and increase the reliability and accuracy of the data.

We also found the Department of Health's Safe Drinking Water Branch computerized data management system to be fragmented and inefficient. Drinking water data is maintained in a variety of independent and stand-alone databases that contain the same data. Some data are not currently entered into a central database but are kept in manual files. Maintaining

data in multiple databases duplicates efforts and the absence of electronic data leads to inefficiencies.

We also found errors in data that has been collected. The workers' compensation law was intended to provide injured workers with timely and accurate benefits. However, Hawaii's current administration of state workers' compensation claims is less than what is needed. The coordination of claims is fragmented and controls are lacking to ensure prompt and accurate payment of claims. In our review of workers' compensation claims, we found payments for authorized temporary or partial disabilities were either unpaid or unprocessed. The problem of non-payments was most severe at the Department of Education where a total of \$133,343 of authorized payments were still unprocessed. In addition, 36 percent of the claims payments in four state agencies had errors or discrepancies.

Payments to providers for medical services exceed allowable amounts and are sometimes unwarranted and unjustified. Our consultant reviewed 108 medical bills and found the State had potentially overpaid by as much as \$30,871.

CONSUMER PROTECTION

Consumer protection is a primary responsibility of a number of state agencies. On a number of fronts, the Department of Health is charged with this all-important task. In 1976, the Legislature determined that the Department of Health should have clear authority and jurisdiction to protect the public from unacceptable exposure to chemical contaminants in drinking water. The oversight of public water systems impacts the lives of all citizens in Hawaii. Protecting drinking water quality is one of the most vital environmental protection activities of the State. Adequate oversight by the Depart-

ment of Health helps ensure that water for consumption does not pose a public health risk. Overall the department has ensured that safe drinking water is distributed to the public. But, there is room for improvement.

We found in a review of over 500 chain of custody forms that the integrity of the water samples may be jeopardized by Safe Water Branch and State Laboratories personnel who do not consistently follow accepted documentation procedures or fail to completely document chain of custody. Chain of custody is used to trace the possession of a sample from the moment of its collection through its analysis and interpretation. Information necessary to accurately trace the chain of custody was often missing from the chain of custody forms.

In addition, onsite reviews of water systems are among the most important tools states can use to help ensure water system compliance with drinking water requirements and are an essential element of a state's drinking water program. The effectiveness of Hawaii's program has been weakened by an extended period of inactivity in the early 1990s and a lack of consistent follow-up on recommendations made in the reviews.

We also addressed consumer protection issues in our *Sunset Evaluation of Barbering and Beauty Culture*. Barbering has been regulated in Hawaii since 1947 and beauty culture, also known as cosmetology, has been regulated since 1929. The primary purpose of regulating barbering and beauty culture is to protect consumers from potential harm. We found that many of the potential health risks associated with barbering and beauty culture are preventable if the Department of Health's rules and regulations are followed. In addition, federal regulation provides a measure of protection.

Essay: *The Push for Accountability*

Typically our reports address the twin issues of effectiveness and efficiency in state government. For example, we examine how government agencies monitor and control their costs and whether they have plans and policies to ensure that their goals are met.

State legislatures and the public alike expect government programs to have clear purposes, develop programs that are faithful to those purposes, and provide quality services. These expectations may be primary drivers in the push for government accountability.

State government is undergoing a quiet revolution. Agencies are being charged to re-think their purposes and their relationships to citizens. This revolution pushes government officials and their staff to implement such concepts and practices as "Governing for Results," "Accountability," "Performance Management," and "Performance-Based Budgeting." How do efforts to put these terms into practice affect services and the lives of people in the state?

Agencies are mandated to continually review the benefits of their services. This is what the term "Governing for Results" implies. Government agencies need to continually examine and reexamine themselves. They annually "take themselves into account." Such ongoing examination could result in a plan that clearly describes their goals and objectives. This plan would also include how progress towards goals and objectives is going to be measured.

How can state agencies ensure the quality of services if they do not have quality data? How can they justify their programs without that data? A number of state legislatures now require agencies to present performance data as part of the budget review process. Legislatures are also turning to state auditors to review a sample of the performance data for appropriateness and quality. According to the National Conference of State Legislatures, both the Florida and Texas legislatures now rely upon auditors to vouch for the data being presented to them.

Virtually all state agencies in Hawaii as well as across the nation are asked to develop clear visions and strategic plans. In addition, state plans need to be adopted. Some agency strategic plans were established in the early 1960s but now they are found in most states. Agency strategic plans are used to communicate both outwardly and inwardly. Outwardly, they inform the executive branch, legislative committees, and others just what to expect of the agency in the near future. Inwardly, they help staff members understand the agency mission and priorities and the need to coordinate shared objectives.

Another term that is being used more often in state government is "performance budgeting." The use of this term is another break from past practices. Putting performance budgeting into operation first requires some agreement on how various terms such as inputs, outputs, goals, and indicators are to be defined.

Legislatures can provide agencies with some incentives for using performance measures. These incentives might include:

1. Increased funding;
2. Exemption from reporting requirements;
3. Increased funding transferability;
4. Formalized recognition or accolade;
5. Awards or bonuses;
6. Expanded responsibility;
7. Expanded contract authority.

Recently Hawaii's State Legislature has addressed some of these issues. In 1999, the Legislature found that improving government operations through strategic planning could result in more effective government programs and improved coordination among different agencies and levels of government.

The Legislature also believes that the development of goals and objectives is essential in determining priorities, guiding their decisions, and measuring effectiveness. However, many of Hawaii's state agencies have not formally established goals and objectives. Thus, the Legislature required all departments and agencies to identify their goals, objectives, and policies. Each department and agency is to submit an annual report to the Legislature addressing the following:

- (1) A statement of goals, including what the department or agency hopes to accomplish both short and long term;
- (2) Objectives and policies, specifically setting forth how each goal can and will be accomplished;

- (3) An action plan with a timetable indicating how the established objectives and policies will be implemented in one, two, and five years; and
- (4) The process that the department or agency will use to measure the performance of its programs and services in meeting the stated goals, objectives, and policies.

Should our state agencies conscientiously develop clear goals and objectives, adopt policies to achieve them, and consistently measure their progress, these agencies may be able to more truthfully claim a greater degree of accountability to the public and to the Legislature.

Summary of Reports – 2000 Work Program

PERFORMANCE AUDITS AND STUDIES

- *Fiscal Accountability Audit of the Department of Education: Analysis of Selected School Expenditures*, Report No. 00-14
- *Audit of the Department of Health's Oversight of Public Water Systems*, Report No. 00-15
- *Allocation to New Century Schools Project – FY2000-01*, Report No. 01-01
- *Audit of the Workers' Compensation Payment Process in State Agencies*, Report No. 01-03
- *A Review and Identification of Fiscally Related Powers Conferred Upon or Assumed by the Executive Branch*, Report No. 01-04

- *Audit of the Department of Human Services' Information Systems*, Report No. 01-05
- *Audit of the Office of Hawaiian Affairs*, Report No. 01-06

SUNRISE/SUNSET ANALYSES

- *Sunset Evaluation of Barbering and Beauty Culture*, Report No. 01-02

FOLLOW-UP AUDITS

- *Follow-Up Review of the State's Efforts to Comply with the Felix Consent Decree*, (Unnumbered Report)

Fiscal Accountability Audit of the Department of Education: Analysis of Selected School Expenditures, Report No. 00-14

In our sixth fiscal accountability audit of the Department of Education we demonstrated the kinds of information that can be generated by a tool like *InSite—The Financial Analysis Model for Education™*. We applied *InSite™* to the educational expenditures for FY1998–99 to determine per pupil spending, school-by-school spending, and spending by such functions as instruction and instructional support. We also assessed the department's expenditure reports that are required by Section 302A-1004, HRS. We found that *InSite™* reports can provide useful information for identifying spending patterns over time, determining why spending may vary from specified norms, averages, or standards, comparing spending patterns to determine the reason for cost variations among schools, and comparing costs with educational outcomes. We also determined that the State spent \$6,998 per pupil in FY1998–99. These costs include

moneys spent not only by the Department of Education but other departments as well. While the Department of Education has met the fiscal accountability reporting requirements specified in Section 302A-1004, HRS, the department's reports were not as useful and detailed as those produced by *InSite™*. Finally, provisions of Section 302A-1004, HRS, do not meet the reporting requirements intended in Act 199, Session Laws of Hawaii 1999. As a result, a meaningful comparison of expenditures by schools, programs and functions is not possible.

Audit of the Department of Health's Oversight of Public Water Systems, Report No. 00-15

The Department of Health is designated as the state agency with overall responsibility for ensuring that the public is provided safe drinking water. The federal Safe Drinking Water Act of 1974 required all public water systems to meet national standards that would protect consumers from harmful contaminants in drinking

water. The Safe Drinking Water Branch of the Department of Health maintains a program of statewide public water system supervision that includes surveillance, monitoring, technical assistance, engineering review, and enforcement. Our audit was limited to assessing the department's activities related to drinking water that is distributed by public water systems (either publicly or privately owned) for human consumption. We found that overall, the Department of Health has effectively monitored public water systems to ensure that safe drinking water is distributed to the public. However, further improvements would enhance the State's safe drinking water program. All chemical monitoring requirements were satisfied for the systems we randomly selected in the audit. However, one water system collected fewer coliform (microbiological) samples than required. We also found that the department, through the Board of Certification of Operating Personnel in Water Treatment Plants, has adequately managed its certification program. Chain of custody and sampling procedures require clarification to ensure the full integrity of all water samples collected by the Safe Drinking Water Branch and public water systems. In addition, sanitary surveys performed by the branch have not been timely, and follow-up on survey recommendations is uneven. In addition, we found that the branch's inadequate data management system causes inefficiencies. We also found that microbiological violations are effectively addressed, and that the department has ensured that Hawaii consumers are informed of safe drinking water violations. Enforcement actions against "significant noncompliers"—violators who pose the greatest risk to health—are appropriate but sometimes untimely. Moreover, available resources have not been maximized. Finally, inadequate staffing levels of the loan fund program have hampered progress.

Allocation to New Century Schools Project – FY2000-01, Report No. 01-01

The 2000 Legislature requested the State Auditor to determine the appropriate allocation of the Department of Education's general funds to new century charter schools. For FY2000-01, there are six Board of Education approved new century charter schools. In this report, on our

third year of making the allocations, we refined our allocation methodology and modified the allocation process. In addition, the allocation methodology was adapted to apply to various types of public and new century charter schools. We also reported the advice of the superintendent of education and the local new century charter schools and our accommodation of their advice. The allocation methodology to new century charter schools consists of the fixed and variable costs components. The fixed costs component is based on the department's deployment of its personnel regardless of student enrollment. The variable costs component consists of moneys that are more directly linked to student enrollment. These moneys are identified on a per pupil basis. We presented allocations for FY2000-01 for six new century charter schools.

