

2005 ANNUAL REPORT

STATE OF HAWAII
Office of the Auditor



MARION M. HIGA
State Auditor



STATE OF HAWAII
Office of the Auditor

**MISSION OF THE OFFICE
OF THE AUDITOR**

THROUGH POSTAUDITS OF THE ACCOUNTS,
PROGRAMS, AND PERFORMANCE OF STATE
AGENCIES, THE OFFICE SEEKS TO ASSURE
THE ACCOUNTABILITY OF GOVERNMENT
AGENCIES FOR THEIR IMPLEMENTATION OF
POLICIES, MANAGEMENT OF PROGRAMS, AND
EXPENDITURE OF PUBLIC FUNDS. THE OFFICE
REPORTS ITS FINDINGS AND RECOMMEN-
DATIONS TO THE GOVERNOR AND THE
LEGISLATURE TO GIVE POLICY MAKERS
TIMELY, ACCURATE AND OBJECTIVE INFOR-
MATION FOR DECISION MAKING.

State of Hawai'i
Office of the Auditor

The Honorable Members of the Legislature
The Honorable Linda Lingle, Governor

February 28, 2006

Ladies and Gentlemen:

I am pleased to present this Annual Report, which highlights the work of the Office of the Auditor in work year 2005. This report, and the audits themselves, spotlight some of the major issues facing State government.

Good government requires continuous improvement. The strategic planning process has been embraced by our state government as a proven means to enhance government operations. Utilized properly, it can result in more effective government programs and coordination among agencies and levels of government, as well as optimal use of state funds and personnel.

We trust that proper planning and empowerment will help to shape our futures as we execute our departmental strategies and move toward our common goal of sustaining a government that effectively serves the people of Hawai'i.

Sincerely,

Marion M. Higa
State Auditor



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COMMENTARY:
SHAPING OUR FUTURE THROUGH STRATEGIC IMPERATIVES

{ “You got to be careful if you don’t know where you’re going,
because you might not get there.” –YOGI BERRA }

The profundities of Yogi Berra are as legendary as the former baseball star himself. Countless commencement speakers, including Ronald Reagan, Bill Clinton and George W. Bush have borrowed from Yogi’s arsenal of humorous and almost Zen-like quotes. Perhaps agencies and organizations can benefit from the wisdom of Yogi-isms as well.

All organizations, whether public or private, require a vision, goals and measurable outcomes to succeed. Whether driven by federal mandate or state legislation, strategic planning and performance measures are a proven means by which organizations can accomplish their missions. Still, state agencies muddle on, lacking strategic plans or having difficulty executing their plans. They neither know their destination nor how to reach it.

Too often, departmental strategic plans are lofty and vague, and leaders fail to develop strategy for the few crucial goals that should be accomplished in the near term. Having strategies for eight, ten or twelve initiatives or goals may appear necessary to bridge the gap between the present and future, but realistically the average state agency cannot focus on so many. The greater number of initiatives dilutes and blurs energy and focus within the organization. Simply put, when you have too many top priorities, you effectively have

no top priorities. The end result is often an ineffective effort with many initiatives that are never implemented.

Strategic goals are most beneficial when they are few, prioritized and measurable. In fact, finding the single, strategically critical point of change, aligned and focused upon by the organization, could well change everything else in that organization. This single point of focus – called the *strategic imperative* or “priority” issue – relates directly to the main goal of the organization.

Recently, Walt Disney Company acquired Pixar Animation Studios, credited with ushering in a new age of digital animation. Since 1994, Pixar and Disney have partnered in the most successful production relationship in movie history. A Disney spokesperson commented that Disney’s strategic imperative is to forward its vision in animation through the marriage with Pixar.

Strategic imperatives serve as the centerpiece of transformation. At minimum, it demands an alignment between the strategic imperative and leadership, compelling partnerships, supportive infrastructure, core processes and a fully empowered workforce. Of these, the last item is key. Ideally, the resulting vision, goals and measurable outcomes are shared throughout the organization and every employee knows the roadmap provided and each person’s role in reaching the destination.

Today, many workers fail to focus their time and energy because top priorities aren't clearly identified and communicated. And even with priorities, workers who lack ownership may disagree with the strategy or not see the link between their tasks and the corporate vision, jeopardizing their ability to execute the vision. Hence, teamwork is threatened by mistrust, backstabbing, faulty processes, or too many barriers to action.

Strategic imperatives serve as centerpiece of transformation... Finding the single, strategically critical point of change, aligned and focused upon by the organization, could well change everything else in that organization.

In contrast, organizations that are able to create a shared sense of mission and prioritized goals find their voice and build a powerful, principle-centered culture. An environment of focus and collaboration throughout the organization allows employees to know what the highest priorities are, buy into them, translate them into specific actions, stay the course, trust one another and interact effectively. *If you come to a fork in the road, take it,* says Yogi Berra.

Shaping the future is not a solitary act. It requires a dedicated cadre of professionals who have applied knowledge to most effectively support change. It also calls for a learn-by-doing approach, coupled with the creation of a "community of practice" in which project leaders can continually improve and refine their methods.

The steps of future shaping may seem remarkably simple: Develop a grasp of the pressures and opportunities of the present; create a vivid description of a desired future; identify the single, strategic imperative that must be achieved to get there; and develop the internal capability to sustain the change over time. Executing these steps, however, presents a deep challenge. How does one confront this challenge? We offer this thought: Set up the structure, put the right people in the *right* jobs with the *right* tools and support, get out of their way (help only if requested), and assess frequently key performance indicators.

Successful leaders are not clairvoyant – they are pragmatists who see opportunities and focus the energies of their organizations on exploiting them. They do not seek to react to tomorrow's challenges; they seek to shape them. They engage in proper planning and empowerment, with a clear idea of a destination.

They are mindful of Yogi Berra's wisdom.

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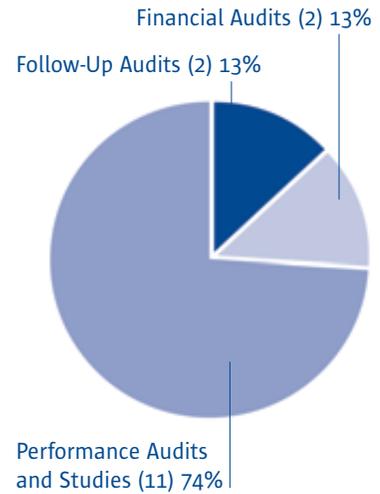
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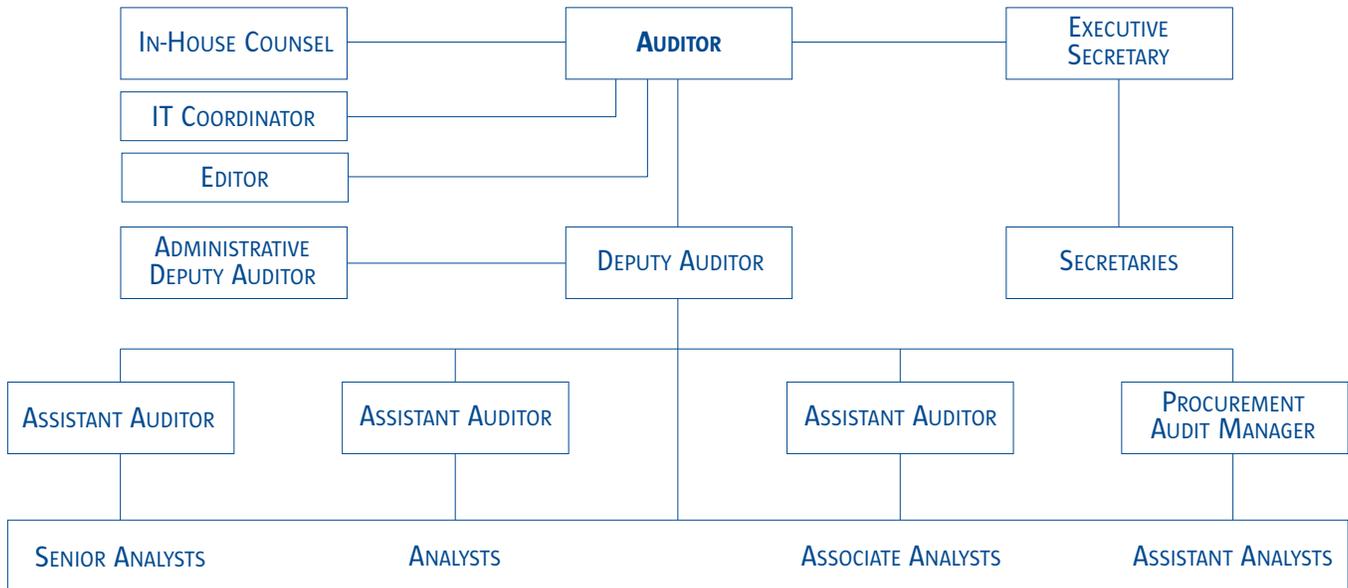
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TYPES OF REPORTS 2005



