

STATE OF HAWAII  
*Office of the Auditor*

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## 2012 ANNUAL REPORT

Jan K. Yamane  
*Acting State Auditor*

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STATE OF HAWAII  
*Office of the Auditor*

The Honorable Members of the Legislature  
The Honorable Neil Abercrombie, Governor

February 18, 2013



Mission of the  
Office of the Auditor

The Office strives to ensure government accountability for policies, programs, and use of public funds through postaudits of accounts, programs, and performance of public agencies. The office reports its findings and recommendations to policymakers to provide timely, accurate, and objective information for decisionmaking.

Ladies and Gentlemen:

I am pleased to present this Annual Report, which highlights the efforts of the Office of the State Auditor in 2012. This report, and the audits and special studies it summarizes, address many of the major issues facing state government.

This is the first legislative session in 40 years that the office is without the services of Marion Higa, who retired at the end of last year. We knew this day would come, but how do you prepare for the departure of someone of her experience, expertise, and stature? It's not easy. Every day, we are learning how integral she was to the day-to-day operations of the office. However, Marion taught us all well and I assure you that we are carrying on her legacy—demanding excellence from ourselves and each other.

Sincerely,

Jan K. Yamane  
*Acting State Auditor*

# Life after Marion

Jan K. Yamane, Acting State Auditor

**Recently, one of my staff asked me** what I will miss most about working for our former boss, Marion Higa. “Her pancakes,” I said without hesitation. “She made great pancakes.”

You might find my answer as surprising and unlikely as my staffer did, so let me explain: Every year, during our busy periods, when much of the staff are holed-up in their offices drafting various audit reports on deadline, Marion would disappear into our break room and somehow conjure up a fabulous treat for us. I know I can speak for everyone when I say that although brief, these spontaneous gatherings were a welcome respite from some of the more grueling aspects of our work.

Last year, Marion laid out a spread of strawberries and cream—fist-size strawberries and other pieces of fruit along with bowls of whipped cream, brown sugar and other condiments for dipping. Another year, to everyone’s delight and amazement, she set up a chocolate fountain. Then, of course, there was the time she single-handedly prepared a full pancake breakfast.

While the food was certainly delicious, what I found particularly impressive about pancake day was Marion herself. There she was frying breakfast meats, flipping pancakes and serving us all without dropping a single Portuguese sausage or spilling a drop of batter.

Even Julia Child and Martha Stewart mess up occasionally. Moreover, Marion did all the preparation and cooking in full business attire, without breaking a sweat and nary a hair out of place.

But that’s Marion. She is always unflappable, making things look easy—whether flipping pancakes or assessing the minutiae of a management or financial audit. But things aren’t always easy, even for Marion.

Her competence and confidence are the direct byproducts of careful and thorough preparation. In the audit world that means many hours of research, analysis, review, checking and double checking. In other words, Marion does her homework and, like a good teacher, she demanded that her staff do the same.

Marion joined the Office of the State Auditor as an assistant analyst in 1971. She had wanted to be a teacher and had earlier applied for a position with the state Department of Education. But there were no openings at the time, so Marion thought that she might learn about government for a year or two, something she could teach her students someday. Eventually, teaching positions did become available, but Marion didn’t move on. Instead, she worked her way up through the organization, holding every audit

staff position in the office. In 1992, she was appointed State Auditor by a unanimous vote of both houses of the Hawai‘i State Legislature. The rest, as they say, is history.



Photo credit: Scott Kubo

**In other words,  
Marion does her  
homework and, like  
a good teacher, she  
demanded that her  
staff do the same.**

**I don't have enough space** to list all the accolades Marion has received from government auditing and accounting organizations on the mainland and in Hawai'i. I will say that here in the islands her name has become synonymous with good government—thorough research, careful analysis, and objective reporting. In other words, hard work.

“We tell it like it is,” she always said of our work in her typical, understated Marion way.

This is the first legislative session in four decades that the Office of the State Auditor will be without the services of Marion Higa. We all knew that she would retire someday, so none of this should have been a surprise. But no amount of planning could have prepared us for the departure of someone of her experience, expertise, and stature. Every day we appreciate a little more just how important she was to the day-to-day operation of the office. Although we are conducting “business as usual,” I can assure you that we aren't resting on our laurels. We continue to demand excellence from ourselves and each other.

**This is the first legislative session in four decades that the Office of the State Auditor will be without the services of Marion Higa.**

I am honored and humbled to serve as Acting State Auditor. This is my tenth year with the office. Prior to working here, I served in a variety of capacities, including acting as the licensing administrator at

the Department of Commerce and Consumer Affairs for ten years. I am a licensed attorney and received my J.D. from the William S. Richardson School of Law. I also have an M.B.A. from Hawai'i Pacific University and a master's in Regional Studies—East Asia from Harvard University. It's a varied resume and skill set, and I will continue to provide an

additional perspective to the office as we move forward. Admittedly, I don't have the wealth of experience that Marion had in state government and auditing. Never will. But having served as her deputy for the past six years, I've had the unique opportunity to see all the effort and care that went into her “effortless” work.

Now, if I can only figure out how she was able to

make all those pancakes by herself!



**Family Time:** Marion expects to spend much of her free time with her family. (Clockwise from bottom): Danny (grandson); Jason (son); Lexi (granddaughter); Allison (daughter), and Greg (son-in-law).

## Staff of the Office of the Auditor

### Acting State Auditor

Jan K. Yamane

### Human Resources Manager and Assistant Counsel

Kathleen Racuya-Markrich

### Assistant Auditors

Rachel Hibbard

Ron Rawls

### IT Coordinator

Russell Wong

### Assistant IT Coordinator

Jan Kaya

### Editor

David Choo

### Senior Analyst

Jerry Wong

### Analysts

Melissa Fuse

Sean Hao

Adelyne Hayamoto

Roy Kawamoto

Norman Lee

Jayna Oshiro

Danny Vasconcellos, Jr.