Audit of the Workers' Compensation Payment Process in State Agencies, Report No. 01-03

Hawaii's workers' compensation law was established to provide benefits in a prompt and accurate manner to employees who sustain a work-related injury or illness. Because of concerns about the State's administration of workers' compensation for its own employees, we initiated this review of the workers' compensation payment process in state agencies. Our review focused on the four state agencies with the largest number of open workers' compensation cases. We found that workers' compensation benefits are neither timely nor accurate. Delays were found in every step of the workers' compensation claim process. Disability payments were late in 65 percent of the cases we reviewed. In one case, a claimant waited over 14 years to have her disability payment processed. We also found errors and discrepancies in disability calculations in 36 percent of the cases we reviewed. Finally, we found that payments for claimants' medical services exceeded allowable amounts.

A Review and Identification of Fiscally Related Powers Conferred Upon or Assumed by the Executive Branch, Report No. 01-04

Senate Concurrent Resolution No. 47 of the

Regular Session of 2000 requested that the State Auditor review and identify fiscally related powers conferred upon or assumed by the executive branch since 1987 that may be reclaimed or re-asserted by the Legislature. During our review, we heard a variety of conflicting opinions regarding the degree to which there exists a legislative-executive imbalance. We found few specific instances in which the executive branch's fiscal powers had increased since 1987. Indeed, since 1987, the Legislature appears to have reduced the executive branch's fiscal powers in certain respects. We concluded that Hawaii's Legislature generally resembles other states in its exercise of fiscal powers, but does not play as formidable a role in the budget development and enactment processes as in some other states. As has been done elsewhere, Hawaii's Legislature could act to curtail executive branch flexibility and exercise considerably more control over the use of state resources. The Legislature could take steps to assert its will and improve its ability to review and monitor the State's economic condition and the actions of the executive branch. Should the Legislature desire to do so, it could pursue options to enhance its fiscal powers. The Legislature could:

- Strengthen its technical capabilities;
- Exercise more of its existing powers over appropriations;
- Take on additional budgetary powers; and
- Tighten its control over executive branch spending.

Audit of the Department of Human Services' Information Systems, Report No. 01-05

The mission of the Department of Human Services is to provide high quality, efficient and effective services designed to achieve self-sufficiency for clients as quickly as possible. Information systems are valuable technological resources that aid in achieving this mission by automating tasks, recording vast and varied information efficiently, and generating accurate management reports. This audit assessed the Department of Human Services' information systems' effectiveness in providing for public welfare needs efficiently. We found that the department's failure to follow state information systems planning guidelines hindered the

department's ability to recognize and plan for more effective information systems. In addition, the department's major computer systems do not effectively share information. This results in duplicate data entry and more data inaccuracy. Also, inaccurate data and limited usefulness of the department's social services computer system undermine the computer system's effectiveness. Using automated auditing software, we found significant amounts of missing, inaccurate, and inconsistent data. Finally, the department missed the opportunity to finance an upgrade of the computer system's functionality with enhanced federal dollars.

Audit of the Office of Hawaiian Affairs, Report No. 01-06

The Office of Hawaiian Affairs (OHA) is a state agency responsible for improving the conditions of all persons of Hawaiian ancestry. This audit assessed the adequacy of OHA's management of its resources, its efforts to improve the conditions of all Hawaiians, and the efficiency of the agency's organizational structure. We found that the Board of Trustees has not adequately planned to improve the conditions of Hawaiians. The board has allowed OHA's master and functional plans to remain outdated and has inefficiently planned for program expenditures. The board has also failed to uphold its fiduciary duties and inefficiently managed OHA's public land trust funds. Certain trustees misused funds for personal needs. The board did not invest in international equities for many years although required to do so by OHA's investment policy. OHA did not ensure that funds disbursed from its grant and Native Hawaiian Revolving Loan Fund programs were well spent. OHA awarded over \$900,000 in grants during FY1998-99 without ensuring that the recipient agencies indeed provided services to Hawaiians. We reviewed OHA's organizational effectiveness and concluded that OHA's on-going reorganization has led to a state of crisis.

Sunset Evaluation of Barbering and Beauty Culture, Report No. 01-02

We conducted a sunset review of the regulation of barbering and beauty culture. Since 1980, we

have conducted two sunset evaluation reviews of barbering and three of beauty culture. In all five previous reports, we recommended against the continuation of the statutes under which the two occupations are regulated (Chapter 438 and Chapter 439, HRS). We found that little has changed since we last evaluated these occupations over ten years ago. The practices of barbering and beauty culture pose a minimal risk to the public's health, safety, or welfare. Locally and nationally, there is little evidence of abuses by barbers and beauty culturists. Furthermore, protection from the potential harm posed by these two occupations exists within the purview of other state and federal agencies' regulations. In addition, other incentives exist for practitioners to prevent harm to consumers. Finally, we found that regulation of barbering and beauty culture reduces the number of individuals able to provide services and thereby limits consumer choice. Relatively high failure rates for barbering and beauty culture examinations indicate that these examinations are barriers to entry into the occupations. As a result, consumers face a reduction in the selection and quality of services, while facing higher costs for those services.

Follow-Up Review of the State's Efforts to Comply with the Felix Consent Decree, (Unnumbered Report)

This review was conducted by the Center for the Study of Youth Policy, School of Social Work, University of Pennsylvania. The consultants evaluated the efforts to develop, implement, and clarify a working definition of the *Felix* class and the maintenance of effort requirement. They also examined whether funding for carrying out the decree is reported consistently by the Departments of Education and Health. The consultants found that while the departments had made significant progress in establishing a system of care for *Felix* children, a working definition of the *Felix* class had still not been established. The lack of a working definition results in the departments' system of care that provides open-ended entitlements and inconsistent services, and lacks an ability to ensure that services provided are effective. Our consultants also found that there is an appearance of a blurring of roles and responsibili-

ties of the court monitor, a technical assistance panel, and psychologists who diagnose and provide services to children. In addition, the individualized education program process is flawed. Prescribed interventions are based on broad categories of disabilities rather than tailored to individual student needs. Also, *Felix*-related costs and services continue to be inconsistently reported. Consequently, it is impossible to examine the budgets and determine the cost of core and essential services versus the costs of new, experimental, and non-essential services. Finally, the consultants found inconsistent coordination continues between the Department of Education and the Department of Health.

Actions Reported on Previous Recommendations

(Report Nos. 99-20 through 00-13)

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

RECOMMENDATIONS

The health fund program and all of the union programs should be combined into one overall program. This will reduce and possibly even eliminate the potential adverse selection in the current approach. In addition, it should increase the overall program's negotiating leverage with health plans and create economies of scale. An employer/union trust fund approach is a reasonable way to accomplish this end.

As long as there are competing public employee health benefit plans, annual financial reports need to clearly show the underlying cost increases in the program, including the effect the union plans have on overall costs. This would require a much better understanding of the costs of the union plans than is now available to the health fund.

The health fund should be given more authority and flexibility to deal with the dynamics of the health care marketplace. Requiring legislative approval for simple changes to the program, such as moving to a multi-tiered contribution approach from a two-tier approach, results in a program that is not able to react to the marketplace. We believe a common view held for other state programs is that the state supplies funds, by defining the level of employer contributions and the boards, along with their administrative agency, determine the most cost effective means to utilize those funds.

Consideration should be given to restructuring a board to oversee a single program approach for the Hawaii Public Employees Health Benefit program. The size of the board is not necessarily of great importance, as is shown by the great variety in other state programs ranging in size from four to 13 trustees. However, there should be relatively equal representation between unions and government employers, if it is to be a joint union/employer trust or similar program. Some knowledge of employee health benefit programs and their financing should

ACTIONS REPORTED

The health fund reported that three bills during the 2000 legislative session proposed eliminating all union plans and consolidating their plans into the health fund's benefit plans. However, those bills were not enacted.

The health fund reported that the board is responsible for administering the health fund plans, not the cost analysis of both health fund and union plans.

Under the health fund law, the board may implement multi-tiered contribution rates even if the law mandates public employer "self only" and "family" contributions.

To date, exclusive representatives have negotiated a two-tier approach (self only and family) in their collective bargaining agreements with public employers. With the implementation of the Health Fund Information Management System, the health fund will be able to administer multi-tiered contribution rates.

Unless the health fund law is changed, the Board of Trustees is not able to implement a defined contribution plan.

The health fund reported that this concern should be addressed by the State Legislature.

RECOMMENDATIONS

be required for at least some of the members of the board.

More carriers should be encouraged to participate in the program. The requirement of statewide service capabilities should be removed to allow qualified regional plans to participate in their service regions. This will create greater competition among health plans and should result in more competitive rates.

Medicare Risk and Medicare + Choice plans should be considered for retiree options as more of these kinds of programs become available. At times these can be more cost effective than Medicare Supplement coverage. Therefore, it is important to monitor these programs as changes occur both within the Medicare system and in the state.

Employer contributions for retiree coverage under the program are among the highest in the country. Because of the magnitude of the accrued post-retirement benefit liability, consideration should be given to reducing employer contributions for retirees in certain areas, which would reduce this liability. Some possibilities for future consideration for such reductions include the Medicare Part B premium subsidy; contributions for spouses of retired employees and/or early retirees; limiting contributions to a percent of the cost of the lowest cost plan; contributions determined under the assumption that each retiree has both Medicare Part A and Part B coverage for those at age 65 and above; and contributions for retirees who reside on the mainland.

The amount of the accrued liability can also be reduced by changing the benefits for retirees and their dependents. Some possibilities for consideration include using an annual maximum for the prescription drug benefits, limiting other benefits, and improving utilization management or review practices.

The Board of Trustees of the Hawaii Public Employees Health Fund should fulfill its fiduciary responsibilities by reviewing and improving its rate stabilization efforts.

The board should work closely with the Legislature, the Department of Budget and Finance, and the Department of the Attorney General to resolve the disposition of excess reserves created by employee contributions.

ACTIONS REPORTED

This was accomplished when Act 25, SLH 1999, deleted the word "statewide."

When the board solicits new plans, it is hoped other health plans including future regional plans, if any, will compete against the HMSA and Kaiser plans.

The board is currently reviewing initial proposals for the redesign of the HMSA and Kaiser medical and prescription drug plans. Medicare Risk and Medicare + Choice plans will be simultaneously considered.