The office also performed 63 quick reviews of proposed special and revolving funds.

ORGANIZATION OF THE OFFICE OF THE AUDITOR



SUMMARY OF REPORTS 2005

FINANCIAL AUDIT OF THE DEPARTMENT OF AGRICULTURE

Report No. 05-02, April 2005

The Office of the Auditor and the certified public accounting firm of Grant Thornton LLP conducted a financial audit of the State Department of Agriculture for the fiscal year ended June 30, 2004. The audit examined the department's financial records and transactions; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations. In the opinion of the firm, the financial statements fairly presented the department's financial positions.

There were, however, several deficiencies considered to be material weaknesses with regard to internal controls over the department's financial reporting and operations. One deficiency was the department's lack of formal written policies and procedures for many of its basic processes and management functions, including the administration of agricultural loans, certain accounts receivables, and contract management.

The department also needs to improve its administration of agricultural loans. The audit revealed deficiencies in loan file and loan system maintenance, monitoring and collection of delinquent loans, performing inspections, reconciling internal and external loan reports, and monitoring participation loans. The department's calculation of its allowance for agricultural loan losses is not properly supported and does not comply with

generally accepted accounting principles. The department improperly accrues interest on loans greater than 90 days past due.

Further, a more effective accounts receivables system is needed as well as an improved collections procedure; at one division, collection procedures proved inadequate, while appropriate collection procedures at another division were not adhered to.

Our audit also showed an ineffective year-end financial reporting process. Several adjustments and footnote disclosures, required by generally accepted accounting principles, were not included in the June 30, 2004 draft financial statements.

Finally, the department needs stronger controls and oversight on its cash receipts, disbursements and annual inventory counts; must improve its procurement procedures that result in compliance with the Hawai'i Public Procurement Code; and file certain federal financial and performance reports on a timely basis.

AUDIT OF THE OFFICE OF HAWAIIAN AFFAIRS

Report No. 05-03, April 2005

We reviewed the management and fiscal practices of the Office of Hawaiian Affairs (OHA), pursuant to Section 10-14.55, Hawai'i Revised Statutes. A number of issues appeared in both management and fiscal areas. OHA still grapples with the effects of prior reorganizations from the fiscal years 2002 and 2003. It lacks organizational charts and basic policies and procedures to guide its staff. Functional statements are inconsistent and program directors experience uncertainty in translating OHA's priorities into its budget.

Tighter oversight of the Native Hawaiian Revolving Loan Fund is needed to prevent the deterioration of the available resources for future recipients. The revolving fund continues to have high loan delinquencies and defaults, thereby jeopardizing the available resources for future Hawaiian recipients.

OHA took a number of important steps to invest its assets and now retains two investment advisors that oversee the selection of money managers for long-term investments. OHA also revised its investment policy and conducted a new asset allocation study. However, the certified public accounting firm of KPMG, LLP found continuing deficiencies that do not ensure compliance with OHA's fiduciary obligations. OHA's lack of advisor oversight prevents the Board of Trustees

from receiving sufficient information to evaluate the investment advisors' performance. The organization did not create a standard contract to retain advisors and used different performance measures for the two investment advisors.

OHA's investment policy statement needs to more strongly clarify the duties and responsibilities related to trust fund investments. Critical benchmarks are needed for its investment advisors and for the investment decisions of OHA and its board. Also, placing a greater focus on historical data and performance standards would lessen material weakness.

Addressing the use of passive investments and ceded land payments in its investment policy statement would benefit OHA. If OHA's passive assets were in line with its peer median and certain conditions were in place, the organization could save more than \$300,000 in fees annually.

FINANCIAL AUDIT OF THE DEPARTMENT OF THE ATTORNEY GENERAL

Report No. 05-04, May 2005

The Office of the Auditor and the certified public accounting firm of PricewaterhouseCoopers, LLP conducted a financial audit of the State Department of the Attorney General for the fiscal year ended June 30, 2004. The audit examined the department's financial records and transactions; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

In the opinion of the firm, the financial statements present fairly, in all material respects, the department's financial position and changes in its financial position for the fiscal year. However, the firm was unable to apply auditing procedures to amounts reported as due to and held for the Child Support Enforcement Agency recipients. Therefore, the scope of the firm's work was insufficient to express an opinion on the aggregate remaining fund information of the department.

There were several deficiencies with regard to the department's internal controls over financial reporting and operations. In a material weakness, the department has never reconciled its Child Support Enforcement Agency bank account to the child support subsidiary records. Therefore, the department cannot accurately

determine the amount that should be reflected as "due to and held for agency recipients." Additionally, we found that the department's financial reporting process is inefficient.

The department's procurement procedures resulted in noncompliance with certain provisions of the Hawai'i Public Procurement Code. Our testing revealed problems with small purchase forms; obtaining vendor quotations for small purchases; documenting competitive sealed proposal selections; following bid opening procedures; and meeting performance bond requirements. As a result, there is no assurance that fair competition was sought by the department and that state funds were spent in an effective and cost-beneficial manner.

AUDIT OF SELECTED STATE AGENCIES' PROCUREMENT OF PROFESSIONAL SERVICES CONTRACTS

Report No. 05-05, May 2005

We performed an audit of the departments of Accounting and General Services, Human Services, and Transportation to assess compliance with the Hawai'i Public Procurement Code, and management controls and oversight concerning the procurement of professional services. Specifically, the audit focused on contracts subject to Act 52 of the 2003 Regular Session that allows for independent, impartial, and qualified committees to review and select the most qualified professional service contractors based on published criteria.

We found that the State Procurement Office's lax oversight contributed to difficulties with procuring professional services. The office failed to: periodically review the procurement practices of all government bodies; maintain a procurement manual that clarifies laws and administrative rules; and provide procurement training to state agencies.

In all three audited agencies, we found a lack of common understanding of the process for procuring professional services. The agencies lacked documentation to demonstrate the impartiality, independence, and qualifications of the committee members responsible for reviewing and selecting contractors, clearly disregarding the Legislature's changes to the Procurement Code with the passage of Act 52.