Greg Wiles

Stephen Wilson

Stewart Yerton

### Associate Analysts

Lauren Endo

Stan Kubota

Greg Matsumoto

Trevor Tamashiro

### Office Services

Debbie M.A. Higa

Pat Mukai

Leanda Santos

*The office also performed 59 quick reviews of proposed special and revolving funds, and administered 24 financial statement audits, including the State's Comprehensive Annual Financial Report.*

## Reports Published in 2012

*Report on the Implementation of State Auditor's 2008 Recommendations, Report No. 12-01*

*Investigation of the Stadium Authority's Swap Meet Operations, Report No.12-02*

*Management Audit of the Natural Energy Laboratory of Hawai'i, Report No.12-03*

*2011 Annual Report*

*Study of the Transfer of Non-General Funds to the General Fund, Report No.12-04*

*Audit of the Department of Taxation's Administrative Oversight of High-Technology Business Investment and Research Activities Tax Credits, Report No.12-05*

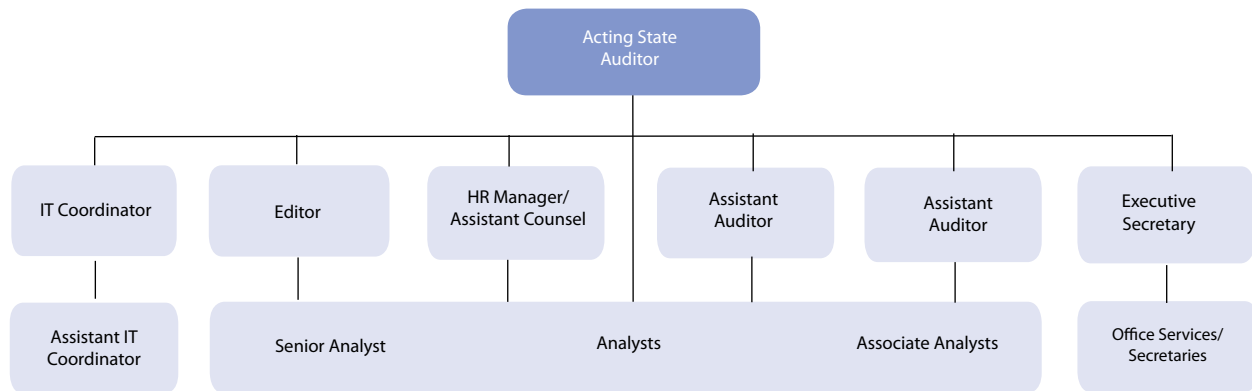
*Report on the Implementation of State Auditor's 2009 Recommendations, Report No.12-06*

*Management Audit of the Department of Education's School Bus Transportation Services, Report No.12-07*

*Sunrise Analysis: Regulation of Ziplines and Canopy Tours, Report No.12-08*

*Mandatory Health Insurance Coverage for Fertility Preservation Procedures for People of Reproductive Age Diagnosed with Cancer, Report No.12-09*

## Organization of the Office of the Auditor



## 2012 Summary of Reports

# Report on the Implementation of State Auditor's 2008 Recommendations

Report No. 12-01, February 2012

*To ensure agency accountability over audit recommendations, the 2008 Legislature amended the Auditor's governing statute to require follow-up reporting on recommendations made in various audit reports. The purpose of this change was to apprise the Legislature of recommendations not implemented by audited agencies. Section 23-7.5, Hawai'i Revised Statutes, now requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited agency.*

The review focused on the departments' implementation of audit recommendations made in five reports in calendar year 2008. We conducted interviews with department personnel, board members, and various advisory board/counsels, as applicable. We reviewed pertinent policies and procedures, reports, and other documents to assess management's claims regarding audit implementations. We conducted site visits to observe processes in place.

## ***Management Audit of the Department of Education's Hawaiian Studies Program, Report No. 08-02***

In our 2008 audit, we found that the role of the Hawaiian Studies Program, especially its kūpuna component, had not been clearly defined and was in need of reevaluation. Lacking accountability for the program's intended outcomes, the Department of Education was unable to show evidence of its effectiveness. In addition, vague guidelines and weak oversight over the schools that receive the bulk of the Hawaiian Studies funds had allowed resources intended to employ kūpuna to be diverted to purposes with little or no connection to a Hawaiian education.

Since our audit, there had been varied success in implementing the recommendations for the Hawaiian Studies Program. The Board of Education amended Board Policy 2104, its policy governing the program, which thereby addressed the leadership issues that we uncovered. However, the recommendations at the department and program levels remained open, with little progress made. Most notably, the past issue of tightening controls over the use of Hawaiian Studies

Program funds still remained. We determined that eight out of 23 recommendations were implemented.

## ***Financial and Management Audit of the Moloka'i Irrigation System, Report No. 08-03***

The Moloka'i Irrigation System transports approximately 1.4 billion gallons of water annually from the eastern end of Moloka'i to the central farming areas. The system consists of collection dams and deep wells; a transmission tunnel, pipes, and flume; a reservoir; and distribution pipes to customers.

In Report No. 08-03, we found that while it inherited a broken system, the Department of Agriculture had done little to learn about system problems or to create a plan to address them. Among the many problems we found was a lack of procedures over maintenance and a lack of appropriate tools and equipment contributed to the decline of an already broken system.

Beginning in August 2007, the department began making headway to foster a positive relationship with MIS users by way of "road map" meetings. Additionally, the department implemented a number of recommendations that were made in our report. Some examples include formalizing procedures over operations and maintenance, acquiring needed materials and supplies, evaluating large-scale projects, and working with the Legislature to make statutory changes specific to the system's advisory board. Of the report's 17 recommendations, we determined that 13 were fully implemented.



***Financial Review of the Hawai'i Health Systems Corporation, Report No. 08-08***

The Hawai'i Health Systems Corporation (HHSC) operates 13 public health facilities in five regions within the state. These public health facilities, along with an affiliate facility on O'ahu, provide essential safety-net hospital and longer-term services. In Report No. 08-08, we found that the corporation's procurement and asset management policies and practices did not comply with applicable state laws. We also found that the corporation's inattention to information technology management exposed its sensitive information to unnecessary risk.

In 2007, in an effort to provide HHSC with the appropriate flexibility and autonomy, the Legislature enacted Act 290, which established regional system boards. Since HHSC is a different entity from the one that we reported on in 2008, we turned our focus from following up on our specific report recommendations to analyzing the impact of Act 290 and subsequent legislation on the corporation. For example, we found instances in which corporate and regional roles and responsibilities were not clearly delineated. In addition, the corporate management office's power to intervene and assist other regions when warranted had been curtailed.

***Performance Audit on the State Administration's Actions Exempting Certain Harbor Improvements to Facilitate Large-Capacity Ferry Vessels from the Requirements of the Hawai'i Environmental Impact Statements Law, Report No. 08-09 and Report No. 08-11***

The Hawaii Superferry, Inc. was an interisland ferry service that was to sail between the islands of O'ahu, Maui, Kaua'i, and Hawai'i. Initially, Hawaii Superferry, Inc. planned to operate in three of the state's harbors: Honolulu Harbor on O'ahu, Kahului Harbor on Maui, and Nāwiliwili Harbor on Kaua'i. Service to Kawaihae Harbor on Hawai'i Island would have started in 2009 after a second ferry was completed.

In Report No. 08-09, we found that the state Department of Transportation abandoned efforts to require an environmental review for harbor improvements needed to accommodate the ferry service. Instead, the department took advantage of the State's flawed EIS law and rules, invoking its exemption determination list and bypassing environmental review. We concluded that efforts to support Hawaii Superferry, Inc.'s interests may have compromised the State's environmental policy. We determined that three of the 21 recommendations made in Report No. 08-09 and Report No. 08-11 were implemented.