The Hawaii State Legislature determines the contribution amount for retirees. By law, public employers are required to pay those contributions to the health fund.

Regarding retiree contribution issues, public employers should discuss their concerns with the State Legislature.

Regarding the accrued liability, each public employer is responsible for the payment of such benefits.

Regarding plan redesign, the Board of Trustees has just started reviewing those issues.

The Board of Trustees' current contracts do not include rate stabilization deposits.

The board on three separate occasions has introduced amendments to the health fund law requesting the Legislature to authorize the board to dispose of excess employees' reserves. To date, all of the legislative efforts have failed.

RECOMMENDATIONS

The board should immediately begin to audit the union health benefit plans on a periodic basis to ensure that premiums are being paid to purchase health benefits.

The board should exercise its fiduciary responsibility by analyzing the impact of the union plans on the health fund. It should reexamine the validity and applicability of the attorney general's July 1979 opinion concerning the board's responsibilities and liabilities for the union health benefit plans.

The board should continue with its plans to design and implement a new Health Fund Information Management System.

The board should ensure that work on the implementation phase of the health fund's new computer system does not begin prior to a properly executed contract.

The board should review and improve its contract management practices to protect the interests of the State, the health fund, and the consultant.

The board should continue its efforts to establish a long-term care plan for the Hawaii Public Employees Health Fund.

The board should improve customer service for retiree and employee beneficiaries by:

- a. Requiring the administrator to establish a formalized feedback system with employees, retirees, and beneficiaries, and also with the state and county employers;
- b. Examining ways of improving customer service for retirees;
- c. Monitoring the carriers' customer service; and

ACTIONS REPORTED

In 2001, the board again will introduce a bill for the authorization to distribute such reserves to employee-beneficiaries.

The health fund reports that its staff do not have sufficient audit capabilities.

The State Legislature permitted the participation of union plans into the health fund plans. Any impact analysis should be determined by the Legislature.

To date, the board has not received information from the State Attorney General's Office to update their 1979 opinion.

The HFIMS contract was signed on December 29, 1998. From July 1, 2000, a new health fund computer system using the Peoplesoft software program was implemented. By July 1, 2002, the health fund anticipates DPO access to the HFIMS via the Internet/Intranet.

The health fund reported noting the recommendation.

The health fund reported noting the recommendation.

This has been accomplished. The board entered into a contract with Hartford Life Insurance Company effective October 1, 2000.

Any complaint not satisfactorily resolved by the administrator may be appealed to the Board of Trustees.

The administrator is constantly working with insurance carriers to improve the quality of their service.

The health fund reported that this recommendation is not applicable.

RECOMMENDATIONS

- d. Considering the creation of an ombudsman role for the health fund to trouble-shoot problems on behalf of its beneficiaries.

ACTIONS REPORTED

The health fund is responsible for enrollment while the insurance carriers are responsible for benefits administration. Upon request, the administrator intervenes to assist beneficiaries to resolve their problems with the insurance carriers.

Report Title: **Sunrise Analysis of a Proposal to Regulate Professional Mental Health Counselors and Professional Rehabilitation Counselors**

Report No.: 99-21

RECOMMENDATIONS

Senate Bill No. 2341 should not be enacted.

ACTIONS REPORTED

No legislation was enacted.

Report Title: **Follow-Up Audit of the Management of the College of Education**

Report No.: 99-22

RECOMMENDATIONS

The College of Education should continue to communicate its clarified mission to relevant stakeholders, especially students, and ensure that programs are sufficiently developed and evaluated.

ACTIONS REPORTED

The university reported that the "clarified mission" was a good start toward giving direction to the College of Education (COE) and communicating to stakeholders the nature of the college and its programs. Also, in an attempt to comply with standards of the National Council for the Accreditation of Teacher Education (NCATE), the college has built upon the foundation of the mission by establishing a vision statement, statements of principle, and five thematic themes that cut across all of the programs of the College. Together these elements (including the mission statement) form a coherent conceptual framework that gives direction to all that is done in the college. The conceptual framework is clearly described on the college's web page, in brochures, and in all major publications of the college. The Fall 2000 edition of the college's newsletter, which goes to over 15,000 alumni and friends, included a special article describing the college's conceptual framework. The dean or a faculty member presents the conceptual framework to all new students during student orientations. The dean presents the conceptual framework to alumni groups, policy makers, arts and sciences deans and faculty, college advisory groups, and other stakeholders whenever possible. All programs have aligned programs and course

RECOMMENDATIONS

The College of Education should provide adequate guidance for its program development process by:

- a. Establishing written policies and procedures for its undergraduate and post-baccalaureate programs that identify who develops and approves programs within the college;
- b. Resolving governance issues;
- c. Ensuring that all proposals for new programs provide the information required by university policy and that such proposals contain cost and impact statements; and
- d. Conducting a comprehensive assessment of the impact of cohorted field-based programs on students, faculty, resources, and graduation rates.

ACTIONS REPORTED

objectives to the conceptual framework as well as to standards of relevant learned societies and the Hawaii Teacher Standards Board. The results of the program and department work are documented in notebooks prepared for the NCATE visitation team in March 2001. All students wishing to enroll in COE teacher preparation programs must pass the national Pre-professional Skills Test. All students seeking admission to the post-baccalaureate program in secondary education or the Masters of Education in Teaching program must also pass relevant national academic content tests. All students seeking licensure with the Hawaii Department of Education must pass relevant national academic content exams and relevant national exams of pedagogy.

The university reported that written policies are in place and provided a copy of the policies.

Governance issues have been resolved. The only questions and concerns remaining relate to the organization of the recently created department of Teacher Education and Curriculum Studies. This is not a governance issue as much as it is an issue of effectiveness and efficiency. The dean decided to not address any reorganization of that department until after the NCATE accreditation review in March 2001.

All new programs have been approved by the College of Education Faculty Senate, the Manoa Faculty Senate, the Senior Vice President, the President and the Board of Regents.

Program assessment is aligned with standards and the conceptual framework. For several years, students completing the teacher education program have responded to a questionnaire about the program they completed. Results of these evaluations have been compared over the last six years and a clear trend has become evident. Every year for the last five years (since the establishment of the cohort program) students have rated their preparation program higher than previous years. Most graduate programs have also conducted evaluations though on a less systematic basis.

RECOMMENDATIONS

The dean of the College of Education should clarify responsibility for program evaluation and develop and implement a coordinated evaluation process for all programs.

ACTIONS REPORTED

This year the college implemented additional program evaluations. Three-year alumni of all programs receive questionnaires about their programs. Employers (principals) of these alumni also receive questionnaires. The faculty will analyze the results of these surveys and appropriate actions will be taken.

In 1999, the COE co-sponsored a symposium with the Hawaii Teacher Standards Board to determine the extent to which recent first year teachers (graduates of the college) meet the teacher standards.

Graduation rates for the college have not changed significantly over the last ten years. Thus, it is fair to say that implementation of the cohorted field-based programs has not changed the graduation rate positively or negatively. There is some evidence, however, that the new program is more efficient. Graduation rates are steady while enrollment has declined. Students who enter the cohort field-based programs graduate at higher rates and in shorter periods of time.

Faculty conducted a thorough assessment of the PBCSE program in light of NCATE standards and made significant changes. All students are now required to take classes in technology, special education, and diversity. In addition, PBCSE students must pass relevant academic content knowledge tests before they can be admitted to the program.

The university reported addressing this issue in response to the previous recommendation.

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

RECOMMENDATIONS

The Department of Human Resource Development should more closely examine the problems related to temporary and emergency appointments, including the impact of these appointments on the merit system. In the course of the re-examination, the department should consider various options including the following:

ACTIONS REPORTED

The department agreed with the recommendation and embarked on an ambitious overhaul of the civil service system. Its response pointed to the enactment of Act 253, SLH 2000, which lays a new foundation to modernize the civil service personnel system.

RECOMMENDATIONS

- a. Revising its rules on temporary and emergency appointments where necessary to ensure their clarify and usefulness;
- b. Inspecting all line agencies for compliance with civil service laws governing temporary and emergency staffing; and
- c. Regularly producing complete and accurate reports submitted to the Legislature and line agencies that document the number and types of emergency appointments, the length of each appointment, initial reason(s) for the appointment, and any reason(s) for subsequent extensions. Also, the reports should include any findings regarding noncompliance, the legitimacy of the appointment or extensions, and recommendations to rectify any problems.

ACTIONS REPORTED

The department is currently in the process of working with line departments to redefine, reduce and simplify the appointments as well as the appointment process itself. And, the department may eliminate the use of emergency hires if it no longer serves a purpose consistent with the merit principles.

The department is preparing to begin the auditing of the appointment process, and will shortly be undertaking this effort, beginning with the Department of Education. The department has directed its Administrative and Audit Division to focus on insuring the departments meet their obligations under their delegated authorities. Because there may be misunderstandings that delegation means that departments are not accountable, the department is designing agreements that spell out the responsibilities of the departments and consequences for noncompliance.

It is projected that the department will implement this recommendation by July 1, 2001. The department will be focusing on redesigning the type of appointments that meet the operational needs in balance with the merit principles. The department is also prioritizing its work to focus on eliminating work processes to free up resources.

Report Title: **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

RECOMMENDATIONS

No recommendations.

ACTIONS REPORTED

RECOMMENDATIONS

The Legislature should allow Chapter 467E, HRS, the social worker regulatory law, to be repealed as scheduled.

If regulation continues, the Legislature should amend Chapter 467E by:

- a. Repealing Section 467E-6(1), the "licensing" exemption for overlapping professions;
- b. Repealing Section 467E-6(2), the "licensing" exemption for government social workers;
- c. Repealing Section 467E-9(b) that waives the usual examination requirements in the case of applicants who have passed the Academy of Certified Social Workers examination administered by the National Association of Social Workers prior to June 30, 1995;
- d. Adding a provision for "licensure" by reciprocity and endorsement; and
- e. Repealing Section 457E-12(7), which authorizes enforcement action against social workers "engaging in conduct or practice contrary to recognized standards of ethics for the social work profession."

If regulation continues, the director of the department of commerce and consumer affairs should:

- a. Adopt administrative rules clarifying how the department will interpret "professional misconduct" in enforcement actions against social workers;

ACTIONS REPORTED

The Legislature did not repeal Chapter 467E, HRS, the social worker regulatory law.

No legislation was enacted.

No legislation was enacted.

