
Follow-Up on Recommendations from Report No. 18-05, *Audit of the Public Utilities Commission*

A Report to the Governor
and the Legislature of
the State of Hawai'i

Report No. 21-08
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OFFICE OF THE AUDITOR
STATE OF HAWAII



OFFICE OF THE AUDITOR STATE OF HAWAII

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The Auditor's position was established to help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent.

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Section 23-7.5, Hawai‘i Revised Statutes, 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 department or agency. First, annually, we ask agencies to report the status of their implementation of our audit recommendations. We compile agencies’ self-reported implementation status in a consolidated report. Second, we conduct an “active” follow-up two to three years after issuance of the audit report containing the recommendations where we, independently, assess the agency’s progress in implementing each recommendation and issue a separate follow-up report. This report presents the results of our review of recommendations made to the Public Utilities Commission in Report No. 18-05, *Audit of the Public Utilities Commission*, which was published in February 2018.

The Public Utilities Commission

The Hawai‘i Public Utilities Commission (PUC or Commission) regulates all chartered, franchised, certificated, and registered public utility companies providing electricity, gas, telephone, telecommunications, private water and sewage, and motor and water

At the time of our review, we found the Public Utilities Commission has implemented 9 and partially implemented 1 of the 12 recommendations made in our report. One recommendation has not been implemented and another is no longer applicable.

carrier transportation services in the state. The PUC exercises extensive powers; in addition to establishing and enforcing the rates public utility companies can charge their customers, the Commission also exercises quasi-judicial authority over contested case proceedings.

In FY2017, the PUC regulated 1,759 entities, including all chartered, franchised, certificated, and registered public utility companies that provided electricity, gas, telephone and telecommunications service, private water and sewage, as well as in-state motor and water carrier transportation providers.

At the time of our 2018 audit, the PUC’s mission was “to provide effective, proactive, and informed oversight of all regulated entities to ensure that they operate at a high level of performance so as to serve the public fairly, efficiently, safely, and reliably, while addressing the goals and future needs of the State in the most economically, operationally, and environmentally sound manner, and affording the opportunity for regulated entities to achieve and maintain commercial viability.”

Why we did the 2018 Audit

Report No. 18-05, *Audit of the Public Utilities Commission*, dated February 2018, was performed in response to Senate Bill No. 382, Senate Draft No. 2, House Draft No. 1, Committee Draft No. 2, which was passed by the 2017 Legislature and signed by the Governor as Act 198. Act 198, Session Laws of Hawai‘i 2017, required the Auditor to conduct a management audit to evaluate the efficiency and effectiveness of the Public Utilities Commission and “aid in the commission’s transition to a better functioning entity.”

Our audit was performed from June 2017 to January 2018 in accordance with generally accepted government auditing standards.

What we found in 2018

In Report No. 18-05, *Audit of the Public Utilities Commission*, we found the PUC had not devoted time and resources toward addressing critical issues facing the Commission, including staff retention, an archaic document management system, and problems with consistent docket processing. A “Goals and Objectives of the Commission” section included in the PUC’s annual report, while fulfilling a statutory requirement, was doing little else. And, an accompanying “Statement of Goals” was missing key elements including action plans and performance measures necessary to link goals and objectives to the Commission’s actual work and activities.

We also found, despite spending \$2.8 million towards an online Document Management System (DMS), PUC's docket efficiency needs remained unmet. PUC relies on its DMS to track and monitor proceedings. Proceedings vary in complexity, such as a rate change requested by a company which may be complicated, or an application by a motor carrier that may be more straightforward.

These proceedings are commonly referred to as "dockets"; documents related to specific dockets are maintained on the Commission's DMS. Although heavily relied on at the PUC, our audit showed DMS was considered by management and staff to be difficult to use, unreliable, slow, and obsolete. At the time of our audit, the PUC had no firm plans to fix or replace the problematic system despite a \$1.6 million maintenance contract which was set to expire the following year and would need to be extended.

What we found in 2021:

Our follow-up on the implementation of recommendations made in Report No. 18-05 was conducted between February and March 2021. To determine if the PUC's actions addressed the report's recommendations, we reviewed Report No. 18-05, including but not limited to the criteria for the findings and recommendations contained therein; reviewed the PUC's responses to Status of Implementation requests dated March 2019, July 2020, and February 2021; interviewed the current PUC Chair and the current Executive Officer; and reviewed various documents that were either provided by the PUC, or were otherwise publicly available.