During the course of following up on recommendations, we found that the Office of the Governor did not respond to the Environmental Council's request for comment on proposed rule changes in January 2008. The then-governor's inaction on the matter eventually led to the council's disbandment in July 2009.

We also found that the State will be paying approximately \$63 million in Superferry-related expenses, which included \$60 million for the general obligation bond liability and related interest through fiscal year ending 2028. Other significant expenses include \$443,000 to repair the barge and pier at Kahului Harbor, \$500,000 for tug services in Kahului Harbor from December 2007 through September 2008, and \$14,000 to relocate the Maui barge *Manaiakalani* to Honolulu Harbor. The *Manaiakalani*, along with the Honolulu barge *Kapilinakai*, and the Hawai'i Island barge *Kūpa'ā*, are all docked in Honolulu Harbor, idle and rusting. Because the barges were built for the specific needs of Hawaii Superferry, Inc., the vessels cannot be repurposed by the State in their present configurations. While the department intended to sell the barges, plans were put on hold.

# Investigation of the Stadium Authority's Swap Meet Operations

Report No. 12-02, March 2012

*The Stadium Authority was established to operate and manage the stadium and facilities for the recreational and entertainment needs of the people of Hawai'i. While the Aloha Stadium is a world-famous venue and a home to many popular sporting events, it is the Aloha Stadium Swap Meet and Marketplace that is the authority's largest revenue source, operating more than 150 days a year and featuring a wide variety of goods from more than 700 local merchants. In FY2009-10, the swap meet generated more than \$4.8 million or 67 percent of the authority's total revenues.*

We found that the Stadium Authority was not providing the needed leadership to protect and grow this important state resource. For example, more than half of the Aloha Stadium is former federal surplus property, which was deeded to the City and County of Honolulu in 1967 by the U.S. Department of the Interior with the stipulation that the land be used as a public park or for public recreational use. Three years later, the land, with deed restrictions intact, was transferred to the State of Hawai'i. While concessions are allowed on the land, non-recreational commercial activities are strictly prohibited.

At the time of our audit, the Stadium Authority had yet to obtain federal approval to operate its present-day swap meet and marketplace. This violation of the original deed restrictions could lead to the land being reverted to the federal government. While the likelihood of this action may seem remote, it is imperative that the Stadium Authority do everything in its power to ensure that it complies with all relevant laws and agreements.

In addition, the stadium manager ignored his contract administration responsibilities to ensure that swap meet contractor Centerplate was managing the swap meet operations effectively. He was negligent in monitoring and evaluating Centerplate's performance in 2007 and 2009, failed to tell the evaluation committee in July 2009 that Centerplate had not met the authority's goals and was derelict in its performance, and failed to monitor vendor complaints as required

by contract. Centerplate also failed to adequately perform under the terms and conditions of the 2004-2009 contract when it missed its goal to increase the number of vendors and the public attendance. Yet, the stadium manager awarded a new contract to Centerplate without evaluating its past performance.

We also found that Centerplate's failure to consistently enforce its rules enables merchants to operate their businesses illegally. The state Department of Taxation confirmed that nearly one-third of the top 450 vendors at the Aloha Stadium Swap Meet and Marketplace did not file general excise tax returns for 2007, 2008, and 2009. In addition, a number of vendors underreported their tax obligation by filing a zero (\$0) general excise tax return even though the top 450 vendors paid an average of \$29,500 in rental payments during this period. We found one vendor who had paid more than \$31,000 in rent and operated for a whole year at the swap meet before getting a general excise license.

The Stadium Authority responded that it is conducting its operations in full compliance with all deed restrictions, claiming that since 1979, "while the volume of activity has fluctuated over the years, the core swap meet operations remain unchanged." By making this questionable claim, the authority ignores both the reality of present-day swap meet operations and the risks associated with possible noncompliance. This failure to manage proactively is consistent with what we found during our investigation.

# Management Audit of the Natural Energy Laboratory of Hawai‘i Authority

Report No. 12-03, May 2012

*After nearly 40 years, NELHA has yet to achieve its potential as an ocean-related research, education, and commercial center. In the absence of clearly reported progress and while continuing to struggle with the basics of open government, NELHA has had difficulty convincing legislators, taxpayers, and potential tenants of its worth and successes.*

We found that while the authority had improved its transparency and accountability since the new administration took over in June 2011, there was still work to be done. The authority was sorely lacking in mission-critical plans and policies such as a master plan, financial plan, and administrative rules; and its policies and procedures manual was seriously out of date.

The authority planned to address all of these areas. However, its board suffered from high turnover and a lack of training. Although there was a policy for a formal training program for new board members, none was practiced. In addition, we recommended that the Legislature reconsider the unusual structure of the board, which includes no public members but has six ex-officio members. Tenant representatives' voting on items related to rate setting was questionable and may violate both NELHA statute and the State Ethics Code.

The authority continued to struggle with Sunshine Law requirements. Timely access to minutes was not consistent, and there were problems with both the use and documentation of executive sessions. The statutorily required Research Advisory Committee was inappropriately operating as a "permitted interaction group" in violation of the Sunshine Law, and assignment of a staff member to a board task force was questionable.

Operational issues also existed. The authority's performance reporting was woefully inadequate; its website was outdated and incomplete; lease rent rates were not uniform; the transparency of seawater pumping rates had improved but controls on calcula-

tions were lacking; and fiscal information provided to the board was unreliable.

Despite the many issues it faced the authority was making progress under new management. Marketing, tenant relations, and alternative revenue streams were all being addressed. Self-sufficiency had been reached on an operating level, although the authority was still reliant on state funding for capital improvement projects and will be for the foreseeable future. However, deferrals in rent increases were impacting the authority's progress toward self-sufficiency, and critical issues such as a new frontage road and its freshwater allocation must be addressed in order for the authority to move forward.

The authority did not take issue with our findings. The board chair assured us there was a strong desire to implement our recommendations and that doing so would be a top priority. The chair was pleased we acknowledged the authority's efforts and reported that the authority had already made progress in taking action on some of our recommendations, including a training session for board members on Sunshine Laws, approving a new strategic plan, completing an economic impact analysis, updating the website, and reviewing the leasing policy. The authority also planned to adopt administrative rules.

# Study of the Transfer of Non-General Funds to the General Fund

## Report No. 12-04, July 2012

*Non-general funds, such as special, revolving, federal, and trust funds, exist outside the State's main financial account, or general fund. Over the past 30 years, the number of non-general funds and the amount of money contained in them have substantially increased. In FY2011, non-general funds accounted for about half of the State's \$10.4 billion operating budget, up from one-third in 1992. This proliferation of non-general funds has hampered the Legislature's ability to direct general-fund spending.*

For example, the Legislature typically seeks money in special and revolving funds when general-fund budget shortfalls occur. We found that the transfer, or "raid" process is cumbersome, involving a review of hundreds of funds in addition to a legal review and committee hearings. We also found:

- At least 729 non-general funds and accounts hold an estimated unencumbered cash balance of \$2.47 billion.
- Between 1980 and 2010, the number of special and revolving funds almost tripled to 313 funds.
- Authorized fund raids in FY2009, FY2010, and FY2011 totaled \$161 million.
- Not all annual, non-general fund reports are filed as required by law.
- No regular reviews of special funds are conducted to determine if they meet criteria set in state law.
- Of the 47 special and revolving funds we tested, six failed to meet criteria for continuance. We recommend these be repealed and the \$49.7 million they hold be deposited into the general fund.

