



STATE OF HAWAII  
*Office of the Auditor*

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## 2007 ANNUAL REPORT

MARION M. HIGA  
*State Auditor*

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STATE OF HAWAII  
*Office of the Auditor*

Mission of the  
Office of the Auditor

This office strives to ensure government accountability for policies, programs and use of public funds through postaudits of accounts, programs, and performance.

This office reports its findings and recommendations to policy makers to provide timely, accurate, and objective information for decision making.

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

March 12, 2008



Ladies and Gentlemen:

I am pleased to present this Annual Report, which highlights the work of the Office of the Auditor in work year 2007. This report, and the audits and special studies themselves, spotlight some of the major issues facing state government.

We continue to focus our projects on vital issues relevant to our state's future. The well being of our most prized resource, our youth, was highlighted in several of our reports. Additionally, we further addressed technological advances and continue our planning for the year 2050 and the actions needed to move wisely ahead.

We recognize that technological advances place us in an exciting time of change. At the same time, issues of inter-generational workforce and a loss of institutional knowledge with the pending retirement of the baby-boomers also make this a challenging period. They remind us that there is a constant learning process as we move toward our goal of an improved government that effectively serves the people of Hawai'i.

Sincerely,

Marion M. Higa  
*State Auditor*

# The Digital Divide

Marion M. Higa, State Auditor

For rarely are sons similar to their fathers: most are worse, and a few are better than their fathers.

Homer, *The Odyssey*  
Greek epic poet (800 BC–700 BC)

Grown-ups never understand anything for themselves, and it is tiresome for children to be always and forever explaining things to them.

Antoine de Saint-Exupery, *"The Little Prince,"* 1943  
French writer (1900–1944)

From the times of the ancient Greeks to present, children and their parents have evoked endless commentary. While Homer's point of view sounds like a disillusioned parent, Saint-Exupery's is the child's reaction to tiresome parents. While these are sentiments lasting through the centuries, they speak of genuine differences between the generations. This is more apparent now with the "digital divide."

Generations "X," "Y," and "Z" are the digital children. They were born in digital times and cannot remember a period of time without cellular phones or computers. These are the 'connected' generations partaking in instant gratification—they get their news from the web, communicate by text message, use "facebook" or "LinkedIn" for networking, and avoid the "land line." Often, their parents and elders are left behind on what to do with the evolving technology.

These generations are defined by change. Technology's constant evolution is embraced by these generations and to some extent, viewed as a tool to ensure that life has an appropriate balance for personal growth and does not simply equal work.

Generation X is the pragmatic generation that values its independence. Often, this generation grew up as latch key kids. They were often left to their own devices, leading to greater resilience and adaptability. This group learned by way of their parents' experience with stress over double-digit inflation and unemployment and even more so entered the workforce during an economic downturn. This generation is defined as wanting to be different from the one before it. In the workforce, they take employability seriously and will work towards developing a strong skill set that will take them along their career path.

Generation X first pushed the envelope for change and right on their heels, Generation Y looks to build on that. Because Generation Y was raised in one of the most child-centric times, they are often perceived as an overconfident and almost cocky generation. It has been said that the sense of self-worth among this generation will be unlike any before it. They are typically good multi-taskers, who will perform well within a work setting.

By all accounts, Generation Z will be the most wired (or wirelessly connected). At the same time, in the changing climate of business, politics, and the environment, Generation Z is anticipated to be the most environmentally aware than their predecessors. This generation, while keenly aware of the technological advances, will not sacrifice the sustainability of the world's resources.

These digital children are a stark contrast to the traditionalists and baby boomers before them. The experience of the traditionalists is framed by the roaring 20s, prohibition and the great depression. Meanwhile, the baby-boomers saw this nation undergo its largest changes with space exploration, the Vietnam War, and the civil rights movement. So now, the biggest challenge ahead of us is taking on the positive traits of these generations for the greatest return within the community.

The generational differences are also apparent in the way work is done. There's a greater push to understand the motivations of individuals in the work place in order to obtain maximum levels of performance. This multi-generational workplace has people who speak different languages and relate differently to one another, yet must work together.

Our work this past year has certainly reflected these generational changes. In this digital age, there is a stronger push for access to instant communication. Yet we cannot have this surge in growth without some measured response or understanding of where this will take us. We examined each of these issues in our involvement with the Identity Theft Task Force and the Broadband Task Force. These addressed the growing concerns of the reliance on digital media of important, identifying information and the means by which the internet can be made available to the island community.

A great amount of personal information is now trafficked along the information superhighway of the internet. This was the driving force behind the Identity Theft Task Force. The task force focused its work on identifying and reviewing best and current practices in protecting personal identifying information that is collected by government agencies. As a result, the task force made recommendations that would provide additional safeguards by improving responses to data breaches and training employees on the importance of data protection.

Our work with the Broadband Task Force gives further weight to the value of affordable internet access. While still in its initial phase, this task force will explore issues on the availability, capability, and use of broadband services in Hawai'i.

Along with our work on approaching technological advances with calculated risk, we have also been able to work on something that should further bind the differences among the generations. This is evident in our work as part of the Hawai'i 2050 Sustainability Task Force, which explored the sustainability of this island-state. Working with the community, the task force identified key economic, social, and environmental goals so as not to compromise the ability of future generations to meet their own needs.

In many ways our office greatly benefits from the multi-generational workforce by embracing the differences and learning from each other. The same approach then should be taken with the understanding of technology and its impact as much as understanding our children. In order for us to go forward and better ourselves, we need to understand our differences so that we may maintain and grow the ties that bind us.

## Staff of the Office of the Auditor

### State Auditor

Marion M. Higa

### Deputy Auditor and General Counsel

Jan K. Yamane

### Administrative Deputy Auditor

Calvin Hangai

### Assistant Counsel and Human Resources Manager

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### Assistant Auditor

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### Assistant IT Coordinator

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Norman Lee  
Spencer M.W. Lum  
Greg Matsumoto  
Tricia Oftana  
Albert Vargas  
Danny Vasconcellos, Jr.

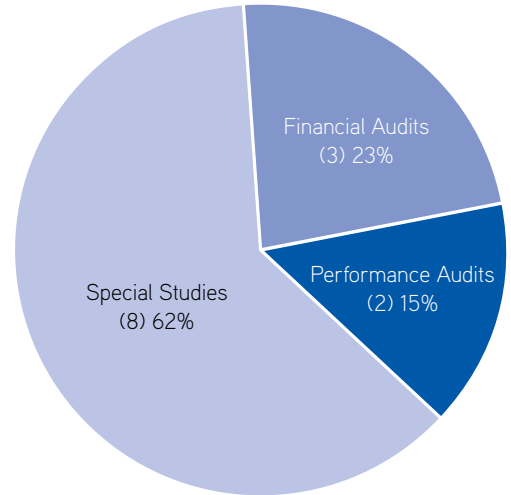
### Special Projects Coordinator

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### Office Services

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Pat Mukai

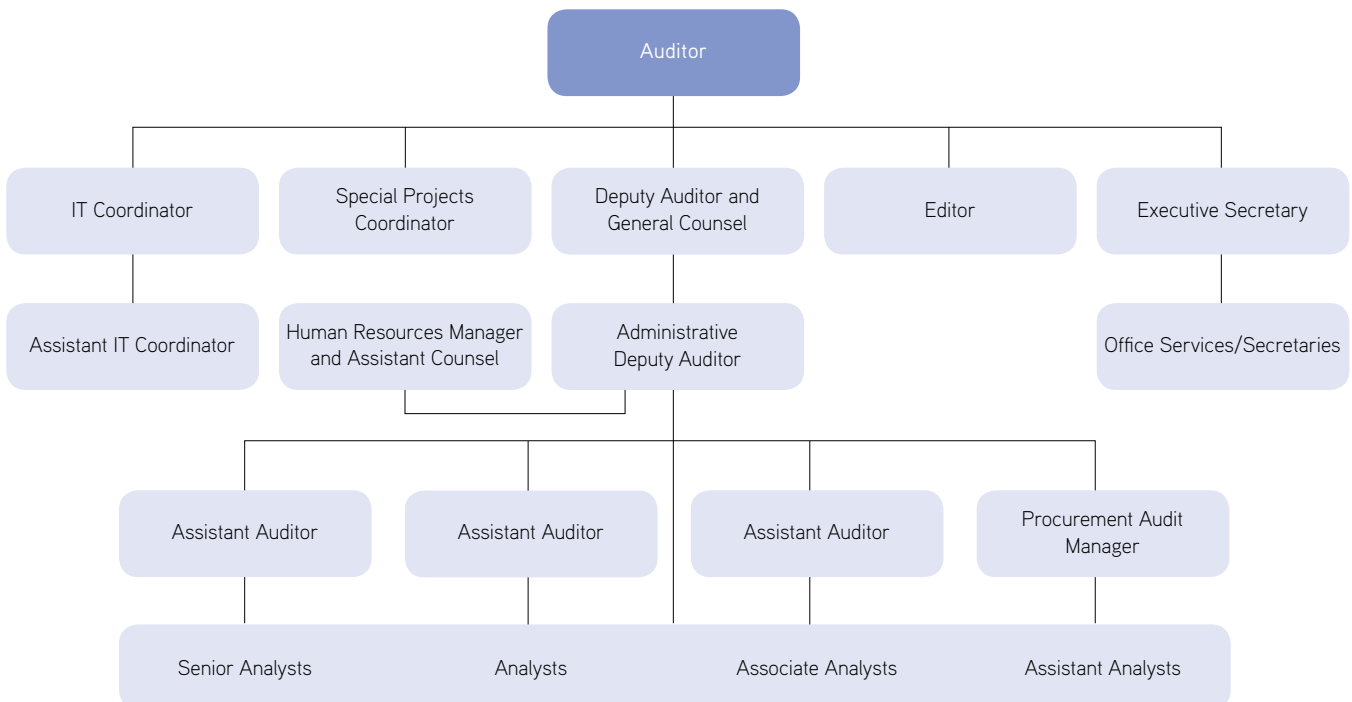
## Types of Reports



The office also performed 57 quick reviews of proposed special and revolving funds.

