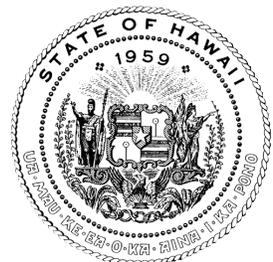


2002 Annual Report

State of Hawaii
Office of the Auditor



Marion M. Higa
State Auditor

TABLE OF CONTENTS

2002 – Staying the Course 2

Themes of 2002 Reports 4

The Road Less Travelled 7

Summary of Reports – 2002 Work Program 9

 Disability Compensation Division and a Study of the Correlation Between Medical Access and Reimbursement Rates Under the Medical Fee Schedule 10

 Private Trade, Vocational and Technical Schools 10

 School-Based Behavioral Health Program 11

 Comprehensive Student Support System 11

 Emergency Medical Services and Injury Prevention System Branch 12

 Revolving Funds, Trust Funds, and Trust Accounts 12

 Adult Education Program 13

 Printing Products and Services Utilized, Contracted, and Subcontracted 13

 Employees’ Retirement System 14

 State Historic Preservation Division 14

 Privatization Contracts 15

 Adult Residential Care Homes and Adult Foster Homes 15

 Family Court 15

 Automated Child Support Enforcement System 16

 New Century School 16

 Department of Public Safety 17

 Department of Hawaiian Home Lands 17

 Occupational Therapy Practice 18

 Hawaii Health Systems Corporation 18

Actions Reported on Previous Recommendations 20

(Report March 2001 through No. 02-06)

 Establishment of a Public Land Trust Information System, Phase One 20

 Audit of the Employment and Training Fund 25

 Audit of the Management of State Boating Facilities by the Department of Land and Natural Resources 28

 Financial Audit of the Med-QUEST Division of the Department of Human Services 30

 Audit of the Adult Mental Health Program .. 33

 Financial Audit of the Housing and Community Development Corporation of Hawaii 37

 A Review and Assessment of the Department of Education’s Development of Educational Standards 39

 Follow-Up and Management Audit of the *Felix* Consent Decree 42

 Sunset Evaluation Report: Marriage and Family Therapists 44

 Management Audit of the Department of Education’s Storeroom 45

 Management Audit of Hawaii Tourism Authority 46

 Audit of the Adult Mental Health Division’s Management of Contracted Community Service 49

Office of the Auditor Appropriations and Expenditures on a Budgetary Basis for the Fiscal Year Ended June 30, 2002 52



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 Linda Lingle, Governor

March 28, 2003

Ladies and Gentlemen:

This Annual Report highlights the work and activities of the Office of the Auditor in calendar year 2002. This report, as well as each of the audits and studies we issued last year, identifies some of the major issues facing state government.

The year 2002 was characterized as the year of change. Public dissatisfaction and a cynical electorate ushered in a new administration representing a dramatic shift in our political landscape. Along with this change in leadership comes an attendant change in how government manages its programs and resources. While change is certainly on its way, the Office of the Auditor remains committed to its principles and will continue, as it always has, to provide you and the public with timely, accurate, and objective information.

Our state continues to face many challenges in the year ahead. It will no doubt take an extraordinary effort on the part of all stakeholders to meet those challenges. We look forward to partnering with you in that endeavor.

Sincerely,

Marion M. Higa
State Auditor



2002 – Staying the Course

The year 2002 marked a historic transition of power at Washington Place. Along with that came a mandate for change from the people of Hawaii. This mandate emerged from a growing public mistrust of leadership in all of its forms, from churches to corporate boardrooms to unions to government officials. This crisis of leadership meant that areas once considered unclear were now being challenged in the harsh light of public scrutiny. The call for change is accompanied by a growing demand for greater accountability.

Despite this sea change in our political landscape, our mission remains unchanged. Regardless of which party is in power in any branch of government, we will continue to ensure that government programs are managed with efficiency, accountability and fiscal responsibility.

One area in which our efforts bore fruit in 2002 was the state Attorney General's first fraud indictment in connection with our ongoing examination of the State's compliance with the *Felix* consent decree. That same year, we examined other *Felix*-related programs at the Department of Education, such as the Comprehensive Student Support System (CSSS) and School-Based Behavioral Health Program.

Other reports that received widespread attention in 2002 included management audits of the Emergency Management System, Department of Public Safety, the Employees' Retirement System, and the Historic Preservation Division of the Department of Land and Natural Resources. In all of these reports, we found management deficiencies that seriously hampered their ability to perform their mandated responsibilities.

As a result of similar efforts in 2001, our office once again received a Certificate of Recognition of Impact award in 2002 from the National Legislative Program Evaluation Society (NLPES) Award for our *Analysis of a Proposal to Expand the Regulation of the Alarm Industry*, Report No. 01-11. This report found that statewide regulation of the alarm industry was not necessary, saving the State from an additional layer of bureaucracy and its associated costs. Criteria for the award included dollar savings and pro-

gram improvements as a result of implementing audit recommendations, and impacts as perceived by the Legislature, the public and other auditing organizations.

State Auditor Marion Higa also received the prestigious William R. Snodgrass Distinguished Leadership Award from the Association of Government Accountants. This national award formally recognizes state government professionals who exemplify and promote excellence in government financial management and who have demonstrated outstanding leadership in enhancing sound financial management legislation, regulations, practices, policies and systems.

Back in Hawaii, the auditor was given the AJA (American of Japanese Ancestry) of the Year Award by the *Hawaii Herald*. A column in the *Honolulu Star-Bulletin* gave a more informal accolade, declaring the auditor as "Ms. Fixit of Government" and describing our budget as "the best \$2.5 million spent by the State of Hawaii... the gold standard of government information and...often the first solid information on controversial subjects." A personal profile in the same newspaper described her "sterling reputation among auditors," who praised her work as "accurate, reliable and unbiased."

The auditor sees ongoing staff development as a vital component of our organization. In 2002, local and national experts instructed our staff in various subjects. These included updates on increasingly stringent accounting standards brought about by the corporate scandals of recent years, and the use of performance measures in auditing and budgeting in other states. Training also included anger management, writing and presentation skills.

In addition to traditional training sessions, our staff attended and made presentations at various conferences. Locally, a representative from our office served on the Elections Advisory Committee, to help ensure that all proper procedures were observed on election night. Through ongoing learning and participation in community service, our staff is able to build upon the diverse skills necessary to continue our mission.

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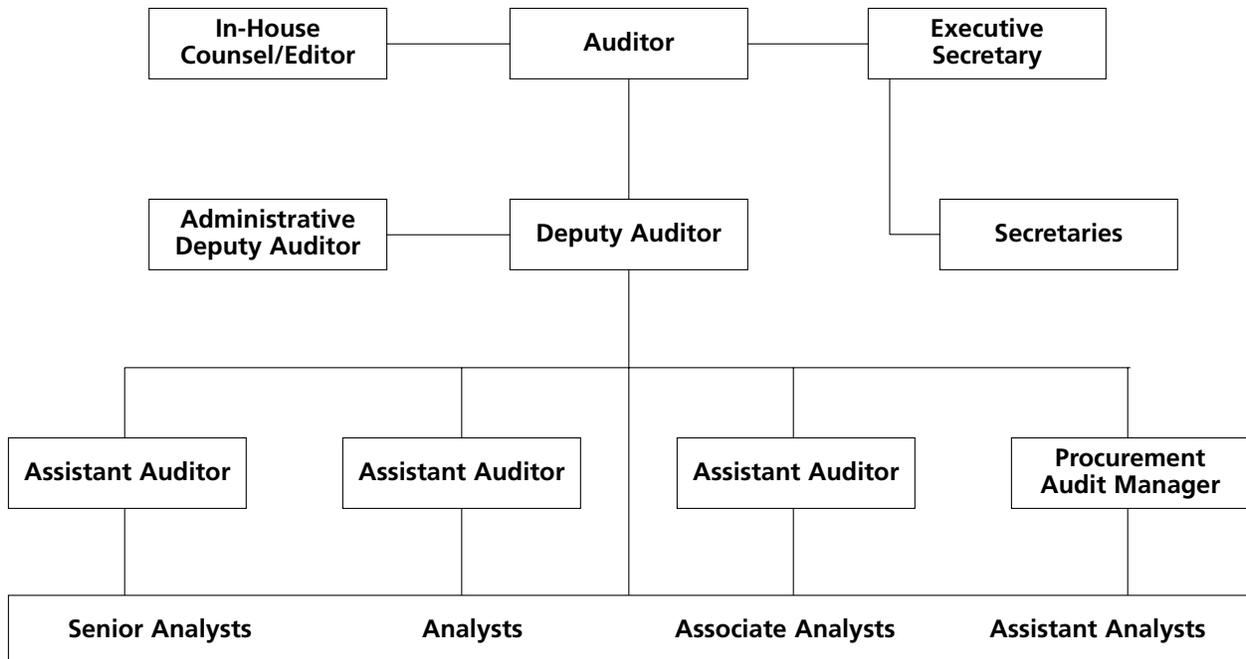
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ORGANIZATION OF THE OFFICE OF THE AUDITOR



Themes of 2002 Reports

We have published 19 full reports since our previous annual report. These include 15 performance audits and special studies, two financial audits, one sunset evaluation, and one follow-up report. We also produced 51 short reviews of proposed special and revolving funds for the 2002 legislative session. Our work this past year covered a variety of issues that impact our community and our report findings fell under several recurring themes.

FISCAL ACCOUNTABILITY

The term “fiscal accountability” has been popular with government watchdog groups and the media for many years, but has taken on a recent heightened sense of importance with the general public. Tighter budgets and expanding needs cause everyone to take notice of how government resources are being spent by the agencies charged with serving our community.

Last year we conducted financial audits of the Department of Public Safety and Department of Hawaiian Home Lands. In both audits, we identified deficiencies in the financial accounting and internal control practices of the agencies. In the audit of the Department of Hawaiian Home Lands, we identified two material weaknesses, the worst possible type of reportable condition. We found that the department does not have documentation to support its methodology to determine the allowance for doubtful accounts on loans receivable. Incorrect recording of infrastructure improvements totaling \$1.8 million resulted in underreporting of liabilities and expenditures in one fiscal year and the overreporting of expenditures in the following fiscal year.

An audit of the State Historic Preservation Division of the Department of Land and Natural Resources revealed numerous instances of financial mismanagement. Our findings included the division’s failure to adequately protect state property from fraud, waste, and theft by not retaining an accurate record of all items in its custody, and its failure to implement user fees, resulting in the non-collection of an estimated \$60,000 to \$100,000.

In an audit of the Emergency Medical Services and Injury Prevention System Branch, we found that lax controls over the branch’s billing process for emergency transport services resulted in \$1.4 million in uncollected state revenues for ambulance services provided by the various counties.

These reports, and others conducted in 2002, identify the need for state agencies to take a more proactive approach in managing state resources. Tighter internal controls and a renewed commitment by the agencies to adhere to sound fiscal principles will go a long way toward achieving fiscal accountability and restoring public trust.

GOVERNMENT EFFICIENCY

The Legislature directed our office to conduct a study of the printing products and services utilized, contracted and subcontracted by Hawaii state government, and a review of privatization contracts for certain state and county agencies.

In our *Study of Printing Products and Services Utilized, Contracted, and Subcontracted by Hawaii State Government*, we found that while state agencies generally appear to be in compliance with the state procurement code’s printing preference requirements, the lack of clarity about the requirements leads to inconsistent application. We also found that most printing services contracts are apparently awarded to in-state vendors regardless of the printing preference requirement.

Act 90, which was signed into law in 2001, allows the State and counties to contract with private entities when it is reasonable to believe that those private entities can provide equivalent or better quality services at lower cost than the government agency. In our *Review of Privatization Contract for Certain State and County Agencies*, we found that the State is not adequately prepared to enter into such contracts.

We noted that none of the agencies we reviewed have utilized Act 90 to privatize any services. Due to the lack of a definition for privatization,

agencies exempted themselves from the act's requirements.

These two reports sought to assess the initiatives taken by the State to make government more efficient by allowing non-government workers to provide certain public services. Along with the goal of cost saving, our evaluations show that the State must also ensure that accessibility and quality standards have not diminished in the process.

SAFEGUARDING THE PUBLIC

In some instances, where public health and safety are at risk, government will impose regulations on certain professions and vocations. Regulatory schemes for a practitioner can range from simple registration to full licensure. Because of the financial burden to both the practitioner and the taxpayer, government regulation should not be entered into lightly, and should exist only when there is a clear potential for risk to the public.

Through our *Sunset Evaluation: Occupational Therapy Practice*, we found that the regulation of occupational therapy practice was not warranted. We noted that the scope of practice for the profession had not changed significantly since our previous review in 1997, which recommended against continued regulation. However, if the regulation of the practice was continued, we made recommendations to strengthen the existing regulatory scheme.

Our office also issued *A Study on the Licensing of Private Trade, Vocational, and Technical Schools*. We found that the licensing and regulation of private trade, vocational, and technical schools in Hawaii is necessary. We also found numerous deficiencies and an overall lack of commitment to the program by the department charged with its administration and suggested that the Legislature consider transferring the program to another department.

Although these reports included differing recommendations when it comes to continuing regulation, both achieved the same objective—to evaluate the need for continued regulation with a watchful eye on protecting the public's health and safety as well as on the resources

committed to the effort.

SUPPORTING OUR CHILDREN

Our office issued several reports on programs and agencies that seek to serve the needs of our youth. We reviewed programs that affect students in our public schools and assessed initiatives aimed at protecting our children.

Our audit of the School-Based Behavioral Health Program found that the Department of Education had not ensured the efficient and effective delivery of mental health services under the program. We also found that the department lacked a clear plan for providing autism services.

The Department of Education's Comprehensive Student Support System (CSSS) Program was the subject of another audit. In our review, we found that the department hastily expanded the CSSS program to take advantage of the funding opportunity available through the *Felix* consent decree. This lack of planning resulted in CSSS staff sometimes housed in libraries, hallways, and closets. We also found that the staff lacked a clear definition of their responsibilities and may be unqualified to fulfill their duties.