We also found that the process for reviewing proposed fund transfers by the attorney general should be more systematic and structured to eliminate error and liability to the State. A 2008 Hawai'i Supreme Court decision also has complicated these fund raids, eliminating certain types of money that can be transferred.

In addition, the Department of the Attorney General's legal review process relies on a single deputy attorney general, is done on an ad-hoc basis, and is not documented. We found some reviews were not as robust or complete as others, resulting in transfers that may violate federal laws. In 2009, the Legislature mistakenly authorized transfers of \$16.5 million from two funds, possible violations of federal law.

Overall, the Department of Budget and Finance agreed with our recommendations. The department reported that it had found some, but not all, of the missing non-general fund reports we cited in our report. This discovery did not change our conclusion that the tracking of funds was problematic.

The Department of the Attorney General objected to our recommendation that a checklist be used, but recognized the need to train all deputies whose clients manage special funds. The department also took issue with several of our conclusions. We added clarifying language to the text, but we stood by our report's conclusions and recommendations.

# Audit of the Department of Taxation's Administrative Oversight of High-Technology Business Investment and Research Activities Tax Credits

Report No. 12-05, July 2012

*High-technology business investment and research activities tax credits were created in Act 178, Session Laws of Hawai'i (SLH) 1999, as part of a broader effort by the State to stimulate the growth and development of high-technology industries in Hawai'i. Although Act 178 contained eight initiatives, the tax credits would later become the hallmark of this legislation.*

Initially, the tax credit was equivalent to 10 percent of the investment in each qualified high-technology business (QHTB), with a maximum of \$500,000 for the taxable year. In 2001, via Act 221, the tax credit was increased to 100 percent, claimable over five years with a maximum of \$2 million per investment per QHTB, quadrupling the allowable amount per investment. The law did not provide a maximum total cumulative amount of tax credits available to taxpayers, so the amount of tax expense to the State was unlimited. In addition, the research activities tax credit was a refundable credit and the amount was equal to 20 percent of all QHTB qualified research expenditures.

In our audit, we found that the tax credits law and its subsequent amendments, which sunset in 2010, did not contain any goals and performance measures. We also found that other states administer similar tax credits outside their taxation departments and their reporting requirements mandate disclosure of taxpayer information by law. In addition, the numerous amendments to the law increased the number of tax credit claims and gave the Department of Taxation (DoTAX) more administrative responsibilities. Finally, because the law was silent as to the expectations of DoTAX, the department had implemented the tax credits as it had for all tax credits by issuing forms and guidance, auditing taxpayer returns, and reporting on the credits in its existing reports. As a result, the State can neither measure nor ensure the effectiveness of the nearly \$1 billion in tax credits.

In 2004, the law was amended to require that DoTAX certify the amount of tax credits for all taxpayers

claiming the credit by verifying the nature and amount of the qualifying investments. Given the high volume of applications and a short window of time in which to certify them, DoTAX performs only a high-level review that does not verify self-reported numbers; it basically just "checks the math" on the form. In addition, DoTAX audits only a fraction of all taxpayers claiming the tax credits. We utilized existing data from various reports and found that for tax years 2001–2004, an average of less than 3 percent of the total number of high-technology tax claims were audited.

Although the credits have sunset, we found similar initiatives on the horizon that the Legislature may wish to support by way of state policy. We recommended that the Legislature consider imbedding a means to measure effectiveness, including specific goals, performance standards, and an evaluation process. Without well-understood expectations and the appropriate infrastructure in place to support the initiative, the State will never know the success of its policies.

In its response, the department expressed its appreciation for our report. The department concurred with our finding that the continuous legislative changes since 1999 increased the complexity of the tax credit provision and the department's responsibilities. To address our recommendations, the department was in the process of filling vacant and other positions needed to complete reporting on the tax credits for prior years. Lastly, the director assured us that the department would continue to review our recommendations for improvements.

# Report on the Implementation of State Auditor's 2009 Recommendations

Report No. 12-06, August 2012

*The review focused on the departments' implementation of audit recommendations made in calendar year 2009. We conducted interviews with department personnel, board members, and various advisory boards/counsels, as applicable. We reviewed pertinent policies and procedures, reports, and other documents to assess management's claims regarding audit implementations. We also conducted site visits to observe processes in place.*

We found that of the 92 recommendations made in the five reports in 2009, 39 (42 percent) were implemented and deemed closed. Seven recommendations (8 percent) remained open and 23 (25 percent) were open but in the process of implementation. We also determined that six recommendations (6 percent) were open and not likely to be pursued and eight recommendations (9 percent) were no longer applicable. We did not assess the implementation of nine recommendations (10 percent).

## ***Management and Financial Audit of Hawai'i Tourism Authority's Major Contracts, Report No. 09-02***

In our 2009 audit, we found that the Hawai'i Tourism Authority's (HTA) year-to-year approach to planning and program implementation hindered its ability to strategically manage the long-term growth of the state's visitor industry. In addition, we found that the authority did not have a functional strategic plan of its own. The agency also lacked performance goals and targets for both its contractors and itself. Lastly, the agency's reports, which focused on actual spending compared with budgeted amounts, provided no indication of progress toward planned outcomes or measurable results.

In our follow-up effort, we found that the HTA had developed a new strategic plan, which it used to establish key performance indicators that measure the performance of its marketing contractors. The contractors, in turn, are required to provide monthly, quarterly, and annual reports detailing their results. However, we found that while HTA produced extensive information on the economic performance of

the visitor industry in general, it had not established agency targets nor reported on its own performance. Moreover, we could not discern from our review of agency documents how well HTA was achieving its goal to optimize benefits that integrate visitors, the community's, and the visitor industry's interests. The agency commissioned reports and gathered data relevant to such a determination, but it did minimal analysis and reporting of them.

## ***Procurement Audit of the Department of Education: Part 1 and Part 2, Report No. 09-03 and Report No. 09-04***

In part 1 of our report, we found no evidence that the department had the mechanisms and functions to monitor and review procurement compliance on a regular basis. We had uncovered numerous instances of non-compliance and violations of procurement rules and regulations. In addition to the high volume of violations, we also identified several risk factors and indications of potential fraud, which compelled us to expand the scope of our work. We issued a separate report presenting the results of that expanded work.