The office also administered nine financial statement audits, including the Comprehensive Annual Financial Report.

## Organization of the Office of the Auditor



## 2007 Summary of Reports

# Financial Audit of the Hawai'i Youth Correctional Facility

Report No. 07-01, January 2007

In 2006 the Legislature initiated a financial and operational audit of the Hawai'i Youth Correctional Facility through Act 1, Session Laws of Hawai'i. The operational audit was issued as Report No. 06-03 in May 2006. This financial audit assessed selected issues of the Office of Youth Services and the Hawai'i Youth Correctional Facility, including a review of sick leave, overtime,

ward trust accounts, and procurement issues. The Office of Youth Services is responsible for leading the State's services to at-risk youths. The youth correctional facility is a branch of the Office of Youth Services. This audit found that the facility incurs significant overtime costs and sick leave usage among its youth corrections officers (YCOs). For example, one YCO earned \$44,845 in overtime compensation as compared to \$36,494 in base pay. Our review of sick leave patterns for the YCOs noted they took an average of 164 hours of sick leave and 234 hours of compensatory time off in lieu of sick leave during FY2004-05. However, the high vacancy levels among the YCOs and the inherently stressful nature of the work were the primary drivers of overtime costs and sick leave usage.

We also found that internal controls over the collection of salary overpayments could be improved; controls over processing, disbursing, and reporting of wards' trust accounts should be strengthened; and improved compliance with procurement laws and rules is needed.

We recommended the facility develop and implement a formal system of monitoring overtime and sick leave usage to identify possible patterns of abuse. The facility should also work with the Office of Youth Services to fill vacant YCO positions as soon as possible. Other recommendations addressed monitoring salary overpayments, handling of wards' trust accounts, and complying with procurement laws and rules. The Office of Youth Services agreed with our findings and expressed appreciation for the professionalism and courtesy afforded by our staff and our contractor, Grant Thornton LLP.



# Sunrise Analysis: Mixed Martial Arts

Report No. 07-02, February 2007

Mixed martial arts, events that combine various styles of fighting and martial arts, is the fastest growing sport in the country. In Hawai'i the events are currently permitted under an exemption from the prohibition against no rules combat or extreme fighting. The 2006 Legislature requested the Auditor to analyze a proposal to license mixed martial arts events as their own sport.

This request falls under the Auditor's duty to evaluate proposals to regulate previously unregulated professions or vocations. Since the first mixed martial arts (MMA) event in the U.S. in 1993, the shows now command large gate and television revenues and significant TV viewership. MMA events have become significant revenue sources for states and tribal commissions. Two main motivations for regulation are: (1) to protect the fighters' health and remove the stigma of barbaric, no rules brawling, and (2) to provide a satisfying spectacle for viewers. In Hawai'i, the number of MMA events has grown from eight into 2000 to 29 in 2005. Since 2001, promoters have achieved regulatory approval in 24 states.

The Hawai'i Revised Statutes, at Chapter 440D, permit MMA competitions if promoters obtain an exemption from the Department of Commerce and Consumer Affairs (DCCA) with certain conditions. The Regulated Industries Complaints Office (RICO) at DCCA is responsible for enforcing Chapter 440D, including sending two investigators to attend each contest. Because most contests are held in the evenings and on weekends, RICO says it is incurring significant overtime costs. At certain events, attendance has reportedly exceeded capacity, liquor laws are being violated, and security is insufficient to control unruly crowds. Although scientific research on the incidence of

injury in MMA is meager, sufficient evidence exists that MMA events are potentially hazardous to contestants. We concluded therefore that regulation of MMA is warranted to protect contestants from injury and the public from potential harm.

We also concluded that Chapter 440D should be repealed and replaced by a stronger, more effective regulation. The existing chapter creates a curious hybrid that is neither a licensing program nor a true enforcement program. We recommended that House Bill No. 3223, House Draft 1, of the 2006 session be enacted with certain amendments to streamline administration, increase accountability, and improve efficiency. The DCCA generally agreed with our recommendations but deferred comment until it reviewed the legislation to implement the recommendations.

**NOTE:** Subsequent to our analysis, the 2007 legislature enacted a bill that created Chapter 440E, Hawai'i Revised Statutes, to regulate MMA contests. Regulation is done by the director of the DCCA.

# Management Audit of Student Housing Services of the University of Hawai‘i at Mānoa

Report No. 07-03, February 2007

This audit was conducted in response to Senate Concurrent Resolution No. 97 of the 2006 legislative session. The resolution resulted from concerns expressed by legislators and various stakeholders within the University of Hawai‘i at Mānoa (UH Mānoa) regarding the conditions of the student housing facilities, the safety provided to students living in the facilities,

and the overall due process afforded to student residents concerning alleged infractions of the rules of student housing services or the student conduct code. This report addresses the maintenance of student housing, planned acquisition of new housing, and safety and security at the student housing facilities and on campus as a whole. The UH Mānoa Student Housing Services operates and maintains nine residence halls and two apartment complexes which accommodate slightly over 3,000 students. Student Housing Services, according to the Board of Regents’ student affairs policy, should promote independent living, responsibility, community standards, and academic commitment through the operation of adequate, clean, safe and secure, and well-maintained housing for students. We found that conditions in the dormitories and on campus do not meet the Board of Regents’ standards for housing and are not conducive to student academic achievement or individual growth and development.

We found that the university generally spends far less than the industry standard for repair and maintenance. This has resulted in an estimated \$45 million backlog of repairs and maintenance projects. One of the causes of this deficiency is that Student Housing Services does not generate sufficient revenues from the rental income of its dormitories and apartments. Insufficient revenues are partly due to low occupancy, which in turn is caused partially by outmoded, inefficient operations.

The university’s desire to expand student housing by about 2,000 beds was not based on a demonstrated need. The procurement process of the current 814-bed dormitory construction of Frear Hall may have been unduly restrictive and unfair to a large portion of developers and contractors. When the project changed from a “finance, design, build, and possibly manage” to a “design-build” project, the university did not re-solicit proposals thereby potentially excluding capable developers and contractors. By limiting full and open competition the university may have unnecessarily increased the cost of the contract to its present \$71 million.

Lastly, Student Housing Services did not make necessary safety and security improvements to the dormitories and apartments and has not emphasized safety procedures. Moreover, leaders on the Mānoa campus have only recently begun taking action to protect student housing residents from dangers on campus such as criminal acts, accidents, and disasters. Critical work in this area remains to be done.



Hale Lulima exterior damage from water leak.

Our recommendations included that the Board of Regents and the UH system continue with an initiative to use portions of its authorized revenue bonds to upgrade the residence halls and apartments. In order to increase income and cover maintenance costs we recommended that Student Housing Services achieve higher occupancy rates and set higher but affordable residence hall fees.

To improve safety and security we recommended that the university introduce legislation for campus security to be given arrest authority and authority to carry weapons. Moreover, we recommended that the many initiatives started as a result of an Ad Hoc Committee on Campus Security be completed, such as convening a task force to come up with a workable plan for keeping trees and shrubs trimmed and burned-out light bulbs replaced and putting

the finishing touches on the emergency response plan. In response, the university agreed that the neglect and lack of maintenance to its facilities had a negative impact on students. The university disagreed, however, with our conclusions on expansion plans, the procurement process for Frear Hall, and the unsafe conditions on campus.



ABOVE: View from Hale Wainani tower common area.



LEFT: Hale Aloha water damage from internal leak.

# Audit of the Child Support Enforcement Agency (CSEA)

Report No. 07-04, February 2007

This follow-up report to our 2003 study, entitled *Study of the Automated Child Support Enforcement System (KEIKI)*, was done at the request of the Legislature. This audit focused on CSEA's efforts to improve its strategic focus and performance; management controls over human resources and customer services; and information technology. However, our findings relative to human

resources and customer service were limited because a staff auditor's personal independence was impaired. A critical piece necessary for CSEA's improvement, strategic leadership, remains missing. The agency has not yet shed its reactive approach to improving operations in favor of a results-oriented management culture. The agency continues to lack clear direction, lags behind other states in applying technology to increase efficiency, and has not addressed long-standing problems in managing its support payment trust fund. Consequently, existing resources are underused and opportunities missed while the agency lacks the means to account for its achievements. The three-year effort to complete a strategic plan resulted in an incomplete document. The plan lacks benchmarks and performance indicators to monitor progress and provide accountability.

The agency's automated child support enforcement system, KEIKI, lacks a plan to coordinate information technology projects and known systemic problems. Its projects are not tied to measurable goals or outcomes which raise questions on their ultimate impact. Lagging other states in innovation and performance, CSEA can improve by more aggressive use of automation. The agency has historically underperformed in federal incentive measures. Despite its poor performance, CSEA has not taken efforts to systematically analyze the causes and instead discredits the federal performance measurement system.