Further, untimely and questionable professional services procurement practices occurred within the audited agencies. We found contracts that strongly suggested work began prior to contract execution and contracts that were executed without a clearly defined scope of services and fee compensation. We also found different applications of the annual notice requirement and project-specific notices published for reasons other than those allowed by statute. Some audited agencies used selection criteria that are not included in the statute. They also used methods of evaluating submittals including a consensus process that appeared subjective. Further, Section 103D-304(i), HRS, requires professional services contracts for \$5,000 or more to be posted electronically within seven days of the contract award. However, 49 percent of the contracts reviewed were not posted within the first 30 days of contract award.

AUDIT OF WAI'ALAE ELEMENTARY PUBLIC CHARTER SCHOOL

Report No. 05-06, July 2005

Wai'alaie Elementary Public Charter School (Wai'alaie) was the first school in Hawai'i to adopt school/community based management in 1990, and became the State's first charter school in 1995. The school serves close to 500 students from kindergarten through grade 5 with fiscal resources exceeding \$3 million for FY 2004-05. Wai'alaie used its autonomy to direct more resources into the classroom, and adopted educational programs that differ markedly from traditional educational approaches. Although Wai'alaie considers statewide standards-based tests such as the Stanford Achievement Test as poor measures of student achievement and distractions to its vision and purpose, it failed to adopt alternative objective measures to demonstrate its achievements to policymakers and the community at large.

The Legislature's vision for charter schools was to improve educational standards and enhance learning statewide. Our analyses of available measures indicate that Wai'alaie students, while still among the highest scoring in the public school system, did not show a higher level of achievement since the school received its charter. Wai'alaie students no longer clearly outscore their peers the way they did in the pre-charter period.

The Wai'alaie local school board can improve its governance. The board has an ineffective process for selecting its members, suffers from dissent, lacks structure and leadership, keeps poor records, and has not matured into a body focused on the school's long-term future. The board's consensus decision making process resulted in delayed decisions and lengthy meetings. Relying on a "group memory" instead of detailed minutes leaves the board's decisions vulnerable to challenge. The by-laws lack provisions on conflict of interest and responsibilities of standing committees.

The board's vague policies and inadequate oversight resulted in noncompliance with purchasing requirements, gaps in student health and safety measures, and an inadequate financial management system. The board's failure to procure financial audits created an accountability gap for its stewardship of public funds.

FOLLOW-UP AUDIT OF THE FOSTER BOARD PAYMENT PROGRAM

Report No. 05-07, August 2005

The Foster Board Payment Program supports the mission of the Department of Human Services' Child Welfare Services Branch to ensure the safety and permanency of children in their own homes or in out-of-home placements. The program is a payment system for room and board and other items or services a child might need while in foster placement. Payments are also made to those parents who adopt children with special needs. This follow-up audit assessed the progress since our Report No. 94-28, Management and Financial Audit of the Foster Board Payment Program, issued in 1994.

The department is better managing the Foster Board Payment Program. Program administrators are paying more attention to budgeting and financial requirements and constraints of the program. The department also followed our recommendations to assign budget projection responsibility to the Committee on Payment Projections and implement guidelines to control expenditures. In addition, the department articulated its responsibilities for making payments for foster children under the care of the Department of Health. The department has also made improvements in securing and increasing federal reimbursements for Title IV-E funds from \$12 million in FY1997-98 to over \$26 million in FY 2003-04.

However, the department continues to lack complete and consistent data on foster children. The discrepancies include inaccurate names, dates of birth, social security numbers, service initiation dates, and placement services. We were not always able to verify certain demographic and identifying information because key documents were missing from the case files. In some cases, we were unable to confirm the date children were placed in or removed from foster care homes, placing the propriety of payments to foster care providers in question.

The department continues to make overpayments and procedures to recoup moneys are still inadequate. Further, it cannot determine the total amounts owed to the State in reimbursements from Supplemental Security Income (SSI) receipts and child support collections. Also, private fund accounts are not properly maintained for children who receive child support payments in excess of the cost of their foster care.

REVIEW OF REVOLVING FUNDS, TRUST FUNDS, AND TRUST ACCOUNTS OF THE JUDICIARY AND THE DEPARTMENTS OF COMMERCE AND CONSUMER AFFAIRS, HAWAIIAN HOME LANDS, HEALTH, AND HUMAN SERVICES

Report No. 05-08, November 2005

Pursuant to Section 23-12, Hawai'i Revised Statutes, the State Auditor is required to review all existing revolving and trust funds every five years. This is our third review of the funds and accounts of the five departments. Revolving funds are established with an appropriation of seed money from the general fund. Revolving funds must demonstrate the capacity to be self-sustaining. Activities financed by revolving funds include loan programs that are initially established by general fund seed moneys and then replenished through the repayment of loans. Trust funds invoke a fiduciary responsibility of state government to care for and use the assets held for the benefit of those with a vested interest in the assets. Trust accounts are typically separate holding or clearing accounts for state agencies, and used as an accounting device to credit or charge agencies or projects for costs.

The 111 funds and accounts we reviewed included: 28 revolving funds, 54 trust funds, and 29 trust accounts. We used criteria developed by the Legislature and those developed by our office. These funds must continue to serve the purpose for which they were created and not require continuing general fund appropriations. In addition, a revolving fund must reflect a linkage between benefits sought and charges made upon users and also be an appropriate financing mechanism for the program or operation. A trust fund must also meet the statutory definition of a trust fund. For each fund, we presented a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued.

AUDIT OF THE DEPOSIT BEVERAGE CONTAINER PROGRAM

Report No. 05-09, November 2005

We conducted this audit pursuant to Section 342G-107, HRS, which requires the Auditor to conduct management and financial audits of the Deposit Beverage Container Program. We found that, despite more than a two-year lead time to set up the program, the Department of Health was not ready to properly and efficiently return consumers' deposits. The department collected over \$39 million as of June 30, 2005, but lacks an auditable financial accounting system and cannot ensure that all revenues and payments are properly accounted for.

Our observations confirmed many of the public complaints about the redemption process—centers opening late, closing early, or not opening at all, often because they run out of money or storage capacity; inconvenient locations and hours of operation; long wait times; inconsistency; poor customer service; and general confusion about the redemption process. Many view the program as an attempt to impose another state tax by forcing consumers to pay the deposit but making it difficult to obtain the refund.

On the revenue side, distributors, importers, and manufacturers are required to submit a department form with their payment, but the department does not verify that either the data on these forms or the payments received are correct. We were unable to obtain enough documentation to attest to the accuracy of the numbers submitted and the amounts of the resulting



Above: Recyclers wait in the hot sun during a shift change at 1:30 p.m. at the Mo'ili'ili redemption center. One of the busiest centers on the island of O'ahu, this center should have reopened at 1:00 p.m. Only one staff member was present to load, weigh and pay for containers.

Below: This well-operated redemption center in Kea'au, Hawai'i provides a tent to protect recyclers from the sun and rain. The three helpful staff members stagger their lunch hours after 1:30 p.m.

payments. On the expenditure side, from January to June 2005, the department has paid over \$10 million to redemption centers. These payments are made based on numbers submitted by the redemption centers and are not verified by the department because it has not developed procedures to do so.

Our contractor, the certified public accounting firm of Shigemura and Sakamaki CPAs, Inc., was unable to complete the financial audit of the program because the department has not established a proper accounting system and could not prepare any financial statements for the program.