Part 2 of our report revealed an organizational culture of disregard for procurement rules in the Office of School Facilities and Support Services (OSFSS). That culture had allowed office directors, managers, and staff to believe they had the discretion to unilaterally determine whether compliance with procurement laws and rules was in the best interest of the department. As a result, non-compliant procurement practices were tolerated and unethical and possibly fraudulent behavior was allowed to thrive.

The response to our audit was swift: the then-superintendent returned procurement authority for construction projects to the Procurement and Contracts Branch. However, five months later, the then-deputy superintendent returned procurement authority to OSFSS. In addition, despite the findings of our audits and its own independent investigator, the department did not take strong disciplinary measures against two of the three OSFSS employees who were found to have committed multiple procurement violations.

We also found that two of the employees remained in their same jobs as heads of their respective OSFSS branches and had been given even greater procurement authority with greatly reduced, if any, oversight. As a result, the risk of ethical misconduct in the OSFSS remains high.

***Study on the Appropriate Accountability Structure of the Hawai‘i Teacher Standards Board, Report No. 09-05***

Our study found that the board failed to develop, administer, and deliver a professional teacher licensing program. We concluded that the laws governing the board should be repealed and the responsibility for teacher licensure be transferred to the Board of Education.

In our follow-up effort, we found that the board had addressed many of its problematic operational issues. These efforts had resulted in the board achieving its primary function—developing and administering a professional teacher licensure program. However, we found that unresolved issues with a former contractor may have severe consequences for the board and public school teachers. Most serious of these was a refusal by the contractor to return confidential personal information of public school teachers licensed by the board from 2003 through 2008. The board’s inability to retrieve this data exposes teachers to significant risk.

***Audit of the State of Hawai‘i’s Information Technology: Who’s in Charge? Report No. 09-06***

In Report No. 09-06, we found an information technology (IT) infrastructure that was bereft of leadership and direction. In addition to confusion over roles, responsibilities, and lines of authority, the system was overseen by a part-time chief information officer (CIO) who lacked the commitment, time, and authority necessary to manage a government-wide system.

In our follow-up effort, we found that the Legislature and the governor’s office had done much to establish a new IT infrastructure. However, the fundamental issues regarding the CIO’s authority to implement and manage statewide initiatives had yet to be addressed. At the time of our follow-up, the scope of the CIO’s authority did not extend beyond his own office.

***Investigation of the Procurement and Expenditure Practices of the Department of Business, Economic Development, and Tourism and Selected Attached Agencies, Report No. 09-07***

Our audit report, released in April 2009, revealed an organizational culture unconcerned with the directives of the Legislature and unconvinced of the importance of the Hawai‘i Public Procurement Code. The department leadership placed emphasis on expediency over accountability. Moreover, there were no assurances that proper policies and procedures were in place.

In our follow-up effort, we found that the department no longer uses appropriation transfer authority to fund projects denied by the Legislature and had discontinued funding of prior projects funded in this manner. In addition, the director enforced the rules, policies, and procedures of the Procurement Code by having division heads and executive directors sign an annual Procurement Delegation Agreement. The department also conducted internal audits to ensure compliance with the code.

# Management Audit of the Department of Education's School Bus Transportation Services

Report No. 12-07, August 2012

*Bus costs have risen dramatically in the past several years, with general funds spent on student transportation statewide nearly tripling, to \$72.4 million, since 2006. The Department of Education's (DOE) response has included raising bus fares and reducing services by increasing the distances students must live from schools to qualify for bus service.*

Despite years of rising costs, the DOE has failed to adopt systematic planning that continuously evaluates routes to maximize ridership, maintains bus efficiency, and ensures compliance with safety guidelines. Some bus routes rarely change, while changes that are made are not tracked, and bus stops are not evaluated for safety. Such inadequate planning had resulted in wasted state resources and potential liability exposure from the use of unauthorized bus stops. The DOE also lacked data needed to evaluate routes for cost efficiencies, and had no system for ensuring such evaluations were routinely conducted.

The transportation branch also lacked other key planning data such as up-to-date bus route mileages. Further, responsibility for creating and monitoring routes to meet ridership needs resided with transportation officers who were ill-equipped and under-qualified for the amount and scope of work they were expected to perform. In addition, they did not receive comprehensive training, guidelines, or criteria for planning safe and efficient bus routes.

The department recognized it had not received competitive bus services bids in years and that follow-on bids for existing contracts have unjustifiably risen by as much as 259 percent. Despite this, the DOE had not established a systematic approach to monitoring contractor performance and ensuring competitive pricing for school bus services. It also had failed to flag potentially anticompetitive actions that may have contributed to rising costs. For instance, the DOE received multiple bids on only one of 48 groups of solicited routes that we reviewed. Further, the DOE had undermined public confidence in the procurement

process by failing to adequately justify that eight out of ten contracts awarded to sole bidders were fair and reasonable. We found no justification at all for three of those awards, and justifications for the remaining five were cursory and lacked support. The DOE had also failed to coordinate oversight of school bus service contracts between its procurement and transportation branches and had not instilled a responsibility for public resources among its employees. Nine of the ten contracts we reviewed included a provision for the department to compensate contractors for their general excise taxes (GET). The State is not liable for GET and it is illogical for the State to pay itself taxes. However, the DOE estimated it will pay more than \$2 million in school year 2012 for contractors' GET. The department was unable to explain why it pays GET on most contracts.

The department acknowledged that past practices relating to procurement, delivery, and oversight of student transportation services may not have been consistent with nationally recognized best practices and that much more work needed to be done to protect public transportation funds and improve public confidence. The department assured us it was working with a consultant to identify and implement corrective measures, many of which are outlined in our report. The department agreed that most of our recommendations were reasonable and prudent but disputed some of our conclusions. The Board of Education expressed its appreciation for our work and stated that examining bus transportation costs remains a high priority.



# Sunrise Analysis: Regulation of Ziplines and Canopy Tours

Report No. 12-08, October 2012

*Ziplines have been used for more than 100 years to transport people and goods by use of a cable, a pulley, and gravity. More recently, the recreational industry has featured ziplines and “canopy tours” (guided transit of a forest canopy by means of ziplines) as a part of “challenge courses,” adventure activities often located high up on support structures or in trees. The first zipline course in Hawai‘i opened in 2002. Today, there are 22 ziplines and canopy tours throughout the state.*

In House Concurrent Resolution No. 118, House Draft 1, Senate Draft 1, the 2012 Legislature asked the Auditor to analyze Senate Bill No. 2433, Senate Draft 2 (S.B. No. 2433, S.D. 2) relating to challenge-course technology and include an assessment of alternative forms of regulation. In our analysis of S.B. No. 2433, S.D. 2, we applied the Hawai‘i Regulatory Licensing Reform Act, Chapter 26H, Hawai‘i Revised Statutes, which limits regulation of professions and vocations, not businesses such as zipline and canopy-tour operators. The Legislature’s policy and criteria for assessing the merits of regulation require that those desiring the measure must provide the evidence supporting the case for engaging the State’s policing powers to regulate.