Act 225, SLH 2000, did not repeal Section 467E- 9(b). However, this section was amended to make the waiver apply only if the application for licensure is filed with the Department of Commerce and Consumer Affairs by June 30, 2000.

Act 225, SLH 2000, added a new provision for reciprocity and endorsement.

No legislation was enacted.

The department disagreed with this recommendation and has not adopted clarifying rules. The term "professional misconduct" establishes an administrative remedy based upon malfeasance in the course and scope of the profession. "Professional misconduct" must be interpreted broadly to allow discretion to determine the propriety of a wide range of conduct. The Regulated Industries Complaints Office's investigative review by an advisory committee member ensures that members of the profession are involved in determining "professional misconduct" in a manner that is both reasonable and sufficiently clear.

RECOMMENDATIONS

- b. Ensure that a licensing clerk uses reports of the Disciplinary Action Reporting System of the American Association of State Social Work Boards to identify "license" applicants' previous disciplinary actions;
- c. More actively monitor the administration of the social worker "licensing" examination carried out by the department's primary contractor, the American Association of State Social Work Boards;
- d. Observe examinations periodically and give feedback to the association for improvement as needed in such areas as exam security, noise, and compliance with procedures for early arrivals and ID verification;
- e. Review the proposed letter of agreement with the association to ensure adequate testing frequency and testing locations, and monitor compliance with the agreement;
- f. Consider giving the examination on uniform dates previously set;

ACTIONS REPORTED

The department established a procedure for the licensing clerk to use the Disciplinary Action Report System reports.

The department has begun re-establishing and actively monitoring its working relationship with the American Association of State Social Work Boards to administer the licensing examination. To date, an updated agreement has been finalized, special administration of the exam for Hawaii candidates has been coordinated, and the most current information regarding the AASSWB's new examination contract with the test delivery center has been received.

A site observation was completed in July 2000 and written feedback was provided to the AASSWB. The department continues its efforts to address and improve the services of the test delivery center regarding noise, compliance with procedures, etc. In the past, the department alerted the more influential associations, such as the National Council of State Boards of Nursing and the Federation of State Boards of Physical Therapy, of the various areas where the test delivery centers needed improvement. It was anticipated that improvements brought about by the influence of the larger associations would also benefit the administration of the other licensure examinations. The department intends to continue to conduct site visits and to submit feedback and requests to the associations regarding the performance and services of the test delivery center.

A current agreement between the AASSWB and the department was established in April 2000. Assurances regarding adequate testing frequency and locations were made. In addition, a special administration of the examination was coordinated by the department for candidates residing on the Big Island in September 2000. It is the department's understanding that permanent test sites will be available on the neighbor islands from mid-2001.

This recommendation has not been adopted because the department has determined that offering the exam year-round is more convenient for candidates than offering the exam on uniform dates. Candidates prefer the year-round flexibility to schedule to sit for an examination at their convenience.

RECOMMENDATIONS

- g. Amend Chapter 53, Hawaii Administrative Rules, to establish a suitable penalty fee for late renewals of the social worker "license," and amend the renewal application form accordingly;
- h. Revise the application form and instructions by clearly stating the statutory requirements on equivalency of accreditation, allowable examinations, and proportional renewal fees, and list the proportional renewal fees in the license fee category; and
- i. Establish clear written requirements for documentation of the "licensing" process, including how to document the date of issuance of temporary "licenses."

ACTIONS REPORTED

The department revised Chapter 16-53, Hawaii Administrative Rules, to establish a penalty fee for late renewals of the social worker license. The renewal application will be amended prior to the next renewal.

Revisions were made to the application form and instructions. The new application and instructions include statutory requirements on equivalency of accreditation, allowable examinations, and proportional renewal fees in the license fee category.

The department does not issue "temporary" licenses. Rather, the department issues a "provisional license" which is used by the applicant as an indication of licensure only until the permanent license indicia is received. The department has established a written policy and procedure directing the licensing clerk to record in the computer the date that the "provisional" license is issued. The "provisional" license is mailed the day after it is recorded in the computer.

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

RECOMMENDATIONS

The Legislature should continue the regulation of speech pathologists and audiologists.

The Department of Commerce and Consumer Affairs' Professional and Vocational Licensing Division should continue to administer the licensing of speech pathologists and audiologists with the aid of a professional board.

ACTIONS REPORTED

No legislation addressing the regulation of speech pathologists and audiologists was enacted, thus these two professions continue to be regulated.

The department reports that it has adopted and implemented the recommendation.

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

RECOMMENDATIONS

No recommendations.

ACTIONS REPORTED

RECOMMENDATIONS

The director of public safety should make security his highest priority by:

- a. Re-examining the current classification system and, as needed, updating the guidelines used to determine inmate classification levels in order to ensure that classifications are based on security rather than space availability. The director should consider reducing the biennial reclassification of inmates, and require classification reviews only when events in an inmate's history may result in a possible change in custody level. The director should ensure that the department guidelines comply with department policies, and that staff complete the timely and accurate classification of all inmates within department guidelines;
- b. Requiring all inmate misconducts to be adjudicated in a timely manner as required by the Hawaii Administrative Rules. The wardens of facilities that fail to comply with this standard should be held accountable and progressive disciplinary action taken as needed;
- c. Filling all tool control and key control officer positions in order to ensure that adequate attention is given to the serious deficiencies in these areas. The director should require staff to immediately update all weapon, tool, and key inventories and account for all items daily;
- d. Making each warden responsible for ensuring that inmates with access to facility areas where the canine unit "alerted to" are screened for illegal drug use. Wardens should be accountable for ensuring that proper disciplinary procedures are followed and classification reviews are conducted for all inmates testing positive for illegal drug use;

ACTIONS REPORTED

The department reports having formed a task force to reexamine its entire classification system and to develop and implement the following:

- A gender-responsive classification system;
- A classification training program that includes a retraining process;
- A validation and reliability study every three years; and
- An automated classification system.

The department also reports having strengthened its process of moving inmates to appropriate security levels. In addition, the department is developing an audit plan to assess whether its facilities have been complying with department classification policies. The department reports that it does not and has not based its classification of an inmate on space availability.

The department reports that it will be capturing data on the timely adjudication of inmate misconducts, and wardens will be held accountable for failing to comply with the department's standards.

As stated in department policy, either the facility's chief of security or operations officer is responsible for tool control and key control. There are no dedicated tool control and key control officer positions. Nevertheless, as of April 30, 2000 all keys and tools have been accounted for and controls have been put into place to maintain that accountability.

The department reports having procedures that allow wardens to screen inmates with access to areas where canine units alert to drugs.

RECOMMENDATIONS

- e. Ensuring that all facilities are adequately staffed and equipment maintained to sufficiently screen inmate visitors and check deliveries. At a minimum, all visitors should be pat-searched for contraband, and metal detector screening should be consistently performed prior to allowing visitors access to secured facility areas. In addition, all deliveries should be examined for contraband;
- f. Enforcing the intermittent searches of inmate living areas to detect and deter the flow of contraband; and
- g. Planning for and resolving inmate populations that exceed facility design and operational capabilities.

ACTIONS REPORTED

The department has purchased hand-held metal detectors for every facility and has implemented procedures governing their use. All visitors are pat-searched unless gender appropriate staff are not available. In that situation, inmates are strip searched upon completion of visits to ensure that contraband is not passed.

A majority of the facilities are now in full compliance with department search policies. Those who are in partial compliance have been performing daily cell inspections, semi-annual shakedowns, and searches for probable cause.

The security coordination office has been working with the security chiefs from all facilities and has developed a search tracking system to monitor the frequency and appropriateness of searches.

The department's response to the problem has been to continue to send appropriate inmates to 1,200 out-of-state contracted beds in Arizona, Oklahoma, and Minnesota. The department has several rotations per year in which the department brings home inmates who are nearing the end of their sentences and replaces them with new inmates. The department tries to bring inmates home with enough time before their tentative parole dates to provide them with a smooth transition between prison and release to parole.

In addition, the department has developed an emergency release plan that it is prepared to implement if overcrowding becomes a serious threat to health and safety. The plan includes a prioritized list of inmates who are the closest to their release. For example, qualified inmates would take their place on work furlough, and qualified inmates in medium security facilities would be placed in the minimum security facility. The department has also structured an inmate movement system to ensure that inmates are housed in facilities that are appropriate to their security levels—in other words, to ensure that an inmate who qualifies for minimum security is quickly moved out of Halawa to either Waiawa or Kulani Correctional Facilities. However, the department will not release any inmate who poses a risk to public safety.

RECOMMENDATIONS

The director should improve inmates' access to medical services by identifying the health care staffing needs of each facility and ensuring that each facility is staffed to comply with department medical service requirements.

The director should ensure compliance with the federal Civil Rights of Institutionalized Persons Act and restore inmate rights in the department's grievance procedures. Specifically, the director should:

- a. Immediately fill the department's grievance officer position, and other facility grievance positions as needed, to ensure that all inmate grievances are responded to in a timely manner;
- b. Require that facilities discontinue the practice of allowing partial staff to review and address inmate grievances, and
- c. Ensure that all facilities have the resources necessary to track grievances.

The director should establish clear guidelines for staffing the department's correctional institutions. The guidelines should identify appropriate staff to inmate ratios for inmates at all custody levels. Once this is done, the department should assess the staffing at each of its correctional institutions to ensure that sufficient staffing is available and that unnecessary or unwarranted positions do not exist.

The training development office should accurately track all adult correctional officer training courses and hours to ensure compliance with training requirements and to provide management with the information needed to revise the current shift relief factor. Once the department is able to accurately identify the average training for adult corrections officers, this information, together with the state average of sick and vacation leave, should be included in the shift relief factor to identify acceptable staffing levels for facility operations.

ACTIONS REPORTED

The department is in the process of developing a comprehensive staffing plan for the health care unit.

The Civil Rights of Institutionalized Persons Act (CRIPA) does not govern the department's grievance procedures.

The Inspections and Investigations Office and the Corrections Division are presently exploring the feasibility/appropriateness of restoring the responsibility and authority over the inmate grievance process to the Corrections Division.

Such a movement should provide the process with staffing resources that are sufficient to ensure that services are continuously maintained at all times.

There are no "facility grievance positions" to fill.

Facilities have been reminded.

See above #a.

There are many factors that go into the staffing of a correctional facility. Inmate to staff ratios are only one of those factors, and in some situations, inmate to staff ratios are completely irrelevant.

The department has developed work position plans for each facility. These plans identify which posts are essential, program, and warden-select and the department is staffing facilities on a daily basis according to these plans.