SUNRISE ANALYSIS: CONDOMINIUM ASSOCIATION MANAGERS

Report No. 05-10, December 2005

The 2005 Legislature requested that the Auditor conduct a “sunrise” analysis of condominium association managers. A sunrise analysis requires the Auditor to assess whether new or expanded regulation should be enacted in order to protect the health, safety, and welfare of consumers.

Hawai‘i’s Condominium Property Act, Chapter 514A, HRS, governs condominium properties and their management. An elected board of directors of a condominium property has most of the power and responsibility for managing operations of the property.

The law also provides for managing agents who manage the operation of the property. They must be licensed as real estate brokers or corporations authorized to do business as trust companies, and must maintain fidelity bonds of \$20,000 to \$100,000.

Senate Bill No. 1454 of the 2003 legislative session proposed a mandatory “certification” program for condominium association managers. Before they can be certified, they would have to pass a test approved by the Real Estate Commission. The managing agent would have to register the manager with the commission and submit evidence that the manager has been certified.

The proposed regulation is unnecessary for several reasons. We found little evidence that managers presented a danger to the health, safety, and welfare of the public. Most of the complaints related to problems between condominium owners and their boards. In addition, complainants have remedies, including mediation services by the Real Estate Commission and the Regulated Industries Complaints Office, and the Condominium Dispute Resolution Program that allow cases unresolved through mediation to be heard by the commerce department’s Office of Administrative Hearing.

The recent recodification of the Condominium Property Law addressed many condominium management issues, clarified the powers of the boards of directors, strengthened their enforcement powers, and defined conflicts of interest to be effective July 1, 2006. It would be premature to consider any regulatory changes until the new law comes into effect and its impact on condominium management can be assessed.

SUNRISE ANALYSIS: CHECK CASHING AND DEFERRED DEPOSIT AGREEMENTS (PAYDAY LOANS)

Report No. 05-11, December 2005

The 2005 Legislature requested that the Auditor conduct a “sunrise” analysis of Senate Bill No. 1413 of the 2005 Regular Session. Hawai‘i law permits payday lenders to charge a fee of 15 percent of the face value of the check for each transaction. At \$17.65 for each \$100 loan for 14 days, Hawai‘i law permits an annual rate of 459 percent. Payday lenders can lend up to \$600.

Currently, 37 states and the District of Columbia have enabling legislation that allow payday lenders to operate. The remaining states either prohibit payday lending or regulate payday lending under the state’s usury laws. Most states require payday lenders to be licensed. Fees or interest rates that states allow range from 10 percent to no limit.

Senate Bill No. 1413 proposed to amend Chapter 480F to require payday lenders to maintain records that would enable the director of the Department of Commerce and Consumer Affairs to determine if they are in compliance with the law. The bill would limit fees to 36 percent per annum and reduce the maximum allowable loan amount from \$600 to \$300. The bill would also add prohibited acts and increase penalties for violations.

Proponents of regulation say that payday lenders charge exorbitant interest rates and lead borrowers into a debt trap. Payday lenders say that the proposed legislation would eliminate a source of short-term credit that would force consumers into bouncing checks and would make any future credit more expensive. Borrowers would resort to less favorable alternatives such as Internet payday loans or fee based overdraft protection programs that charge even higher fees.

We found little evidence of harm in Hawai‘i. But national studies show that consumers typically take out several loans a year, often becoming chronic borrowers. Because of this potential for harm, Chapter 480F should be amended but not as proposed by Senate Bill No. 1413. The senate bill would be too restrictive and would likely put payday lenders out of business. Instead, the amendments should strengthen the law to make it more consumer friendly, starting with a requirement to post all fees and charges, reduce the maximum fee, and require registration with the Department of Commerce and Consumer Affairs.

AUDIT OF SELECTED HIRING POLICIES AND PRACTICES OF THE EXECUTIVE BRANCH OF GOVERNMENT

Report No. 05-12, December 2005

We conducted the audit pursuant to Section 154 of Act 178 of the 2005 legislative session that required the Auditor to examine the implementation of the hiring policies established by the executive branch budget execution policies and instructions.

We found that specific criteria are lacking in several areas with regard to the hiring policies and practices in the executive branch. Agencies find ways to circumvent the controls currently in place to regulate hiring. Agencies take advantage of the approval process for special, research, and demonstration projects and for exempting employees who work on these projects. Several of the projects and exempt positions have been ongoing for many years and appear to be a regular function of the agency, rather than a project defined by this section of the statute.

We also found that positions are routinely established and filled without legislative approval and that the practice of deploying employees from one agency to another provides questionable benefits. Agency heads have the discretion to manage personnel to achieve the agency's objectives and to provide for the most efficient and economical use of their workforce; however, we found that this flexibility is being used to evade formal hiring procedures.

A report submitted to the Legislature by the governor lists 934 unauthorized positions costing \$30,818,479 in FY2004-05. This practice bypasses legislative approval and does not allow an accurate picture of the resources of any agency. In addition, funds used to pay for the unauthorized positions may have been appropriated for other purposes.

Furthermore, although the governor's budget execution policies attempt to manage spending, in part through the control of vacant positions, the resulting savings, if any, are not tracked or quantified by any agency in the executive branch.

FOLLOW-UP AUDIT OF THE MANAGEMENT OF MAUNA KEA AND THE MAUNA KEA SCIENCE RESERVE

Report No. 05-13, December 2005

We conducted this follow-up of the *Audit of the Management of Mauna Kea and the Mauna Kea Science Reserve*, Report No. 98-6, in response to Senate Concurrent Resolution No. 68, to assess the progress made with regard to our previous findings.

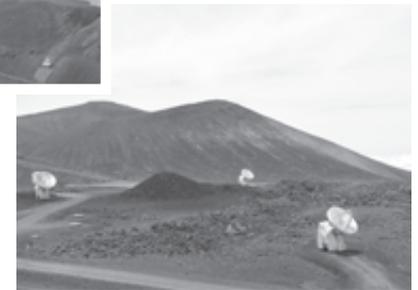
In June 2000, the University of Hawai'i adopted the Mauna Kea Science Reserve Master Plan that addressed most of our previous audit findings, including a method of measuring the impact of future development. The master plan created a new management structure within the University of Hawai'i at Hilo that has been instrumental in establishing controls for the science reserve, particularly the ranger program. The program has increased visitor education and awareness of Mauna Kea's cultural and natural resources. The university also established the astronomy precinct, confining development to 525 acres within the science reserve, and designated a no-build zone to preserve the undeveloped areas.

The university did not appear to systematically monitor its tenant observatories for compliance with conservation district use permit requirements and was recently fined \$20,000 for violations. Management plans for the science reserve also need to be updated to provide increased transparency and accountability of the university.

The Department of Land and Natural Resources tightened permit approval conditions and implemented



Left: The Keck Observatories' Outriggers are proposed to be located near the center of the two white observatories.



Right: Submillimeter Array antennas adjacent to Pi'u Poliahu, part of the no-build zone.

land transaction monitoring. It also implemented the State Land Information System to reduce untimely land transactions and ensure documents are completed before any activity or use occurs.

However, the leases, subleases, and permits are outdated and the department did not ensure compliance with lease and permit requirements in protecting Mauna Kea's natural resources. The department did not regularly monitor the university's compliance with conservation district use permit requirements and its divisions have not coordinated their efforts in protecting natural resources.