The proposed bill would require annual inspections performed by state elevator inspectors or private inspectors certified by the Department of Labor and Industrial Relations (DLIR). Despite risks inherent in thrill rides, there was insufficient data of serious harm to the public to warrant regulation. Evidence of abusive practices was anecdotal and mostly alleged by industry members against so-called “wildcatters,” facilities that are not constructed and operated per industry safety standards and do not have sufficient insurance coverage. However, we found that all 22 businesses are required by their insurance agencies to provide annual inspection reports by insurer-accredited companies designated under industry standards as qualified challenge-course professionals. As a result, the industry is basically self-regulating.

In addition, the DLIR estimated that it would need \$400,000 initially and \$350,000 each year to create and maintain a self-sufficient inspection and permitting program. To fund such an operation, the department would have to charge each of the 22 operators an initial licensing fee of \$18,000, as well as an annual fee of \$15,000. The bill proposed an initial and annual fee of \$100.

The DLIR was selected as a potential host agency because of its existing role in administering amusement rides as part of its elevator and boiler safety program. However, the department has a multiyear inspection backlog of 5,000 elevators and is not inspecting attractions that fall under its jurisdiction for amusement rides. Clearly, it is not capable of handling its current duties, let alone another inspection program, especially without significant additional resources. Moreover, the other proposed host agency, the Department of Commerce and Consumer Affairs (DCCA), lacks the capability and authority to inspect accident sites and assess cause and operator culpability in the event of significant accidents or fatalities. We concluded that if S.B. No. 2433, S.D. 2, was enacted, it could create a false sense of safety for the public and raise the potential for liability to the State.

The DLIR concurred with our analysis of S.B. No. 2433, S.D. 2. The DCCA opted not to comment on a draft of the sunrise report provided to it.

# Mandatory Health Insurance Coverage for Fertility Preservation Procedures for People of Reproductive Age Diagnosed with Cancer

Report No. 12-09, October 2012

*House Concurrent Resolution No. 9, Senate Draft 1, of the 2012 Legislature, asks the Auditor to assess the social and financial effects of mandating health insurance coverage for fertility preservation procedures for people diagnosed with cancer as proposed in House Bill No. 2105, Regular Session of 2012 (H.B. No. 2105).*

Since treatment for cancer such as radiation and chemotherapy can increase the risk of infertility in both men and women, H.B. No. 2105 would require Hawai'i health insurance providers to include as a benefit established preservation procedures for potential cancer-related infertility in men and women. The procedures covered would be limited to embryo cryopreservation (the freezing of an embryo) and sperm cryopreservation (the freezing of sperm).

We found that no state currently requires insurance coverage for infertility treatments for people who may become infertile as a result of cancer treatments. Besides Hawai'i, only New Jersey and California have recently proposed legislation mandating coverage similar to H.B. No. 2105.

Since insurance coverage as proposed in H.B. No. 2105 is not generally available, there is insufficient data to assess the social and financial impacts of mandating insurance coverage. Individuals diagnosed with cancer who may want to preserve their reproductive ability must seek services on their own and bear the full costs, which could be upward of \$10,000. We identified two such individuals from testimony submitted in support of H.B. No. 2105, but we concluded that the number of people generally utilizing the procedures is unknown and the level of public demand is low. In addition, insurers generally reported that mandated coverage of embryo and sperm cryopreservation would increase premiums and administrative costs.

We also found that cancer-related infertility raises issues of patient and offspring welfare not found in other settings. If H.B. No. 2105 is adopted, the Legislature may need to consider issues such as the costs related to the preservation of embryos and sperm. Additional issues include experimental versus established therapies, the ability of minors to give consent, the rights and benefits of the offspring, and posthumous reproduction. For example, what are the rights of a child conceived posthumously to receive an inheritance or Social Security survivors benefits?

The Departments of Health, of Commerce and Consumer Affairs, and of Labor and Industrial Relations opted not to comment on the draft reports provided to them.

# Review of the Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Human Resources Development, of Labor and Industrial Relations, of Public Safety, and of Taxation

Report No. 12-10, December 2012

*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 reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This is our fourth review of the revolving funds, trust funds, and trust accounts of the Departments of Human Resources Development, of Labor and Industrial Relations, of Public Safety, and of Taxation.*

Revolving funds, often established with an appropriation of seed money from the general fund, must demonstrate the capacity to be self-sustaining. Activities financed by revolving funds include loan programs that are initially established by general-fund seed moneys and then replenished through the repayment of loans. Trust funds invoke a fiduciary responsibility of state government to care for and use the assets held for the benefit of those with a vested interest in the assets. A pension fund is an example 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.

In this report, we reviewed 36 revolving funds, trust funds, and trust accounts. We used criteria developed by the Legislature as well as criteria developed by our office from a review of public finance and accounting literature. For each fund, we presented a five-year financial summary, explained the purpose of the fund, and came to a conclusion about its use. We did not present any conclusions about the effectiveness of the program or its management, or whether the program should be continued. However, we did find that 11 of the 36 funds and accounts did not meet the applicable fund criteria or may be improperly classified.

We transmitted a draft of this review to the departments of Human Resources Development, of Labor and Industrial Relations, of Public Safety, and of Taxation. The departments of Human Resources Development, of Labor and Industrial Relations, and of Public Safety agreed with our review of their funds. The Department of Taxation did not submit a written response to our review.

# Study of the Higher Education Act

Report No. 12-11, December 2012

*Act 132, Session Laws of Hawai'i 2012, asked the Auditor to examine the federal Higher Education Act (HEA) of 1965 and its accompanying federal requirements and recommend the best available options, including a regulatory framework, to ensure the State's compliance with provisions regarding authorizing institutions that offer postsecondary education programs in Hawai'i. Such a framework is necessary to preserve the availability of federal student aid funding under Title IV of the HEA.*

In 1974, a State Postsecondary Commission was established by the Legislature to qualify the State to receive Title IV funds. Federal regulations now require eligible educational institutions to obtain authorization from the State to offer postsecondary education programs in Hawai'i in order to participate in Title IV programs.

We found that the University of Hawai'i is the best option to house a postsecondary education authorization entity. For example, the State Postsecondary Commission is administratively attached to the University of Hawai'i. While it is not currently empowered to grant authorization, amendments to existing state law could grant that ability as well as alter its makeup so that its majority no longer comprises members of the university's Board of Regents. Altering the composition could allay conflict-of-interest concerns and ensure students have a third-party entity with which to file and pursue complaints against a particular educational institution. Current state statutes and accompanying administrative rules provide a framework on which lawmakers and the commission could build. The University of Hawai'i also has an in-house base of postsecondary education expertise.