Finally, we found the agency's ability to properly account for support payments continues to be a problem area. The agency's failure to implement past audit recommendations contributes to its inability to accurately account for a \$3.0 million gap between support payments, held in trust, and the cash available to disburse these payments to the recipients. The agency's longstanding practice of using moneys in trust to cover costs and losses incurred in managing these payments will result in the agency's inability to pay support payments, and may cause an unplanned liability for the State.

Our recommendations regarding the strategic planning process and managing for results include the involvement of CSEA management in the process and the use of measurable goals and outcomes. Other recommendations included development of an information technology plan to support the strategic plan, increased use of technology to improve efficiency and effectiveness, and creation of a system to measure and report the results of technology projects. We also recommended that CSEA have contingency plans that would enable it to continue operations in the event of a major disaster. Finally, with respect to the child support payment trust fund, we recommend that the agency take steps to rectify accounting problems identified in past audits.

## Amendment to Report No. 07-04

### Audit of the Child Support Enforcement Agency (CSEA)

The initial audit report of the Child Support Enforcement Agency was amended on May 14, 2007 to include information previously redacted from the Department of the Attorney General's response. The response was redacted because of our concerns over the privacy interest of a former staff member who violated national auditing standards and office policy while conducting the audit of the CSEA. The former staff member applied for the then-vacant position of administrator of CSEA while he was still a member of the CSEA audit team. However, we were advised by the Office of Information Practices that the public interest in disclosure outweighs the privacy interest of the former staffer. Therefore the report was amended to include the unredacted copy of the attorney general's response as well as OIP Opinion Letter No. 07-08.

# Cost Analysis of Disability Parking Placards

Report No. 07-05, April 2007

Act 269, Session Laws of Hawai'i 2006, required our office to study the actual costs incurred by the counties in issuing removable and temporary windshield placards under the disabled parking placard program. Removable and temporary placards are issued to persons with disabilities as defined in the Hawai'i Revised Statutes, to identify their need for preferential

parking in compliance with the federal Americans with Disabilities Act of 1990. Motor vehicle administrators and county council officials in Maui County complained that the counties have been performing a state function without appropriate funding. The purpose of Act 269 was to determine a reasonable reimbursable cost to the counties for issuing the placards. The Act set a \$12 per placard reimbursement rate and directed our office to conduct this study. We found that in FY2005–06 the counties incurred about \$397,000 in costs to issue 30,176 placards throughout the state. The costs varied by county, ranging from \$11.54 to \$28.33 per placard. The costs were: Honolulu—\$11.54; Hawai'i—\$13.65; Maui \$28.65; Kaua'i—\$12.47. Maui County's figures resulted from its study that assumed only 1,315 productive hours rather than the 2,080 attributed in a conventional work year. Before this study, the Maui County estimated cost per placard was \$11.59 for FY2004–05.

The counties' cost descriptions also varied. They differed as to what items went into the cost and the value assigned to them. Cost elements were not separately tracked and cost breakdowns were consistently at an overview level. An average of 63 percent was

attributed to fringe benefits: 40 percent related to FICA, retirement, workers' compensation, unemployment compensation, and health insurance; and 23 percent related to leave benefits.

We concluded the level of reimbursement set in Act 269 is reasonable. While we could not determine 'actual' costs based on estimates received, we reviewed the rationale for the cost components to determine the State's reasonable participation. We proposed a cost structure to take into account reasonable elements to determine the reasonable rate by the Disability and Communication Access Board. The Disability and Communication Access Board supported our conclusion.

# Sunrise Analysis: Nurse Aides

Report No. 07-06, April 2007

Nurse aides work under the supervision of nurses and medical staff in various healthcare settings. They may also be primary care givers in adult residential care homes. Currently, there are about 8,963 certified nurse aides in Hawai'i. These nurse aides are informally categorized into three groups based on their employment: Group 1—those employed in Medicare or

Medicaid-certified nursing facilities; Group 2—those employed in state-licensed or certified healthcare settings; and Group 3—those who are self-employed, employed in physicians' offices, or whose employers are not Department of Human Services (DHS) or Department of Health (DOH) licensed or certified facilities, such as home care placement agencies. Senate Bill No. 3277, Senate Draft 2, introduced in the 2006 Regular Session proposed regulation of Group 2 only. The Legislature requested the Auditor to analyze this proposal in House Concurrent Resolution No. 73, House Draft 1 of the 2006 session. Federal regulations require certification of nurse aides in Group 1. In 1990, the State established a certification program for nurse aides that the Department of Commerce and Consumer Affairs (DCCA), the lead agency, voluntarily extended to all nurse aides. By 2004 the DCCA attempted to discontinue certification and recertification of Groups 2 and 3, which was met with much opposition.

The Hawai'i Regulatory Licensing Reform Act, Chapter 26H, HRS, provides the criteria for assessing whether the State should regulate professions and occupations. The primary concern is to protect the health, safety, and welfare of consumers. Evidence of abuse and harm must be given great weight. We found evidence of actual and potential harm by the already-regulated Group 1 nurse aides. We also found that other protections do not adequately safeguard

the public. The complaints process only applies to Group 1, which leaves no recourse to consumers who have complaints against nurse aides in Groups 2 and 3.

Section 26H-2, HRS, requires that regulation of an occupation take place only to protect consumers from harm by incompetent practitioners. There were people who proposed regulation by area of employment, which would mean regulating those facilities where there is state oversight. This would mean regulation of Groups 1 and 2. However, those were the very facilities where we found evidence of harm from nurse aides. Not extending regulation to those places where there is no oversight ignores the possibly greater harm posed to consumers by Group 3.

We therefore concluded that all nurse aides should be regulated. Both DCCA and the DHS disagreed with our recommendation, preferring to limit expanded certification to Group 2. However, the State's policies in Section 26H-2 require regulation only to protect consumers from harm by incompetent practitioners. Regulating nurse aides should be no different from regulating nurses, who are licensed on their individual competency and not on their place of employment. The Department of Health agreed with our recommendation.

# Review of Revolving Funds, Trust Funds, and Trust Accounts

of the Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation

Report No. 07-07, October 2007

Section 23-12, Hawai'i 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 for each fund or account, an evaluation of the original intent and purpose of each fund or account, and a determination of the degree to which each fund or account achieves its stated and claimed

purpose. The funds of each state department are to be reviewed once every five years. This is the third review of the funds of the Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation. Revolving funds are often established with an appropriation of seed money from the general fund. They must demonstrate the capacity to be self-sustaining and demonstrate a linkage between benefits sought and charges made upon users, and also be an appropriate financial mechanism for the program. 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. A trust fund must also meet the statutory definition of a trust fund. Trust accounts are typically separate holding or clearing accounts for state agencies. A trust account is often used as an accounting device to credit or charge agencies or projects for payroll or other costs.

Of the 32 funds and accounts we reviewed five were revolving funds, 11 were trust funds, and 16 were trust accounts. We used criteria developed by the Legislature as well as criteria developed by our office to review these funds. The funds continue to serve the

purpose for which they were created and do not require continuing general fund appropriations. For each fund we presented a five-year summary, the purpose of the fund, and conclusions about its use. We did not present any conclusion about the program, its management, or whether the program should be continued.

A draft of this review was transmitted to the departments. The Departments of Public Safety and Taxation were in general agreement in their exit conferences and did not submit responses. The Department of Human Resources Development agreed with our review of its funds. The Department of Labor and Industrial Relations generally agreed with most of our review of its funds. However, the department disagreed that unneeded fund balances be transferred from the Special Fund for Disability Benefits to the general fund. However, we believe the \$8.9 million fund balance is far in excess of the approximately \$62,000 it needs for average annual expenses.



# Systemwide Financial Audit of the University of Hawai'i System: Phase II

Report 07-08, December 2007

The Legislature initiated a systemwide financial audit of the University of Hawai'i through H.C.R. No. 213, 2005 Regular Session, because it was not able to get timely financial information from the university during the 2002 and 2005 legislative sessions. The first phase of the audit focused on the University of Hawai'i at Mānoa and was conducted in Fall 2005. The findings

and recommendations were reported in Systemwide Financial Audit of the University of Hawai'i System: Phase I, Report No. 05-15. This second phase, with our certified public accounting firm of Nishihama & Kishida, CPA's, Inc., reviewed the accounting and use of general and tuition funds, strategic planning, budgeting, and forecasting processes. We found a theme consistent with the first phase—the university struggles to demonstrate accountability. The university's strategic plan has limited value, does not promote accountability, does not provide guidance, and is therefore disjointed. There is no clear link between the various plans and how they support each other. The system goals are admirable but there is no way to objectively measure progress towards these goals.

We further found that the university should improve its budgeting and internal financial reporting. Despite a significant increase in its revenue base, due to the Board of Regents raising tuition in May 2005, the university did not include the increase in its FY2006–07 supplemental budget request until prompted by the Legislature. Certain campuses have developed effective internal financial reporting processes; however the processes were not consistent across campuses.

Finally, we found that certain policies and procedures over tuition deadlines are not clear or enforced. The university should build upon its efforts and continue to improve contract maintenance. The university has modified its contract database but essential information is still missing. Some contract administration functions are decentralized resulting in having approximately \$253,500 tied up in 48 contracts that were completed or expired.

Among our recommendations were that the president of the university reviews all existing strategic plans and ensure future plans contain requisite elements, and that a systematic approach for assessment is developed. Other recommendations were made to the university and its Office of Procurement and Real Property Management.