The department has hired a new training services division administrator who began work on November 1, 2000. The new administrator has outlined plans to develop a comprehensive training plan which will include an appropriate staff training tracking system.

RECOMMENDATIONS

The department should continue to address problems with possible leave abuses and the resulting overtime costs incurred by facilities. Wardens should improve the timely identification of staff eligible for the sick leave abuse program and implement the program for food service staff.

Each warden should ensure that the facilities' asset records are complete and accurate. Any unaccounted for property should be reported to the director for review and investigation as needed.

The department's audit and compliance officer should periodically review the financial operations of the Correctional Industries Division to ensure that it fulfills its mission and complies with state law and department policy.

The director should ensure that staff, inmates, and out-of-state facilities housing inmates are paid accurately. To improve the accuracy of these payments the director should:

- a. Require the monthly review of staff leave records;

- b. Require that inmate pay be withheld if there are no supporting timesheets and that inmate pay be audited by the department auditor, with that auditor ensuring that pay rates are accurate; and

ACTIONS REPORTED

The Corrections Division has had positive results with the sick leave patterns program and has, to a large extent, controlled sick leave abuse. This has been the result of the department working closely with the UPW.

The Department of Accounting and General Services has recently implemented a system to reconcile all purchases during the year with additions to the inventory. Meanwhile, the department fiscal office is organizing a workshop to train all program inventory custodians on the proper recording, transfer, and disposal of items.

After the programs have reconciled their inventories and reported their inventory status to the central fiscal office, an audit will be conducted to verify the accuracy of their inventories.

The department is developing an audit plan to conduct regular financial and performance audits of its programs and facilities. The audit plan is in its final stages of development.

The department has been selected as a pilot site for the implementation of a statewide automated time and attendance/payroll system called KRONOS. The Department of Accounting and General Services is spearheading the KRONOS project and plans to begin implementing the pilot project at one of the correctional facilities in February 2001, pending union concurrence.

Inmate pay procedures have been revised to include a process to verify work hours, hourly rates, and deductions. The American Correctional Association is currently conducting a field audit of the Correctional Industries that includes a review of the inmate payroll system.

In addition, the department is developing an audit plan to review the inmate payroll system at Correctional Industries.

RECOMMENDATIONS

- c. Require the department's auditor to review the accuracy of the department's custody reports and the accuracy of invoices from out-of-state contractors.

The director should comply with Chapter 353, Hawaii Revised Statutes, by enforcing the collection of all restitution and child support orders for inmates under the department's jurisdiction. The director should work with the chief justice to ensure that information on all court ordered payments for individuals sentenced to incarceration are routinely shared with the director. The director should also establish procedures for facilities to disburse payments to the Judiciary and Child Support Enforcement Agency as applicable.

The director should require that facility staff carry out the proper fiduciary responsibilities over inmate trust accounts. Specifically, staff should be required to:

- a. Make daily deposits and recordation of inmates cash receipts;
- b. Ensure the segregation of cash handling responsibilities;
- c. Properly allocate inmates' pay;
- d. Perform timely monthly reconciliation between inmate ledgers and bank statements; and
- e. Report any discrepancies between inmate ledgers and bank statements to the director with an explanation of the discrepancy.

ACTIONS REPORTED

The department is putting together an out-of-state unit to manage the out-of-state contracts. This unit will also provide case management, which will improve the department's oversight of the contracts.

The department is in the process of implementing a module in its CMIS that will automatically process victim restitution and child support payments. Once this module is fully implemented, the department will work with the Judiciary on forming a task force to deal with the problem of disbursing payments.

The department currently does not have sufficient staff to do daily deposits. The department has looked into alternatives such as armored car services, however, this is not cost-effective for the smaller facilities. Therefore, the department directed the facilities to make deposits anytime they reach \$250. If the deposit total for the week is less than \$250, they are required to still make a deposit for the week.

At the larger facilities, cash handling responsibilities are segregated. However, at the smaller facilities, where resources are limited, the department segregates the recordation from the deposit and receipt functions.

The situation at the correctional facility has been rectified. Inmate pay is being properly allocated between non-restricted and restricted accounts.

The department has contracted with a private accounting firm to assist in reconciling inmate accounts and in identifying problems with the current system.

The private accounting firm has also been tasked to balance the inmate ledgers with the bank statements and will be reporting any differences to the director.

RECOMMENDATIONS

- d. To the extent possible, clarify the use of \$867,108 in interest earned prior to 1992. Transfer \$59,444 in interest to the state general fund immediately. Transfer all other accumulated interest earnings to the general fund unless justifiable reasons for not doing so can be established;
- e. Return unidentified payments to sender faster than 90 days until multiple personal identification numbers have been eliminated. Correct data errors causing unidentified payment reports by replacing batch dates with actual transaction dates;
- f. Develop reports to allow monitoring unidentified payment refund activity;
- g. Follow escheating procedures in accordance with Chapter 523A, HRS and establish a more reasonable holding period to comply with Chapter 523A-13, HRS;
- h. Provide appropriate safeguards over assets, including installing safe storage for cash and checks while awaiting transfer and spot checks of transactions by supervisors;
- i. Address the lack of segregation of the agency accountant's duties; and

ACTIONS REPORTED

The transfer of the \$867,108 in June 1995 and the \$59,444 in July 1996 in interest earnings through June 30, 1996 to the agency's trust fund (T-902N) was a decision made to meet the matching 34% State Share funding requirements of the KEIKI child support computer system with the federal funding (66%).

The agency's Support Disbursement Unit (SDU) is charged with the processing of the unidentified payments automatically generated daily by KEIKI computer system. The processing of these unidentified payments is basically a manual process. The assigned SDU staff has brought down the unidentified payments to less than 1% of total deposits at any given time.

The agency makes every effort to return valid unidentified payments (those not with "no case" and "multiple personal identification numbers" situations) faster than 90 days from date of receipt.

The agency notes that it has developed reports to allow monitoring of unidentified payment refund activity. Where necessary, the Information Technology Office (ITO) staff of the agency continue to develop this area after the PRWORA review when more programming resources are available.

The KEIKI computer system has an escheatment process program ready to be activated. An escheatment process will be activated for fiscal year 2001.

The agency's Support Disbursement Unit (SDU) is located separately from the operational functions of child support on the third floor of the Kakuhihewa State Building in Kapolei. A vault is secured in the SDU area. Cash and checks are stored in this vault until depository transfer is made through an armored car service. A log is maintained for all disbursement checks picked up at the State computer center and verified by sequential counts by the CSEA supervisor when received.

There is now a proper delineation and segregation of the agency accountants' duties and responsibilities. Particularly, authorized signatories of any of the bank checking accounts are not part of the accounting staff. Bank reconciliations are done by the accounting staff and reviewed by the chief accountant as well as the agency's Chief Financial Officer.

RECOMMENDATIONS

- j. Modify access to computer records to minimize the risk of loss through undetected unauthorized alterations.

To address the lack of leadership strategies and deficiencies causing waste and complaints from clients, the agency should:

- a. Formalize the agency's mission. Perform a thorough assessment of the current processes, organization, and controls to evaluate their contribution to the agency's mission. Develop a formal mission statement and a strategy, including, if appropriate, a work process re-engineering plan, to guide the organization towards achieving its mission, using benchmarks to measure progress. Consider acquiring appropriate expert advice and emulating successful models from other states for this task;
- b. Improve the use of its resources. More aggressively exploit its technological capabilities and improve work processes both within the agency and in concert with stakeholders. Specifically, establish and encourage the use of payments and direct deposits by electronic transfer to the maximum extent possible;
- c. Make a concerted effort to correct bad data in a systematic manner, dedicating staff to the conversion;
- d. As part of an overall strategic plan, develop a strategic plan for its computer system to maximize its organizational structure to make optimal use of the KEIKI system and provide adequate support for systems maintenance. This plan should also address the need for adequate user training;

ACTIONS REPORTED

The KEIKI computer system is programmed to allow access in accordance with respective users' security roles based on their functions and duties. For example, non-financial workers are unable to make financial adjustments; financial workers are unable to update case demographics, such as addresses, etc.

The agency's primary mission as mandated by law is to establish, collect, disburse, and enforce child support orders. Additionally, the agency's mission statement and goals and objectives are based on the federal standards on performance measures, namely: paternity establishment performance measure, support orders establishment performance measure, current support payments performance measure, arrears payments performance measure, and cost effectiveness performance measures. The agency provided a copy of its goals and objectives.

The maximum use of electronic fund transfer was part of the agency's KEIKI computer system design and programming. Hence, the computer system is programmed to process electronic funds transfers (EFT), both incoming payments and outgoing disbursements. However, a technical issue must be addressed, i.e., the smooth interface between the computer systems of the bank and the agency including reports required to validate electronic transactions. The agency expects to complete the EFT process after the PRWORA review.

The agency has recently established a KEIKI Steering Committee (KSC) to address not only bad data but also all issues related to the KEIKI computer system. The KSC team actively meets weekly.

The KSC team is currently addressing this recommendation.

RECOMMENDATIONS

- e. As part of an overall strategic plan, plan and implement a reorganization addressing optimal organizational structure, functions, needed employee types, positions, classifications, and needed support infrastructure for employees. In addition, develop a system of performance benchmarks for organizational units and individuals which define expectations, allow measuring results and positive recognition of results and progress. As part of the support infrastructure for employees, improve training and establish clear written policies and procedures;
- f. Comply with overtime provisions of Department of the Attorney General policies and procedures;
- g. As part of an overall strategic plan, develop an effective customer service function. The plan should address the development and training of broadly experienced workers, focus on resolving problems at first contact, assign accountability for responding to and resolving client problems, and aim to make the agency a more user friendly organization; and
- h. Consider the feasibility of using an experienced contractor for handling public contact customer service functions, possibly on a temporary basis.

ACTIONS REPORTED

The KSC team is currently addressing this recommendation.

The agency concurs with this recommendation and is adhering to attorney general policies and procedures.

Currently, an automated Voice Response Unit (VRU) is operational and is being used by child support participants. Additionally, the agency is exploring the options provided by emerging technologies to provide additional customer service through the Internet and Electronic Fund Transfer system.

Customer service, including telephone, face to face response (walk-in) and correspondence will be greatly improved with the governor's approval of 23 positions dedicated for customer services.

This recommendation has been reviewed and is currently one of the options available.

Report Title: **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

RECOMMENDATIONS

No recommendations.

ACTIONS REPORTED

RECOMMENDATIONS

The Convention Center Authority should:

- a. Clearly delineate the convention center operator's specific objectives and responsibilities;
- b. Clearly define and communicate the level of performance it expects from the convention center operator; and
- c. Develop and implement an evaluation mechanism that uses clear and consistent measurement criteria.