We also found that other state agencies lacked expertise and program commitment. For example, the Department of Commerce and Consumer Affairs (DCCA) is responsible for more than 20 professional boards and commissions; however, the only educational institutions it regulates are beauty schools.

State law also requires all licensing programs within DCCA to be self-supporting, which means fees for postsecondary authorization regulation must cover the costs of the regulatory program. The department estimates the startup costs per institution may range from \$2,800 to \$8,500, with an annual renewal cost of \$2,700 to \$8,100. These estimates could change once a bill is drafted and the details of a proposed regulatory program are revealed.

Pursuant to state law, the Department of Education (DOE) licenses private trade, vocational, and technical schools in Hawai'i. However, deficiencies in staffing and commitment to the licensing program identified by our office ten years ago continue to persist. Staff who administer the program have limited experience with postsecondary education matters, and a lack of resources hinders the program's ability to adhere to all administrative rules and address all complaints. These factors raise concerns about the DOE's ability to effectively meet additional responsibilities that would be required to support a state postsecondary authorization entity.

The DCCA and DOE supported our conclusions and recommendations. The University of Hawai'i raised concerns about its ability to implement our primary recommendation to house Hawai'i's authorizing entity within the existing State Postsecondary Education Commission. The university took issue with our recommendation regarding mitigating possible conflict-of-interest concerns.

# Affected Agency Responses to Previous Recommendations

# Management Audit of the Hawai‘i Public Housing Authority

Report No. 11-01

## Recommendations

## Affected Agency’s Response

The Hawai‘i Public Housing Authority should:

1. Improve monitoring of asset management project managers by:
  - a. Holding AMP managers (both state employees and private contractors), contract administrators, and the branch chief who oversees them, accountable for their respective performances. Contract monitoring should be tied into actual results, with disincentives and/or penalties imposed for nonperformance. Remedial plans and actions should be documented.
  - b. In instances where staffing constraints limit availability for recurring monitoring, the authority should consider employing a risk-based approach in its review process and document those results.
  - c. Developing a training program to promote standard interpretation of U.S. Department of Housing and Urban Development terminology. Specifically, in areas where HUD assesses AMP performance.
2. Improve operational consistency and organizational communication by:
  - a. Prioritizing repair and maintenance work orders and turning over vacant units to new tenants (balanced against achieving much-needed capital improvement works). Priorities should be communicated to stakeholders to promote the

HPHA

The authority submitted responses to the recommendations made to its board.

## Recommendations

## Affected Agency's Response

- understanding of the authority's plans to reduce its 9,000-plus wait list to serve its population by achieving maximum tenancy.
- b. Developing a means to ensure tenant complaints are uniformly recorded, documented, and addressed; and communicate this clearly to all AMP managers.
  - c. Developing a method to share best practices among its public housing projects. Some best practices have been recognized among housing managers both within Hawai'i and in other jurisdictions, and the authority should be able to leverage their success.
3. Address asset management implementation by:
    - a. Seeking the Legislature's approval, as needed, to update and streamline its accounting system so that its AMP managers have access to timely and accurate financial data.
    - b. Developing a detailed work plan that assigns responsibility to appropriate people for the transition to asset management, with deliverables and a timeframe for completion.
    - c. Incorporating, as appropriate, the recommendations in Econometrica's technical assistance study regarding the practical implementation of the asset management model.
    - d. Disseminating information and/or training, as needed and on a continual basis, regarding how to implement asset management in practical terms.

## Recommendations

## Affected Agency's Response

4. The Hawai'i Public Housing Authority's board should continue its efforts to:
  - a. Create policies and procedures specific to board operations and roles and responsibilities, including required training to orient new members as they are appointed to the board; and
  - b. Support management's efforts to implement asset management, creating policies as appropriate.

### HPHA Board of Directors

The HPHA's board continues its efforts to create, review, and recommend policies and procedures specific to board operations and roles and responsibilities. The board has delegated and will continue to delegate authority for oversight and management of daily operations to the executive director, while retaining its responsibilities for policymaking decisions.

Additionally, board members have received training from government agencies and other technical experts on topics such as the federal Public Housing Assessment System and fair housing. The HPHA also currently has funds budgeted for training for its board, including attendance at housing industry conferences.

The HPHA also continues to review its existing policies on an ongoing basis. As an example, the executive director has included an annual policy review as a goal on the performance appraisal of all branch chiefs within the HPHA. By conducting an annual evaluation of existing policies, HPHA can keep the board-adopted policies in the forefront as well as establish a mechanism for regular updates.

The HPHA board continues to support management's efforts to implement asset management, including creating, reviewing, and recommending policies as appropriate.

For example, since the completion of the audit, the HPHA board has adopted, revised, and/or implemented policies on fiscal management and procurement to ensure greater authority and accountability are provided to Asset Management Project (AMP) managers as required under HUD's Asset Management. The HPHA is currently budgeting and accounting for funds by AMP as required. The board reviews finan-



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## Recommendations

## Affected Agency's Response

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cial activities and program reports by AMP, which are provided to the board on a monthly basis at the regular monthly board meeting.

The board has reviewed and supported the HPHA's reports on the implementation of improvements to the Emphasys system, which will streamline the accounting system to assist in project-based budgeting and accounting as required by asset management. The improvements are almost fully implemented.

The HPHA will also continue to enroll in or contract for training to ensure that staff are adequately prepared for their expanding responsibilities under asset management. Staff and board members are also afforded the opportunity to attend housing industry conferences where they network with other public housing agencies in an effort to learn best practices.

# Sunrise Analysis: Regulation of Large-Scale Dog Breeders and Facilities

Report No. 11-02

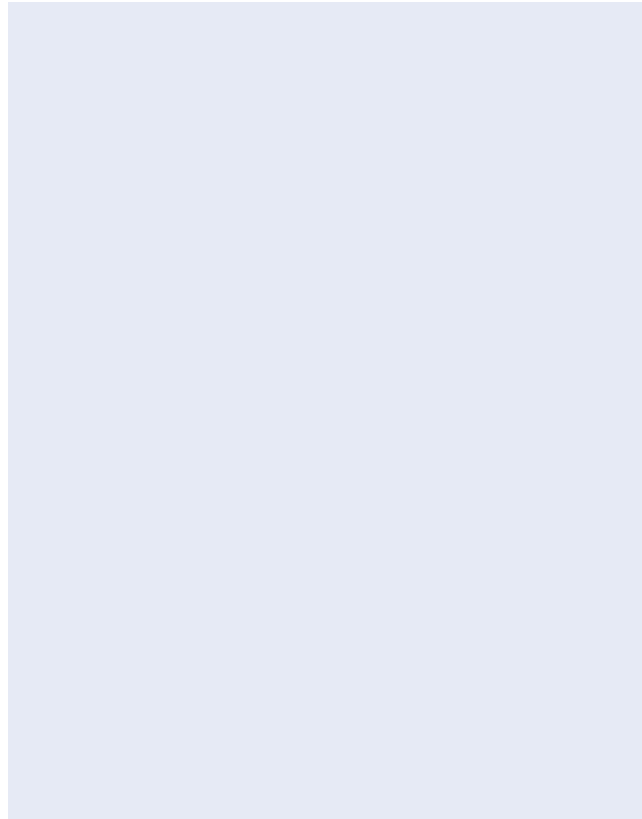
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## Recommendations