In response to the 2018 audit, the PUC entered into a contract with a private consultant in 2020, to provide strategic planning services and to work with the PUC to develop action plans and timetables to support the PUC's strategic goals and to implement its strategic plan.

At the time of our review, we found the PUC had implemented nine and partially implemented one of the 12 recommendations in our 2018 audit report. One recommendation had not been implemented and another is no longer applicable.

Definition of Terms

WE DEEM recommendations:

Implemented

where the department or agency provided sufficient and appropriate evidence to support all elements of the recommendation;

Partially Implemented

where some evidence was provided but not all elements of the recommendation were addressed;

Not Implemented

where evidence did not support meaningful movement towards implementation, and/or where no evidence was provided;

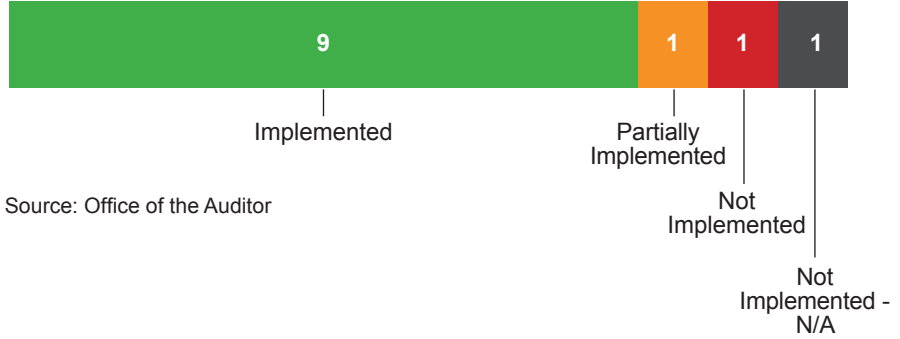
Not Implemented - N/A

where circumstances changed to make a recommendation not applicable; and

Not Implemented - Disagree

where the department or agency disagreed with the recommendation, did not intend to implement, and no further action will be reported.

Exhibit 1 Audit Recommendations by Status



Recommendations and their status

Our follow-up efforts were limited to reviewing and reporting the implementation status of our audit recommendations. We did not explore new issues or revisit old ones that did not relate to the original recommendations. The following details the audit recommendations made and the current implementation status of each recommendation based on our review of information and documents provided by the PUC, and other publicly available information.

Recommendation 1a

The Public Utilities Commission should, with respect to strategic planning, develop and implement a formal written strategic planning process that includes involving internal and external stakeholders.

Implemented

Comments

In response to Report No. 18-05, the PUC issued a Request for Proposals (RFP) in October 2019, seeking a consultant to provide professional services related to the development of a strategic plan for the PUC. Professional services sought included an “environmental scan” of key stakeholders, a strategic planning retreat during which a comprehensive strategic planning process that included Appreciative Inquiry would be implemented, and the development of action plans to support strategic goals.

In January 2020, the PUC entered into a contract with a private consultant to provide the strategic planning services described in the RFP. Among other things, the consultant designed an interview guide, conducted 14 interviews with external stakeholders, and prepared a report summarizing interview results.

The consultant also developed a formal written strategic planning process, which was initiated during a comprehensive strategic planning retreat held in downtown Honolulu. Implementation of the strategic planning process continued with smaller working group meetings in November and December 2020 to refine action plans. Regularly scheduled smaller action plan working group meetings are also planned.

Information obtained from PUC indicates the consultant, as part of the planning process, conducted interviews with both internal and external stakeholders.