By law, our office is also tasked with allocating the Department of Education's general funds to new century charter schools and new century conversion charter schools. This year's allocation—our fifth—resulted in an allocation rate of \$3,805 per regular education student. The amounts allocated to the charter schools range from \$76,100 to \$1,795,960.

In addition to educational programs, we reviewed two programs relating to judicial programs aimed at protecting the rights of children. Our *Study of the Automated Child Support Enforcement System (KEIKI)* found that the system's effectiveness is limited by the manner in which it is designed and used by the Child Support Enforcement Agency. The KEIKI system is assigned the primary mission of establishing and enforcing paternity and support orders. The consultant we engaged to conduct this study also noted that the system's capabilities are not being maximized by the agency. The consultant also commented that the agency lacked focus and experienced training deficiencies.

Our office also conducted an *Audit of the Family Court Complaints Process*. The audit was prompted by legislative concerns over the Family Court's ability to be a fair arbiter of issues. We found that the Family Court lacked a system to manage complaints and direct complainants to an appropriate agency. We also found that court staff lacked sufficient training to guide them in providing consistent answers and resolution to complainants.

PROVIDING FOR OUR SENIORS

As the "baby boomers" enter their golden years, government is called upon to provide certain services to meet the needs of this growing segment of our population. The needs of this group are varied—financial security, adult learning opportunities, and elder care—and are equally important as they progress in their adult lives.

Our *Management and Performance Audit of the Employees' Retirement System (ERS)* found that the ERS continues to fail in its efforts to provide quality retirement services to its members. We also found that the Board of Trustees failed to properly manage the beneficiaries' assets; investment performance was poor. Further, more than \$3.5 million was wasted on a new computer system that has yet to function. Litigation is pending in that dispute.

We also conducted an audit of the Department of Education's Adult Education Program. The program, managed by the Department of Education for over 50 years, offers courses in adult and community education of less than college level. We found that the department did not ensure that the adult education program is being efficiently and effectively delivered through its 11 community schools. Unreliable data reporting and possible overcompensation paid to certain staff were also uncovered.

During the 2002 Regular Session, the Legislature identified potential inefficiency regarding the Department of Health's regulation of adult residential care homes and the Department of Human Services' responsibility for making payments for Medicaid clients who live in those homes. To address the issue, our office issued a *Study to Determine the Appropriate State Agency To Oversee the Regulation of Adult*

Residential Care Homes and Adult Foster Homes. We considered several regulatory options but found that maintaining the current regulatory scheme for adult residential care homes and adult foster homes is the most appropriate alternative.

Essay: *The Road Less Traveled*

Over the past several years, and this past year in particular, the Office of the Auditor has garnered a great deal of media attention. The reports we issue often grab the headlines with their scathing descriptions:

- *State auditor trashes schools' supply system: The DOE agrees that the central supply storeroom should be shut down*
- *Auditor's report raps school program*
- *State historic division draws auditor's criticism: Marion Higa charges mismanagement is jeopardizing artifacts*
- *Ambulance system faulted: A report issued by state Auditor Marion Higa says the Emergency Medical Services is sloppily managed*

While these headlines aptly profile some of our hard-hitting reports and highlight our recommendations to improve government effectiveness and efficiency, countless other reports that do not grab the headlines go unnoticed, but are equally important to the work we do.

As noted in this annual report, our office produced a total of 19 audits and special reports covering a wide range of government agencies. While it may appear to the public that all of our reports identify gross mismanagement and inefficiency throughout government, the truth is that sometimes our report findings take the road less traveled—pointing out that some government programs are working relatively effectively and efficiently and that government intervention is not the best way to solve every problem.

For example, in June 2001, our office issued an *Analysis of a Proposal To Expand the Regulation of the Alarm Industry*, Report No. 01-11. The 2000 Legislature requested that our office study the need to regulate the alarm industry and to consider a proposal to expand regulation of the industry under Chapter 436M, Hawaii Revised Statutes. The concern was that the proliferation of false alarms in Honolulu is detrimental to public health, safety, and welfare; is a costly diversion of county resources; and is

partly the result of the absence of a licensing or permitting program.

We concluded that expanded statewide regulation of the alarm industry would be difficult to justify.

We recommended that before pursuing additional regulation of the alarm industry, legislators might wish to consider whether the benefits of such regulation would outweigh the costs and drawbacks. One option would be to leave the matter to the counties. Both the Honolulu Police and Fire departments concurred with our findings.

Later that year, Bill 83-2001 was introduced at the Honolulu City Council to regulate alarm systems and reduce the incidence of false alarms in the City and County of Honolulu. The Honolulu City Council and the Mayor of Honolulu enacted Bill 83-2001 as Ordinance 01-63 on December 28, 2001.

Our report took the bold step in recommending against comprehensive regulation of the alarm industry and, instead, suggested that if regulation was necessary, to limit the regulation in specific counties that are actually experiencing a problem. As a result, the 2002 State Legislature heeded our recommendation and chose not to enact further statewide regulation of the alarm industry and the City and County of Honolulu enacted a law to address a problem that was specific to its county. Our report was instrumental in preventing the passage of what could have been an onerous statewide law, and instead resulted in a county ordinance that will help reduce costs and improve public safety.

This report earned a 2002 Impact Award from the National Legislative Program Evaluation Society (NLPES), recognizing our efforts to restrain unnecessary government intervention.

Another report, *Study of Printing Products and Services Utilized, Contracted, and Subcontracted by Hawaii State Government*, Report No. 02-18, issued findings that state agencies generally appear to be in compliance with the

state procurement code's printing preference requirements. Shortcomings were limited to the lack of clarity regarding the printing requirements that could lead to inconsistent application of the law.

Our *Study to Determine the Appropriate State Agency to Oversee the Regulation of Adult Residential Care Homes and Adult Foster Homes*, Report No. 01-22, looked at the possibility of a single government agency to oversee all aspects of adult residential care homes and foster homes to possibly replace the two agencies that currently manage each program separately. Although the report made several recommendations to the agencies for improving the management of their respective programs, we nonetheless suggested that the Legislature maintain the current operating structure.

Our office also issued a *Management Audit of the Disability Compensation Division and A Study of the Correlation Between Medical Access and Reimbursement Rates Under the Medical Fee Schedule*, Report No. 02-07. In the study of the medical fee schedule, we found no significant evidence to demonstrate that injured workers' access to medical care was curtailed by tying reimbursement of medical services to the Medicare fee schedule and suggested that the current law for adjusting the rates should be maintained. Again, we did not suggest making wholesale changes to the agency's operating structure and the agency concurred with our findings.

Lastly, our *Sunset Evaluation: Occupational Therapy Practice*, Report No. 02-17, found that the continued government regulation of occupational therapy practice is not warranted. However, if the Legislature deemed regulation necessary, we made some relatively minor recommendations for improvement.

These are but a few examples of the kinds of reports and studies that our office issues, which do not receive media hype and public attention.

Given the generally positive publicity that our office receives, particularly for the more hard-hitting reports we issue, some government officials have accused our office of structuring our reports to grab the headlines and inflame

public ire. We believe our record shows otherwise.

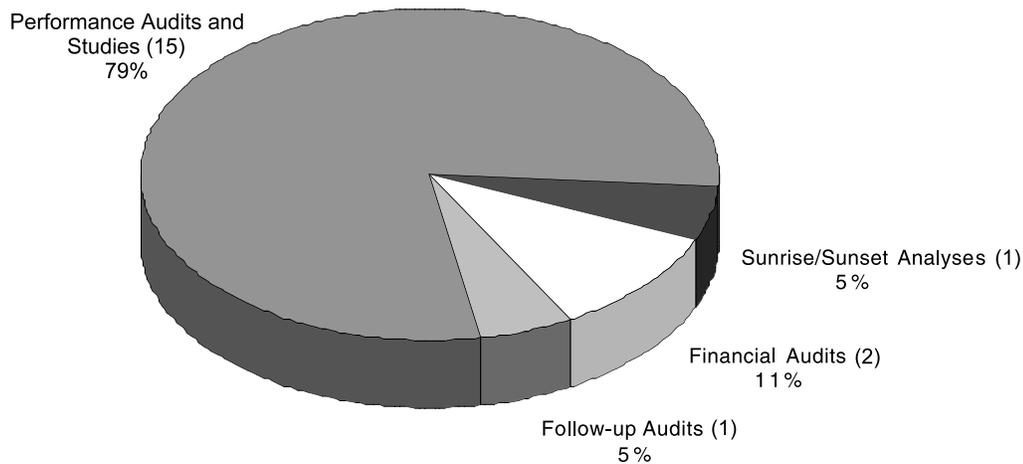
The Office of the Auditor remains committed to its philosophy of issuing reports that are balanced, objective, and fair. We are not afraid to "call them as we see them," but at the same time we will also point out things that are working in government. The public has entrusted us with the tremendous responsibility of assuring government accountability. We honor that trust by conducting our work with integrity and professionalism, and will issue reports "as we see them"—even if they don't grab the headlines. The road less traveled certainly gets foot traffic by this office.

Summary of Reports – 2002 Work Program

PERFORMANCE AUDITS AND STUDIES

- Management Audit of the **Disability Compensation Division** and A Study of the **Correlation Between Medical Access and Reimbursement Rates Under the Medical Fee Schedule**, Report No. 02-07
- A Study on the Licensing of **Private Trade, Vocational, and Technical Schools**, Report No. 02-08
- Audit of the **School-Based Behavioral Health Program**, Report No. 02-11
- Audit of the Department of Education's **Comprehensive Student Support System**, Report No. 02-12
- Contract and Personnel Management Audit of the **Emergency Medical Services and Injury Prevention System Branch**, Report No. 02-14
- Report on the **Revolving Funds, Trust Funds, and Trust Accounts** of the Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and Department of Taxation, Report No. 02-15
- Audit of the Department of Education's **Adult Education Program**, Report No. 02-16
- Study of **Printing Products and Services Utilized, Contracted, and Subcontracted** by Hawaii State Government, Report No. 02-18
- Management and Performance Audit of the **Employees' Retirement System**, Report No. 02-19
- Audit of the **State Historic Preservation Division** of the Department of Land and Natural Resources, Report No. 02-20
- Review of **Privatization Contracts** for Certain State and County Agencies, Report No. 02-21

TYPES OF REPORTS - 2002



The office also performed 51 quick reviews of proposed special and revolving funds.

- *Study to Determine the Appropriate State Agency to Oversee the Regulation of Adult Residential Care Homes and Adult Foster Homes*, Report No. 02-22
- *Audit of the Family Court Complaints Process*, Report No. 02-23
- *Study of the Automated Child Support Enforcement System (KEIKI)*, Unnumbered Report
- *New Century School Allocations Project – FY2002-03*, Report No. 03-01

FINANCIAL AUDITS

- *Financial Audit of the Department of Public Safety*, Report No. 02-10
- *Financial Audit of the Department of Hawaiian Home Lands*, Report No. 02-13

SUNSET EVALUATION

- *Sunset Evaluation: Occupational Therapy Practice*, Report No. 02-17

FOLLOW-UP REPORT

- *Follow-up Study of the Hawaii Health Systems Corporation*, Report No. 02-09

Management Audit of the Disability Compensation Division and A Study of the Correlation Between Medical Access and Reimbursement Rates Under the Medical Fee Schedule, Report No. 02-07

Senate Concurrent Resolution No. 147, S.D. 1 of the 2001 Regular Session requested that the Auditor conduct a management audit of the Department of Labor and Industrial Relations' Disability Compensation Division and a study of whether an injured employee's access to medical care is being curtailed due to the practice of tying reimbursement rates to the medical fee schedule.

We found that the division's internal control system contains some serious deficiencies affect-

ing fiscal accountability and if not corrected, could permit fraud to go undetected. In addition, we found the division's position descriptions did not reflect the actual duties of staff managing the Special Compensation Fund. Furthermore, we found financial reporting of penalties and reimbursements from employers was piecemeal and of questionable usefulness.

We found that the division invested over \$750,000 for a new computer system without an updated departmental information systems plan and an appropriate steering committee, and failed to integrate the system with its strategic plan and goals.

Finally, we found that weak oversight by the director has resulted low employee morale, widespread distrust in the administrator and a perception by some that improprieties had occurred within the division.

In our study, we found no significant evidence to demonstrate that injured workers' access to medical care was curtailed by tying reimbursement of medical services to the Medicare fee schedule. However, legal and practical barriers result in inefficiencies and cause the fee adjustment process to be ineffective.

A Study on the Licensing of Private Trade, Vocational, and Technical Schools, Report No. 02-08

Section 302A-425 of the Hawaii Revised Statutes (HRS), requires all private trade, vocational, and technical schools (also known as proprietary schools) operating in Hawaii to be licensed by the Department of Education. Proprietary schools provide post-secondary courses below the college or university degree-granting level. The department has had this responsibility since 1939.

We found that the licensing and regulating of private trade, vocational, and technical schools in Hawaii continues to be necessary. However, our review of the Department of Education's administration of the licensing program found an overall lack of commitment to the program. For example, in our review of the license applications of 12 proprietary schools, we found that none met minimum licensing requirements for

the 2000–01 school year. We also found that the department did not conduct any of its required inspections of licensed schools to ensure compliance with applicable laws and rules, nor did it collect sufficient license fees from the schools. We also found that the \$50,000 surety bond requirement for schools was insufficient to protect the financial interests of students.

Finally, a recent change in the licensing law emphasizing consumer protection brings into question the program’s appropriate administrative placement. Thus, consideration should be given to transferring the program to the Department of Commerce and Consumer Affairs, whose mission is more in line with this purpose.

Audit of the School-Based Behavioral Health Program, Report No. 02-11

The School-Based Behavioral Health (SBBH) Program serves all students who have, or may develop, behavioral issues. The program began when the DOE assumed responsibility for students previously receiving outpatient mental health services through the Department of Health’s Child and Adolescent Mental Health Division. The DOE’s educational model focuses on behaviors that impair a student’s ability to learn, as opposed to a clinical model of diagnosis and treatment.

We found that the DOE has not ensured the efficient and effective delivery of mental health services under its SBBH Program. The program has deficiencies in the areas of personnel, management information systems, procurement, and quality assurance. The department had identified these concerns prior to the implementation of the program, but proceeded anyway.