## Affected Agency's Response

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1. As proposed, Senate Bill No. 1522, Senate Draft 2, House Draft 1, of the 2011 legislative session should not be enacted.
2. The Legislature should address flaws in the proposed regulation and consider alternatives to licensing by the Department of Commerce and Consumer Affairs to achieve the goal of protecting dogs. Improvements should be done in consultation with stakeholders, including enforcement officials, potential overseeing agencies, veterinarians, and breeders.
3. The Legislature should require the proponents of the large-scale dog-breeder regulation to provide the number of likely licensees. Doing so will help determine if regulation can be paid for through licensing fees.



# Performance Audit of the Hawai‘i Public Charter School System

Report No. 11-03

## Recommendations

## Affected Agency’s Response

1. As the State’s charter school authorizer, the Charter School Review Panel should hold charter schools accountable for their performance by:
  - a. Developing the guidelines for the implementation plans, which are performance contracts, for each charter school and local school board. These guidelines should incorporate essential academic and operating performance standards and expectations with clearly defined and measurable indicators, metrics, and targets for schools to meet or exceed in order to continue operating. This effort should be completed by June 30, 2012;
  - b. Developing a sound methodology that rigorously measures the rate of individual student growth to ensure students are making progress toward reaching performance standards and requiring the Charter School administrative Office to assist in this effort;
  - c. Collecting, analyzing, and verifying data annually to measure student academic growth toward meeting or exceeding performance standards established by the Board of Education. These performance measures should comply with those outlined in the schools’ updated performance contract;
  - d. Reporting annually to the Board of Education on each charter school’s student performance outcomes to

Note: Pursuant to Act 130, SLH 2012, the State Public Charter School Commission (commission) has replaced the Charter School Review Panel.

Pursuant to Act 131, SLH 2012, the Board of Education hired the National Association of Charter School Authorizers (NACSA) as the implementation and transition coordinator. Performance contracts, or charter contracts, are currently being developed by NACSA.

As part of the charter contracts, a performance framework will measure the academic success of each charter school.

A system for monitoring charter school performance in accordance with charter contracts is currently being developed.

Act 130 requires annual reporting by the charter schools to the commission and the commission to the Board of Education. The commis-

## Recommendations

## Affected Agency's Response

show what schools are accomplishing with their students; and

- e. Requiring the support and assistance of the administrative office in fulfilling the above responsibilities to monitor and oversee the public charter schools.
2. The local school boards should provide greater oversight and monitoring of their respective charter schools by:
    - a. Updating the implementation plans, which are their performance contracts, with the Charter School Review Panel; and
    - b. Ensuring the data reported in the annual self-evaluation reports are accurate, complete, and agree with supporting documentation and the updated implementation plan.
  3. As the autonomous governing body for each charter school, the local school board should take a stronger role in the overall management of the school by:
    - a. Requiring the principal or director to assign all employees to the appropriate bargaining unit in compliance with Section 89-10.55, HRS, and that employee wages and other terms and conditions of employment comply with the appropriate collective bargaining agreements;

sion's first annual report will be distributed to the Board of Education and the Legislature this year [2012]. Please note that the report includes data from the prior year. Accordingly, we expect the future reports will more clearly demonstrate the achievements related to student performance provided by the new law and the new charter contracts.

The Charter School Administrative Office is the designated staff of the commission, pursuant to Act 130, SLH 2012, until its repeal on July 1, 2013. Thereafter, the commission, by law, will have "dedicated resources and staff qualified to execute day-to-day responsibilities pursuant to this chapter." See Act 130, section 3(k).

Note: Pursuant to Act 130, governing boards have replaced local school boards.

Charter contracts will be negotiated with each charter school and its governing board.

Charter school annual reports will contain information relevant to the performance expectations in each school's charter contract.

The commission's responsibility of ongoing oversight and monitoring of charter schools includes ensuring that school leadership and governing school boards follow applicable state laws.

## Recommendations

## Affected Agency's Response

- b. Negotiating supplemental agreements with the appropriate public employee union before approving its employee wages, stipends, bonuses, or other terms and conditions that differ from the master collective bargaining agreement, in compliance with Section 89-10.55, HRS;
- c. Establishing and implementing stronger and more effective controls to reduce improper and abusive purchases and to ensure operational efficiency is being achieved by:
  - i. Incorporating the requirements of ethical public procurement and the State Ethics Code's conflict-of-interest provisions in compliance with Chapter 84, HRS, to ensure that employees conduct and participate in public procurement in an ethical manner;
  - ii. Establishing and implementing stronger and more effective controls to reduce improper and abusive purchases and to ensure operational efficiency is being achieved;
  - iii. Reviewing and adopting internal procurement policies and procedures to meet the goals of public accountability; and
- d. Ensuring that procurement reports are developed and presented on a recurring basis to each local school board member.

Charter contracts will require charter schools to adhere to collective bargaining laws.

Act 130 clarifies that all charter schools and their employees are subject to the State Ethics Code, and the commission will ensure that all charter schools adhere to Chapter 84, HRS.

The performance framework for the new charter contracts will include performance measures for financial sustainability and organizational effectiveness. The commission will monitor compliance through audit reports submitted by charter schools.

The commission will monitor compliance during site visits.

The commission will ensure fiscal accountability using the performance framework in the charter contract, including interviewing governing board members during site visits and reviewing governing board agendas and meeting minutes.

## Office of the Auditor Appropriations and Expenditures on a Budgetary Basis for the Fiscal Year Ended June 30, 2012

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### Appropriations

Act 4, SLH 2011 (operations)	\$2,513,849
Act 4, SLH 2011 (special studies)	150,000
Act 4, SLH 2011 (Audit Revolving Fund)	2,550,828
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	\$5,214,677

### Expenditures

Staff salaries	\$1,960,843
Contractual services (operational)	83,490
Other expenses	204,220
Special studies	-
Contractual services (Audit Revolving Fund)	2,550,828
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	\$4,799,381

### Excess of Appropriation over Expenditures

Act 4, SLH 2011 (operations)	\$265,296
Act 4, SLH 2011 (special studies)	150,000
Act 4, SLH 2011 (Audit Revolving Fund)	-
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	\$415,296

# 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. **Annual follow-up reports** validate claims made by departments regarding implemented audit recommendations and inform the Legislature of those recommendations that have not been implemented.
9. **Procurement reports** include studies and audits relating to the State's procurement of goods, services, and construction.
10. **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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