The audit recommends that the university obtain rule-making authority to have control over public access and prevent damage to cultural and natural resources. It also recommends the establishment of a management plan for the Mauna Kea Ice Age Natural Area Reserve.

A COMPARATIVE STUDY OF THE DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS PROFESSIONAL AND VOCATIONAL LICENSES, PART 1

Report No. 05-14, December 2005

The 2005 Legislature adopted House Concurrent Resolution No. 156 requesting the Auditor to “conduct a comparative analysis of professional and vocational regulation in other states and in Hawai‘i, including educational, testing, experience, or other requirements, and to determine whether any such requirements are necessary to protect health, safety, and welfare of consumers.”

The Auditor was to conduct the study in two parts: Part 1 will report on the professions and vocations under 25 boards and commissions prior to the 2006 session, and Part 2 on the 20 licensing programs prior to the 2007 session. Part 1 of the study was further divided into two sub-parts; this is the first of two sub-parts.

The Department of Commerce and Consumer Affairs (DCCA) has administrative responsibility for 45 different classifications of professions and vocations that are regulated by 25 professional and vocational licensing boards and commissions or 20 licensing programs.

Obsolete licenses, specialty licenses, licenses that grant a limited or temporary right to practice, branch location licenses, registrations, and licenses that do not impact the health, safety, or welfare of consumers were not included in this study. The licenses excluded are not the boards’ primary licenses and account for less than 2 percent of licenses.

We compiled general license requirements in 50 states and compared Hawai‘i’s requirements to that of the other states. We took an overview of each state’s prelicense and license retention requirements. The requirements were generally categorized in terms of the following components: education, experience, examination, fees, continuing education, reciprocity, and other requirements unique to a license.

Using state agencies’ web pages, we made every attempt to assure the accuracy of the data but recognize that errors are possible. Licensing requirements in many states were not static, and we did encounter pending changes in requirements.

We provided a table with summaries of all the licenses. As this is only the first part of the study, we reserve any general conclusions until its completion.

SYSTEMWIDE FINANCIAL AUDIT OF THE UNIVERSITY OF HAWAII SYSTEM: PHASE I

Report No. 05-15, December 2005

The Legislature initiated this audit because it was unable to obtain timely financial information from the university. We assessed the University of Hawai'i at Mānoa's actual cost per student for one academic year, and engaged Nishihama & Kishida, CPA's, Inc. to review Mānoa's accounting and use of general and tuition funds and budget process.

Mānoa prepares its budget using an incremental approach, focusing attention on adjustments to the prior year's budget. For FY2005-06, the Board of Regents approved a budget of \$200 million in general funds, of which only about \$14 million required justification. Thus Mānoa's budget is largely unfounded and is not based on results. Additionally, the campus did not effectively monitor the development of its 2005-2007 biennium budget and could not justify its budget request to the Legislature.

Mānoa lacks a formal mechanism for monitoring program use of funds, providing little assurance that it has an adequate understanding of its overall fiscal condition. It attempted to improve its internal financial reporting through the Budget Level Summary (BLS) system that compares budgeted, actual and projected financial information. However, Mānoa's BLS reports lack the detail needed to evaluate unit and program performance. Also, unit level BLS reports are not reconciled on a quarterly basis to the university's budget or financial information system.

Mānoa lacks formal policies and procedures to ensure the proper use of general and tuition funds. Those for the tuition funds dated May 2003 remain in draft form; disbursement procedures for the new web based purchasing and payment processing system, implemented in July 2003, are not included in the Administrative Procedures Manual; and certain purchasing duties are not properly segregated.

We also noted violations of procurement procedures and questionable uses of contract modifications. Modifications to contracts should not be used to circumvent normal procurement procedures.

Calculation of Mānoa's actual cost per student has limited value for decision making, due to its limited comparative value and to Mānoa's inadequate internal controls.

ACTIONS TAKEN ON PREVIOUS RECOMMENDATIONS

(Report Nos. 04-10 through 05-01)

<i>Report Title: Sunrise Analysis: Money Transmitters</i>	<i>Report No.: 04-10</i>
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RECOMMENDATIONS

We recommend that H.B. No. 2428 not be enacted.

ACTIONS TAKEN

The Legislature did not enact H.B. No. 2428.

<i>Report Title: Audit of the Department of Human Services' Expedited Application Process for Pregnant Women</i>	<i>Report No.: 04-12</i>
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RECOMMENDATIONS

1. The director of the Department of Human Services should:
 - a. Evaluate data gathering methods and develop a consistent and accurate report system by:
 - i. Including applications processed by the Benefits, Employment, and Support Services Division in its statistical reports;
 - ii. Excluding from the department's data gathering "duplicate" applications that do not require processing;

ACTIONS TAKEN

The Benefits, Employment and Support Services Division (BESSD) faxes pregnant women applications within a day from receipt to the Med-QUEST Division (MQD) for Medicaid eligibility determination. This ensures the inclusion of BESSD applications in the Division's monthly manual report. In addition, the Department enlisted the services of the Hawai'i Primary Care Association's Outreach and Assistance Project to require outstation eligibility workers to complete separate application forms for financial and medical assistance.

The Department initiated an internal process to track and document all cases subject to the pre-screening work associated with pregnant women applications by BESSD. The Department also initiated a systems

iii. Reporting monthly statistics for each unit of the Med-QUEST Division and using those figures to assess compliance with the standards of processing 95 percent of applications from pregnant women within five business days.

b. Disseminate written instructions to Med-QUEST Division and Benefits, Employment and Support Services Division staff, and to all federally qualified health centers on how application processing time is to be calculated;

c. Ensure that all Med-QUEST Division staff uniformly apply the five-day processing standard among Med-QUEST Division units;

request to differentiate pregnant women applying for health insurance for themselves from those applying for others. The addition of a pregnant woman not receiving health insurance benefits to an existing case is defined as an application, afforded expedited processing, and included in the MQD monthly manual report.

All MQD Units process applications and monthly report on the number of pregnant women applications received, processing times, and explanations for non-compliance. The Department initiated a systems change request to generate a monthly ad hoc management report of all pregnant women applications by Division, Section, and Unit. The Department also implemented periodic internal audits to review the accuracy and quality of the manual reports until 100% accuracy is attained. The Department submitted a request to modify HAWI, the statewide eligibility determination system, to electronically capture pregnant women application data and generate monthly reports to replace the manual and ad hoc reports. Currently, a requirements meeting was held and a write-up is being drafted.

The Department developed and issued written instructions. A letter was mailed by November 30, 2004 to all federally qualified health centers and other community partners with the information on calculating the five-business-day processing time for complete applications.

All MQD Units are mandated to uniformly comply with the five-business-days processing standard. Unit supervisors are monitored for compliance and corrective action plans are developed when job performance is incomplete or inferior, which can lead to disciplinary action. In turn, unit supervisors are mandated to monitor Eligibility Workers (EW) for compliance and develop corrective actions.

- d. Propose an amendment to Section 17-1711-13, Hawai'i Administrative Rules, to change the eligibility determination deadline for pregnant women to five days, with a presumption of eligibility on the sixth day;

- e. Submit a report to the 2006 Legislature to include, but not be limited to:
 - i. Statistics on processing applications from pregnant women for calendar year 2004 and compliance with the application processing standard;

 - ii. Method for calculation of department statistics;

Sections are required to submit daily application logs and spot checks are regularly performed on the applications' status. This provides for tighter control and easier monitoring.