In the area of personnel management, we found that some employees received significantly higher salaries than others with the same job titles and responsibilities. As a result, districts and complexes competed with each other for qualified candidates.

The long-delayed management information system for special education, called ISPED, continues to vex the SBBH Program. Problems with inputting data at the school level mean that the

system, although nominally operational, does not produce reliable and valid reports.

In assuming responsibility from the Department of Health for contracting with private providers for the SBBH population, the Department of Education has contracted with providers that do not meet DOE criteria. We also found that the DOE fails to accurately account for the cost of its program, only reporting additional funding requests without including funding within the base budget.

Finally, we found that the impact of anticipated autism services on the school-based behavioral health infrastructure and staff is unclear. As of the date of our audit, the department has no autism plan, the structure of contracts remains unresolved, and who is responsible to oversee contracted providers to curtail fraud is uncertain.

Audit of the Department of Education’s Comprehensive Student Support System, Report No. 02-12

In 1994, the Department of Education embarked upon a systemic reform initiative, the Comprehensive Student Support System (CSSS), to ensure all students receive the necessary supports to achieve high academic standards. CSSS includes all functions and operational costs of the department, and classifies them into three component areas: instruction, management, and support.

Our review of the design and implementation of CSSS found the department hastily expanded the CSSS reform initiative to take advantage of the funding opportunity available through the *Felix* consent decree. The Department of Education’s rushed expansion of CSSS resulted in a multi-million dollar system that lacks accountability and effectiveness measures, and experiences difficulty in implementation. Difficulties with the department’s Integrated Special Education System (ISPED) and CSSS databases have resulted in incomplete data being used to assess the effectiveness of CSSS.

Our review of the CSSS operation manual and a survey of school staff found that adequate direction, space, and equipment were not provided to

schools to implement CSSS. As a result, CSSS staff are sometimes housed in libraries, hallways, and closets.

We found the department created these additional CSSS positions without clearly delineating their responsibilities and without ensuring that staff are qualified to fulfill their duties. School staff reported that not all school-based support staff are qualified for their duties.

Contract and Personnel Management Audit of the Emergency Medical Services and Injury Prevention System Branch, Report No. 02-14

The Department of Health, through its Emergency Medical Services and Injury Prevention System Branch, is responsible for the State's comprehensive emergency medical services system. With over \$30 million in state funds allocated for emergency medical services contracts, the Department of Health and its Emergency Medical Services and Injury Prevention System Branch must implement appropriate management controls to ensure that state resources are protected and used effectively and efficiently. Instead, we found that the branch's failure to adequately administer these vital contracts has led to the inappropriate use of state funds and the potential that services were not provided effectively or efficiently.

We also found that the branch violated the *Hawaii Public Procurement Code* in 1996 by entering into a continuous agreement with a collection agency without going through a competitive award method. The branch also did not meet all notice requirements of the procurement code when it procured services for the statewide maintenance of its communication system through a sole source method.

The branch also disregarded sound contracting practices by allowing contractors to render services before contracts were fully and properly executed. Contracts for emergency ambulance services with the City and County of Honolulu were for two fiscal years not signed until close to the end of each contract period.

We also found that the branch made little effort to monitor the performance of many of its contracts, resulting in missing required reports and

questionable contract expenditures. We also found that lax controls over the branch's billing process for emergency transport services resulted in \$1.4 million in revenue losses to the State.

The Department of Health and branch management also neglected their responsibilities over the management of branch employees by failing to adequately document or reconcile branch employees' sick and vacation leaves, resulting in errors that could improperly inflate employee pay, vacation allowance payouts, and retirement allowances. Furthermore, the department's personnel officer confirmed that only two branch employees have received evaluations since they started work at the branch.

Finally, and of great concern, is the strong potential for workplace violence. Despite widespread employee reports of threatening behavior by one of the employees, the branch program manager generally believed that the potential for violence did not exist.

Report on the Revolving Funds, Trust Funds, and Trust Accounts of the Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and Department of Taxation, Report No. 02-15

Section 23-12, Hawaii Revised Statutes, requires the State Auditor to review all existing revolving and trust funds every five years. The review is to include a five-year financial summary, an evaluation of the original intent and purpose of each fund or account, and the degree to which each fund or account achieves its stated and claimed purpose. This is our second review of the revolving funds, trust funds, and trust accounts of the departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation.

We reviewed a total of 37 funds and accounts: nine revolving funds, 11 trust funds, and 17 trust accounts. We used criteria established by the Legislature and developed by our office from a review of public finance literature. The revolving funds, trust funds, and trust accounts must continue to serve the purpose for which they were originally created and not require continuing general fund appropriations. In addition,

revolving funds must reflect a clear link between the benefit sought and charges made upon the users or beneficiaries of the program, and be an appropriate financing mechanism for the program or operation. A trust fund must also provide benefits or services for its intended beneficiaries and meet the statutory definition of a trust fund. For each fund or account reviewed, we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not include any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We did not audit the agencies' financial data.

Audit of the Department of Education's Adult Education Program, Report No. 02-16

For over 50 years the Department of Education (DOE) has offered a program of adult and community education of less than college level. The Office of the Auditor initiated this audit in response to concerns about the program's efficiency and ability to be financially self-sufficient.

We found that the DOE did not provide the appropriate oversight to ensure that the adult education program is being efficiently and effectively delivered through its 11 community schools. Moreover, the DOE failed to disburse federal funds properly through a competitive grant process. As a result of the DOE's overly restrictive request for proposals, only the DOE's own community schools' proposal was considered responsive, and thereby received all available federal grant moneys via the adult community school consortium. The U.S. Office of Vocational and Adult Education has also questioned DOE's decision.

We also found that sloppy controls over key program information resulted in misleading and unreliable data. These schools commonly engaged in the practice of *double-counting* students—*i.e.*, if one student attends three classes, the student is counted three times—and segmenting a single course into as many as four courses. These practices serve to artificially elevate the compensation of principals and vice principals.

We also found that other community schools staff may be receiving unwarranted compensation. Some community school administrative staff also receive part-time temporary teacher pay for presumably teaching classes after work hours. However, a review of official class attendance sheets revealed that staff were listed as *students* on the same days and times that they were supposed to be *teaching* another class.

The DOE's adult education program lacks effective centralized oversight, resulting in ineffective and inconsistent program management. For example, the same class may be offered at one community school as tuition-free community service, while another community school might classify the same course as general interest and subject to a fee. Some schools impose a book or materials fee but no course fee. Classes continued to be taught when enrollment numbers were too low to justify continuation.

Finally we found that when the adult education program was created, program management by the DOE was the only practical arrangement. However, the University of Hawaii's community college system has provided similar programs to people 18 years and older since 1964 and already has in place an effective program evaluation process.

Study of Printing Products and Services Utilized, Contracted, and Subcontracted by Hawaii State Government, Report No. 02-18

During the 2002 Regular Session, the Legislature adopted House Concurrent Resolution 105, which requested that the State Auditor conduct a study of printing products and services utilized, contracted, and subcontracted by Hawaii state government.

We found that for FY2001–02 state agencies reported that most of the approximately \$15 million spent for printing services were expended in-state. However, most state agencies do not formally assess in-house printing costs, resulting in incomplete and sometimes confusing information. For example, at least two agencies consider compact discs, which are not specified as printed materials in the procurement code, to be printed materials.

Our case study confirmed that state agencies generally appear to be in compliance with the state procurement code's printing preference requirements, but that a lack of clarity about the requirements leads to inconsistent application. Most contracted printing services are apparently awarded to in-state vendors regardless of the printing preference requirement.

Management and Performance Audit of the Employees' Retirement System, Report No. 02-19

During the 2002 legislative session, House Concurrent Resolution No. 130 requested that the State Auditor conduct a management and performance audit of the Employees' Retirement System (ERS). The Legislature was particularly concerned about the ERS' delay in terminating an under-performing investment manager that employs the former administrator of the ERS. To assist in this review, the State Auditor engaged the investment firm of New England Pension Consultants, Inc.

In our examination, we found that the ERS continues to fail in its efforts to provide quality retirement service to its members. The ERS has allowed both processing time and the number of retirees awaiting finalization of benefits to increase significantly. We also found that the ERS' main computer system is inefficient and ineffective, hindering the retirement system's ability to fulfill its mission. We found that the ERS management failed to properly manage and control the development and implementation of its new computer system, resulting in reciprocal lawsuits between the ERS and its computer contractor. In addition, the computer contract monitor hired by the ERS to was unable to manage the progress of the new computer system, resulting in more than \$3.5 million in wasted resources. Until this legal conflict is resolved, the ERS' antiquated computer system will continue to be a detriment to its ability to improve operations.

We also found that the Board of Trustees failed to properly manage the beneficiaries' assets. We found that the ERS' investment consultant's objectivity could be suspect, since the consultant disclosed financial relationships with the majority of investment managers it has recommended to the board.

Finally, we found that the board's investment performance was poor. Our analysis showed that the ERS' total return on investments over the past five years ranked below the bottom 15 percent nationally when compared with other retirement systems. We recommended that the board clearly define its role and that of the investment staff, and balance its investment advisor's recommendations by considering a competitive selection process for investment managers.

Audit of the State Historic Preservation Division of the Department of Land and Natural Resources, Report No. 02-20

The Department of Land and Natural Resources' Historic Preservation Division is entrusted with protecting Hawaii's unique cultural and historic resources. During FY2001-02, the division spent nearly \$1.4 million to administer the department's historic preservation program.

The division's regulatory activities include review of development proposals to assess the effect of change on historic and cultural sites. The review process assists a determination of what preservation efforts, if any, will be required of developers. We found that untimely and inconsistent archaeological reviews compromised the division's ability to protect Hawaii's unique historic sites and artifacts. Projects were delayed for months and sometimes years.

The division also failed to ensure the safekeeping of historical artifacts in its custody. Inadequate inventory of human skeletal remains coupled with overcrowded storage conditions makes it difficult for the division to account for all remains and to ensure their timely reinterment.

The department chair and division administrator also failed to uphold their trust duties when they allowed division employees to misuse and exploit the division's limited resources by allowing staff to abuse sick leave and to be paid for unjustified or unauthorized overtime. The administrator also allowed staff to engage in outside employment during state time.

The division also failed to adequately protect state property from fraud, waste, and theft by

not retaining an accurate record of all items in its custody. Moreover, inadequate controls failed to ensure that state vehicles and gasoline charge cards are limited to official business.

The division administrator's cavalier management style has put the State at risk of losing federal grants, which comprise 40 percent of the division's funding. Furthermore, the division did not prioritize the adoption of administrative rules that would allow it to collect user fees authorized by the 1998 Legislature. The administrator estimated that \$60,000 to \$100,000 could have been collected annually had the fees been adopted.

Review of Privatization Contracts for Certain State and County Agencies, Report No. 02-21

Since 1998, the Legislature has passed three privatization laws, the most recent being Act 90 in 2001. Act 90 allows the State and counties to contract with private entities when it is reasonable to believe that those private entities can provide equivalent or better quality services at lower cost than the government agency. Act 90 went into effect on May 3, 2001 and is scheduled for repeal on June 30, 2007.

Although Act 90 enabled the State and counties to utilize privatization as a management tool, privatization efforts across the State have been minimal. None of the agencies specifically cited in Senate Concurrent Resolution No. 103, Senate Draft 1, of the 2002 Regular Session have utilized Act 90 to privatize any services. The only agency specifically planning to privatize a service under Act 90 is the Department of Land and Natural Resources' Division of Boating and Ocean Recreation. Although agencies have entered into contracts with private providers since Act 90 went into effect, the lack of a specific definition of what privatization includes has allowed those agencies that untenable justification to "exempt" themselves from the act's requirements.

We also found that leadership and guidance needed to ensure consistent implementation of Act 90 are lacking. A framework to direct agency efforts should, at a minimum, include the establishment of a privatization authority to ensure privatization goals are achieved, im-

plementation of a process to identify potential privatization opportunities, and development of privatization guidelines to promote accountability and consistency. In addition, this authority could provide clarification regarding existing privatization provisions relating to employee displacement and the managed competition process.

Study To Determine the Appropriate State Agency To Oversee the Regulation of Adult Residential Care Homes and Adult Foster Homes, Report No. 02-22

During the 2002 Regular Session, the Legislature identified potential inefficiency in the Department of Health's regulation of adult residential care homes and the Department of Human Services' responsibility for making payments for Medicaid clients who live in those homes. The Legislature also noted that the Department of Human Services—not the Department of Health—regulates adult foster homes and concluded that perhaps a single government agency should oversee all aspects of adult residential care homes and adult foster homes.

We considered several regulatory options but found that maintaining the current regulatory scheme for adult residential care homes and adult foster homes is the most appropriate alternative. We found that overlap between the Department of Human Services and the Department of Health would continue even if regulation were consolidated.

Furthermore, we found that adult foster home regulation by the Department of Human Services via case management agencies poses a potential conflict of interest because the case management agencies are given the authority to both certify adult foster homes and expanded adult residential care homes, and then place their clients in those homes.

Audit of the Family Court Complaints Process, Report No. 02-23

Senate Concurrent Resolution No. 82, S.D.1, H.D. 1 of the 2002 Regular Session requested that the Auditor conduct an audit of the Family Court's complaints process. The audit was prompted by legislative concerns over the alleged

loss of user confidence in the Family Court's ability to be a fair arbiter of issues. The resolution also requested that the Auditor review complaints at the courts and from the public and summarize the nature of the complaints.

We found few complaints at the Family Court, but limits to our access to correspondence files reduced our ability to determine whether our assessment was reliable. Complaints submitted by the public to our office were numerous but seemed to be directed at changing a case's outcome. We found that the Family Court lacks a system to manage complaints and direct complainants to an appropriate agency resulting in inconsistent complaint resolution. In addition, court staff lacks adequate policies and procedures and sufficient training to guide them in providing consistent answers and resolution to complainants.