# Financial Audit of the Department of Human Resources Development

Report No. 07-09, December 2007

This office conducted a financial audit of the Department of Human Resources Development for the fiscal year July 1, 2005 to June 30, 2006, with the certified public accounting firm of Accuity LLP. The audit examined financial records and transactions of the department; the related systems of accounting and internal controls; and tested transactions, systems, and

procedures for compliance with laws and regulations. The financial statements present fairly, in all material respects, the department's financial position of its general fund and Human Resources Development Special Fund as of June 30, 2006. However, the firm was not able to apply auditing procedures to satisfy itself regarding the amounts reported as workers' compensation liability and the related expense in the statement of net assets and statement of activities. The firm disclaimed opining on the workers' compensation and unemployment insurance accounts in the governmental funds.

We found two material weaknesses with respect to the department's internal control over financial reporting and operations. First, accounting personnel and accurate financial reporting are not the department's priority. The department lacks a formal internal financial reporting process, does not produce financial statements, and is not subject to annual financial audits. Collectively these factors contributed to certain account balances being misstated as of June 30, 2006 and leaves external stakeholders with no means to evaluate the department's financial performance.

The second material weakness is that the department has not taken functional ownership of the Workers' Compensation Program. It does not systematically calculate, track, and report the approximately \$29 million in related liabilities. As a result, we found that workers' compensation expenditure and liability balances were significantly misstated as of June 30, 2006.

We recommended that the department train its accounting staff or hire personnel with the experience to perform advanced financial accounting functions. Such functions include preparing financial statements, designing systems of internal controls and financial reporting, providing training to other staff, and reviewing financial reports to identify discrepancies. We also recommended that the department establish formal, written policies and procedures for workers' compensation claims. These policies would include, among other things, guidelines for initial estimates, updates, and reviews of reserves.

## UPDATES ON SPECIAL PROJECTS

### Hawai'i Identity Theft Force Report

December 2007

When the Hawai'i Identity Theft Task Force convened in September 2006, there were daily media reports of breaches and identity theft incidents across the country. Nearly half of the breaches in 2006 and 2007 involved universities and state and local governments. The Legislature's direction to this Task Force, which is the successor to the Anti-Phishing Task Force created in 2005, was to examine a number of areas. The areas included the availability of personal information in government, current government practices in Hawai'i, and trends and practices in other states. The task force was to make recommendations to protect the personal information in state and county government records. With the assistance of a consultant, the 23 member task force surveyed all of the agencies, listened to a number of presentations by state and county agencies, and came to understand that there is a large and growing volume of records over which agencies lack administrative and technical safeguards.

The goal was to develop recommendations that could be implemented in a short time frame and which would provide government agencies with a direction, framework, and tools to secure personal information. These recommendations will reduce the amount of personal information used, require additional safeguards, improve responses to data breaches, and educate employees on protecting data. Our 12 recommendations fall under these broad categories and are discussed in detail in the report. In addition, the Task Force recommends the formation of an Information Privacy and Security Workgroup to develop guidance and best practices to be made available to all agencies.

### Hawai'i 2050 Sustainability Task Force Report



In the 1970s, the State of Hawai'i was one of the pioneers in long-range planning. The visionary Hawai'i State Plan and its related functional plans were among the first planning documents in the nation that provided integrated, far-reaching policies for the economic, social and environmental future of an entire state.

Now, a generation later, the Hawai'i 2050 Sustainability Task Force, per Act 8 of the 2005 Hawai'i State Legislature, was directed to develop a statewide sustainability plan for the 21st century. This two year effort solicited input from citizens throughout the islands at community meetings, from internet communications, and in scientific polling. The outreach was extensive and rigorous. There were three rounds of statewide meetings and two general population surveys. Meetings were held with county planning directors, policy makers, experts, as well as youth, community, business, environmental, business, labor, and other stakeholders and organizations. In total, more than 10,500 people provided input to Hawai'i 2050.

It is the most comprehensive statewide planning process in over three decades. This report is the result of our collective efforts in creating a long-term plan for Hawai'i's sustainable future. The Task Force learned that the overwhelming majority of people in Hawai'i want a balanced approach to our future, where economic, social, and environmental goals are in balance. This "triple bottom line" concept, along with the setting of benchmarks and a means to monitor progress, is the foundation of the Hawai'i 2050 Sustainability Plan.

## Hawai'i Broadband Task Force Initial Report

The 2007 Legislature found that affordable Internet access is an essential element of a long-term strategy to invest in the State's workers, residents, and children. Therefore the Legislature passed Act 2 which established a broadband task force to further the availability, capability, and use of broadband services in Hawai'i. The Task Force's vision statement, based on Act 2, states:

*Hawai'i understands that advanced broadband services are an essential infrastructure for an innovative economy and a knowledge society in the twenty-first century. As a result of proactive policy initiatives, Hawai'i residents and businesses throughout the State have access to advanced broadband services of the caliber and at the pricing available in the leading developed nations of the world.*

This initial report provides a summary of our findings in 2007 and outlines what it plans to do in 2008. Initial data suggests that Hawai'i's gaps in availability do not lag other states. However, the U.S. as a whole is falling behind other advanced nations that support broadband as a national policy. Our challenges of geography further complicate Hawai'i's ability to make broadband widely available. In the next year the task force will explore the issues more thoroughly and provide recommendations to the 2009 Legislature.

Two websites provide information on the task force's activities—progress on its work is at [www.hbtf.org](http://www.hbtf.org) and meeting documents are at [www.state.hi.us/auditor/meetings.htm](http://www.state.hi.us/auditor/meetings.htm). These sites are continually updated.

## Hawai'i School Impact Fee Working Group Report March 2007

In 1995, the Legislature found that new residential development resulted in a need for infrastructure to service the new development. While such obvious elements were roads, water, telephone, and electricity, the needs also include a less obvious element of school facilities. Recognizing that new developments had an impact on school facilities, the state Department of Education had been collecting contributions from the individual developers. These contributions were in the form of cash or real property and were used to expand existing schools or to build new school facilities.

However helpful these contributions were, they were made on a case-by-case basis. Both the Department of Education and the development community desired a more predictable arrangement. These issues came to the forefront during the 2004 and 2005 legislative sessions and led to the passage of Act 246, by the 2005 Legislature. This act established the School Impact Fee Working Group and authorized hiring consultants to update prior studies.

The work of the consultants, Group 70 International, Inc. and Duncan Associates, is part of this Report. They concluded that there are two types of school impact districts that might warrant school impact fees: greenfield areas and non-greenfield areas. Greenfield areas are planned development projects on former agricultural lands that are large enough to need their own schools, from elementary to high schools. Non-greenfield areas are areas with one or more existing school complexes where new development occurs on smaller, scattered sites. The report produced by this Working Group addresses both scenarios and offers draft alternatives for legislative consideration.

## Affected Agency Response to Previous Recommendations

# Management Audit of the Division of Conservation and Resources Enforcement

Report No. 06-01

Recommendations	Affected Agency Response
<p><b>1 The Division of Conservation and Resources Enforcement should:</b></p> <ul style="list-style-type: none"> <li>a. expand its policy manual to fully cover topics pertaining to the protection of natural and cultural resources including developing strategies for achieving higher compliance rates with laws and rules protecting natural and cultural resources; and ensuring leaders address the need for more waterborne patrols throughout the islands;</li> <li>b. translate high-level division-wide goals and objectives into branch expectations. Also, add expectations related to enforcement actions at the branch level and monitor branch performance; and periodically report performance so the enforcement chief can monitor and coach branch chiefs and complete appraisals;</li> <li>c. have branch chiefs translate branch expectations into expectations for field supervisors and individual officers and then monitor, coach subordinates, and complete performance appraisals;</li> <li>d. require branch chiefs and field supervisors to maintain frequent contact with subordinates over the radio and cellular telephone during work shifts and require mandatory responses within specified timeframes; and make surprise visits to the field;</li> </ul>	<p>The division is in the process of developing a natural, cultural and historic resources policy manual. This manual will be available to all DOCARE staff statewide so that all DOCARE staff has access to these policies.</p> <p>The division is currently in the process of developing a strategic plan with the help of a consultant. This strategic planning effort will incorporate recommendations from DLNR administrators and managers as well as DOCARE staff statewide. Performance measures, measures of effectiveness will be formulated during this process.</p> <p>The division is currently in the process of developing a statewide Conservation and Resources Enforcement Program strategic plan with the help of a consultant. Division, branch and individual officer performance expectations will be established in concert with the performance measures identified in the strategic plan.</p> <p>Branch Chiefs and supervisors are in direct contact with each other and subordinates through weekly supervisor meetings, monthly staff meetings and daily review of operations and response to evolving issues.</p>

- e. periodically schedule field supervisors and enforcement officers to work late evening and early morning hours. If staffing becomes available, also schedule personnel to answer hotline calls during off-hours;
- f. seek expertise to help acquire a management information system along with laptop computers or handheld computer devices for use in the field;
- g. fill the training position in the staff development office as soon as possible. Have the trainer develop a comprehensive, structured training program to make sure enforcement officers acquire and sustain the knowledge, skills and abilities required to do their jobs;
- h. revitalize the volunteer program to increase the number of volunteers available on weekends, when many resource violations occur; and include equipment for volunteers as part of the budget process;
- i. develop a policy for the use of shotguns or rifles for patrolling hunting areas, acquire a small number of shotguns or rifles for each branch along with necessary ammunition, and provide training for enforcement officers; and
- j. develop a policy for the use of all-terrain vehicles and dirt bikes to patrol beaches and mountainous areas, acquire a small number of these vehicles for each branch along with the necessary safety gear, and provide training for enforcement officers.