Based on the response from the Federal Centers for Medicare and Medicaid Services (CMS), an amendment to Section 17-1711-13, Hawai'i Administrative Rules, is not feasible. CMS reiterated that presumptive eligibility provisions, that are described in Section 1920 of the Social Security Act, do not provide for presumptive eligibility from the sixth day, but from the first day a qualified provider makes the initial eligibility determination. CMS has also clarified that a state Medicaid agency does not meet the definition of a "qualified provider" as defined under Section 1920(b)(2). If the State chooses to implement presumptive eligibility from the sixth day without determining eligibility, the State may be subject to the loss of Federal matching funds if the woman is later determined ineligible.

The Department has completed and will be submitting a report, "Pregnant Women Applications Report" for calendar year 2004, to the Legislature before the start of the 2006 Legislative Session.

Each unit maintains a monthly pregnant women intake log and prepares a monthly report. All pregnant women applications are to be disposed of within five business days from the date of complete application. The majority of these applications are incomplete; thus, the EW is required to send to the applicant a ten-day pending notice requesting information needed to determine eligibility. If a disposition is made within five business days from the date the additional information is received, the application is considered timely.

- iii. Confirmation that the department conformed the application process for all intake sources, including its department units and federally qualified health centers;
 - iv. Efforts to improve coordination between the Benefits, Employment and Support Services Division and the Med-QUEST Division to ensure timely processing of applications from pregnant women; and
 - v. Feedback from advocacy groups and stakeholders regarding the expedited application process.
2. If the Legislature determines that presumptive eligibility is necessary, it should:
- a. Ensure that the department and pregnant women advocacy groups work jointly to gain the participation of medical providers by:
 - i. Establishing the simplest presumptive eligibility program allowable by law; and
 - ii. Educating medical providers about the presumptive eligibility program; and
 - b. Ensure that adequate resources are available to support the program.

The Department confirms that policies and procedures were developed and implemented. They include, but are not limited to: processing medical applications for pregnant women within five-business days, the method for calculating the five-business day period, and the definition of a “completed” application. The policies and procedures were communicated to the Department’s eligibility determination staff, all federally qualified health centers and many other community partners.

The internal communication forms provided detailed procedures for MQD and BESSD’s eligibility determination staff. These procedures were developed by program staff from both divisions, providing for uniform and timely processing of medical assistance applications for pregnant women statewide.

The Department received feedback from advocacy groups and stakeholders generally attesting that the Department has been processing pregnant women applications within five-business days. The feedback also indicates room for improvement in communication with stakeholders about the handling of incomplete applications. MQD and BESSD continue to impress upon their respective staff the importance of early medical coverage for pregnant women.

The Department does not support the initiation of presumptive eligibility for pregnant women. However, if mandated through statute by the Legislature, the Department is willing to comply.

Same response as provided for 2.a.i.

If mandated through statute, additional budget appropriations will be requested and must be received in order to implement the initiative. Funding for additional staff positions, information system development, fee-for-service costs, training, contracting costs, and operational expenses will be required.

Report Title: Management and Fiscal Audit of the Harold L. Lyon Arboretum

Report No.: 04-14

RECOMMENDATIONS

The University of Hawai‘i’s Board of Regents, its administration, and the chancellor of the Manoa campus should:

1. Determine whether the university’s continued stewardship of the Harold L. Lyon Arboretum is in concert with the institution’s overall mission;

ACTIONS TAKEN

The Arboretum and its staff are committed to research, education and service to the University of Hawai‘i System and the greater Hawai‘i community. Research is carried out with other university faculty and staff as well as those from other regions around the world, and receives national and international recognition for their efforts with endangered and native species. Education programs are underway involving plant biology, taxonomy, ecology and diversity from pre-K to 12 programs, university programs, and adult education. The arboretum also provides services to the community at large through contributions of plants and flowers for events, speaking and training opportunities, consultations, and staff members activities in professional and/or government committees. As such, the arboretum is in concert with the overall mission of the University of Hawai‘i.

2. If the stewardship is to continue, begin a strategic planning process immediately. Set a schedule for the planning process with definite deadlines reflecting the urgency of the arboretum's condition. The appropriate stakeholders, including but not limited to, the Office of Conservation and Coastal Lands of the Department of Land and Natural Resources, the Hawai'i Agricultural Research Center (successor to the Hawai'i Sugar Planters' Association), and the Lyon Arboretum Association, should be invited to participate early in the planning process;

3. Reassess the appropriateness of placing the arboretum under the administration of the College of Natural Sciences;

4. Ensure that the management tools that flow from a strategic plan are developed, including an organizational chart, position descriptions, written policies and procedures, and an operations manual;

The Arboretum, assisted by the consulting firm Group 70, has prepared an After The Fact-Conservation District Use Application (ATF-CDUA), an Environmental Assessment and a management plan. These were submitted to the Office of Conservation and Coastal Lands of the Department of Land and Natural Resources (DLNR). The Lyon Arboretum Community Steering Committee submitted a report in February 2005 entitled "*Plan for the Future of Lyon Arboretum*" which has been adopted as the Arboretum's strategic plan. The reports provided by this Committee and by the Lyon Arboretum Task Force were utilized in the preparation of the Environmental Assessment and the management plan.

The administration of the Arboretum has been shifted from the College of Natural Sciences. The Interim Director reports directly to the Vice-Chancellor for Research and Graduate Education.

The management plan developed for the ATF-CDUA addresses all aspects of operation of the Arboretum including grounds maintenance, research programs, education programs, volunteer programs, community outreach, and affiliations with other groups. Detailed operation procedures have been and are continuing to be developed within each of the various programs at the arboretum. The university approved the organizational chart for the arboretum. Job descriptions for many of the permanent employees have been prepared. The management plan provides a general policy for many of the standard arboretum activities. More detailed policies have been prepared within each of the various operations, and, where necessary, operation manuals have been established.

5. Bring the arboretum in conformance with conservation district and other applicable requirements, and submit the necessary filings before commencing any land use activities on the arboretum grounds;

6. Define the roles and responsibilities between the arboretum, the association, and other organizations occupying arboretum facilities and prepare the appropriate documents to memorialize the relationships; and

An ATF-CDUA has been submitted to the DLNR Office of Conservation and Coastal Lands. A public hearing was held in November 2005, and this was an agenda item for the Board of Land and Natural Resources' meeting in December 2005, at which time a permit has been granted for carrying out the normal operating functions of the arboretum. In the interim, all commercial activities of the arboretum ceased (including sales in the gift shop, education programs at all levels, tree plantings, trail construction, etc). Only the basic operations of the arboretum were being attended to at this time, and this will continue until a permit is granted. The arboretum is presently open to the public, but services available are limited. Once the permit is granted, appropriate permits for building renovation and reconstruction will be applied for. These changes will include making the buildings and grounds ADA compliant and renovating the buildings so they will be structurally sound and habitable.

Four groups have space at the arboretum: the Lyon Arboretum Association (LAA), Halau Ku Mana, the Garden Club of Honolulu, and the UH-Mānoa Center for Conservation, Research and Training (CCRT). The relationship with LAA is being redefined and incorporated in a Memorandum of Agreement (MOA). Halau Ku Mana has students actively involved in rebuilding the loi and rock walls near the ethnobotanical section and a draft MOA has been prepared. A CCRT staff member has been housed for many years by verbal agreement between past Arboretum and CCRT directors. The Garden Club of Honolulu maintains an office at the arboretum, and an MOA is in place. A fifth agreement is being developed with DLNR to establish a conservation research position to study the potential of alien plant species becoming invasive pests within the natural ecosystems if they are allowed to enter the state.