The Board of the Convention Center Authority should ensure that the authority abides by all aspects of the State Procurement Code.

The Legislature should determine which agency should assume oversight responsibilities for the convention center. If the Legislature determines that an agency or jurisdiction other than the Convention Center Authority should assume oversight responsibilities, an appropriate transition period should be accommodated.

The Convention Center Authority should resolve remaining punchlist and warranty items to ensure that all state interests in the convention center are protected and to ensure that the design/builder assumes all costs for which it is responsible. If the remaining items are not resolved and the Convention Center Authority sunsets on June 30, 2000, the Legislature should ensure that mechanisms are in place to continue the State's responsibility to monitor the resolution of punchlist items.

ACTIONS REPORTED

The Hawaii Tourism Authority (HTA) assumed the responsibility for operating, managing, and maintaining the Hawaii Convention Center when the Convention Center Authority sunset on June 30, 2000. Consequently, the Hawaii Tourism Authority was asked to provide information on actions that it had taken to implement the recommendations directed to the Convention Center Authority.

The Hawaii Tourism Authority reported that it had adopted 11 objectives for the convention center operator to achieve.

The authority and the convention center operator have developed qualitative and quantitative evaluation criteria to assess the performance of the convention center operator.

The authority identified performance measures and targets for the convention center operator.

The authority reported that state procurement statutes will be strictly adhered to as applicable except where exemptions are authorized by law. The authority will ensure this compliance through monthly reviews with the convention center operator.

No legislation on oversight responsibilities was enacted. However, the control and management of the convention center was transferred to the Hawaii Tourism Authority by Executive Order.

The authority reported that it was coordinating with the Department of Accounting and General Services to provide support in the pursuit of the remaining punchlist and warranty items. The authority reports that the design/builder will be held accountable for a building of the quality specified, and for which the design/builder proposed and was contracted.

RECOMMENDATIONS

The Legislature should consider amending Section 206X-10.5, HRS, by stipulating that gross revenues rather than net revenues be deposited into the Convention Center Capital and Operations Special Fund.

ACTIONS REPORTED

No legislation addressing the responsibility for monitoring the resolution of punchlist items was enacted.

No legislation was enacted.

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

RECOMMENDATIONS

The Highways Division should require that projects be accurately planned and designed to avoid unnecessary change orders and excess appropriations. The division should establish and ensure adherence to project scoping procedures. Furthermore, bond financing should be based on accurate cost estimates to avoid incurring additional debt from interest payments.

The Highways Division should develop statewide maintenance standards that include preventive maintenance practices. The division chief should determine which portion of the maintenance budget should be earmarked for preventive maintenance.

ACTIONS REPORTED

The Highways Division continues to address current and past shortfalls on highway coordination issues such as planning, design, construction and maintenance. The Highways Division is currently in the process of establishing a Project Coordination Unit, with ad hoc capabilities.

Although it is the goal of the division to minimize change orders and excess appropriation, the division does not have 100 percent control over the construction industry which faces, as an every day event, contract delays caused by weather, uncharted underground utilities, unknown burial grounds, acts of God or other unforeseeable events. As a result, accurate planning and designing has a nominal effect on the extent of change orders, however, the division's project scoping activity continues to place emphasis on planning, designing and accurate projections of project funding estimates.

The Highways Division issues bonds based on projected funding requirements for projects. An accurate projection of project funding estimates improves the accuracy of bond issuance.

The Highways Division is currently developing a Statewide Maintenance Standard and Preventive Maintenance Program which will include updates to the division's procedures manual and includes project scoping standards and criteria. Additional resources are also being sought to execute implementation and training.

RECOMMENDATIONS

The division chief should ensure that an accurate inventory of the state highway infrastructure is maintained for budgeting and planning purposes.

The Highways Division should ensure public safety by scheduling and prioritizing all maintenance activities. Specifically, the division should:

- a. Use the pavement management system to schedule resurfacing projects; and
- b. Assign responsibility for collecting the data needed to prioritize bridge maintenance work using the bridge management system (PONTIS).

ACTIONS REPORTED

The Highways Division has a limited revenue base, and has developed a financial plan accordingly to meet its operational requirements including Special and Routine maintenance Programs. All Special Maintenance Projects are prioritized within the constrained funding level of \$40 million in FY2000 and 2001, and \$50 million in FY's 2002 through 2007. The Highways Division is further constrained by the transfer of Highway Funds to other agencies.

The Highways Divisions has executed an "Agreement for Professional Services," with an accounting firm to assist in developing and implementing the infrastructure asset reporting requirements as recently mandated by the Government Accounting Standards Board 34(GASB). The infrastructure assets include, but are not limited to, pavement, bridges, and tunnels.

The Highways Division is proposing to centralize the acquisition and maintenance of the highways inventory. The division is currently assessing requirements to identify and determine, "the best course of action," in the development, execution and implementation of an Asset Management System which will be presented to the next highways administrator for review.

All Highways Division projects take into consideration all aspects of safety (need to upgrade guardrails, signage, lighting, ADA requirements, etc.) and cost that determines the final priority of the projects.

The Pavement Management System is just one of the tools currently used to prioritize resurfacing projects.

Although the PONTIS System continues to be on track and scheduled for full implementation in 2003 by the Design Branch the current lack of appropriate manpower hampers the branch's ability to effectively implement the complete use of PONTIS. This lack of manpower is currently being addressed and requires a major reorganization of the Design Branch, which the department hopes will be completed prior to 2003. However, with the loss of a permanent highways administrator, the department has placed a hold on all reorganization proposals until the selection of a permanent highways administrator.

RECOMMENDATIONS

The division chief should hold all districts accountable for timely bridge/roadway inspections and corrective action as needed.

The director of transportation should ensure the efficient use of highway funds. The director should improve the highways division's financial management by:

- a. Ensuring supervisors review and properly approve all overtime requests. Staff should not be allowed to incur overtime on days they are sick or on vacation leave. Furthermore, the director should ensure supervisors follow established procedures to ensure the fair and equitable distribution of overtime. Line staff and supervisors who fail to comply with established overtime practices should be subject to progressive disciplinary action up to and including dismissal;
- b. Requiring that compensatory time under the Fair Labor Standards Act be restricted to the federal limit and that all staff exceeding this limit are immediately paid. In addition, the director should require that compensatory time earned is tracked and that this information is reported to the payroll office in a timely manner to ensure that staff who exceed the federal limit are paid expeditiously;

ACTIONS REPORTED

The Highways Division is currently coordinating with various highways branches/ districts and FHWA to ensure that there is no lapse in responsibilities and proposes to use Lotus Notes to post bridge related information. These findings will be reported to the new highways administrator who shall further determine functional accountability and proceed to take long term corrective action for timely bridge/ roadway inspections and corrective action.

The Highways Division continues to strive to make the best use of funding allocations. As a result the Highways Division is currently developing a six (6) year "Project Implementation Plan" (FY2002 to FY2007), which includes Operations & Maintenance, Special Maintenance, CIP and Federal Aid Projects, with fiscal constraints projected for the first three (3) years (FY2002 to FY2004).

The Highways Division conducted a review of overtime criteria currently used by each branch, district and staff office to authorize overtime. The division has directed all branches, districts and staff offices to adhere to the Departmental Staff Manual in the authorization and implementation of overtime. The division has issued an Overtime Criteria Policy and is requesting departmental assistance/support to conduct a comprehensive review of overtime which will not only address audit concerns but be used to manage and monitor overtime on a regular basis. The Highways Division proposes to conduct quality reviews of overtime, amongst other items. If warranted, "progressive disciplinary action" shall be taken in accordance with department policies and respective collective bargaining union contracts.

The Highways Division agrees and complies with the Fair Labor Standards (FLSA) requirement to cap compensatory time at 240 hours. The Highways Division records and monitors compensatory time against the federal requirement when the employee has completed a "federal week." The Highways Division does not allow any employee to accumulate more than 240 hours, as allowed under FLSA and therefore, it appears that the audit may be in error and may have misinterpreted state compensatory time as FLSA. If however, an overage does occur, employees are and shall be paid for overtime that exceeds the 240 hours FLSA ceiling utilizing the Individual Time Sheet or State Accounting Form D-55, which is processed through Central Payroll. Various branches and district offices have elected to allow employees to accrue compensatory

RECOMMENDATIONS

- c. Following established procurement laws and rules to prevent favoritism and unnecessary costs to taxpayers;
- d. Enforcing policies and procedures related to contract monitoring and evaluation of contractors; and
- e. Tracking all project phases from start to completion to ensure that related costs are identified, paid, and collected. The director should identify all outstanding utility agreements and immediately resolve any outstanding debts and collections.

ACTIONS REPORTED

time with the understanding that the compensatory time shall be taken within a two (2) week period. Compensatory time not taken within this two (2) week period is cashed out. All overtime is accounted for and recorded on a regular basis utilizing both the State Accounting Form D-55 and Attendance and Leave Record (DPS Form 7). At present the State does not have a cap/ceiling on the accumulation of state compensatory time and as such the Highways Division defers to respective collective bargaining union contracts on compensatory time accrued, use and cash conversions.

The Highways Division continues to follow the procurement guidelines contained in the Departmental Staff Manual and/or executive memorandums (whichever is most current) to include state procurement policies.

The Highways Division is currently developing written Consultant Selection and Contract Development/Management Guidelines for both State and Federal-Aid Projects with a tentative suspense date of 12-1-00 and 6-1-01 respectively.

The Highways Division has implemented quality control measures to track and manage all project phases to correct deficiencies. The division has identified and confirms that construction project closeout is a major problem that needs to be addressed. The division is currently reviewing proposals to allocate appropriate resources to correct this issue and reviewing the feasibility of implementing an AASHTO supported program, a "Site Manager," to cut down on paperwork and ensure that necessary documentation is completed through construction project closeout.

The Highways Division is closing out old/outstanding Federal-Aid Projects. Approximately 209 projects were identified and 72 have been closed. Additional positions have been identified to reorganize the staff services office, a major reorganization, to include the permanent establishment of a Federal-Aid Section, to further support and maintain the resolution of outstanding debts and collections that affect Federal-Aid Project Closures.

RECOMMENDATIONS

The State Procurement Office should consider imposing procurement violation sanctions against the department. Any intentional violation should be subject to criminal and/or civil penalties authorized under Chapter 103D-106, HRS, and Hawaii Administrative Rules. At a minimum, the administrator of the State Procurement Office should review the division's procurement and training procedures and make recommendations for improvement, including progressive disciplinary action as warranted.