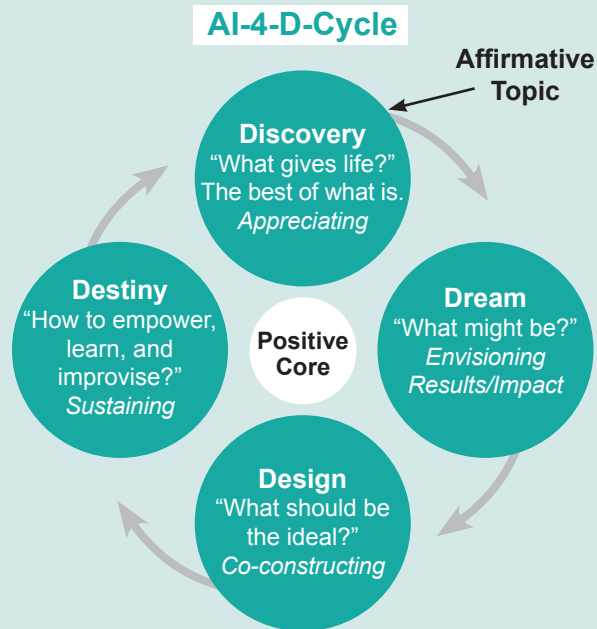
The PUC’s work with the consultant has, to date, taken the Commission through the formal written strategic planning process and the PUC is currently working on developing and implementing action plans, objectives, and goals related to that strategic plan.

Appreciative Inquiry

APPRECIATIVE INQUIRY (AI) is a methodological approach to leadership and organization change. Developed in the 1980s at Case Western Reserve University by Dr. David Cooperrider, Dr. Suresh Srivastva, Dr. Ron Fry, and others, AI draws from the fields of psychology, leadership, and organizational behavior. It has been described as a positive approach to leadership and organizational change, and a discovery system aimed at identifying the strengths of an individual or organization, exploring ways to leverage those strengths, and planning and implementing strategies to achieve objectives. AI is based on five principles.

1. **The Constructionist Principle** is based on the belief that “words create worlds” and that questions asked lead directly to organizational change.
2. **The Simultaneity Principle** is based on the idea that “inquiry creates change” and that change is created the moment a question is asked.
3. **The Poetic Principle** states that an organization’s past, present, and future can be endless sources of study and learning, which can be continually revisited, reframed, and recycled to gain new knowledge.
4. **The Anticipatory Principle** is based on the idea that the direction of an individual or organization is guided by an image of the future.
5. **The Positive Principle** emphasizes that positivity is a key driver for momentum in efforts to change.

AI focuses on leveraging an organization’s “positive core” strengths to design systems within an organization that can achieve a more effective and sustainable future, and



to select an “affirmative topic” that not only represents what people really want to discover or learn more about, but is intended to evoke conversations about a desired future. Once one or more affirmative topics are identified, AI initiatives are implemented using its “4-D Cycle” methodology.

The 4-D Cycle starts with a “**Discovery Phase**” to identify and appreciate the best of “what is”. The second step is the “**Dream Phase**” where a future is envisioned based on grounded examples from an organization’s positive past. The third step is the “**Design Phase**” – considered key to sustaining positive change – when attention turns to creating the ideal organization in order for an organization to achieve its dream. The “**Destiny Phase**” delivers on the new images of the future and is sustained by nurturing a collective sense of purpose.

Recommendation 1b

The Public Utilities Commission should, with respect to strategic planning, develop and implement a multi-year strategic plan, separate from the annual report, and ensure the PUC's routine self-evaluation of the plan including the assessment of achieved objectives and goals.

Implemented

Comments

At the end of 2020, the PUC, with the assistance of its consultant, finalized its multi-year 2020-2022 PUC Strategic Plan. The plan focuses on achieving two main priority goals – establishing well-documented, modernized policies and procedures by 2023 and creating a work environment that fosters organizational success by 2022. The plan was distributed internally and is available on the PUC's website.

In addition to the two main goals, the plan identifies eight objectives considered necessary to achieving the plan's two priority goals. Thus far, the PUC has developed action plans for six of the eight objectives identified. These action plans describe actions necessary to achieve the specific objectives. As part of the planning process, responsibilities for key actions are assigned; deadlines are also established and indicators of success for certain actions identified. The plans allow for routine evaluation by the PUC.

The two remaining objectives for which the PUC has not developed specific action plans are related to the PUC's larger project to replace its current DMS. The PUC represents these objectives are being addressed with the help of additional consultants. According to a project timeline provided by a consultant hired by the PUC, the replacement of the current DMS is anticipated to be completed toward the end of the 2023 fiscal year. The current timeline is consistent with Goal 1 of the 2020-2022 PUC Strategic Plan.