7. the arboretum's financial and inventory accounting systems to university requirements.

Getting a firm grasp of all arboretum accounts and distributions is one of the priorities of the Arboretum Interim Director. A problematic component of the financial and inventory accounting system was utilizing LAA to control funds raised through education programs and fundraising activities and then given back to the Arboretum to carry out their programs. An MOA with LAA will carefully address the financial relationships between the two organizations. An account within the university has been established for which the Arboretum will have direct control of funds being raised from education programs, visitor collections, plant sales, gift shop proceeds, and other donations. University of Hawai'i Foundation accounts had been established for donors that had specific bequests for their donations.

Report Title: Investigation of the Department of Land and Natural Resources' Process for Developing Recommended Candidate Lists for Appointment to the Island Burial Councils

Report No.: 04-15

RECOMMENDATIONS

1. The governor should require the Department of Land and Natural Resources to respond to repeated native Hawaiian requests for mutual consultation by convening an 'aha (meeting) to encourage collaboration on protocols for reflecting Hawaiian oral traditions related to burial beliefs, customs, and practices. The protocols should provide the basis for criteria to qualify candidates for regional representative seats on burial councils.

ACTIONS TAKEN

The State Historic Preservation Division (SHPD) convened a series of statewide public information meetings in February 2005 to provide a forum in which native Hawaiians could identify criteria to qualify regional representatives for island burial council seats. As a result of these meetings, the division adopted three sets of criteria to determine whether individuals interested in serving on the island burial councils are qualified to do so. Criteria adopted were widely supported by the native Hawaiian community.

2. The department should:

- a. Adopt the agreed protocols related to burial beliefs, customs, and practices in dealing with the disposition of human skeletal remains;
- b. Establish policies, procedures, and guidelines to ensure the list of candidates for island burial councils is developed in a methodical, comprehensive, consistent, and timely manner;
- c. Encourage the Office of Hawaiian Affairs to satisfy Section 6E-43.5, HRS, by providing a list of at least nine candidates for each burial council to the department;

Chapter 300 of the Hawai'i Administrative Rules establishes statewide procedures for the disposition and handling of human skeletal remains to ensure human skeletal remains are treated in a sensitive and culturally appropriate manner. For example, the unnecessary handling and examination of native Hawaiian remains are prohibited by rule as such action would be considered to be an act of desecration by many in the native Hawaiian community. Nonetheless, burial customs, beliefs and practices vary both by island and within the districts located on each island. Therefore, the division consults with regional representatives and recognized descendants when determining reinterment requirements such as the manner in which human skeletal remains are to be prepared for reburial, and the individuals who will preside over the reinterment services.

SHPD solicits nominations for regional representatives from the list of Hawaiian organizations it maintains. Moreover, the division advertises in the Office of Hawaiian Affairs (OHA) newspaper, *Ka Wai Ola*, to inform the public that the Office of the Governor is soliciting candidates interested in serving on the five island burial councils. Applications are available at the division's office and through its web site, and at statewide OHA offices. Nominees recommended by native Hawaiian organizations are contacted and asked to complete an application of interest. All applicants are screened by the division's cultural historians to ensure that those applying meet minimum qualifications. The names of all qualified applicants are forwarded to the Office of the Governor for consideration by the Governor.

SHPD actively encourages OHA to provide a list of council nominees to DLNR and the Office of the Governor. Nominees who are included in the list of eligible applicants screened by SHPD are identified as an OHA nominee.

- d. Compile and maintain a catalog of Hawaiian organizations with which it develops trusting working relationships and routinely consults to ensure compilations of comprehensive lists of nominees to the island burial councils;
- e. Seek amendment to Section 6E-43.5(b), HRS, to remove Hui Mālama I Na Kupuna O Hawai'i Nei as the only example of an appropriate organization because it suggests singularity and places an official imprimatur on its behavior and practices. Statutory law should avoid references to private organizations;
- f. Review the historic preservation law and its administrative rules and propose appropriate amendments;
- g. Develop a strategic plan for the Burial Sites Program and move to formally implement the program by developing program functional statements and amending the organizational charts to reflect both the island burial councils and the Burial Sites Program;
- h. Seek expeditious authorization of additional personnel for the Burial Sites Program and budgetary allocations for personnel, office, and other costs required to operate the Burial Sites Program and administratively support the island burial councils;

SHPD maintains a list of Hawaiian organizations that are consulted when soliciting nominees for regional seats on the island burial councils.

Hui Mālama I Na Kupuna O Hawai'i Nei is recognized as a native Hawaiian organization in both federal and state law. The department will not seek an amendment to state law at this time as the Senate Indian Affairs Committee is exploring what if any changes should be made at the federal level regarding this issue.

SHPD and the Office of the Attorney General have conducted a preliminary review of current Hawai'i preservation laws and related Hawai'i Administrative Rules and have recommended amendments to these laws/rules. The division is currently in the process of discussing these proposed amendments with stakeholders including the five island burial councils, OHA and Hawaiian Civic Clubs. The division is also convening a work group that will be tasked with recommending improvements to the current archaeological review process, and will identify suggested statutory and rule changes necessary to improve the current process.

SHPD is in the process of reorganizing and will update functional statements and its organizational charts prior to the end of FY2006 to reflect that the five island burial councils are administratively attached to the division.

During the 2006 legislative session SHPD will seek funding for additional cultural historians and clerical staff who will be responsible for carrying out the duties of the burial sites program and for providing administrative support to the five island burial councils. In addition, the division has applied for a grant from OHA to contract for a burial reinterment specialist

- i. Eliminate the backlog of island burial council meeting minutes by disposing of the excessive requirement that minutes be transcribed verbatim;

- j. Develop a statewide inventory, reinstate the case number system, and adopt a standard form and format for recording human skeletal remains as discovered;

- k. Relocate the Historical and Cultural Branch chief and Burial Sites Program staff to the State Historic Preservation Division's Kapolei office to effect fiscal savings and facilitate better supervision and management; and

- l. Conduct periodic review and assessment of position descriptions and responsibilities in the Historical and Cultural Branch.

who will be given the task of developing a statewide inventory of burials and overseeing the reinterment of skeletal human remains currently in the division's curation facilities. Existing division staff have also been assigned to provide clerical and technical support to each island burial council. A state archaeologist, cultural historian and clerk are now assigned to each council.

SHPD has eliminated the backlog of burial council minutes, and adopted a policy that prohibits the verbatim transcription of minutes on a routine basis. Rather, tape recordings of each council meeting are maintained and they may be referred to on an "as needed" basis. These tapes are available to council members and when necessary can be transcribed verbatim.

SHPD is in the process of developing a contract for a burial reinterment specialist who will compile the existing island burial inventories into a statewide system. Burials are now tracked by case numbers and the department records burial locations using Global Positioning System (GPS) technology. Landowners and developers are also encouraged to register known burial sites at the Bureau of Conveyances.

Cultural historians are now based on the island they serve. All other History and Culture Branch staff have been relocated to the division's Kapolei office.

SHPD has reviewed the position descriptions of all History and Culture Branch staff and has revised these positions to ensure staff are accountable for meeting the objectives and mission of the Culture and History Branch.