Supervisors currently patrol with subordinates and evening, late night and early morning patrols are routinely scheduled. After hour, weekend and holiday hotline calls are currently answered by a commercial “live answer” answering service.

The division has hired a consultant and is in the process of meeting with staff statewide to review operations, field reporting forms and data collection in order to best select hardware and software for purchase and deployment throughout the division.

The training position has been filled on a permanent full-time basis. This person is in the process of evaluating current training curriculum and compliance with all training requirements.

The division will request additional funds during the fiscal biennium to increase current volunteer officer participation levels statewide.

The existing division’s firearms policy has a special section that focuses on the approved carry and use of rifles and shotguns while on patrol. Rifles have been purchased with funds that were allocated for the fiscal biennium. Additional shotguns will be purchased in July of 2008.

The division has established an all-terrain vehicle use policy, ATV’s have been purchased and officers have been trained to operate the ATV’s.

# Audit of the Department of Human Services' Temporary Assistance for Needy Families Program

Report No. 06-02

Recommendations	Affected Agency Response
<p><b>1</b> The Department of Human Services should commence a strategic planning process immediately to:</p> <ul style="list-style-type: none"> <li>a. define and document the department's priorities, goals, and objectives, and provide relevant, quantified benchmarks, performance measures, and timeframes;</li> <li>b. incorporate stakeholder input;</li> <li>c. ensure that the development of new programs and their budgets conform to the strategic plan;</li> <li>d. provide the public with a clear picture of the department's intent and goals, with a detailed and timely accounting of progress made;</li> </ul>	<p>The Department, in partnership with Blueprint for Change, began the development of a five-year Temporary Assistance for Needy Families (TANF) Strategic Plan in January 2006. The planning process was completed and final Plan was presented to the stakeholders in a public meeting at a TANF Strategic Plan Conference held at Honolulu Country Club on September 6, 2007. Please see Attachment 1–TANF Program: Five Year Strategic Plan. Please see Attachment 2–List of Participants in TANF Five Year Strategic Planning Process.</p> <p>Please see Attachment 1–TANF Program: Five Year Strategic Plan for the details and discussion regarding the Department's priorities, goals, and objectives, and provide relevant, quantified benchmarks, performance measures, and timeframes.</p> <p>Please see Attachment 2 for the List of Participants in the TANF strategic planning process.</p> <p>The detailed TANF Financial Plan for FY 2008-2012 conforms to the provisions and recommendations of the TANF Five Year Strategic Plan.</p> <p>The Plan was developed and finalized with the input of many community stakeholders. The Department reported its progress on the development of TANF Five Year Strategic Plan to the 2007 Legislature via The TANF Expenditure and Strategic Plan Report in accordance with the provisions of Act 302, Session laws of Hawai'i (SLH) 2006, in December 2006 (See Attachment 3). The Department is in the process of finalizing The TANF Expenditure and Strategic Plan Report to the 2008 Legislature. The Department has</p>



- e. improve its contracts for services to ensure that each contract:
1. is properly justified and clearly linked to a documented objective;
  2. provides quantified deliverables or outcomes, which are reported at fixed intervals to the department; and
  3. provides for consequences if the services delivered do not meet the agreed upon criteria; and
- f. enter into contracts or contract extensions that advance established TANF goals and objectives, rather than address funding circumstances.

published the FY 2007–TANF Financial Plan on its website at <http://www.hawaii.gov/dhs/main/reports/LegislativeReports/2007Leg>. The Department is in the process of finalizing the 2008 TANF Expenditure and Strategic Plan Report to the Legislature.

All contracts are properly justified and clearly linked to one or more TANF purposes or objectives. See Goodwill Industries of Hawai'i: Case Management Services for Two Parents and Other Needy Families (Attachment 4); Big Brothers and Big Sisters: Positive Youth Development Services (Attachment 5).

Purpose 1 and 2 contracts already include quantified deliverables or outcomes, which are reported at fixed intervals to the Department. For an example of a performance/outcome based purpose 1 and 2 contracts, see Attachment 4.

The Department has begun the process of incorporating performance outcomes for each of its TANF purpose 3 and 4 contracts as we continue to negotiate new contracts and renegotiate the existing ones. See Attachment 5 for an example of an outcome based purpose 3 contracts.

All contracts include conditions that allow the Department to terminate any contract if the provider is unable to deliver the agreed upon services or fails to achieve the mutually agreed upon performance outcomes. See Attachment 6, Time of Performance.

All contracts or contract extensions are negotiated to advance TANF goals and objective.

# Implications of the Streamlined Sales Tax Agreement for General Excise Tax Revenues

Recommendations	Affected Agency Response
<p>We made no direct recommendations as a result of this report.</p>	<p>Legislative action to implement a streamlined sales tax is ongoing.</p>

# Management Audit of the Hawai'i Youth Correctional Facility

Report No. 06-03

Recommendations	Affected Agency Response
<p><b>1</b> The executive director of the Office of Youth Services must</p> <p>a. Clarify the office and facility's overall missions and ensure that staff understand their roles in carrying out the missions;</p>	<p>The mission of the Hawai'i Youth Correctional Facility (HYCF) has been clarified through Act 33/SLH 2007. At the request of the Office of Youth Services, the Hawai'i State Legislature amended Section 352-2.1, Hawai'i Revised Statutes, to remove references to "incarceration" and "punishment," and replace them with "custody" and "rehabilitation."</p> <p>Changing an institutional culture that has developed over decades will take considerably more time than amending a statute, but we continue to be dedicated to ensuring HYCF becomes a program based on principles of rehabilitation rather than control and punishment.</p>

- b. Clearly state the goals for each component of its continuum of services, particularly the Hawai'i Youth Correctional Facility, so that they all align with the overall mission;
- c. Establish measures of success for each component of the office's continuum, such as reducing recidivism at the Hawai'i Youth Correctional Facility; and

The Office of Youth Services has a well articulated document that clearly defines the goals of each component of the continuum of services, and they do align with the overall mission. This document is shared with public and private agencies, the Hawai'i State Legislature, and distributed to the public as opportunities become available (such as Neighborhood Board meetings, local conferences on youth, and community meetings).

The goals of the Hawai'i Youth Correctional Facility are still being defined through a planning process for staff training. We completed a "storyboard" the second week of December 2007 and will continue to refine our mission, goals, and objectives in the coming months.

The Office of Youth Services requires all its contracted service providers to meet performance measures designed to determine the success of a particular program. In most cases, these performance measures are met or exceeded. If not, OYS staff provides technical assistance to the service provider to improve program outcomes.

We still have a tremendous amount of work in front of us to transform the Hawai'i Youth Correctional Facility to a place that focuses on rehabilitation, but are working diligently towards that goal. Meeting the requirements of the Memorandum of Agreement (MOA) between the US Department of Justice and the State of Hawai'i has put us on the right track.

- d. Scrutinize the need for consultant services and ensure that training provided by and plans created with consultants are implemented, monitored, and enforced at the program level.

To achieve compliance with the provisions of the MOA, we will continue to rely on consultant services in specific areas where the Office of Youth Services does not possess the expertise.

Some consultants are nationally recognized for their expertise in the field of juvenile corrections. Through the federal monitor, the National Commission of Correction Health Care completed an assessment of the HYCF Health Care Services Section, in which we were rated very high, and a staffing analysis to assist in developing an appropriate staffing plan for the facility to have 24/7 nursing coverage. In addition, we have secured the services of the National Juvenile Detention Association (NJDA) to help plan, develop, and implement a training program for direct care staff. NJDA has provided the same service to the Hawai'i juvenile detention facility and has assisted jurisdictions in 48 other states in addressing their training needs.

We do, though, at every opportunity seek local expertise to provide consultant services. The University of Hawai'i guided us through the creation of a new strategic plan for the Program Development Office, Ted Sakai and Associates are assisting with improving our HYCF social workers' morale and identifying training needs, and Leland Chang facilitates the Interdisciplinary Team made up of representatives from each of the three state agencies that provide services to HYCF youth—OYS, Department of Education/Olomana School, and Department of Health/Child and Adolescent Mental Health Division.

All the efforts above are actively being implemented.

**1 The administrator of the Hawai'i Youth Correctional Facility must maintain and systematically ensure that:**

- a. Critical positions are filled with permanent staff;

It has been an on-going challenge to fill our critical positions with qualified permanent personnel. This is the number one priority of the facility. Recent changes in the hiring process should increase the applicant pool for these critical positions. The facility will then use the interview process to fill our vacancies.

The facility has faced challenges with the appointees who have successfully passed the interview and have moved on to the background and physical suitability process. To expedite this process the facility has contracted with the Attorney General's office to give our extensive background checks priority. We also pay for the medical physicals of our appointees so that this does not delay their start date. Historically we will lose 50% to 60% of our YCD appointees on suitability.

- b. Job performance evaluations are conducted annually;

Management will emphasize the importance of the performance evaluation process. We are currently scheduling performance evaluation training for all our supervisors. The timely completion of the performance evaluation of all our staff and management will be given a high priority.

- c. Initial and follow-up training sessions are provided for staff; and

The HYCF is in the process of establishing a much needed training section. The need to provide initial, follow-up and on-going training is a primary need of the facility; only the filling of our critical positions takes priority. Appropriate and relevant training will allow the facility to ensure the protection from harm of our youths as dictated by the DOJ investigations and findings.

- d. The quality assurance program is maintained and program effectiveness is measured. The facility should also develop a management information system to ensure that data on the wards and service providers are collected and evaluated on a quarterly basis.