In addition to action planning meetings held in November and December 2020, the PUC anticipates regular steering committee meetings and action plan working group meetings will begin in 2021 to assess progress made on the objectives and two main priority goals stated in the 2020-2022 PUC Strategic Plan.

Recommendation 1c

The Public Utilities Commission should, with respect to strategic planning, ensure that the strategic plan specifically includes a well-defined mission statement and vision statement which clearly articulates short- and long-term objectives, detailed action plans to achieve specific objectives, prioritized goals, performance measurements identifying target milestones, and the ability to monitor and track progress towards achieving the strategic plan.

Implemented

Comments

The PUC's current strategic plan includes a vision statement, a mission statement, a statement on how the PUC fulfills its mission, and core values for the PUC. The 2020-2022 PUC Strategic Plan itself focuses on the PUC's two main priorities: establishing well-documented, modernized policies and procedures by 2023, and creating a work environment that fosters organizational success by 2022.

The plan includes eight objectives with detailed action plans to achieve each of the objectives. As noted above, the PUC has developed action plans for six of the eight objectives identified. These plans identify parties responsible for accomplishing each action item. The plans also identify related deadlines and indicators of success. These indicators are used to monitor the PUC's progress on each action and objective, as well as progress on the two primary goals of the 2020-2022 PUC Strategic Plan.

While the PUC describes its mission and vision statements as overarching, the goals and objectives cited in the 2020-2022 PUC Strategic Plan are comprised of detailed action plans and measurements of performance which, in turn, support the PUC's vision and mission statements.

We believe the strategic plan includes enough specificity to satisfy this recommendation.

Recommendation 1d

The Public Utilities Commission should, with respect to strategic planning, ensure that the strategic plan is communicated to internal and external stakeholders.

Implemented

Comments

Pursuant to the contract's scope of services, and as part of the strategic planning and professional services provided, the PUC's consultant interviewed fourteen external stakeholders to gain insight on the PUC's strengths and challenges, as well as future trends for planning purposes. The consultant also conducted a two-day strategic planning retreat that included all PUC staff.

The PUC's new vision and mission statements, the 2020-2022 PUC Strategic Plan and the PUC's Values in Practice – developed through the PUC's strategic planning process – were transmitted directly to the Department of Commerce and Consumer Affairs in November 2020. The information was also included in the State of Hawai'i Public Utilities Commission Annual Report for Fiscal Year 2020, issued in December 2020. The same information has also been posted on the PUC's webpage.

Based on the foregoing, we concluded the PUC communicated with internal and external stakeholders as part of the strategic planning process.

Recommendation 1e

The Public Utilities Commission should, with respect to strategic planning, ensure that the strategic plan specifically addresses the PUC's role in facilitating larger State goals, including the State's goal of 100 percent renewable energy by 2045.

Implemented

Comments

While not explicitly stated in the 2020-2022 PUC Strategic Plan, the PUC represents the State's goal of 100 percent renewable energy by 2045 was discussed during the strategic planning process. According to the PUC, the Commission identified what it felt was needed to allow staff to more effectively do their work as regulators of the State's utility companies, renewable energy sector, and other regulated industries. According to the PUC, its efforts during the strategic planning process

resulted in the prioritization of two goals – establishing well-documented, modernized policies and procedures, and creating a work environment that fosters organizational success. Together, with improvements to the current DMS that are expected with a new Case and Document Management System, the PUC believes it will be in a better position to help the State achieve its clean energy goals.

Based on the foregoing, we concluded the PUC has ensured that the strategic plan appropriately addresses its role as regulators in facilitating larger state goals, including the State’s goal of 100 percent renewable energy by 2045.

Recommendation 1f

The Public Utilities Commission should, with respect to strategic planning, develop and implement multi-year strategic workforce, retention, and succession plans that align with the PUC’s strategic plan.

Partially Implemented

Comments

The second goal of the 2020-2022 PUC Strategic Plan states that by 2022, the PUC will create a work environment that fosters organizational success. To meet this goal, the PUC’s strategic plan identifies five objectives, including (1) the use of human resources industry best practices, (2) identifying and securing professional development opportunities, (3) optimization of communications, (4) development of standardized and section-specific training for new employees, and (5) the design of an employee retention program. Action plans for these five objectives have been developed and progress is being monitored.