*Report Title: Audit of Na Wai Ola Waters
of Life Charter School*

Report No.: 05-01

RECOMMENDATIONS

1. The Legislature should enable the Board of Education to establish a committee or panel of experts and stakeholders to identify and recommend to the Legislature revisions to the existing charter school law in order to create an effective framework for overseeing and supporting new and existing charter schools. At a minimum, these recommendations should address:
 - i. Powers, authority, and requirements of schools, local school boards, the Charter School Administrative Office, and the Board of Education, including responsibility and authority to impose sanctions when a charter school fails to comply with contractual and/or statutory requirements; authority for and management of technical support and interventions, including mergers and closure of charter schools and transfer of students to other public schools; and the ability to impose accountability measures for all charter schools, such as appropriate accreditations and adherence to generally accepted government accounting standards;
 - ii. An application and start-up process for charter schools requiring sufficient time and proper scrutiny to ensure a school's readiness prior to accepting students;
 - iii. Limitation of charter school exemptions

ACTIONS TAKEN

Act 87, Session Laws of Hawai'i 2005, establishes a task force on charter school governance to identify and recommend to the legislature revisions to the existing charter school law and to help create an effective framework for overseeing and supporting new and existing charter schools.

from laws to only those laws applying to public schools;

- iv. The State's rights and liabilities where charter schools or their governing corporate bodies acquire real property or conduct for-profit business activities, including clarification of charter school's authority to incur debt and the State's responsibility in case of default;
- v. The conflict of interest inherent in the charter school administrative director position;
- vi. Eligibility, administration, and funding of state benefits for non-certificated employees of charter schools; and
- vii. Feasibility of assisting charter schools with facilities needs, including priority access to any vacant government buildings suitable for conversion to a school.

2. The Board of Education should:

- a. Establish clear strategies, rules and regulations for its oversight of charter schools. These should address probation and revocation criteria and processes as well as crisis intervention;
- b. Require charter schools to provide verified and periodically updated listings of fixed assets; and

The Board of Education passed policy 8200 "Policy and Guidelines for Notification and Approval of Detailed Implementation Plan (DIP) Amendments." The Board approved guidelines for multi-year reviews. The Board also developed guidelines for revocation of charters and fiscal and academic probation. The Board will be working on the development of rules in 2006.

The Board has been working with the Charter School Administrative Office (CSAO) to obtain this information.

c. For any future new charters, include experts in business and finance in evaluating an applicant's readiness to administer its affairs. The charter should include a section outlining the board's expectations of the school and the consequences of non-compliance.

3. The Board of Education and the Charter School Administrative Office should develop appropriate programs to foster the exchange between charter schools of proven solutions to common operational problems, including training and networking exchanges. Such programs may include a peer review program for all Hawai'i charter schools.

4. The Waters of Life Charter School should:

a. Ensure that hiring practices comply with its detailed implementation plan, prudent personnel practices, and all safety and health related requirements;

There have been no new charters or any indications that any school will be converting to a charter school. The Board is working with the CSAO to ensure this component is an integral part of the review process. The guidelines developed for fiscal and academic probation include consequences for non-compliance.

Significant developments included, but were not limited to:

- » Passage of ACT 87 in the 2005 Legislative Session, which established a Task Force on Charter Schools;
- » Use of Federal funds for professional development and training;
- » Creation of a financial management task force;
- » Launching of a charter school web site (www.hcsao.org);
- » Convening of two conferences for administrative issues and instructional/curricula issues;
- » Contracting with UH Hilo Charter School Resource Center to design and implement Local School Board training; compile best policies and procedures; and
- » Adoption by the BOE of Guidelines for Multi-Year review of charters and Detailed Implementation Plan amendments.

Hiring practices are in compliance with DIP and state laws. All positions are advertised and employees are encouraged to apply. Information from the reference checks is measured against a rating the candidate earns from the interview. Our attempt to have all staff fingerprinted encountered some setbacks. The Local School Board and parents have recently been updated in compliance with federal law No Child Left Behind mandates that the community be advised of the professional qualifications of all teachers and paraprofessionals hired for SY05-06.

b. Constitute and operate its school board in a manner consistent with recommended practices and ensure that new school board members receive appropriate training;

c. Acquire competent business staff, capable of establishing and maintaining financial records in accordance with generally accepted accounting principles and contract for an independent financial audit to establish its fiscal status and viability;

Currently, the school teachers are credentialed, working toward licensure, or hold Master's degrees. The personnel files of all employees were reviewed, and those employees who did not have verification for health documents were required to update their files.

The board has restructured its by-laws to reflect changes needed to ensure proper governance is practiced. Efforts to attract leaders in the local community adept in business, financial management, and legal skills who support our school's vision proved successful. The board will participate in board governance best practices training by a local mediator.

An administrative assistant works with the Chief Finance Officer, an account clerk, an office clerk, and Parent Community Network Coordinator, and QuickBooks accounting system to maintain records in accordance with accepted accounting procedures. All accounting entries have been documented and invoices are current. The school is in the process of obtaining IRS confirmation on its tax status exempt from filing commercial tax returns. Also, the school is resolving the issue of its two Federal ID numbers with bank officials. The Board treasurer has updated the board on financial and administrative affairs. The administrative office collaborates to achieve the monthly reporting goals. The director has invited an accountant and business manager to review the present system and recommend an agency to do the independent financial audit.

d. Adopt written policies and procedures for accounting, personnel, and a procurement process consistent with the goals of public accountability and prudent procurement practices;

e. Budget for competent professional advice in legal and financial matters when in-house expertise is inadequate; and

f. Ensure that independent contractors are not improperly classified as employees, seeking guidance from the Internal Revenue Service, if necessary.

The director has started to create policy and procedures handbooks tailored for the school with the completion target by the start of SY 06-07. Employees were provided with policy guidelines for personnel matters, health and safety regulations, facilities' use policies, emergency procedures, performance expectations, and employees association guidelines. The school is working to eradicate management control weaknesses and build fiscal viability. The chart of accounts is being reviewed for clarification. The school has successfully retrieved 85% of payroll advances, and now has a policy that prohibits advancing any sum of money to an employee. Budget reports reflect a re-categorization of the school's inventory and assets.

The board and the director consult with professionals in the community who are competent in legal and financial matters. Most of the achievements and on-going work reflected above are the direct result of liaison between the board, the director, staff, business people and professionals. The school has budgeted funds to retain a contract hire as an administrative aide to provide guidance in legal matters. Financial matters that cannot be handled through immediate contacts are outsourced.

Professionals who perform services for the school are classified as contractors and are not reflected in the school personnel records.

OFFICE OF THE AUDITOR
APPROPRIATIONS AND EXPENDITURES ON A BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

APPROPRIATIONS

Act 1, SLH 2004 (operations)	\$2,401,597
Act 1, SLH 2004 (special studies)	150,000
Act 1, SLH 2004 (Audit Revolving Fund)	<u>3,013,125</u>
	<u>\$5,564,722</u>

EXPENDITURES

Staff salaries	\$1,298,236
Contractual services (operations)	432,337
Other expenses	217,499
Special studies	0
Contractual services (Audit Revolving Fund)	<u>2,544,746</u>
	<u>\$4,492,818</u>

**EXCESS OF APPROPRIATION
OVER EXPENDITURES**

Act 1, SLH 2004 (operations)	\$453,525
Act 1, SLH 2004 (special studies)	150,000
Act 1, SLH 2004 (Audit Revolving Fund)	<u>468,379</u>
	<u>\$1,071,904</u>

OFFICE OF THE AUDITOR

Hawai'i's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.

To carry out its mission, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with 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 are existing funds meet legislative criteria.
7. *Procurement reports* include studies and audits relating to the State's procurement of goods, services, and construction.
8. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

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