We found that legal obstacles, and the lack of policies, procedures, and training contribute to hindering the staff's effectiveness in providing customer service and in informing the public about the court system. While initial evaluations of the Judiciary's service centers and surveys showed positive results, our review indicates that the programs are no longer effective in meeting customer needs and should be re-evaluated.

Study of the Automated Child Support Enforcement System (KEIKI), Unnumbered Report

Section 41 of Act 259, Session Laws of Hawaii (SLH) 2001 directed the State Auditor to conduct a comprehensive study of the automated child support enforcement system (KEIKI) of the Department of the Attorney General. Act 259 also required that the study include the status and measures of effectiveness of KEIKI's implementation, effectiveness of the department's Child Support Enforcement Agency in addressing client problems, a review of other states' successfully implemented automated systems, and recommendations on an action plan to improve the agency.

The Legislature requested the study to explore ways to make KEIKI more responsive and accurate. In addition, the Legislature wanted to examine ways to improve and streamline the Child Support Enforcement Agency's organiza-

tional structure and balance the agency's customer service requirements with the primary responsibility of making payments to custodial parents. Through a competitive bid process, Experio Solutions was selected as the consultant to conduct the study. This is a report of the consultant's findings and recommendations.

The consultant found that KEIKI's effectiveness is limited by the manner in which it is designed and used by the Child Support Enforcement Agency. The consultant stated that KEIKI has capabilities that are not being fully exploited by the agency and the agency is not converting data being captured into information to support management, planning, and operational control.

The consultant also found that the agency has made improvements in customer service but has not yet established a culture of customer service. For example, fewer than 60 percent of callers entered the telephone queue and under 50 percent eventually talked to an agency representative.

Although the agency has attempted to address recommendations made by the Auditor in prior reports, the agency has yet to address key recommendations relating to leadership, strategic planning, information technology, and organizational and customer service strategies. The consultant concluded that the agency's failure to implement the Auditor's recommendations has perpetuated many of the problems the agency currently faces.

New Century Charter School Allocations Project – FY2002-03, Report No. 03-01

Section 302A-1185, Hawaii Revised Statutes (HRS), requires the Office of the Auditor to allocate the Department of Education's general funds to new century charter schools and new century conversion charter schools. Charter schools are semiautonomous public schools operated by parents, educators, community groups, or private organizations under contracts with the Board of Education.

This year's allocation—our fifth—was guided by two legislative actions amending Section 302A-1185, HRS. Acts 2 and 262, Session Laws of Hawaii 2002, created a category of public

schools that converted into charter schools. Two of the 25 charter schools fall into this new category. The statutory requirements for allocating funds were amended. EDN150 funds for special education are excluded, as are changes to the department's budget made by the Legislature or governor, departmental restrictions and collectively bargained sums. Additionally, the Auditor must exclude funds for necessary state-level services; programs or projects for specific schools, complexes, or districts; grants in aid; and resources for new facilities.

We used a per pupil allocation methodology for FY2002–03, resulting in an allocation rate of \$3,805 per regular education student officially enrolled in a charter school. The amounts allocated to the charter schools range from \$76,100 to \$1,795,960. The total allocated to all charter schools is \$11,723,205.

Finally, we note three additional concerns: 1) a retroactive provision in Act 262 may require an additional appropriation; 2) the statute relating to new century conversion charter schools needs clarification; and 3) the continued role of the Auditor in the allocation process is problematic.

Financial Audit of the Department of Public Safety, Report No. 02-10

The Office of the Auditor and the certified public accounting firm of KPMG LLP conducted a financial audit of the Department of Public Safety, State of Hawaii for the fiscal year July 1, 2000 to June 30, 2001. The audit examined the financial records and transactions of the department; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

We found deficiencies in the financial accounting and internal control practices of the department. The department continues to experience unusual patterns of sick leave and overtime costs are significant. During the fiscal year under audit, sick leave days were almost three times the average for all state employees, and some employees were paid more for overtime than for their regular salaries and wages.

The department continues to maintain a signi-

ficant outstanding balance of salary overpayments, of which the department estimates that approximately \$598,000 cannot be collected. In addition, the department is still unable to reconcile inmate trust account balances to bank balances, with at least one account that has not been reconciled since 1999.

Furthermore, the department has not reduced the number of inmate accounts related to released or paroled inmates. The department fails to withhold inmate funds for victim restitution and child support despite the availability of funds.

Finally, we found that the department is unable to document the reported value of its fixed assets of \$134 million, nor is it able to reconcile its approximately \$473,000 in reported fixed assets. This increases the risk of violating newly instituted governmental accounting standards that include the computation of depreciation expense for its fixed assets, similar to business organizations.

Financial Audit of the Department of Hawaiian Home Lands, Report No. 02-13

The Office of the Auditor and the certified public accounting firm of Grant Thornton LLP conducted a financial audit of the Department of Hawaiian Home Lands, State of Hawaii, for the fiscal year July 1, 2000 to June 30, 2001. The audit examined the financial records and transactions of the department; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

We found deficiencies in the financial accounting and internal control practices of the department. The deficiencies included material weaknesses, the worst possible type of reportable condition. In the first material weakness, we found that the department does not have documentation to support its methodology to determine the allowance for doubtful accounts for loans receivable.

We identified infrastructure improvements of \$1.8 million recorded in the incorrect accounting period as another material weakness. This error resulted in the underreporting of liabilities

and expenditures in FY1999–00 and the over-reporting of expenditures in FY2000–01.

We also found that management has failed to ensure that all departmental accounting policies and procedures are in place and enforced.

In addition, management does not require accurate and timely financial reporting, potentially resulting in non-compliance with bond covenants. Also, the department does not properly record ancillary charges related to fixed asset costs and to construction costs related to the inventory of homes for sale. Furthermore, the department is authorized to guarantee up to \$50 million in loans originally made by other agencies; however, it has failed to maintain the details on the loans that it guarantees. Finally, the department does not have written policies and procedures for the collection of lease and license receivables. Existing procedures to follow up on delinquent receivables are not formally documented nor consistently executed.

Sunset Evaluation: Occupational Therapy Practice, Report No. 02-17

We evaluated the regulation of occupational therapy practice under Chapter 457G, Hawaii Revised Statutes (HRS), which is scheduled for repeal on December 31, 2003. In 1998, the Legislature found that full-scale regulation of occupational therapists was not warranted because the practice of occupational therapy posed little risk of actual harm to consumers. Therefore, the Legislature instituted a simple registration system under Chapter 457G (Occupational Therapy Practice), HRS.

We found that the regulation of occupational therapy practice is not warranted. The scope of practice for occupational therapy has not changed significantly since our previous review of the profession in 1997, which recommended against continued regulation. No complaints have been registered against an occupational therapist practicing in Hawaii since 1998. Furthermore, we note that employers of occupational therapists provide a level of protection for consumers and that other states have recently attempted to deregulate occupational therapy practice.

However, if regulation of occupational therapy practice is continued, statutory amendments are needed. We found that the current law inappropriately equates registration with licensure. Additionally, references to occupational therapy assistants are confusing and the temporary permit provision is obsolete. We also suggest that the Legislature consider the potential benefits of including occupational therapists as qualified medical providers under Hawaii's workers' compensation law. Finally, if regulation is continued, the Department of Commerce and Consumer Affairs can make minor improvements. Although we found that the department operates the program with relative effectiveness, improvements are needed in collecting more timely and accurate information from registrants.

Follow-Up Study of the Hawaii Health Systems Corporation, Report No. 02-09

In 1996, the Hawaii Health Systems Corporation took over the management, assets, and property rights of the State's community hospitals system from the Division of Community Hospitals in the Department of Health. The purpose of the act establishing the system was to provide better health care to people, including those served by small rural facilities, by freeing the corporation's facilities from unwarranted bureaucratic oversight.

In our study, we found that the corporation's control over its procurement and contract spending has worsened since our 1999 audit of the corporation and may be costing millions of dollars. Substandard procurement practices, questionable discretionary purchases, and other serious deficiencies reflect laxity at the corporate level.

We also found that the corporation is now managing its information systems more effectively. In addition, the corporation has made progress by developing action plans for its personnel system and is moving to take advantage of recent Hawaii state legislation on personnel flexibility. However, an "independent contractor" arrangement with a top executive of the corporation was questionable.

Some of the corporation's key financial operations need tighter control. We found weaknesses

in its billings and collections for services to its patients. Also, the corporation lacks control over the invoices (bills) it receives from others.

In addition, we found that potential conflicts relating to officials of the corporation serving as directors and officers of Ali'i Community Care, Inc. were not adequately addressed.

We retained consultants to assess the corporation's organizational structure and to perform some other tasks. The consultants concluded that: (1) the corporation is working with an organizational structure that approaches efficiency and effectiveness given the political constraints it operates under, (2) the corporation's operating performance is mixed when viewed as an entire system and compared against other health facilities in Hawaii, and (3) the corporation's executives are underpaid when compared with national industry standards.

Actions Reported on Previous Recommendations

(Report March 2001 through Nos. 02-06)

Report Title: **Establishment of a Public Land Trust Information System, Phase One**

Dated: March 2001

RECOMMENDATIONS

1. Require the Land Division of the Department of Land and Natural Resources to:
 - a. Allow the consultant unlimited access to all pertinent documents in the division's vault under the supervision of a monitor. This would expedite document retrievals. A reasonable area to research and scan said documents should also be allotted for the consultant. The division's concern that documents will be misplaced can be addressed by the following plan of action:
 - i. The division should institute a system by which the abstractors will be allowed to view and scan the documents
 - ii. The division should provide an orientation detailing procedures for the abstractors for retrieval of documents.
 - iii. The abstractors that are used to retrieve documents from the division should be subject to approval and certification by the division.
 - iv. The abstractors should be bonded to ensure that the abstracting firms will be financially responsible for all misplaced documents handled by their abstractors. Specific bonding requirements will be set by the division.
 - b. Complete the conversion of the State Land Inventory from the current mainframe to the new personal computer system file format and complete testing of the system before the commencement of Phase Two of the public land trust information system. If all of the data contained in the existing State Land Inventory is properly transformed and remains intact, utilization of this data in the system will be optimized.

ACTIONS REPORTED

Not applicable (relates to Phase Two).

This conversion was completed.

RECOMMENDATIONS

- c. Request from the various county tax agencies the assignment of tax map parcel numbers to all public lands which currently do not have a parcel number and said requests should include easements that are appurtenant to private lands and state roads. This parcel number is the common field linking the multiple databases of the public land trust information system. Each parcel presently without a tax map parcel number must have a unique number with which the information system will be able to perform queries and other evaluation.

- d. Require lessees of lands owned by the State to be responsible for retaining the services of a licensed professional land surveyor to prepare a modern survey of all new leases from the date of commencement of Phase Two of the public land trust information system. The survey should be conducted in accordance with the rules of procedure to be established by the State Surveyor of the Survey Division and all mapping documents will be in a digital format that is compatible with the public land trust information system. These actions will ensure proper, accurate surveys and compel private entities to contribute to the ongoing accumulation of information.

ACTIONS REPORTED

The department questions the validity of the statements made in the report regarding assignment of tax keys by the counties. In the development of the State Land Information Management System (SLIMS), the department did not find the non-assignment of tax keys (including easements) to be a problem. It also reiterated its former statement that the counties use the tax map key system strictly for taxing purposes and not as land identification system.

Not applicable. (The department notes that this recommendation is neither possible nor needed.) The department has entered into a binding contract with the lessees and cannot arbitrarily impose additional requirements not contained in the lease agreement. Further, each lease already has metes and bound descriptions developed by the Department of Accounting and General Services, Survey Division. While a percentage of the leases may have metes and bounds descriptions that are somewhat older, the increased accuracy of developing a modern survey would not be cost effective and would merely serve to enrich the local surveying community.

Report Title: **Establishment of a Public Land Trust Information System, Phase One**
 Dated: March 2001

RECOMMENDATIONS

- 1. Require the Survey Division of the Department of Accounting and General Services to:
 - a. Automate the indexing of all CAD files. A systematized index system would permit smooth insertion of the CAD files into the public land trust information system, significantly reduce retrieval time, simplify file maintenance and reduce manpower requirements for data retrieval.

 - b. Require all future mapping activities to be in

ACTIONS REPORTED

All CAD (computer aided drawings) files are on electronic database, however, the division lacks a systematic index system. Currently, the department is looking for software that will be compatible with other government agencies.

The division is not utilizing manual drafting. All

RECOMMENDATIONS

- a digital format compatible with the public land trust information system and the development of maps using manual drafting techniques should no longer be permitted. If manual drafting practices do not cease, the redundant task of digitizing these maps to be compatible with the information system will be required.
- c. Require all future mapping projects to be converted to the Hawaii State Plane coordinate system for seamless transition into the public land trust information system. Presently, all the maps at the Survey Division are in various coordinate systems. One common coordinate system is required for proper representation of spatially related objects. Without a common coordinate system, the parcels would “float” spatially when displayed in the system.
 - d. Require all scanning of recorded and historical maps in raster format be indexed in accordance with the current State Land Inventory that is under the custody of the Land Division. Proper indexing of the scans will assure precise insertion into the public land trust information system and considerably lessen the amount of time spent locating and maintaining these maps.
 - e. Implement a prioritized listing of current mapping requests by the various state agencies and include projected completion dates. Once all mapping requests are fulfilled, the digital files of the maps will be imported into the public land trust information system. If these mapping requests are left unfulfilled and never brought up-to-date, a comprehensive inventory will never be realized.
 - f. Develop modern surveying and mapping standards for conducting surveys of lands that are owned by the state for all licensed professional land surveyors in the private sector that perform surveys on government lands. The standards will not only ensure compatibility with the public land trust information system, but also facilitate future manipulation of the digital CAD files.

ACTIONS REPORTED

mapping activities are done in CAD and are stored in electronic format.

Historically, all mapping activities done in the division are geographically based, including maps for the registration of lands (conveyance documents), and are regulated under Chapters 501 and 502, HRS, respectively. To convert to Hawaii Plane System would require statutory changes and approximately \$2 million to initiate.

Currently, the division has on record approximately a million historical maps and documents. This estimate was conducted two years ago at a cost of \$2 million. The division lacks the manpower and equipment to initiate such work.