However, the action plan to ensure the PUC’s human resources practices build on or meet industry best practices has yet to identify indicators of success, at least in part because of unexpected departures from the PUC’s human resources staff. This particular action plan indicates that specific actions required for the development of strategic workforce retention and succession plans are not expected to be completed until the fourth quarter of 2021. The PUC has confirmed both the information and timeline for completion.

Based on the foregoing, although the 2020-2022 PUC Strategic Plan represents meaningful movement to address the areas of the organization’s workforce, retention, and succession plans for the PUC, full development of those plans has not yet been completed.

Recommendation 1g

The Public Utilities Commission should, with respect to strategic planning, perform annual formal performance evaluations of all employees.

Not Implemented

Comments

The second goal of the 2020-2022 PUC Strategic Plan requires the PUC to create a work environment that fosters organizational success by 2022. The PUC has stated it recognizes the importance of fostering personal and professional development for staff and that employee performance assessments are an important tool in providing constructive feedback to help an employee succeed. One of the tasks the PUC identified as an important means to accomplish this goal is to update the annual performance review process and content. That task has not yet been implemented.

Specifically, although the PUC established a New Performance Appraisal Program, the establishment of criteria based on industry best practices has been delayed, at least in part by the recent hiring of a human resources specialist and assistant. Accordingly, training initially scheduled for the PUC supervisors in November and December 2020 is now expected to occur by the end of June 2021.

Moreover, the status of employee performance reviews is currently tracked on spreadsheets provided to PUC supervisors. A review of those spreadsheets indicates that, as of November 2020, the PUC has not conducted 45 employee performance reviews during the past two evaluation periods.

Accordingly, and notwithstanding the inclusion of the PUC's updated employee performance review process in the 2020-2022 PUC Strategic Plan, data provided by the PUC does not support that annual formal performance evaluations of all employees were performed in 2019 or in 2020.

Recommendation 1h

The Public Utilities Commission should, with respect to strategic planning, conduct and document exit interviews.

Implemented

Comments

The second goal of the 2020-2022 PUC Strategic Plan requires the PUC to create a work environment that fosters organizational success by 2022. As part of its Human Resources action plan, the PUC is working to review an exit interview questionnaire and looking for ways to improve the questions to generate more meaningful responses. The PUC hopes to incorporate the results from these exit surveys into an employee culture survey to track its employees' satisfaction.

We reviewed exit interview forms from twelve employees who separated from the PUC between July 31, 2018, and December 31, 2020, and were provided an opportunity to submit comments in the form of a PUC Employee Exit Interview Form. Of twelve former employees identified by the PUC, ten employees provided responses to the exit interview form.

Based on the foregoing, we concluded that with respect to strategic planning, the PUC has conducted and documented exit interviews.

Recommendation 2a

The Public Utilities Commission should, with respect to docket processing, develop, establish, and implement official policies and procedures over the docket process.

Implemented

Comments

A duty of the PUC is to protect the public interest by overseeing and regulating all chartered, franchised, certificated, and registered public utility companies that provide electricity, gas, telecommunications, private water and sewage, and motor and water carrier transportation services in the state. The PUC's primary mechanism for conducting this regulatory oversight is through docketed proceedings managed through the PUC's docket management process. A docket may be as straightforward as an application for a motor carrier license or as complex as a utility's request to increase the rates charged to its customers. New docketed proceedings can be initiated based on a request by a regulated entity or by the PUC's own motion. Docket management activities are case specific and may include reviewing

submitted filings, conducting analysis and research, facilitating hearings, summarizing findings of fact and conclusions of law, making recommendations in informal communications and formal memorandums, and drafting and finalizing decision and order documents.

In response to our report and in preparation to issue a Request for Proposals for a case and document management system solutions integrator, the PUC worked with a consultant to develop workflow diagrams for forty-two business processes, including seven processes related to docket management. The docket workflow diagrams also include information about the lead attorneys assigned upon the creation of a docket.

To promote better communication PUC commissioners are now assigned to major dockets, serving as a primary interface between the docket team and the Commission itself. Weekly meetings with each sections' senior managers are held to review progress and provide feedback on priority dockets.