The facility has instituted a Quality Assurance Team (QAT) comprised of the major stakeholders. This group meets at least three (3) times per month to review the current DOJ Memorandum of Agreement (MOA). It is the goal of this group to bring the facility into substantial compliance of all provisions relating to the DOJ MOA. HYCF is also a Performance Base Standard (PBS) site. This program serves as an additional QA mechanism for the facility. Information regarding the facility is gathered twice a year and compared to other facilities nationwide.

# Financial Audit of the Department of Land and Natural Resources

Report No. 06-04

Recommendations	Affected Agency Response
<p><b>We recommend that the department's management:</b></p> <ul style="list-style-type: none"> <li>• Develop a centralized, comprehensive system to manage and be responsible for the department's federal programs.</li> <li>• Determine whether its accounting policy for federal reimbursements is in compliance with Act 328, SLH 1997.</li> <li>• Obtain written documentation to support its assertion that its programs are budgeted net by the Legislature and that the liability reflected in its financial statements as "Due to State Treasury" do not reflect actual moneys owed to the state general fund.</li> <li>• Prepare journal vouchers to record an interfund reimbursement based on the amount of expenditures posted in the Financial Accounting and Management Information System (FAMIS) at each year end.</li> <li>• Investigate the cause for the deficit in its federal grant fund and implement corrective measures to ensure all allowable costs are properly billed and recorded.</li> <li>• Implement an integrated accounting system to reduce the burden on the department's fiscal staff.</li> </ul>	<p>The department did not provide an update on our recommendations. Instead, the same response to our initial audit, dated June 2, 2006, was resubmitted.</p>

**We recommend that the department:**

- Take immediate steps to improve the accuracy and effectiveness of the department's accounting and financial reporting processes and controls.
- Perform additional oversight and review of the financial statements and supporting schedules to ensure they are in compliance with GAAP and all relevant and required disclosures have been included.
- Perform periodic, supervisory reviews of the work prepared by fiscal staff.
- Perform more extensive testing of the leave record schedules submitted by the divisions.
- Have its internal auditor report directly to the board.
- Perform periodic audits to ensure lease rents are fairly stated.
- Obtain and fill a procurement specialist position to monitor and ensure that compliance with the Hawai'i Public Procurement Code is maintained.

**We recommend that the department's management:**

- Inspect all small boat harbors to ensure they meet applicable safety and construction standards and do not pose a risk to the public or employees.
- Perform a cost-benefit analysis of all condemned piers to determine if potential lost revenues outweigh costs to rebuild.
- Continue efforts to have a new harbor fee structure approved by addressing concerns raised by the public at related hearings, and reevaluate the original assumptions used for the proposed fees to ensure that the revenues generated will be sufficient to fund operating costs as well as necessary repairs and capital improvement projects.

- Consider centralizing the processing of permits and collection of fees to allow for the proper segregation of duties, increase accuracy and efficiency, and reduce the administrative burden of the harbor agents.
- Utilize a rent roll or other similar analysis to monitor the division's performance against budget and verify the reasonableness of fees and charges collected and recorded.

**We recommend that the board and the department:**

- Develop a comprehensive cash management policy and procedures manual that addresses, among other items, basic policies and procedures, required daily reconciliations of transactions to receipts, and procedures on the transmittal and handling of cash.
- Research and evaluate the modification of the current information system to enable system generated receipts to be issued at the point of sale to customers to reduce the risk of errors and improve efficiency.
- Implement a procedure that places responsibility on the divisions for preparing and depositing their own cash to increase the accountability for funds and increase the efficiency of the Administrative Services Office staff.



# Financial Audit of the Department of Public Safety

Report No. 06-05

Recommendations	Affected Agency Response
<p>We recommend the following:</p>	
<p>1 The business office of each facility should immediately reconcile inmate trust accounts to bank balances. Past unrecorded differences should be identified, researched, and disposed of. Each month, the business offices should prepare bank reconciliations to ensure that all reconciling items are identified and disposed of in a timely manner.</p>	<p>The ITA Users' Group, comprising the correctional institutions' business services supervisors and account clerks Statewide, was reconvened in FY 2006 for the purposes of: (a) developing a standardized form of all reconciling items, (b) diagramming workflow, and (c) preparing a detailed FY 2007 calendar of work sessions and milestones for synchronizing the ITA reconciliation process across all eight facilities. The standardized reconciliation form is currently being used at selected facilities in an effort to isolate variables that may contribute to the widely fluctuating balances in each facility's monthly reconciliation, and to facilitate timely write-off or escheatment of funds as appropriate. Upon achieving the foregoing basic objectives and stabilizing ITA reconciliation discrepancies, the Department will be better equipped to evaluate organizational and staffing alternatives.</p>
<p>2 The department should reiterate the importance of the escheatment process to appropriate facility personnel. The department should adhere to established policies requiring each facility to identify inmate accounts outstanding over one year and remit those account balances to the Department of Budget and Finance. Further, the Hālawā Correctional Facility should investigate and determine the disposition of the "unknown" named inmate accounts.</p>	<p>PSD, through its Inmate Trust Accounting Users' Group, have conducted training sessions for appropriate facility personnel to reiterate the importance of the escheatment process. PSD continues its efforts to reduce the number of inactive and "unknown" inmate accounts.</p>
<p>3 Business office personnel should be made aware of and adhere to policies and procedures pertaining to suspense accounts. Advances to inmates should be made only for allowable costs.</p>	<p>The correctional institutions will be reminded by memorandum of allowable expenditures for which institutional funds may be advanced to inmates without sufficient funds, through the establishment of suspense accounts.</p>

4 The department should develop and implement policies and procedures over inactive suspense accounts. Policies and procedures should address the monitoring and collection of inactive suspense accounts and, if necessary, the disposition of uncollectible accounts.

Policies and procedures will be developed for inmate suspense accounts, which will address the monitoring and collection of inactive suspense accounts, and the disposition of uncollectible accounts.

5 The department should advise each facility to revise its procedures as they pertain to the inmate fund transfers between facilities for relocated inmates to comply with departmental policy requiring that those funds be transferred within 48 hours from inmates' transfer dates.

Transactions in the ITA system are posted electronically, making funds immediately available for an inmate's use upon transfer to another facility. The facilities will be advised to comply with Departmental policy by processing inmate fund transfers within 48 hours after an inmate's transfer date.

6 Inmates within the work program should be allowed to review and authorize their timesheets for hours worked. The department should also enforce consistent timesheet policies and procedures among the various facilities and work line divisions.

Currently, supervisors of the inmate worklines are responsible for the accounting of each assigned inmate worker's hours daily, and for totaling all hours monthly. Inmates may review their payroll records at any time by request to the workline supervisor, and may request a monthly statement of the number of hours worked and total pay.

**We recommend that the department consider the following:**

**1 Overtime**

a. Establish more specific criteria for determining when overtime is necessary.

Exhibit 2.2 of the draft audit report compares total overtime costs to total payroll costs by facility over a three-year period, FY 2003—FY 2005. To note, the comparison of "total" overtime costs with total payroll costs implies that the Department has control over "holiday" overtime (HOT) costs, which it does not. Because PSD has no discretion over HOT costs, a valid comparison can be made only between "ordinary" overtime pay (total overtime pay less holiday overtime pay) and total payroll. The following factors are used to determine when overtime is necessary.

- a. Factors affecting the number of employees available to work on any given shift. As previously discussed in the Department's May 1, 2002 response to the draft Report No. 02-10, Financial Audit of the Department of Public Safety, we implemented new reporting systems in 1999 that were designed to improve accountability among managers. One of the goals was to institute controls on overtime costs.
- b. Need for unforeseen (unbudgeted) temporary security posts. The second group of factors concerns the number of posts that must be filled over and above the regular posts on the established schedule. These special duty posts are unforeseen temporary requirements that often arise after a shift has begun. For example, an inmate may be placed on suicide watch, requiring one-on-one supervision by an ACO. In addition, facilities are sometimes required to establish additional unbudgeted posts to meet operational security and population needs.

PSD was authorized additional ACO positions for FY 2008 by the 2007 Legislation. This measure assists in addressing the overtime issue.

- c. Gender-specific posts. For some facilities, particularly WCCC, controlling overtime costs presents a special challenge. Historically, WCCC has had difficulty filling its high number of gender-specific posts, as do other facilities with gender-specific posts; i.e., posts that can be staffed only by female officers. If a gender-specific post is not staffed due to the absence of a designated ACO, we must identify another female ACO to fill the vacant post, even if that female ACO must be compensated on an overtime basis, and even if there is a male ACO available at regular pay.

- b. Focus efforts on preventing overtime costs by identifying watches consistently incurring unusual overtime costs and requiring that overtime for those watches be authorized by the chief of security or the warden prior to calling in ACOs to work overtime.

- d. Need for inmate transport by ACOs to court, and safeguarding in court. On the Big Island, the HCCC transports inmates from its Hilo facility to distant courts in Kona, Waimea, Puna, and Ka'u involving 200-mile or longer roundtrips, as well as within the Hilo area, with a minimum of two ACO escorts. PSD was authorized additional Deputy Sheriffs for FY 2008 by the 2007 Legislation. This measure assists in addressing the overtime issue.
- e. Inadequate Shift Relief Factor (SRF) since 1992. The Department maintains that its Shift Relief Factor (SRF) of 1.65 does not provide sufficient staffing to sustain current security operations. The Auditor's Office maintains "that the reliability of the data supporting the revised factor and base remained ineffectual." PSD has begun the process to reexamine current data and provide adequate support for calculation of an appropriate SRF.