All requests for surveying services are prioritized based on mandated functions and/or high media attention. For the past seven years, the division has had a 36 percent reduction in staff (ten positions). With this shortage, the division has requested the various government agencies to prioritize their requests to try to improve the economy of the State. Currently, the division has two years’ backlog of requests; and at present, the division has initiated efforts to rehire retired land boundary surveyors by contracts to address the backlog.

The standards for surveying and mapping are regulated under Chapters 501 and 502, HRS. The knowledge of these standards is required in qualifying to become a licensed surveyor in the State. All licensed surveyors have the capacity to perform surveys on private as well as government lands in accordance with existing statutes.

RECOMMENDATIONS

1. Require the Department of Transportation to:
 - a. Provide to the administrator copies of all documents relating to leases and other encumbrances involving airport and harbor lands in a scanned digital format. These digital files will be appended to the existing database.
 - b. Require all mapping activities involving the platting of lands designated for airports and harbors be conducted in accordance with the procedures to be established by the State Surveyor of the Survey Division. Standardization will simplify input into the information system.

ACTIONS REPORTED

Due to an oversight, both the Airport and Harbor Divisions have not started the scanning process. They now estimate the scanning of all documents related to leases will be completed by September 2003.

The department awaits the standardization of mapping procedures to be established by the State Surveyor of the Survey Division.

The airports division has maps of airport properties in digital form; however, the maps are not based on metes and bounds descriptions. Depending on the procedures and standards set by the State Surveyor, the division estimates that the effort may cost twice as much as \$4 million and may take approximately three years.

The division is doing more definition of ceded lands in conjunction with the update of the Honolulu International Airport Master Plan, which is ongoing, but it will not be completed for at least another year and may not coincide with the State Surveyor standards.

Before starting an expensive contract that would benefit only the Office of Hawaiian Affairs (OHA), the department requests to be informed of the recommendations by the Department of Accounting and General Services (DAGS) and the Department of Land and Natural Resources (DLNR).

Finally, the division has sought an opinion from the Attorney General on whether payments to OHA from the Airport Special Fund constitutes a diversion of revenues meant for airport or aeronautical purposes.

RECOMMENDATIONS

Require the Land Use Commission (LUC) of the Department of Business, Economic Development and Tourism to submit all current land use data and any future changes to land use district boundaries to the administrator for inclusion in the information system.

ACTIONS REPORTED

Current LUC Database. The LUC currently maintains eight ACCESS relational database designed to provide linkages with individual LUC files/dockets and/or respective information fields. The eight current LUC databases include:

1. LUC District Boundary Amendment Petitions (DBA)
2. LUC Special Permits (SP);
3. LUC DBA conditions of approval;
4. LUC Boundary Interpretations (BI);
5. County DBA;
6. County Special Permits;
7. LUC Library materials; and
8. Litigation involving the LUC.

Official LUC Maps. Besides being depicted on mylar maps adopted by the LUC on December 20, 1974 as hard copy, the official maps of the LUC are also maintained on the Office of Planning (OP) current GIS system as a polygon layer. Both types of maps depict the official boundaries of the State Agricultural, Conservation, Rural and Urban land use districts throughout the State of Hawaii. The district boundary maps maintained on the GIS are not meant to replace the official mylar maps, but facilitate off-site review of the state land use district boundaries by interested parties and the general public.

Value of the LUC Database to the Public Land Trust System. As the individual pleadings before the LUC typically involve redistricting of private and not ceded lands, the commission databases do not typically contain any fields of information specific to ceded lands. However, the LUC will continue to provide updated data to the OP GIS section to ensure that any OP-established public land trust has access to this information.

Current LUC Initiative. The LUC has recently been awarded a \$25,000 Section 306 project grant from the Hawaii Coastal Zone Management Program (CZM) to improve the commission's database and allow for the collection of information from LUC dockets pertaining to individual project compliance with the CZM program objectives. In the course of reprogramming the existing LUC database, staff have been

RECOMMENDATIONS

ACTIONS REPORTED

alerted to analyze the cost and benefit of including any and all ceded land information collected during the course of its DBA proceedings.

Report Title: **Audit of the Employment and Training Fund**

Report No.: 01-08

RECOMMENDATIONS

1. The Workforce Development Division (WDD) should improve its administration of the Employment and Training Fund (ETF) program by:
 - a. Strengthening the program's contract administration by standardizing contractual language and requirements. These requirements should be enforced upon all grantees and vendors;
 - b. Shortening the program's macro grant application process either by eliminating the county advisory committees' review or by formalizing, defining, and including specific timeframes related to these committees;
 - c. Providing evidence that grant applications are treated in accordance with fund policies by documenting the reasons for acceptance and denial of each proposed grant;
 - d. Improving the program's monitoring of funds disbursed by, at a minimum:
 - establishing and implementing an organized filing system;

ACTIONS REPORTED

Implemented. All vendors, both private and public, must execute a standard agreement with the State and carry out the various provisions of the agreement. Similarly, all grant awardees must abide by the agreement's *General Conditions*, *Special Conditions*, and a standardized *Scope of Services*, which set forth program and fiscal reporting, monitoring, and evaluation requirements and procedures.

Implemented, with qualifications. ETF is retaining the advisory committees at the county level, since we believe that private sector input is critically important in deciding grant awards. The grant application includes specific dates for reviewing and acting on grants (two months after deadline) and executing of the contracts (one month after award notification) both by the committees and the state ETF administrative staff. The program has kept to the timeline in processing the macro grants.

Implemented. The ETF grant application has a check list that describes all the various statutory and program guidelines policies that grantees have to meet in order to be awarded an ETF grant. This checklist is used in the review process. In the formal, written response to grant applicants, ETF provides a detailed description of the reasons for its disapproval.

Implemented, with qualifications. ETF has in place an organized filing system, in which all correspon-

RECOMMENDATIONS

- requiring documentation of all contact made with grant applicants and recipients;
 - ensuring that staff in all branch offices are familiar with the various reports and submittals required of the different fund recipients;
- e. Developing and disseminating the state participant evaluation form to the program's vendors;
- f. Developing and implementing strategies for evaluating the program's overall success. Efforts should be made to assess whether the program is improving the long-term employability of Hawaii's people. Such efforts could include, but are not limited to, measuring program outcomes related to work unit and company performance, and collecting and comparing wage data from workers who have utilized the fund versus those who have not;
- g. Increasing awareness of the fund and its programs by strengthening publicity;

ACTIONS REPORTED

dence and contacts are noted and filed. The 2002 Legislature enacted Act 248, which made the program permanent and requires employers to contribute 50 percent of the program assistance. As a result the program had to establish new operational procedures, reports and forms. The ETF state administrative staff developed and distributed to all branch offices a procedural manual with samples of forms to be used and accompanying instructions. The state staff also distributes periodic bulletins to the field that set forth ETF micro and macro program policies and guidelines.

To be implemented. ETF is in the process of issuing a request-for-proposal to solicit training vendors for the program (RFP No. DLIR/WDD 2001-01). Once selected, the department will execute a contract with the vendors. The draft agreement includes language that shall *require* vendors to submit evaluations in a form designated by WDD. Questions will include those on training quality and impact on productivity.

Under consideration. The department responded to this recommendation by citing the high level of sophistication and expertise required to conduct such an evaluation, the difficulty in isolating variables such as job retention, and its high cost as compared to its benefits. The latter concern—the cost-benefits of such a study—has become even more problematic after the signing of Act 248. The legislation continued the assessment rate of .01 percent, which resulted in an 80 percent reduction in program funds, from \$3.9 million to \$800,000; the original rate was .05 percent. With its limited amount of funds available for training services, the program, weighing the cost-benefits of conducting such high-cost program evaluation, decided not to take immediate action on this recommendation but to reevaluate the program's priorities. The program will continue to conduct periodic, follow-up surveys of its clients as part of a "consumer report card" system.

Implemented. ETF purchased advertisements in two publications (*Island Business* and the *Pacific Business News's Book of Lists*) and participated in business expositions and job and career fairs. ETF staff delivered presentations to a variety of professional associations and business and labor groups. The program has been featured numerous times in daily and business newspapers.

RECOMMENDATIONS

- h. Establishing consistent attendance-reporting requirements for both macro grant projects and micro vendors and comparing attendance rates for projects and vendors who charge additional fees to participants versus those who do not; and
 - i. Reporting as encumbrances only those obligations for which the fund has entered into bona fide contracts. If administrative encumbrances continue to be made, then any portions unexpended at the close of each fiscal year should be lapsed.
2. If employment and training fund activities continue to be financed outside the general fund, executive agencies—specifically the Department of Budget and Finance and the Department of Labor and Industrial Relations—should consistently treat the Employment and Training Fund in accordance with its statutory designation as a special fund.

ACTIONS REPORTED

To be implemented, with qualifications. ETF requires bimonthly reports on enrollments for the grant projects and quarterly reports from authorized vendors. The program was in the process of comparing attendance rates for projects and vendors who charge additional fees to participants who do not. However, the project was put on hold. The 2002 Legislature mandated that ETF require employers to contribute 50 percent of any assistance in cash or in-kind services. When the program year ends on June 30, 2003, ETF will have a clear idea of the new law’s impact on enrollment and attendance.

Implemented, with qualifications. ETF will continue to make administrative encumbrances. However, the recommendation that the program lapse any portions of unexpended funds at the close of each fiscal year has been implemented. The program also will deobligate any unexpended and unobligated funds at the end of each fiscal year.

Based on the memorandum dated December 22, 1993, the Attorney General clarified that ETF is a trust fund. Subsequently, with this legal clarification, the Director of Budget and Finance waived the central service assessment on ETF, as the law provides the director discretion in applying central service assessment in relation to special fund (Section 36-27, Hawaii Revised Statutes). To impose a five percent central service assessment on ETF would limit this use of funds in which designated persons or groups of persons (in this case employers and employees) would benefit. The Department of Labor and Industrial Relations is satisfied with the opinion of the Attorney General and believes it is appropriate.

Report Title: **Audit of the Employment and Training Fund**
 Report No.: 01-08

RECOMMENDATIONS

If employment and training fund activities continue to be financed outside the general fund, executive agencies—specifically the Department of Budget and Finance and the Department of Labor and Industrial Relations—should consistently treat the Employment

ACTIONS REPORTED

Act 248, SLH 2002, made the Employment and Training Fund (ETF) permanent, set the employer assessment rate for ETF contributions at .01 percent of unemployment insurance contributions, and requires employers who use or are assisted by ETF

RECOMMENDATIONS

and Training Fund in accordance with its statutory designation as a special fund.

ACTIONS REPORTED

programs to contribute 50 percent of the cost of such assistance in cash of in-kind contributions.

Additionally, Act 248 established standard procedures to ensure proper administration of the program.

The ETF will be treated consistent with special funds. As with all special funds, expenditures are limited to appropriation levels.

Report Title: **Audit of the Management of State Boating Facilities by the Department of Land and Natural Resources**

Report No.: 01-09

RECOMMENDATIONS

1. The Division of Boating and Ocean Recreation, under the management of the Board of Land and Natural Resources, needs to develop a realistic strategic plan to address short and long term problems of the State's boating facilities and address the program's insufficient revenue stream. Emphasis should not be placed solely on user fees for the boating facilities. Instead, the division needs to identify and rigorously pursue additional measures to maximize the boating program's funding and revenues. Specifically:
 - Immediately, the boating division should seek and secure general fund appropriations from the Legislature to address its most pressing repair and maintenance projects. Support from the general fund would reflect the much larger population who benefit from the program than just the users of boating facilities; and

ACTIONS REPORTED

The division has developed a prioritized list of capital improvement projects by district and will seek reimbursable and non-reimbursable general obligation (GO) bond funding for the projects.

In FY 2001, the division attempted to secure non-reimbursable general obligation bond funding for its capital improvement projects. Only one project, repair of the piers at the Waianae Small Boat Harbor, was approved for approximately \$750,000. No other CIP projects were approved for general fund funding.

The Legislature approved \$2.4 million in reimbursable GO bond funding in fiscal year 2002. This represents six projects ranging from the improvements to the Wailoa and Haleiwa Small Boat Harbors to improvements at the State's small boat ramps and dredging of harbor facilities.

RECOMMENDATIONS

- Long range plans of the division should include the possibility of increasing commercial activity in small boat harbors, allowing commercial activity in boating facilities where it is currently prohibited, and allowing land-side commercial activity in small boat harbors that is not necessarily maritime-related.
2. The boating division, under the general direction of the land board, should address the deficiencies in the State's boating facilities. The following items should be addressed specifically:
- Identify the repair and maintenance needs of the boating facilities and aggressively pursue necessary funding within the land department and at the Legislature;
 - Review the boating division's enforcement arrangement with the Division of Conservation and Resources Enforcement (DOCARE) to ensure that the boating program receives its fair share of enforcement; and
 - Ensure that all persons moored in state boat facilities possess current mooring permits, vessel inspections, and vessel registrations.
3. The boating division needs to improve its controls over its financial activities by:
- Ensuring that expenditures are properly classified to an appropriate cost center;

ACTIONS REPORTED

The division has sought to expand its revenue sources and has begun aggressively pursuing federal grants and reimbursements. It has obtained over \$1 million in federal reimbursements from the Boating Safety Act for repairs and maintenance of ramp and harbor facilities statewide as well as upgrading the division's billing system.

The division supported legislation in the 2001 and 2002 Legislature to increase the fees and commercial activity in the small boat harbors, but the legislation was defeated each year.

Public hearings for recreational and commercial fee increases were held and the department will seek approval from the Board of Land and Natural Resources in November 2002. The division hopes that it will be able to implement the fee increase in the second half of fiscal year 2003.

The division has developed a list of projects by harbor and district and plans to implement the repairs when the division increases its rates. The list of projects funded from current revenues was attached.

The division has met with DOCARE and DLNR administration and has requested that DOCARE submit inspection logs to the division. These logs will document the activities of DOCARE within division areas. Additionally, through the DLNR administration, the division will reduce funding of the 18 positions in fiscal year 2004 to nine, and cease funding of DOCARE in 2005.