The governor should ensure that the director of transportation follows procedures for organizational change established in existing administrative rules and directives. Specifically, the governor should ensure that:

- a. The director is given a deadline for submitting all organizational changes at the branch level and above to the director of finance for review;
- b. The director reports all changes approved below the branch level immediately to the director of finance; and
- c. The director ceases use of *administrative assignments* and submits all changes in the functions of positions to the Department of Human Resources Development for review and classification.

ACTIONS REPORTED

The State Procurement Office reported that some of the Department of Transportation Procurement Staff may not have a clear understanding of the State's procurement law and rules. The procurement office has requested a response from the department regarding the audit findings on the department's procurement practices.

The governor's office reports that upon the director's approval of the "Notification of Intent to Reorganize," all non-delegated organizational changes at the branch level and above are submitted for initial review and pre-submission conference. Union consultation is sought upon the completion of the review and pre-submission conference. The organization proposal is then sent to the director of finance for final approval.

The governor's office reports that the Highways Division continues to be in conformance with the Department Staff Manual, Part 2, Chapter 1, and Administrative Directives 90-01 and 95-06, for delegated reorganization (below the branch level).

Upon the director's approval of the "Notification of Intent to Reorganize," all delegated organizational changes below the branch level are promptly submitted for union concurrence/approval prior to the director's final approval. Upon final approval by the director all changes are promptly submitted/reported to the director of finance.

The governor's office reports that the Highways Division has ceased utilizing administrative assignments as a means of making informal functional and organizational changes. Administrative assignments in the Highways Division promptly ceased upon receipt of the State Auditor's findings.

RECOMMENDATIONS

The Highways Division should increase its span of supervisory control to a minimum 1:5 ratio and eliminate all unnecessary supervisory positions.

ACTIONS REPORTED

The Highways Division has many employees who do not fit a 1:5 framework. A review of the 1995 and 1999 highways organization was conducted and the results revealed that the division's average operating supervisor to subordinate ratio in 1995 was 1:8 and in 1999, 1:7. The results also revealed that the Highways Division decreased its total positions from 1995 to 1999 by 6 percent. Branch, district, and staff offices are responsible for the continuing and periodic review of their particular units. Part of the review is a critical assessment of functions being currently performed, a review of actual workflow to determine efficiencies and takes into consideration where program emphasis should be at present and in the future to include future staffing requirements and the audit concerns. The division also continues to work and comply with the Department of Budget and Finance and the Department of Transportation in addressing this concern in all of its reorganization proposals.

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

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RECOMMENDATIONS

Management should allow sufficient time to negotiate and execute contracts before existing contracts terminate in order to protect the interests of the system and allow it to meet its investment objectives.

The board should require management to closely monitor the custodian's performance and submit regular reports on appropriate and timely measures taken to strictly enforce all contract provisions. Management also should report regularly to the board on the custodian's performance.

ACTIONS REPORTED

The Employees' Retirement System reports having established monthly meetings with its deputy attorney general to discuss outstanding retirement system issues, including contracts. It also reports establishing an internal tracking system to identify all contracts, especially those expiring within one year. In addition, it established an administrative policy to begin the procurement process no later than nine months prior to contract expiration or date of required services.

The board required the bank custodian to implement an action plan to correct contract performance deficiencies. The bank custodian is required to provide monthly updates on its progress in meeting all action items. Staff reviewed the latest report from the bank custodian. All deficiencies identified by the audit are being addressed or have been eliminated by the bank custodian.

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RECOMMENDATIONS

The system should refund excess employer contributions to the State general fund in a timely manner. In addition, the system should initiate efforts to receive 100 percent of employer contributions, including federal/special funds. The Department of Budget and Finance should assure the monitoring over and collection of federal/special fund pension assessments, since it hires and reviews the work of the consultant who determines the pension assessment. Moreover, the department is responsible for the custody and safekeeping of state funds; therefore, excess contributions would remain in the state treasury without additional processing time for the system to generate and send a check.

The system should execute contracts prior to the receipt of services, extend contracts as necessary in a timely manner, include all pertinent contractual clauses, and continue to work with the consultant to complete the data purification project's purpose of expediting benefits processing.

Management should work closely with the state and county departments to obtain timely information and continue to work toward completion of the Data Purification Project in order to reduce the amount of manual calculations and verifications.

The system should continue to monitor its unfunded liability and work with the Legislature to ensure continued improvement of its financial condition and reduction of future employer contributions.

ACTIONS REPORTED

The retirement system reports that it will be refunding the excess employer contributions shortly.

The Department of Budget and Finance reports that its FB2002-03 budget request includes funding pension accumulation (PA) requirements for the State utilizing 100 percent general funds. Under this proposal, non-general fund programs will reimburse the general fund for their share of PA requirements. The Employees' Retirement System will return any currently held reserves. Upon approval by the 2001 Legislature and appropriation of required general funds, the department will be responsible for federal/special fund PA reimbursements.

The retirement system reports that the data purification project is nearly completed. The consultant is assisting with the processing of the member statements and updating the coding to the applications. The retirement system anticipates completion by January 2001.

The retirement system established internal procedures specified in the first recommendation to ensure that contracts are executed on a timely basis.

The retirement system is developing procedures to eliminate the manual calculations and streamline the process to finalize pension benefits. The Enrollment, Claims, and Benefits Branch is developing a checklist to ensure an expedited and consistent review of the final pension calculations. In addition, automated worksheets from the data purification project are used to identify anomalies for further investigation. Previously, the claims examiners had to manually identify these anomalies.

The retirement system reports that with an actuary's assistance it has been monitoring the unfunded actuarial accrued liability. The preliminary draft of the 2000 valuation reports a decrease in the unfunded actuarial accrued liability by approximately \$45 million from FY1999. The system will be communicating with the Legislature during the 2001 session to ensure that the retirement system's funds, including excess investment earnings are not used to defray government operation costs.

RECOMMENDATIONS

The department should establish and implement procedures to ensure federal grants are approved prior to the commencement date of the grant. In addition, the department should seek legislative authorization for any federal moneys credited to its general fund.

The department should also submit its financial report on or before the submission date as required by the U.S. Office of Management and Budget's Circular A-133. If the department expects that the financial report will not be submitted by the due date, it should notify the cognizant agency and obtain approval for the late submission.

The department should also review all lease agreements to ensure new lease rents are implemented during the re-opening periods as stated in the lease agreements. This review should be performed prior to the implementation of the new land management system so that the re-opening dates can be properly entered into the new land management system.

ACTIONS REPORTED

Federal funds for this particular grant are not available for obligation until six months into the state fiscal year. Federal funds represent approximately 40 percent of the operating budget for the Historic Preservation Division, the recipient of this grant. Unless the division skips federal funding for one year and substitutes this loss of federal funds with another means of financing, the division will always be in this situation. Pre-award grant requirements previously done after the funds were obligated are now done before the obligation amount is known. This revised process should translate into the grant being approved four to five months earlier than in the past. The department reported that its fiscal personnel and auditors met with representatives of the Department of Budget and Finance and that the Department of Budget and Finance did not indicate a need to change procedures concerning accounting for the receipt of federal funds.

The department reported that letters to its cognizant agency were submitted on July 29, 1999 and October 26, 1999. The department did not receive any responses to those letters.

The department reported that it filed the FY 99 audit in a timely manner and expects that the problems associated with the late FY 98 report will not occur again.

The Land Division has conducted an extensive review to ensure reopenings are timely. During the data conversion phase, all lease agreements were reviewed to ensure the reopening periods are entered correctly into the new State Land Information Management System (SLIMS). Three separate levels of staff are checking this information to ensure accuracy and consistency in the interpretation of reopening language. The department anticipates that these verified reopening dates will be entered into SLIMS when the accounts receivable component goes live in December 2000. The reopening dates were also cross-checked with past rent changes to ensure that all past reopenings were, in fact, completed.

RECOMMENDATIONS

In addition, the department should review all leases and permits to ensure that all bonding and insurance requirements are being met. This review should be performed prior to the implementation of the new land management system so that current bonding and insurance policy expiration dates can be properly entered into the new land management system.

The Division of Boating and Ocean Recreation should evaluate the usefulness and reliability of the in-house revenue and receivables computer system since it was not able to produce the June 30, 1999 accounts receivable aging report.

The department should monitor the division to ensure it complies with its policies to:

- a. Submit validated deposit slips and summaries of cash receipts twice a week to the division's fiscal office from the harbor agents so that the TDRs can be prepared and recorded in the division's accounting system in a timely manner;
- b. Reconcile quarterly the agency fund account balances from the security deposits list to the accounting system to ensure differences between the list and the system are identified and corrected; and
- c. Collect payments for temporary mooring permits on or prior to the effective date of the temporary mooring permit to ensure such payments are collected in a timely manner.

The department should also establish policies and procedures to ensure that the division's fiscal office compares the amount due from the issuance of temporary permits against payments collected and recorded.

ACTIONS REPORTED

Over a six-month period, the Land Division spent 2,200 staff hours converting manual lease information into electronic form for SLIMS. This effort included collecting compliance information for insurance and bonds from each of the nearly 1,500 active lease files. The captured information included the policy expiration dates as well as a variety of other basic information relevant to tracking lease requirements. New insurance certificates and bonds received are being inputted to maintain current data.

The division instituted procedures similar to those of the department's fiscal office and produced an aged receivable report as of June 30, 2000.

The division monitors the submittal of cash receipts from its facilities on a weekly basis. The facilities that have not submitted cash receipts are contacted as needed.

Staffing shortages have interrupted the reconciliation process. The last reconciliation of the agency fund account was as of April 30, 2000. The division will resume quarterly reconciliation beginning as of December 31, 2000 when full staffing returns.

Harbor agents will continue to make every effort to collect payments for temporary mooring fees on or prior to the effective date of the permit.

The department did not provide a report on its actions in response to this recommendation.

RECOMMENDATIONS

The Judiciary should appropriately segregate cash receipt duties so that no one individual has custody of cash, access to supporting documents or records, and the function of depositing the cash. In addition, to prevent mishandling of cash overages, a separate cashier should print the final cash register tape and balance the register.

The Judiciary should adhere to its policy of depositing cash daily. In addition, the Judiciary should review its current contract with the armored car service and determine whether adequate contract provisions ensure that cash is deposited daily. Appropriate action should be taken against the armored car service for noncompliance with contract provisions.

Fiscal officers should comply with the Judiciary's policy of refunding bail moneys. If such policy has been rescinded, access to the court's copy of the bail receipts should be restricted to appropriate personnel.