Prior to the December 1999 implementation of current work schedules, the Department did examine a structured closure of posts to minimize overtime work. However, we found that such structured closure did not meet the facilities' daily operational needs. Depending on security or program situations and circumstances, as well as staffing, the Warden required flexibility to operate the facility. As a result, the structured closure of posts was suspended, and the containment of overtime costs left to the discretion of the Warden, through the Chief of Security and Watch Commanders. The nature of 24/7 correctional operations, and the need to immediately address any security gaps, results in after-the-fact reviews by the Chief of Security and Warden of overtime work assignments made by the Watch Commander. In this regard, the Department will continue to hold managers and employees accountable, and suspected abuse is subject to investigation and disciplinary action.



- f. Ensure that ACOs review and authorize timesheets completed by the time and attendance clerks.

PSD's new time and attendance system has effectively demonstrated that ACO review and certification of the Form D55 is unnecessary. However, ACOs may still review and sign D55s, provided that they remit the signed forms to the TAU clerks within 24 hours of the mechanical production of the form. The centralized, semi-automated production of such payroll forms has curbed salary overpayments, minimized manual computation errors, resulted in the timely payment of employee compensation within a 45-day period, and facilitated the alignment of budgets allotments with expenditures. The centralized process also minimizes the possibility of ACOs queuing to review and sign timesheets on an overtime basis following conclusion of the shift, since they cannot abandon their security posts until relieved by the succeeding shift. PSD will review and update policies and procedures to be consistent and appropriate.

- g. Revise polices and procedures, consistent with state rules, so that employees claim overtime hours and are compensated within 45 days after the overtime work is performed.

## 2 Sick Leave Abuse

- a. Work with the bargaining units to implement a more stringent policy for determining unusual patterns of sick leave abuse subject to investigation. This could be accomplished by reducing the number of required occurrences of sick leave abuse indicators, terminating the policy of considering each type of pattern separately, and/or extending the review period for determining when an investigation into sick leave abuse is warranted.

The time and attendance (T&A) program represents work in progress for the Department in concert with the labor unions for seven CBA5. Based on the favorable results thus far, we will expand the project in FY 2008 to include PSD's O'ahu correctional facilities, Statewide law enforcement programs, and central administration offices. The new T&A program is expected to provide sufficient internal controls to eliminate the problems cited in the audit report.

- b. Implement more reasonable and realistic deadlines for facilities, depending on the number of its employees, to complete sick leave abuse programs.

PSD developed the Patterns program and took it to labor negotiations in 1993, resulting in the United Public Workers' (UPW) support of PSD's implementation in 1995: Assisted by the Office of Collective Bargaining (OCB), PSD also negotiated and implemented a timely investigation process and standardized disciplinary action. Following the successful program implementation in 1996, PSD has assisted other State and county agencies in implementing similar programs by training managers and supervisors, advising administrators, and the like.

In November 2007, PSD has come to agreement with UPW on a policy that addresses chronic sick leave abuse. PSD will review the process and deadlines for facilities to complete sick leave abuse program reviews and implement as determined to be appropriate.

- c. Automate the employee leave record process to facilitate the detection of sick leave abuse patterns.

Although the DPS Form 7, Leave Record, is a Statewide document for which there is no mechanized processing, PSD will review options to automate all processes. PSD's implementation of its very basic, semi-automated Time and Attendance system that began in Summer 2005 should: (a) decrease human error, (b) improve mathematical accuracy, (c) force timely submission of payroll claims for compensation other than base pay, and (d) promote more consistent application of collective bargaining agreements for seven bargaining units.

**We recommend that the department:**

- 1 Continue to perform required audits of salary overpayments in a timely manner and in compliance with laws and regulations

Audits continue to be performed comparing actual payments against time and attendance records, comparing actual payments against payments based on personnel transactions as well as time and attendance data, auditing sign-in/sign-out logs, and computation of pay adjustments. As of July 31, 2007, 65 overpayment cases remain active, representing a total overpayment of approximately \$204,000. PSD continues to track and settle salary overpayment cases.

2 Reduce the backlog of pending audits by setting departmental goals as to the number of audits and hearings to be performed each month.

Execution of PSD’s plan to reduce the backlog of pending audits is on going. PSD’s scheme to reduce the backlog will depend upon the availability of payroll and vouchering staff to perform overtime work necessary to research historical manual payroll registers.

3 Take action to correct discrepancies between provisions of the collective bargaining agreement and state statute in order to improve delays in scheduling hearing dates.

PSD shall endeavor to take a proposal to negotiations with the union, for the purpose of eliminating the conflict between the statutory 15-day window provided by Hawai‘i Revised Statutes (HRS) §78-12 for the union to inform PSD of a salary overpayment dispute, and the 30-day period stipulated in the Bargaining Unit 10 agreement.

4 Consider contracting out the salary collection process on a contingent basis in order to expedite the process and reduce the amount of uncollectible payments.

The statutory revision, combined with a focus on writing off uncollectible accounts as approved by the Department of the Attorney General (ATG), has allowed PSD to reduce its salary overpayments. PSD disagrees with the audit recommendation to contract the services of a collection agency on a contingent basis, given the aggressive and successful recovery efforts of the ATG in long-outstanding salary overpayment (excluding bankruptcy) cases that were previously written off.

**We recommend that the department:**

1 Adhere to the documentation requirements of the state procurement code pertaining to small purchases.

A Department-wide reminder was issued on the need for compliance with the small purchases requirements of PSD procedures, HRS §103D-305, and HAR Chapter 3-122. Compliance will be monitored by centralized preaudit review of delegated purchases.

2 Instruct the facilities to accurately conduct annual physical inventory and to reconcile annual physical inventory to the State’s capital asset inventory listing in order to identify any discrepancies.

DAGS Public Works Division makes expenditures for capital assets involving buildings and improvements on behalf of PSD, and is therefore the custodian of the information. PSD will work with DAGS Public Works staff to ensure timely transmittal to PSD of all data that would identify capital asset valuations including work in progress. Upon receipt, PSD will distribute the data to the facilities to conduct an annual physical inventory and reconciliation.



# Management Audit of Kailua High School

Report No. 06-06

Recommendations	Affected Agency Response
<p>1 Kailua High School's principal and the School Leadership Committee should:</p> <p>a. Consistently follow through with implementing educational practices and principles espoused by the High Schools That Work program and other school reform efforts.</p>	<p>Kailua High school's improvement efforts center on student learning and the accomplishment of three major goals: Goal 1) Improve student achievement through Standards-Based Education; Goal 2) Provide comprehensive support for all students; and Goal 3) Continuously improve performance and quality. During school years 2006–2007 and 2007–2008 the school focused on planning and implementing structures and programs which enable and expand the school's capacity to effectively implement the key practices of High Schools That Work and other research-based strategies that have been successful in high performing schools. Major initiatives include:</p> <p>1) Implementing a combination block and alternating bell schedule, which allows students to earn up to 8 credits a year; to take preparatory courses to improve student proficiency in the areas of language arts (reading) and mathematics; to take higher level math and science courses; and to complete recommended High Schools That Work academic core along with an academic and/or career/ technology concentration.</p>

b. Ensure that its improvement process includes:

- 1 Establishing desired performance levels based on best practices or peer benchmarks for all critical functions on campus in addition to those directly related to improving student outcomes. Identify performance gaps and set improvement goals.
- 2 Designing specific steps or actions needed to meet the improvement goals.

- 2) Focusing on the classroom to improve curriculum, instruction and assessment of student performance.
- 3) Personalizing student support through Personal Transition Plan/Leadership and AVID courses to assist in transitions from intermediate to high school, and secondary to post-secondary education and/or employment.
- 4) Increasing parent involvement in developing and monitoring their child’s course of study and progress.
- 5) Cultivating a professional learning community through a collective focus on student learning, collaborative teams, and shared leadership.

Kailua High School utilizes Hawai‘i Content and Performance Standards and Benchmarks to establish desired academic performance levels. The HSTW performance indicators serve as guides to program development as well as an additional measure of success.

We utilize classroom, department and school-wide data to determine the current situation, assess progress and identify targets for improvement.

- 3 Developing measures capable of showing incremental progress for use in day-to-day management as well as accounting to stakeholders, including the school community council.
- 4 Considering development of a report card-type report on Kailua High School's progress on school reform for posting on the school website.

The school utilizes teacher-prepared assessments; quarterly assessments in reading and math; and quarterly/semester grades to show incremental progress during the school year. The Hawai'i State Assessment, High Schools That Work biennial assessment (National Assessment of Educational Progress), the School Quality Survey, self-study surveys, retention rates, graduation rates, attendance and discipline data are utilized to monitor and evaluate progress over time. Kailua High School continues to work toward improvement in developing and implementing rigorous and relevant curriculum, maintaining student engagement and motivation in learning, and helping students to believe in their human potential and capabilities.

School reform is a complex, multi-faceted and continuous improvement process. A report card-type report, while easier reading for website browsers, may result in oversimplification of the complexities of school improvement. Comprehensive reviews of progress are currently conducted through site team visitations by the Western Association of Schools and Colleges (WASC) during the accreditation process and High Schools That Work Technical Site Visitations. These reviews relate directly to the school's progress on improving student learning and offer specific recommendations on future directions.

## 2 Kailua High School's principal should:

- a. Ensure that the school's financial administration is guided by sound business practices and follows established and recommended procedures.