The division's auditor has conducted six audits this year to ensure that all persons moored in the state's facilities possess current mooring permits, vessel inspections, and vessel registrations. The results of the audits were reported to the administrator and the district manager(s).

The division has begun allocating indirect costs to cost centers on its internal financial statements. The

RECOMMENDATIONS

- Establishing a better inventory system to account for physical property to ensure that the division is in possession of such property;
 - Better segregating duties for cash collections at boating facilities;
 - Better identifying and collecting delinquent accounts to reduce the amount of outstanding receivables owed to the division; and
 - Requiring more audits of its commercial permit holders to ensure the integrity of their financial receipts.
4. Consideration of a transfer of the boating program to another agency should be deferred until the program's more immediate problems are effectively addressed.

ACTIONS REPORTED

division will also establish cost centers to track revenues and expenditures for Waikiki, Oahu-South Shore, and Kauai North Shore.

The division updates its inventory audits every quarter and performs an audit of its inventory annually.

Several facilities' revenue base support only a harbor agent. It would not be cost effective to establish a second position. However, the division has instituted random harbor audits to address cash collection at its facilities.

The division produces an aged receivable report of its accounts on a monthly basis. Accounts delinquent over 30 days are sent reminder notices that their account is past due. At 60 days, accounts are sent default letters, and at 90 days termination letters are sent. The division has referred 110 accounts owing \$120,000 to the Office of the Attorney General for write-off.

The division has performed eleven audits of commercial accounts and one property management audit during the calendar year. It has two audits scheduled in December of 2002.

Report Title: **Financial Audit of the Med-QUEST Division of the Department of Human Services**
Report No.: 01-10

RECOMMENDATIONS

We recommend that the division perform the following:

- Establish a well documented and concise claims review processing system, adequately train employees who will be responsible for claims review processing, and ensure that HMSA is notified immediately of any discrepancies identified;

ACTIONS REPORTED

The division terminated operations of the MMIS with HMSA on October 31, 2002. A new fiscal agent, Affiliated Computer Services (ACS) has been awarded the operations of the Hawaii Prepaid Medical Management Information System (HPMMIS).

continued on page 31

RECOMMENDATIONS

- Hold HMSA accountable for any errors in its claims processing. The contract with HMSA states, "If an overpayment or duplicate payment is made or if adequate documentation is not maintained, and the payment is the result of either a failure of the contractor to utilize available information or a failure of the contractor to process correctly, then the contractor shall be liable for the overpayment or the duplicate payment in addition to the administrative cost, including personal services, operating expenses, and computer charges, incurred by the State in identifying such overpayment or duplicative payment";
- For all claims for which the division made fee determinations, the division should review these determinations and claim payments for propriety;
- Update the MMIS edit functions; and
- Perform overall risk analyses and system security reviews of the MMIS.

We recommend that the division enforce established

ACTIONS REPORTED

Each component of the claims systems has been documented and procedure manuals for each of the operations components have been completed. ACS staff has been trained on the claims processing and the division will ensure that any discrepancies are identified and corrected.

The contract with ACS allows the division to hold ACS financially responsible for error rates that exceed the threshold and also holds ACS responsible for overpayments or duplicate payments made to providers.

Authority to update fee schedule information in HPMMIS is limited to a few individuals. New rates are reviewed by another individual. In most instances, HPMMIS uses these rate schedules to automatically price the claim. In addition, the system maintains an audit log of everyone that has updated the claim, including when it is manually priced. Only individuals with a certain level of security are authorized to manually price a claim. Claims that are manually priced are subsequently pulled for a random review to ascertain that the rates assigned were reasonable.

In conjunction with the implementation of HPMMIS all edits were reviewed and determined 1) for their applicability to Hawaii and 2) the desired edit result (pend, pay or deny). In addition, a review of adjudicated claims is conducted to determine if the edit results are reasonable.

Ability to access the system is controlled by a system administrator. Individuals are placed into work groups. The division determines what access and authority each work group can have based on its work function. System passwords must be changed every 30 days and cannot be reused. Individuals who violate security policies are immediately restricted from access to the system.

RECOMMENDATIONS

policies and procedures and review existing internal controls to ensure they are sufficient. We also recommend that the division perform the following:

- Reduce processing time for eligibility determination to less than 45 days;
- Perform annual re-verifications of eligibility;
- Award presumptive eligibility to applicants when appropriate, in accordance with Hawaii Administrative Rules and federal regulations;
- Disenroll ineligible enrollees in a timely manner;
- Implement procedures to actively pursue delinquent premium receivables and consider referring these accounts to collection agencies;
- Resolve the remaining member count discrepancies with health plans and collect all amounts due to the division;
- Obtain and reconcile to the division's records the member counts from the health plans or obtain and review the reconciliation performed by the health plans;
- Deposit cash receipts daily, or at a minimum, the next working day;
- Investigate outstanding issues related to the trust fund suspense account; and
- Maintain adequate supporting documentation, especially in cases where a third party pays the division a settlement amount.

We recommend that the division initiate a contract for the Medicaid fee-for-service claims processing system as soon as possible.

We recommend that the division immediately execute agreements with nursing and acute care facility

ACTIONS REPORTED

This has been implemented. Currently the division has no cases pending outside the 45-day period.

This is performed and completed.

If cases exceed the 45 days then the recipient becomes presumptively eligible for services until the eligibility branch determines eligibility.

The division has instituted procedures to implement this recommendation.

The division has been working with the Office of the Attorney General to reduce the premium receivables, and will continue to seek alternative methods of collecting on these accounts.

All amounts due to the division from the health plans have been reconciled and collected. With the implementation of the HAPA (Hawaii Arizona Prepaid Management Information System Alliance) system, discrepancies between the health plans and the division have been eliminated.

Deposits of cash receipts are now completed daily with the majority of the payments sent directly to the First Hawaiian Bank lockbox.

All outstanding items relating to the trust fund suspense account have been resolved and the fund has been reconciled quarterly.

All documentation regarding third party recoveries are maintained until three years following the disposition of funds.

The division has contracted with ACS to operate the HAPA Claims system effective November 1, 2002

All nursing home and acute care agreements have been updated and executed.

RECOMMENDATIONS

providers. The division should also consider appropriate action for non-compliant facility providers.

ACTIONS REPORTED

Report Title: **Audit of the Adult Mental Health Program**
Report No.: 01-13

RECOMMENDATIONS

1. The director of health should ensure that the Adult Mental Health Division adequately plans for the provision of adult mental health services in the least restrictive setting available. Specifically, the director should:
 - Develop a statewide comprehensive four-year plan as required by Section 334-3, HRS. The director should require that the four-year plan be developed in response to a formal statewide needs assessment. Once adopted, this plan should direct all activities in the Adult Mental Health Division;
 - Direct the Adult Mental Health Division to encourage community involvement in the development of the state mental health plan. The director should require the division to facilitate the revival of service area boards that have been inactive or have been unable to make decisions due to their inability to achieve a quorum. The division should follow the requirements of Section 334-11, HRS, for developing and submitting a list of prospective service area board members to the governor for approval. The governor should expedite appointing members to service area boards once the list of prospective board members is submitted for review;
 - Identify the resources necessary to develop and support the infrastructure needed to support the transition of the state hospital to a psychosocial rehabilitation facility. Federal

ACTIONS REPORTED

Currently, the Adult Mental Health Division (division) is operating under year two of the Implementation Plan for Service Development. The Department of Health and the U.S. Department of Justice have jointly submitted a proposed Community Plan. The proposed Community Plan is currently under federal court review. The Community Plan, in conjunction with the Hawaii State Hospital (HSH) Remedial Plan for Compliance (Remedial Plan) that went into effect on February 2002, will constitute the division's Omnibus Plan.

We anticipate that the role of the service area boards will be revised in the Community Plan reference above.

The resources and infrastructure needed to implement the HSH Remedial Plan have been identified. Federal revenues have also been identified for community services. The State was successful in obtain-

RECOMMENDATIONS

funds available to shore up community services should be identified prior to requesting that the Legislature commit any additional state funds to this endeavor;

- Formally establish and fill positions funded by the Legislature to support the transition of the state hospital. All newly created positions and changes in duties should be accurately reflected in the division's organizational charts and position descriptions; and
 - Seriously consider recommendations made by the division's independent expert, Technical Assistance Collaborative, Inc. Those recommendations deemed feasible and appropriate should be implemented in a timely manner. The director should require that the division inform him on the status of all recommendations made and explain any decision not to implement specific recommendations.
2. The Adult Mental Health Division chief should ensure that patients confined to the Hawaii State Hospital are adequately and reasonably protected from harm, and provided with sufficient treatment. Specifically, the division chief should:
- Dedicate the resources necessary to ensure that all direct care staff receive adequate training in psychosocial rehabilitation. Staff training should not be contingent upon downsizing of the hospital. A realistic timeframe for implementing patient psychosocial rehabilitation modules should be developed and failure to implement modules as planned should be reported to the Director of Health;
 - Require that all supervisors discuss job expectations with staff in a timely manner to ensure that staff perform competently. Supervisors should be directed to immediately discontinue the practice of completing employee evaluations prior to the completion of the review period;
 - Require the hospital's personnel office to routinely update its professional licensing renewal status report. This report should be reviewed regularly to identify the currency of licenses of all direct care staff as applicable. Staff who

ACTIONS REPORTED

ing the Medicaid Rehabilitation Option to assist in funding services. The Rehabilitation Option will become effective in July 2003.

The state hospital will reorganize in conformance with the Remedial Plan. New positions to implement the Remedial Plan have been established.

All recommendations made by Technical Assistance Collaborative, Inc., are seriously considered and implemented if feasible.

Direct care staff receive appropriate training in psychosocial rehabilitation. A comprehensive program of treatment will be provided for each patient as determined by their individualized treatment plans. Psychosocial rehabilitation modules have been implemented as scheduled.

The state hospital requires the performance appraisal system to be implemented including discussing job expectations with staff in a timely manner. The state hospital does not have a record of any performance appraisal being completed prior to the completion of the review period.

The hospital's personnel office updates its professional licensing database monthly. Memos are sent to supervisors reminding them of any staff whose professional licenses are expiring within two months of expiration.

RECOMMENDATIONS

are required to maintain a current license as a condition of practicing their profession should be relieved of their duties if they are unable to provide evidence of a current license;

- Require the hospital's Staff Development Office to track all training completed by staff in order to identify those staff not meeting professional training requirements. The director of the Staff Development Office should be given authority to suspend staff who fail to complete required training. Staff who pose a threat of harm to themselves or others because of outstanding training requirements, should be suspended until training is completed;
 - Clarify that patient safety/sexual harassment training is an annual continuing education requirement for all hospital staff;
 - Direct the hospital to discontinue the practice of internally investigating allegations of patient sexual harassment/abuse and require that all allegations be referred for an external and independent investigation;
 - Require that staff follow established procedures for restraining and secluding patients. The hospital should continue to monitor and follow up on incidents of non-compliance with established procedures. Staff who exhibit a pattern of non-compliance should be subject to progressive disciplinary action up to and including dismissal; and
 - Require the hospital to develop policies and procedures for transferring patients in restraints within the hospital.
3. The Adult Mental Health Division chief should ensure that the treatment planning for patients confined at the Hawaii State Hospital is improved by:
- Reminding staff of the importance of *completing* each patient's initial plan of care. Staff should identify safety risks for patients with suicidal or violent tendencies in order to ensure that the patient, staff, and other residents of the hospital are provided with reasonable

ACTIONS REPORTED

The hospital's staff development department tracks all training provided or sponsored by the hospital. Monthly reports are prepared for supervisors that list all mandatory training and expiration dates for each employee. Personnel rules and collective bargaining agreements will be followed in all disciplinary matters.

During new staff orientation and annually, all direct care staff receive training in personal safety for patients against sexual harassment, abuse, and exploitation. Records of attendance are maintained for all training provided by the hospital.

All allegations of patient sexual harassment/abuse are referred to the Department of the Attorney General for investigation.

All staff are required to follow hospital policies and procedures including procedures for restraining and secluding patients. Personnel rules and collective bargaining agreements will be followed in applying progressive discipline.

A policy and procedure for intra-hospital patient transfers was adopted in December 1995.

Staff are reminded regularly of the importance of completing each patient's initial plan of care. The state hospital has implemented a standardized risk assessment instrument.

RECOMMENDATIONS

protection from harm;

- Encouraging staff to actively engage patients in discussing their treatment preferences, alternatives, and goals. Patients should be prompted to identify areas in which they need assistance in order to reach their long-term goals. In cases where patients refuse to participate, staff should document their refusal on the goal and treatment preference form. Staff should follow up to offer patients additional opportunities to become active participants in their treatment;
 - Directing all members of a patient's treatment team to attend treatment plan meetings. Staff who consistently fail to attend these meetings should be subject to counsel and progressive disciplinary action as appropriate; and
 - Requiring that treatment teams identify alternatives for those patients who have made no or minimal progress toward their treatment goals. Any decision resulting from this discussion should be clearly documented on the patient's treatment plan. Treatment teams who fail to document decisions made from these discussions should be counseled and subject to progressive disciplinary action as appropriate.
4. The hospital administrator should improve the operations of the Hawaii State Hospital by:
- Requiring all staff to document the hours they work on daily attendance schedules. Supervisors should be required to reconcile overtime claims back to daily attendance records prior to approving these claims;
 - Requiring the personnel office to investigate all patterns of potential sick leave abuse as identified and agreed to by the collective bargaining units;
 - Requiring that supervisors only approve sick leave in cases where an employee's absence was due to illness or covered by the state family leave law;
 - Requiring all staff to submit leave forms in a timely manner. Employees who fail to submit

ACTIONS REPORTED

Patients are expected to participate in their treatment and to assist in developing long-term goals. The hospital is monitoring adherence to the relevant portions of the Remedial Plan regarding treatment planning and patient participation.

The performance appraisal system and collective bargaining agreements are followed for all corrective or progressive discipline actions.