The Judiciary should restrict access to documents or records, including data master files, to appropriate personnel.

ACTIONS REPORTED

The Judiciary reports that its Financial Administration Manual (FAM) has been revised to strengthen internal controls over cash receipts. Provisions have been added to ensure that cash receipt functions are adequately segregated, especially in the area of bail receipts, so as to ensure that no one individual has custody of the cash, access to the supporting documents or records, and to depositing the cash. In addition, the manual has been revised to require that: (1) to the extent feasible, the function of receiving collections and depositing collections shall be separated and performed by different persons; and (2) someone other than the cashier print the cash register tape and balance/reconcile the register.

The Judiciary reports that its manual now requires that each day's collections shall be deposited intact no later than the next workday following receipt. Further, the Judiciary has reviewed its contracts with the armored car services and, where appropriate, adjusted pick-up times to ensure that, to the maximum extent practicable, collections are deposited on the same day picked-up.

The Judiciary reports that the manual has been revised to improve security and control over bail receipts and bail refunds. Specifically, the manual now requires the division fiscal officer to designate a custodian and alternate custodian of the bail receipts. Only the custodian and alternate shall have access to the bail receipts, and are responsible for safeguarding the receipts against unauthorized access, accounting for the receipts, and ensuring that every disbursement related to bail is made pursuant to a court order, a court disposition slip, or other authorized document. The manual now requires the bail to be refunded to the person who posted the bail.

A master update audit program and reporting system has been installed at all circuits. With this program, any updates to the master file are recorded (i.e., date, time, user ID, and each field that was changed.) An inquiry screen and/or audit report can be used to view this audit data, and thus provide a way to monitor and have an audit trail for all updates/changes.

RECOMMENDATIONS

The Judiciary should develop and implement control procedures over the recording of the restitution. The objectives of the procedures are to ensure that all restitution orders that have been issued by the court have been received and recorded properly. The Judiciary should consider the feasibility of developing a log that identifies restitution orders issued by the courts. From this log, the fiscal office would be able to compare amounts received from the Adult Probation Division or the Department of Public Safety.

The Judiciary should ensure that probation officers enforce collection of the restitution prior to the expiration of the probation period. Once the offender is deemed to be in default, appropriate efforts must be expended to address this delinquency. Current policies and procedures provide for the probation officer to initiate the revocation proceedings for noncompliance by the offender.

ACTIONS REPORTED

The Judiciary is considering a simple, interim solution to improve staff oversight of restitution accounts. The Judiciary's First Circuit Adult Probation Division will be receiving moneys from the Victims of Crime Act (VOCA)—Victim Assistance Grant to improve the Judiciary's restitution collection efforts. Automated trust accounting of restitution will be modified to better identify which active cases need to be closely monitored and evaluated for collection. The modification includes linking the financial information with probation supervision information to collectively improve probation and fiscal staff oversight. Additional data elements such as the offender's identification number and the probation officer's number will improve database accuracy and permit linking of the two databases.

The Judiciary reports taking steps to improve, enforce, and facilitate restitution payments; and to match closure of restitution accounts with the expiration of probation supervision, when appropriate. The Restitution Task Force (RTF) has been amending the Judiciary's restitution policy and procedures to clarify probation and fiscal staff responsibilities, and to eliminate any gaps in responsibilities. If the defendant fails to comply with the court's restitution order, the probation officer will be responsible for timely feedback to the offender and the court for appropriate consequence. Revoking one's probation will be one method of enforcement.

In addition, the Judiciary has resolved when an account can be closed or considered delinquent. During the last year, the Judiciary has collaborated with the Department of the Attorney General to develop a streamlined process that facilitates the transfer of delinquent accounts, including restitution cases, from the Judiciary to the Department of Attorney General. Procedures are being developed that inform the victim of options available to collect unpaid restitution, including civil action pursuant to statute. For those cases where the State has a compelling interest to pursue action, the attorney general is working with the Judiciary to create form letters to defendants informing them of their obligations and the consequences of non-payment. Units from the Judiciary and Department of the Attorney General are currently working to identify specific information needs, update regular reports, and provide pertinent information in electronic format. Revised procedures should be completed by March 2001.

RECOMMENDATIONS

The Judiciary should evaluate the feasibility of replacing the current trust accounting system. If replacement is not deemed to be cost beneficial, the Judiciary should determine whether the current system can be modified to provide adequate information to the probation officers to assist their monitoring of outstanding balances.

Fiscal officers should perform an analysis of the current restitution balances due and determine which accounts should be closed and deleted from the receivable records. The analysis should also identify accounts that are under the jurisdiction of the Department of Public Safety and procedures should be developed and implemented to delete closed cases and uncollectible accounts.

The Judiciary should improve its computer systems to provide such reports as needed to effectively monitor unpaid balances.

The Judiciary should evaluate the feasibility of having the fiscal office of each court under the authority and responsibility of the Administrative Director of the Courts.

The Judiciary should ensure that contracts and extensions are executed prior to the rendering of services and comply with state law. The Judiciary must also comply with state law and policies regarding escheatment of unclaimed property and transfer of government realizations.

ACTIONS REPORTED

The Judiciary reports continuing efforts to enhance the trust accounting system to provide for better use of the accounting information by fiscal and probation staff. The Judiciary anticipates that within several months, probation officers will be able to access accounting information on a real-time basis for immediate response to account delinquency.

The Judiciary is aggressively reviewing and analyzing restitution balances on an ongoing basis and closing old, uncollectible accounts as appropriate. The Judiciary also has identified accounts under the jurisdiction of the Department of Public Safety.

The Judiciary now has the ability to generate a report of all outstanding traffic fines and assessments, and to identify all traffic cases that have been transferred to the Department of Attorney General for collection. The Judiciary's long-term solution is still the Judiciary Information Management System.

The Judiciary's current restructuring effort will address the concerns of the Auditor. All positions and their placement were reviewed during the restructuring effort. There will be essentially one overall fiscal officer in each circuit responding to the overall court administrator. This should result in a much more efficient, effective, and uniform implementation of policies, procedures, and operations throughout the Judiciary.

Compliance with state law relative to timelines for purchase of service contract extension letters should no longer be a problem since the statute cited by the Auditor was later repealed and the replacement statute eliminated all provisions requiring issuance of extension letters by a specific date.

In June 2000, the administrative director issued a letter to all program administrators requiring them to ensure that contractors are not performing work for the Judiciary without a signed, dated contract allowing them to do so. For situations where one desires to extend an existing contract with a vendor by an amendment or new contract, the letter states that the new contract or amendment should be executed prior to the date of expiration of the original contract. If this can't be done, the administrative

RECOMMENDATIONS

The Judiciary should comply with proper accounting and reporting standards to ensure consistency and accuracy in reporting its operational results to users of its financial statements.

ACTIONS REPORTED

director's letter requires the program administrator to include a confirming letter or statement specifying that the parties have agreed the contract will remain in effect for an additional time period (e.g., 30 days) until the new contract or amendment is executed.

Relative to government realizations, the FAM has been revised to state that government realizations shall be transferred from Judiciary bank accounts into the State Treasury at least weekly and at the end of the month no later than the fifth workday of the following week and the fifth workday of the following month, respectively. Again, the division head or designee shall monitor and ensure full compliance with this policy.

The Judiciary has taken steps to ensure that it complies with proper accounting and reporting standards. Procedures have been established to estimate the potential liability for workers' compensation, and this liability will be recorded in the financial statements. Restitution balances for the Judiciary will be footnoted in the financial statements although no assurance exists that these balances are collectible in the current period or shortly thereafter. The Judiciary will continue to ensure that only operating transfers between funds are included in the Judiciary's final financial statements.

Report Title: **Comparison Study of the Salary Structure of Educational Officers in the Department of Education**

Report No.: 00-13

RECOMMENDATIONS

The Legislature should consider requiring the Board of Education to adopt a classification and compensation structure for educational officers that more accurately reflects the level of work being performed. The department can achieve this by:

- a. Conducting a classification study in order to better assess positions, allocations, and classifications. This would include ensuring that minimum requirements and equivalencies are more in line with the type of work required upon entry into the classification;

ACTIONS REPORTED

No legislation was enacted.

The Department of Education reports that position descriptions incorporate a minimum qualification requirement for all education officer positions. In addition an announcement is posted in the event the position becomes vacant that describes (1) training requirements, (2) experience requirements, (3) knowledge requirements related to the position, (4) expectation in terms of performing in the positions,

RECOMMENDATIONS

- b. Conducting a formal, comprehensive salary survey; and

- c. Implementing a formal job evaluation methodology that is consistent with the class structure adopted.

The Legislature should consider requiring that the Department of Education obtain the assistance of the Department of Human Resources Development in correcting the inequities identified in our report.

The Legislature should consider requiring future independent audits of the Department of Education's efforts to produce an equitable classification and compensation system for educational officers.

ACTIONS REPORTED

and (5) duties and responsibilities required. The position descriptions are in the process of being updated to reflect the Department of Education's reorganization structure. Reviewing and amending such statutes, rules and/or regulations relating to classification and compensation of educational officers may be more effective and efficient than more legislation.

With respect to conducting formal comprehensive salary surveys, there are existing mechanisms in place as described in the Hawaii Revised Statutes: (1) Chapter 89-9, Collective Bargaining - Scope of Negotiations; (2) Chapter 302A-619, Classification, educational officers which required the Board of Education to classify all educational officer positions and adopt a classification/compensation plan for these educational officer positions; and (3) Chapter 302A-620, the establishment of a Classification/Compensation Appeals Board for adjustments to the classification/compensation plan.

The Classification and Compensation Section of the Personnel Services Branch has been charged with the task of evaluating and classifying educational officer positions, pursuant to the classification and compensation system adopted by the Board of Education.

No legislation was enacted,

No legislation was enacted,

**OFFICE OF THE AUDITOR
APPROPRIATIONS AND EXPENDITURES ON A BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

APPROPRIATIONS

Act 1, SLH 1999 (operations)	\$ 2,019,850
Act 1, SLH 1999 (special studies)	150,000
	<u>\$ 2,169,850</u>

EXPENDITURES

Staff salaries	\$ 1,311,114
Contractual services	556,498
Other expenses	162,723
	<u>\$ 2,030,335</u>
Excess of appropriations over expenditures	<u>\$ 139,515</u>

EXCESS OF APPROPRIATIONS OVER EXPENDITURES

Act 1, SLH 1999 (operations)	\$ 129,616
Act 1, SLH 1999 (special studies)	9,899
	<u>\$ 139,515</u>