The school continues to follow and implement established Department fiscal policies and procedures to the extent that is possible. However, sufficient resources are not available to adequately address the problems of workload and separation of functions in the area of administrative support services.

- b. Establish a process to ensure proper stewardship of donations and oversight of fundraising activities.
  
- c. Safeguard moneys collected by depositing, expending, and accounting for these funds according to departmental policies and procedures.
  
- d. Improve controls to compensate for the inadequate separation of duties over non-appropriated local school funds, as required by the department's policies and procedures.
  
- e. Update the job descriptions of the school administrative staff to reflect their actual tasks and responsibilities.
  
- f. Make inventory a school-wide priority from the top down. The principal should take the lead in ensuring proper accounting of the school's assets.

Administration reviews the implementation of processes and procedures that have been established for donations, gifts and grants to the school and fundraising activities to ensure compliance with department requirements.

Annual training at the beginning of the school for account holders is conducted to review departmental policies and procedures for safeguarding, depositing and expending money that is collected. Monitoring of compliance with requirements occurs during and after sale or collection periods.

Staff was reassigned to provide adequate separation of duties.

Reviews and updating of position descriptions occur annually and/or prior to the posting of vacant positions.

Revised inventory procedures were adopted to ensure that all purchases subsequent to 2003 are on inventory and to improve the system of accounting for the school's assets.

Challenges facing the school in implementing an effective inventorying system and an accurate accounting of school assets include:

- Increasing personnel to implement and maintain the school inventory;
- Designing and implementing a data-base and system for department, classroom and program inventory on the school's shared server that can be linked to the DOE/School inventory; that is user friendly; and designed to accommodate the reassignments and transfers that occur each term.

- g. Compile an accurate list of the school's assets. Report what the school currently has and remove equipment not accounted for from the school's inventory listing. Past practices make it impossible to track equipment that has already been disposed.
- h. Adopt, implement, and enforce management controls regarding procurement that ensure consistent and systematic compliance with the Hawai'i Public Procurement Code, the administrative rules, and the department's policies and procedures.

School personnel continue to work on updating the inventory for assets. Administration will continue to monitor progress on the updating of the inventory.

The principal continues to require compliance with the procurement code, Department of Education policies and procedures related to procurement of goods and services.

The school supports the Department of Education's plan to request for exemption to the procurement code for bus transportation for athletics.

### 3 Kailua High School's athletic director should:

- a. Give more emphasis to sports with low participation.
- b. Establish a system to make sure coaching candidates' backgrounds are checked promptly—ideally before they begin coaching.
- c. Establish a system to make sure coaches get the required and recommended training.

The athletic director and coaches continue to promote student participation in sports through announcements in the school's morning bulletin and through Surfline articles. Students are encouraged to participate in the athletic programs as well as other co-curricular activities. Student participation is determined by student interest. For those students who are not interested in competitive sports, the school offers an array of courses, including physical education, team sports and recreational leadership that promote physical fitness and healthy lifestyles. It is also noted that the revenues generated from football benefit the school and students, as the funds are used to help defray expenses for other sports in the athletic program.

The school has developed and implemented a personnel log which is used to track the status of individuals in the hiring process, employee background checks, and completion of required training.



#### 4 Kailua High School's School Community Council should:

- a. Recruit members with the ability or knowledge needed to establish an effective process to monitor the school's commitment to and effectiveness in meeting its goals. The process should include identifying data and reports needed to monitor the school's use of best practices and their effect on student progress.
  
- b. Serve as a conduit for community input to long-term strategic planning for the school's future as a learning community.

We actively recruit interested and knowledgeable people, who have a vested interest in the school, to seek nomination and election to the Council. Nominations are solicited through parent newsletters, announcements and community meetings. Our School Community Council composition conforms to the law.

The Council utilizes the school's Monitoring and Evaluating Progress Report to verify student progress in the implementation of the annual Academic plan and the development of plans for subsequent years.

The Council participates in the development of the school's three year Strategic Plan. We also discuss other issues of the community, which impact Kailua High School, such as expanding the school to grades 7–12 to meet student needs and facilities redesign and improvements to provide access to specialized programs.

#### 5 The Board and Department of Education should:

- a. Ensure that appropriate expertise and oversight is available at the complex level to support, and if necessary, guide school leadership in initiating the envisioned structural revisions to school management.

The Complex Area Superintendent (CAS) and her Complex Area Team, as well as the various State Offices, provides support to the School in the areas of educational leadership and professional development. The Department received funding for 15 Complex Area Business Manager positions to assist the CASs and schools in fiscal matters. Recruitment for these positions is currently underway. The Board of Education (BOE) and the Department continue to monitor and provide oversight of the Complex Areas and Schools.

- b. Ensure that Act 51 implementation is focused on providing schools the autonomy needed to fulfill Act 51 accountability expectations. For example, programmatic spending restrictions may need to be relaxed where schools face funding losses. Further, schools should be given control over the funds for repair and maintenance projects so private sector contractors can be used when departmental services fail to provide, for example, competitively priced, timely, and quality services.

The Department and the Complex Area Superintendent and Team continue to provide support to the School and School Community Council (SCC) on development and implementation of the School Strategic Plan and the Academic/Financial Plan. The Department received funding for 15 Complex Area Business Manager positions to assist the CAS and schools in fiscal matters to ensure transparency and accountability. Recruitment for these positions is currently underway. The Department's Facilities Maintenance Branch handles all the repairs and maintenance. This centralized structure streamlines the tasks in an organized manner, with an efficient perspective of prioritizing the Departments needs. The BOE and the Department continue to monitor and provide oversight of the Complex Areas and Schools, including repairs and maintenance.

## 6 The Department of Education should:

- a. Ensure that administrative staff receive the training necessary to develop and build the knowledge, skills, and abilities needed to perform their jobs proficiently and in compliance with statutes, rules, and departmental policies and procedures.
- b. Review its inventory procedures to search for opportunities to lessen the administrative burden of maintaining the school inventory listing and consider alternatives for maintaining proper stewardship, such as informal stewardship listings.

The Department offers in-service training on a trimester basis for its SASAs, Account Clerks, and other fiscal personnel. As per the superintendent's directive, the training sessions are mandatory. The Department is working with the HSOSA to determine future on-the-job training requirements and opportunities. The Department provides principal training sessions as well as training for the office staff.

The Department is looking into several solutions to address the inventory procedures. The Department continues to evaluate short-term reporting requirements and upgrades, as well as planning for the potential replacement of FMS system within 3–5 years.



- 7 The Department of Education should:
- a. Have the Athletics Office establish student-athlete participation goals.
  - b. Have the Athletics Office issue guidance explaining how the system for allocating coaching positions can be more flexible and more closely suit the needs of a school.

Student-athletic participation goals are already in place and aligned with the Hawai'i Contents & Performance Standards.

The schools are already given the flexibility to move positions to maximize coverage within their programs, as long as they don't exceed their allocated amounts.

## Office of the Auditor Appropriations and Expenditures on a Budgetary Basis for the Fiscal Year Ended June 30, 2007

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### Appropriations

Act 1, SLH 2006 (operations)	2,675,055.00
Act 1, SLH 2006 (special studies)	150,000.00
Act 1, SLH 2006 (Audit Revolving Fund)	1,500,000.00
Act 8, SSLH 2005 (Hawai'i 2050 Sustainability Plan)	75,000.00
Act 8, SSLH 2005 (Hawai'i 2050 Task Force)	25,000.00
Act 211, SSLH 2006 (Activities of the Hawai'i 2050 Task Force)	650,000.00
Act 211, SSLH 2006 (Assessment of Establishing "Hawai'i" as a Brand Name)	50,000.00
Act 140, SSLH 2006 (Research and Support Services to the Identify Theft Task Force)	50,000.00
Act 315, SLH 2006 (School Impact Fee Working Group)	25,000.00
	\$5,200,055.00

### Expenditures

Staff salaries	1,344,253.00
Contractual services (operational)	459,274.00
Other expenses	171,402.00
Special studies	-
Contractual services (Audit Revolving Fund)	1,337,829.61
Hawai'i 2050 Sustainability Plan	75,000.00
Hawai'i 2050 Task Force	666,471.62
Establishing "Hawai'i" as a Brand Name	49,737.00
Identify Theft Task Force	46,570.05
School Impact Fee Working Group	21,220.74
	\$4,171,758.02

### Excess of Appropriation Over Expenditures

Act 1, SLH 2006 (operations)	700,126.00
Act 1, SLH 2006 (special studies)	150,000.00
Act 1, SLH 2006 (Audit Revolving Fund)	162,170.39
Act 8, SSLH 2005 (Hawai'i 2050 Sustainability Plan)	-
Act 8, SSLH 2005 (Hawai'i 2050 Task Force) and Act 211, SSLH 2006 (Activities of the Hawai'i 2050 Task Force)	8,528.38
Act 211, SSLH 2006 (Assessment of Establishing "Hawai'i" as a Brand Name)	263.00
Act 140, SSLH 2006 (Research and Support Services to the Identify Theft Task Force)	3,429.95
Act 315, SLH 2006 (School Impact Fee Working Group)	3,779.26
	\$1,028,296.98

# The Office of the Auditor

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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, trust, and revolving funds** determine if proposals to establish these funds meet legislative criteria.
7. **Analyses of existing trust and revolving funds** determine if such funds meet legislative and financial criteria.
8. **Procurement reports** include studies and audits relating to the State's procurement of goods, services, and construction.
9. **Special studies** respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

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