Treatment plan reviews are conducted on all patients on a monthly basis. Alternatives are identified for patients who make no or minimal progress toward their treatment goals. If lack of progress continues in spite of alternatives, the treatment team requests a case conference with the hospital's Clinical Director. If alternatives are not implemented in a timely manner, it is forwarded to the nurse manager, then unit chiefs, and finally to the Clinical Director if necessary.

A security management system provides a written record of staff entering and exiting direct care units. In areas without the security management system, staff are required to sign in and sign out.

The state hospital's Personnel Office investigates all potential patterns of sick leave abuse in accordance with the collective bargaining agreements.

In the past year, there have been no known instances where sick leave was inappropriately approved by a supervisor. Supervisors are required to approve sick leave in accordance with collective bargaining agreements and personnel rules.

Staff are required to submit leave forms as required by the collective bargaining agreements. Personnel

RECOMMENDATIONS

leave forms within the required timeframe should be placed on leave without pay status. Furthermore, the personnel office should not allow staff to turn in leave approvals after the established deadline. Personnel staff should discontinue the practice of temporarily posting leaves on employees' leave records until the close of the calendar year;

- Developing policies and procedures that require all units and patient wards to maintain perpetual inventories of all consumable goods and to conduct periodic physical counts of goods on hand. The physical count should be compared to the inventory report and discrepancies investigated in a timely manner; and
- Implementing controls that require the mileage per vehicle to be logged and compared to gas receipts for reasonableness. Hospital management should continue to reconcile these receipts to the monthly invoices from commercial gasoline vendors. Staff refueling vehicles should certify in writing that the gasoline was purchased for a hospital vehicle, and that the vehicle was used to conduct hospital business.

ACTIONS REPORTED

staff do not temporarily post leaves on employees' leave records until the close of the calendar year.

The state hospital maintains a perpetual inventory of consumable goods and periodic physical counts of goods are conducted and reconciled.

The hospital's Business Office periodically reviews gas receipts for reasonableness. Gas receipts are reconciled with the monthly invoices. Staff are required to certify in writing their acknowledgement of gas card procedures.

Report Title: **Financial Audit of the Housing and Community Development Corporation of Hawaii**
 Report No.: 01-14

RECOMMENDATIONS

We recommend that the corporation do the following:

- Assess the project's status, identify the causes of the problems, and develop a strategic plan to meet project objectives.

ACTIONS REPORTED

In April 2001, an assessment of the Emphasys system was conducted and major actions were taken in 2001 and 2002:

- Reviewed RFP and identified all unresolved problems. Worked with vendor and closed all problems in January 2002
- Reviewed all billing, services, and payments. In January 2002, negotiated outstanding invoices and in April 2002, negotiated a final settlement.

RECOMMENDATIONS

- Meet with the vendor and develop a work plan for completion of the project. Include task descriptions, resource requirements, and deadlines.
- Assign a project manager to oversee and monitor the project.
- Develop a contingency plan should problems arise and deadlines be missed.
- Assess liquidating damages of \$100/day against the vendor.

We recommend that the corporation do the following:

- Complete capital improvement projects in a timely manner.
- Improve communication with the board. Inform the board of the status of all projects and any problems encountered, especially if significant delays may result. Notify the board if any change is made to a board-approved procurement method. Obtain guidance from the board with regard to oversight and when issues should be identified for the board.

We recommend that the corporation implement sufficient internal control procedures to ensure that the calculation of the actual operating subsidy is proper.

ACTIONS REPORTED

In July 2002, reassessed status of system and identified short-term and long-term objectives. In September 2002, the assessment and plan was presented to the board of directors for informational purposes. The agency is in the process of planning and implementing the action items. The process to replace the Emphasys system is targeted to begin in January 2003.

Between April 2001 and January 2002, worked closely with vendor. Consolidated all unresolved problems, tracked status, and closed issues.

In April 2001, a project manager was assigned to oversee and monitor the project. In July 2002, a supervisor was hired to continue management of systems.

Although the agency conducted preliminary research of other vendors, full focus was placed on working with Emphasys Computer Systems. The company was responsive and resolved the immediate issues.

The vendor complied with requests in a timely manner and provided solutions for agency; hence, liquidating damages were not assessed.

Staff was able to obligate all CIP appropriated funds prior to the fiscal year ended June 30, 2001 and avoid the lapsing or loss of funds.

To prevent future occurrences, staff is utilizing conventional procurement and bidding process in accordance with State procurement codes and policies. Staff has also completed an implementation schedule for expending CIP funds. The schedule includes milestones for timely obligation and expenditures and factors in "best times" of the fiscal year to solicit bids and avoid seasonal construction demands. The corporation has also received conceptual approval of a proposed reorganization from the Department of Budget and Finance which aligns all aspects of public housing under the executive assistant in order to facilitate improved coordination between facilities management and capital repairs.

Internal control procedures are in place to ensure that the calculation of the actual operating subsidy is proper. The final operating subsidy calculation is

RECOMMENDATIONS

These procedures should be similar to those procedures performed on the estimated operating subsidy calculation, which include reviews by a supervisor, the administrative services officer, and the board.

We recommend that the corporation monitor its current and future projects to ensure that they are efficiently and effectively completed; develop methods to spur facilitated developments and assist in the placement of applicants in tenant rental-assisted units; and review staffing workloads and processes to ensure efficiency and effectiveness.

We recommend that the corporation adhere to HUD reporting requirements and ensure that staff who are involved with completion of the reports are aware of the significance of the time deadlines.

We recommend that the reconciliation of the petty cash fund or periodic reviews of the reconciliation procedures be performed by an employee independent of the petty cash process.

ACTIONS REPORTED

reviewed by the preparer's supervisor and the administrative services officer, and then submitted to the executive director for final review and approval.

The corporation manages and operates federal and state public housing units, federal and state subsidy programs and respective wait lists by programs. Given the financial resources and subsidies from either the federal government or the State, it is imperative that the corporation maximizes staff efficiencies in delivering these programs. To this extent, the corporation concurs with the recommendation and will focus to support initiatives and policies that will facilitate the creation or preservation of rental housing stock. The corporation will also seek Rental Housing Trust Fund applications that focus on the development of new rental housing units for very low and extremely low income levels, typical of public housing incomes. The corporation will continue to remedy its Emphasys computer software so that wait list management can be more efficiently handled thus minimizing processing delays. The corporation also has expedited the renovation of vacant units and acceleration on applicant processing in hopes of achieving a 30-day or less turnaround time average.

Staff who are involved with the completion of the federal reports have been reminded of HUD reporting requirements. Internal controls have been implemented to insure that reports are submitted in a timely manner.

The petty cash fund is reconciled monthly by an employee independent of the petty cash process.

Report Title: **A Review and Assessment of the Department of Education's Development of Educational Standards**

Report No.: 01-15

RECOMMENDATIONS

1. The Department of Education should make the following changes to the content standards to improve their coherence:

ACTIONS REPORTED

RECOMMENDATIONS

- a. The language arts content standards should be improved by removing the attitudes and engagement, and diversity strands from the content standards.

- b. The mathematics content standards should be improved by reviewing and revising benchmarks to establish a common level of specificity. In some cases, this might mean combining two or more benchmarks. In other cases, splitting a benchmark into two benchmarks may be needed.

- c. A number of benchmarks in the science standards that are too large or too small should be revised to reflect a consistent grain size for all benchmarks.

2. Department of Education should make the following changes to the content standards to improve their clarity:
 - a. Those strands in the language arts content standards that resemble general curriculum goals or statements about student dispositions

ACTIONS REPORTED

The Attitudes and Engagement standard has been removed from reading, writing, and oral communication. Key concepts in the Diversity strand have been integrated into existing reading, writing, and oral communication standards. Secondary teachers were informed of the change through a statewide department chairpersons meeting for middle schools.

Elementary schools were informed of the change through an instructional guide, which was presented to the Leadership Team. The guide identified specific, grade-level performance indicators for each benchmark and sample assessment tasks and instructional strategies.

The Measurement strand is being revised to break the one standard into several standards. In addition, the benchmarks of all standards are being reviewed and revised for clarity, comprehensiveness and grain size.

Benchmarks were revisited and minor revisions made. Grain size issues, which led to clarity concerns, were addressed through the development of the grade level performance indicators. Major revisions of the benchmarks would serve to confuse the field at this time. However, such revisions will be made in any new edition of HCPS (Hawaii Content and Performance Standards) II.

The recommended glossary items will be made in any new edition of HCPS II.

A presentation of the recommended additions per Report No. 01-15 was made to the HCPS Commission. Their feedback report is being awaited.

Benchmarks were revisited and revised for grade cluster appropriateness, and for clarity. Additionally, clarity was added through the development of the grade-level performance indicators.

Statements about student dispositions appearing in the Attitudes and Engagement standards have been eliminated from reading, writing, and oral communication.

RECOMMENDATIONS

should be moved to a different section of the document so that the standards exclusively address the knowledge and skills expected of students, as they do in the other subject areas. Broadly stated or imprecise benchmarks should be revised. Undefined technical terms and phrases should be placed in the glossary or made clear in the text by examples or explanations.

- b. The incomplete mathematics content standards glossary should be expanded to include terms of the discipline.
 - c. The science contents standards glossary should be expanded.
 - d. Broadly stated benchmarks in the social studies content standards should be improved by the addition of examples. The glossary should be reviewed for completeness and appropriate terms should be added.
3. The Department of Education should make the following changes to the content standards to improve their comprehensiveness:
- a. Language arts benchmarks should be more specific. Broadly worded benchmarks and benchmarks that do not differentiate between grade-clusters should be revised and explanations or examples should be added. Some benchmarks (such as the writing conventions benchmarks) would be more appropriate if divided into several benchmarks, each with examples.
 - b. The mathematics standards should be strengthened with the addition of content related to problem-solving skills and strategies
 - c. The science content standards should be revised

ACTIONS REPORTED

A small number of benchmarks have been revised for clarity. Rather than confuse teachers who have become very familiar with the benchmarks, however, a great deal of effort was spent writing clear and specific performance indicators that elaborate on the benchmarks. The performance indicators are clear statements of the kind of work required by the benchmarks and standards.

A glossary in the *Language Arts Content Standards* document (red book) defines technical terms. That glossary will be reviewed, revised, and included in the content area frameworks.

With the use of the document, terms that teachers have difficulty understanding are being identified to be included in the expanded glossary. In addition, those terms included in the recommendation of the legislative audit will also be addressed.

The recommended glossary items will be included in the upcoming revision of the HCPS II.

The benchmarks are clarified through the performance indicators that have examples and specific process and skills.

The glossary is being revised by additions.

Rather than revise the benchmarks to make them more specific, performance indicators have been developed for each grade level. The indicators are grade-level specific and differentiated across grades K–12. The performance indicators break down the benchmarks into component parts. Examples of student work are currently on the DOE website. The completed instructional guide will give specific examples of assessment tasks and strategies for each performance indicator in reading, writing, and oral communication for each grade-level.

Problem-solving skills and strategies are surfacing in the grade level performance indicators. If they don't naturally emerge, they will be emphasized as a necessary component of instruction.

A presentation of the recommended additions was

RECOMMENDATIONS

to include important concepts and skills contained in highly regarded state standards documents. In addition, many science benchmarks should be revised to specify or clarify concepts.

- d. The topic listing from the “Suggested Historical Framework” in the social studies content standards should be amended to include missing topics and expanded considerably to address the level of content detail found in the reference documents. The topics, or a significant subset of them, should be part of the content standards themselves.
- e. The standards for political science/civics should be revised to include topics addressed in the reference documents and provide details and examples at the various grade levels.
- f. The content in the cultural anthropology standards should be reviewed for specificity. Expectations for student knowledge and skills should be more clearly defined, and the differences between grade clusters should be made more distinct.
- g. The standards for economics should be revised to include the topics addressed in the reference documents. Some benchmarks should be rewritten for clarity and provided with examples.
- h. The geography standards should be reviewed for missing content, and benchmarks should be rewritten to include examples. Content should also be reviewed to determine whether there are clear distinctions between the knowledge and skills students should learn at one grade cluster as compared with another.

ACTIONS REPORTED

made to the HCPS Commission. Their feedback report is being awaited.

The suggested framework will be revised by the addition of content in grades K–5, the refining and addition of content in grades 6–8, and the refining, additions and in some cases deletions of content in grades 9–12.

The instructional guide provides topics, details, examples content, and processes.

These standards were revised for clarity and differentiation. The indicators and the instructional guide provide progression and differences between the grade clusters and grade levels.

Some benchmarks and several indicators were rewritten for clarity. Examples are provided in the instructional guide.

Specific content and examples are provided in the instructional guide and clear distinctions are made among the grade levels.

Report Title: **Follow-Up and Management Audit of the *Felix* Consent Decree**
 Report No.: 01-16

RECOMMENDATIONS

1. The Departments of Education and Health should develop and implement coordinated capabilities

ACTIONS REPORTED

The finding of substantial compliance in the *Felix* Consent Decree by the Federal Court on September

RECOMMENDATIONS

for detailed reporting and analysis of costs for complying with all federal special education requirements, including the *Felix* decree. All involved agencies should consider employing cost accounting and decision support systems to this end.

- 2. The Department of Education should consider adding to its integrated special education management information system, capabilities satisfying the requirements for Medicaid reimbursements to maximize available federal funding.
- 3. The Departments of Education and Health should submit interagency consolidated financial reports to the Legislature to account for and request funding for federally mandated special education requirements, including *Felix*-related mental health services. At a minimum, such reports should include the full and accurate costs by disability category and by statewide, district, school, and per pupil costs for the preceding fiscal year.
- 4. The Department of Education should ensure the use of consistent objective measurements for children’s educational progress, including standardized testing instruments. In cooperation with the Department of Health, the department should use these measurements to help ensure that mental health services provided are effective and appropriate in meeting educational goals set by IEP teams.

ACTIONS REPORTED

10, 2002 allows the department to focus resources on sustainability. These efforts include the movement to cost accounting as a means to inform support system decision-making. A foundation has been laid through the development of activity specific cost codes and standardized program evaluation measures.

The department recently completed an analysis of requirements necessary to maximize Medicaid reimbursements. Systems changes, including those necessary to use the integrated special education management information system, were included in the cost benefit analysis.

The department provides the Legislature a Monthly Report on Expenditures to date for the *Felix* Consent Decree. This report provides detailed information regarding appropriations, allocations, and expenditures for all programs meeting special education and Felix Consent Decree requirements. The Biennium Budget Request for School-based Behavioral Health services consolidates associated costs within one request.

The department is developing and implementing standardized objective measurements to assess student achievement of Hawaii Content and Performance Standards the meet obligations under the No Child Left Behind. In cooperation with the Department of Health the department is adopting the use of the same standardized measurement of child behavior that will allow consistent and cross agency program evaluation.

Report Title: **Follow-Up and Management Audit of the *Felix* Consent Decree**
Report No.: 01-16

RECOMMENDATIONS

- 1. The Departments of Education and Health should develop and implement coordinated capabilities for detailed reporting and analysis of costs for complying with all federal special education requirements, including the *Felix* decree. All involved agencies should consider employing cost accounting and decision support systems to this end.

ACTIONS REPORTED

- 1. The department acknowledges coordinating reporting and analysis of costs for *Felix* would be beneficial to the Legislature. The CAMHD (Child and Adolescent Mental Health Division) currently reports this information for the children it serves and has committed to continue the reports during the sustainability period. In consultation with the

RECOMMENDATIONS

- 2. The Departments of Education and Health should submit interagency consolidated financial reports to the Legislature to account for and request funding for federally mandated special education requirements, including *Felix*-related mental health services. At a minimum, such reports should include the full and accurate costs by disability category and by statewide, district, school, and per pupil costs for the preceding fiscal year.

ACTIONS REPORTED

Department of Education, the department will continue to consider costs in evaluating decision support systems.

- 2. The Departments of Education and Health currently submit separate financial reports. The departments are obligated under federal law to provide individualized supports for the child to benefit from their education. Unless directed otherwise the departments will prepare budgets and report on expenditures based on the "need" to meet federal and state law. The departments respectfully request that the Legislature consider the cost/benefit for any requirements of additional reporting.

Report Title: **Sunset Evaluation Report: Marriage and Family Therapists**
Report No.: 02-01

RECOMMENDATIONS

- 1. If regulation continues, the Department of Commerce and Consumer Affairs should:
 - a. Propose amendments to Chapter 451J to clarify the "licensing" requirements with regard to "allied field," "clinical supervision," and other areas of confusion identified in our report.
 - b. Ensure that the Marriage and Family Therapy Advisory Committee functions in an advisory, not a regulatory, capacity;
 - c. Establish written standards as a guide for the committee's "licensing" advice, including a record of past "licensing" decisions;
 - d. Appoint a public member to the advisory committee;
 - e. Actively monitor the administration of the marriage and family therapist national examination in Hawaii as carried out by the department's primary contractor, Professional Examination

ACTIONS REPORTED

The department plans to clarify these licensing requirements when it adopts rules.

The department continues to ensure that the committee functions in an advisory capacity.

The department has written standards that include a record of past "licensing" decisions.

Since the initial implementation of the program has been completed with the assistance of marriage and family therapists, the department will now appoint a public member to serve on the committee.

The department's Examination Branch staff observed examinations given at the test center in June 2001 and August 2001. During these visits, the department's staff found the security in compliance with

RECOMMENDATIONS

- Service (to include observing examinations periodically and giving feedback to Professional Examination Service for improvement as needed in such areas as exam security and the reduction of distractions in the testing room);
- f. Ensure that its contract with Professional Examination Service is current and signed;
- g. Ensure that its marriage and family therapist licensure files are complete so that records show, and that the public can be assured, that all "licensed" marriage and family therapists have met all "licensure" requirements and documents are correctly filed;
- h. Revise the "licensure" application form to clarify requirements for course work and qualified supervisory requirements; and
- i. Ensure that all "licensure" forms contain consistent and clear information.

ACTIONS REPORTED

the written security procedures and distractions in the testing room to be minimal. Periodic observations by the Examination Branch will be scheduled to insure continued compliance.

The department's contract with the Professional Examination Service was finalized in March 2002.

The department has updated the marriage and family therapist "licensing" files to ensure that these files are complete and contain all required documents.

The department recently revised its marriage and family therapist application forms and clarified the course work and qualified supervisors' requirements.

The department continuously updates its application and licensure forms to ensure that these forms contain clear and consistent information.

Report Title: **Management Audit of the Department of Education's Storeroom**
 Report No.: 02-02

RECOMMENDATIONS

The Board and Department of Education should eliminate the central storeroom.

ACTIONS REPORTED

Pursuant to Act 158 enacted by the 2002 Legislature, the department was in the process of closing its storeroom operations. The target date for the last day of operation was December 31, 2002.

In compliance with Act 158, the storeroom was in the process of eliminating all current stock, and was processing the transfer of storeroom employees and equipment. In addition, the department will enter into negotiations with the owner of the building on the current lease agreement.

RECOMMENDATIONS

The Board and Department of Education should eliminate the central storeroom.

ACTIONS REPORTED

The Department of Education reported taking steps to implement this recommendation.

RECOMMENDATIONS

1. The Board of Directors of the Hawaii Tourism Authority should:
 - a. Ensure that it achieves its mission by implementing a process to develop a comprehensive strategic plan.

ACTIONS REPORTED

1. The authority will update its strategic tourism marketing plan, referred to as *Ke Kumu*, "every three years" as prescribed in Chapter 201B-6, HRS. *Ke Kumu* was last revised on January 20, 2002.
2. The implementation of the various tourism strategic initiatives provided in *Ke Kumu* will be evaluated at least annually after the authority obtains relevant data based on actual results reflecting its past efforts.
3. In addition to its regular business, public meetings will be scheduled throughout the year on each island to solicit community input regarding authority's efforts to implement the various tourism strategic initiatives and any adverse impacts on the community. The authority will then assess the need to revise *Ke Kumu* in a manner that will reflect the concerns of the public.
4. Meetings with tourism industry stakeholders will be scheduled throughout the year to obtain information regarding strategic initiatives, to consider whether any current initiative should be revised, or new initiatives should be established. These meetings with tourism industry stakeholders will provide the authority another process to gather information and to evaluate its strategic initiatives throughout the year.
5. The authority will assist the Department of Busi-

RECOMMENDATIONS

- e. Ensure that future contracts are properly documented and supported, clearly tie contractors' remuneration to measurable deliverables, and eliminate questionable contract clauses;

- f. Ensure that its organizational chart and staff

ACTIONS REPORTED

- 2. A Personnel Policies and Procedures Manual has been completed through assistance from the Department of Human Resources Development. The manual will require further consultation with public union representatives.
- 3. An Administrative and Operational Manual is in the final stages of completion and is pending final approval of the job descriptions for all employees by the Departments of Human Resources Development and Budget & Finance.
- 4. To ensure compliance and enforcement, a workshop will be scheduled with all authority employees to review the numerous provisions, procedures, and policies provided in the various manuals to clarify existing scope of work and lines of supervision for each employee.
- 5. The recent enactment of Act 143, SLH 2002, also provided further clarification that the authority's board is a policy making body. Consequently, all requests for staff support from the board will be directed and determined by the executive director.
- 1. The authority will implement the recommendations provided by a consultant to streamline and improve contract management systems and to make each contractor more accountable. The recent hire of a marketing manager and the allocation of additional resources will provide additional staff to evaluate the performance of all new contracts during the term of the contract and prior to any payment.
- 2. The authority staff will work closely with the Attorney General to eliminate questionable contract clauses and seek to negotiate terms and conditions in contracts that will provide greater accountability for the use of public funds.
- 3. An objective of the current staff reorganization is to identify and clarify the duties and responsibilities of specific employees who will monitor the contracting process, including the establishment of a reporting system that will provide an accurate and complete contract listing in a timely manner, and to ensure that all contract files are complete and sufficient.
- 1. The authority is in the final stages of implement-

RECOMMENDATIONS

positions descriptions are revised and updated, a training program is implemented, and staff are evaluated regularly;

g. Continue to work with Nordic/PCL to resolve the issue of the convention center’s rooftop terrace cracks as expeditiously as possible; and

h. Implement a system to review and evaluate the convention center operator to ensure that it is meeting its goals and objectives and adhering to all applicable state laws, rules, and regulations.

ACTIONS REPORTED

ing an organizational chart describing the position and functional structure of authority staff. The staff position descriptions are pending final approval by the Departments of Human Resources Development and Budget & Finance.

2. The Personnel Policies and Procedures Manual provides a process for employee training and development. The training program in the manual will be implemented after consultation with the public union representative.

3. Employees will be evaluated on a regular basis.

1. Various alternative products and processes to repair the rooftop terrace cracks have been reviewed and eliminated.

2. Meetings have been scheduled to identify and make the necessary decisions to immediately resolve this issue.

1. The authority will continue to conduct monthly meetings with the general manager of the Hawaii convention center and his staff to ensure that the operator of the convention center will meet its goals and objectives as provided in its evaluation report dated March 21, 2001.

2. Due to the enactment of Act 253, SLH 2002, additional evaluation criteria will be developed upon review of the operator's marketing plan for the Hawaii convention center. The evaluation criteria for the marketing and operation of the convention center will be incorporated into any final contract executed with the operator.

Report Title: **Audit of the Adult Mental Health Division’s Management of Contracted Community Services**

Report No.: 02-06

RECOMMENDATIONS

1. The director of health should take immediate action to address contracting deficiencies that fail to uphold the procurement principle of open competition and that result in poor fiscal man-

ACTIONS REPORTED

RECOMMENDATIONS

agement of contracted services. Specifically, the director should:

- a. Require the division to develop internal policies and procedures to guide and improve procurement practices. The director should ensure that staff receive training on procurement policies and he should monitor the procurement process to ensure that applicable laws and rules are followed. Furthermore, the director should direct the division chief to review all proposal evaluations for completeness and to verify the accuracy of computed scores;
 - b. Ensure that contractual terms comply with the specifications set forth in the RFP *prior* to signing contract agreements;
 - c. Require the division to improve its service planning efforts and discontinue the practice of significantly modifying contracts. The director should disallow amendments that significantly modify contracts and instead direct the division to issue new RFPs when patient needs cannot be met under current contracts; and
 - d. Identify all contracts that have been extended beyond the timeframe allowed under procurement rules, and require the division to immediately issue RFPs for these services.
2. The division chief should improve the stewardship of state funds and property by:
- a. Paying providers only when invoices are accompanied by required expenditure reports and when expenses reported on invoices have been determined appropriate by fiscal staff;
 - b. Adjusting quarterly advances paid to providers when warranted;
 - c. Withholding adequate funding while contracts are pending final settlement;
 - d. Requiring that all services billed on a unit rate basis, excluding emergency and crisis intervention, be authorized prior to service delivery. Emergency and crisis intervention should be clearly defined and a clinical staff person, independent from the referral process, should

ACTIONS REPORTED

- a. A procurement procedure manual was completed in April 2002. The manual includes the applicable laws and rules for the procurement process. Staff will be trained on the procurement policies contained in the manual. The director has delegated monitoring of the procurement process to the division chief.
 - b. RFPs are canceled and then reissued if specifications are changed.
 - c. The division is setting up a computerized contracts database that will produce reports to improve service-planning efforts. New RFPs are issued if contracts need to be significantly modified.
 - d. RFPs have been issued for all contracted services.
- a. The division will continue to require the submission and review of provider expenditure reports/invoices.
 - b. New contracts will allow only one advance at the start of the contract.
 - c. Final payment will continue to be withheld until final settlement of each contract.
 - d. The division is currently requiring authorization for all services. The new access line will authorize all emergency and crisis intervention services.

RECOMMENDATIONS

- review these service referrals and identify any inappropriate referrals. The department should take corrective action to address any misuse of emergency and crisis intervention services; and
- e. Developing an inventory of state property purchased by providers, and monitoring and testing the application of its providers' inventory controls.
3. The director of health should ensure that both quality and cost-effective contracted services are provided by the division. Specifically, the director should:
- a. Ensure that annual site visits are completed for all contracted services and that monitoring reports are issued within required timeframes;
 - b. Require the division chief to follow up on monitors' findings in a timely manner and adjust future payments to providers as warranted;
 - c. Require the division chief to improve the management of assertive community treatment services by ensuring the multidisciplinary team approach operates as designed and that team members are qualified; and
 - d. Immediately resolve the licensing requirements for those facilities that the Office of Health Care Assurance (OHCA) believes is operating as special treatment facilities without proper licensure. The director should instruct OHCA to complete its investigation of these facilities and, should OHCA conclude that these facilities are providing a level of service that they are not licensed to provide, the director should remove all patients from these facilities and find alternative care to ensure their safety.

ACTIONS REPORTED

- e. Property purchased by providers through cost reimbursement contracts is being inventoried. Monitoring will continue to include testing of the application of providers' inventory controls.
- a. The division is conducting annual site visits of providers and monitoring reports will be issued within a timely period.
 - b. Monitors' findings are being followed up in a timely manner.
 - c. Fidelity monitoring is currently being conducted.
 - d. The division's new contracts for crisis residential services require licensing as a special treatment facility.

**OFFICE OF THE AUDITOR
 APPROPRIATIONS AND EXPENDITURES ON A BUDGETARY BASIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

APPROPRIATIONS

Act 1, SLH 2001 (operations)	\$ 2,172,443
Act 187, SLH 2001 (operations - salary adjustments)	63,621
Act 1, SLH 2001 (special studies)	150,000
Act 165, SLH 2001 (public land trust study)	<u>100,000</u>
	<u>\$ 2,486,064</u>

EXPENDITURES

Staff salaries	\$ 1,430,596
Contractual services	392,648
Other expenses	<u>132,171</u>
	<u>\$ 1,955,415</u>
Excess of appropriations over expenditures	<u>\$ 530,649</u>

EXCESS OF APPROPRIATIONS OVER EXPENDITURES

Act 1, SLH 2001 (operations)	\$ 280,649
Act 187, SLH 2001 (operations - salary adjustments)	0
Act 1, SLH 2001 (special studies)	150,000
Act 165, SLH 2001 (public land trust study)	<u>100,000</u>
	<u>\$ 530,649</u>

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

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