Based on the foregoing, we concluded the PUC has implemented this recommendation.

Recommendation 2b

The Public Utilities Commission should, with respect to docket processing, document, clarify, and communicate the roles and responsibilities of docket team members.

Implemented

Comments

In preparing a Request for Proposals for a case and document management system solutions integrator, the PUC worked with a consultant to update its docket management procedures and documented workflow diagrams for forty-two processes. These forty-two processes included seven workflows related to docket-management and include references to sub-process workflows that assign responsibility for specific tasks, clarifying roles and responsibilities of docket team members. Lead attorneys are assigned to a docket upon its creation and, as docket team leaders, are responsible for the docket team during the docket management process.

A copy of the RFP was disseminated internally by the PUC via email along with an exhibit containing the forty-two processes discussed above. To improve communication within the PUC, commissioners are now assigned to major dockets, serving as a primary interface

between the docket team and the Commission itself. Progress on priority dockets is also monitored during weekly meetings with senior managers and section heads, allowing feedback to be provided as necessary.

Based on the foregoing, we concluded the PUC has implemented this recommendation.

Recommendation 3a

The Public Utilities Commission should, with respect to information technology (IT), develop and implement an IT strategy that aligns with the PUC's strategic plan and current needs, and which involves internal and external stakeholders, including the consumer advocate.

Implemented

Comments

The first goal of the 2020-2022 PUC Strategic Plan is to establish well-documented, modernized policies and procedures by 2023. To achieve this goal, the PUC strategic plan cites three objectives: (1) to document the current state of the document management system processes and identify immediate and interim improvements and critical policies; (2) to document the current state of the non-docket processes and identify immediate and interim improvements and critical policies; and (3) to upgrade PUC-wide IT to provide a streamlined, user-friendly docket management system, including initially selected processes.

The PUC's DMS directly impacts all of the PUC docket workflows. According to the PUC, issues with the current DMS came up so often, the PUC decided to address DMS as its own project. A study was done in 2018 to determine the feasibility for the enhancement or replacement of DMS and concluded with a recommendation for a total system replacement. As a result, the PUC developed a process that included soliciting consultants to develop an RFP to determine the requirements for the replacement of the current DMS, an RFP to solicit and select a vendor and solutions integrator, and an RFP to solicit and select independent verification and validation contractors, as required.

Pursuant to this process, the PUC hired a consultant to help determine the requirements for the replacement of DMS, work with PUC staff to create process maps, and develop subsequent RFPs to upgrade the PUC information technology system.

To help determine the requirements for replacing DMS, the PUC's consultant attempted to contact 33 stakeholders to get their feedback on the current DMS as well as the desired IT system upgrades. Ultimately, 23 stakeholders representing electric, gas, telecommunications, water and wastewater, motor carrier, and water carrier industries, the state's consumer advocate, and other identified intervenors participated. With the help of its consultant, and in preparation to issue a Request for Proposals for a case and document management system solutions integrator, the PUC also developed workflow diagrams for forty-two processes.

Moreover, the PUC recently awarded a contract for a systems integrator to design, configure, and implement a new Case and Document Management System and integrated workflow solution, which will replace the current DMS system. An RFP for the independent verification and validation contractors is expected to be completed by June 30, 2021.

Based on the above, we concluded the PUC has developed an IT strategy. The strategy aligns with the PUC's strategic plan and current needs and involved internal and external stakeholders, including the state's consumer advocate. Although the new Case and Document Management System is not expected to be operational until 2023, we concluded the PUC has developed and continues to implement an IT strategy that aligns with its strategic plan.

Recommendation 3b

The Public Utilities Commission should, with respect to information technology (IT), complete the Request for Information as soon as possible to avoid additional maintenance costs for the current system.

Not Implemented - N/A

Comments

At the time of our audit in 2018, it was reported PUC staff had been meeting with various vendors and was in the process of drafting a Request for Information (RFI), which would allow the PUC to start to assess vendor systems and to determine if the DMS system could be upgraded or replaced.

After Report No. 18-05 was completed, the PUC reportedly had discussions with the state's Enterprise Technology Services and the Information Systems and Communications Office at the Department of Commerce and Consumer Affairs to discuss the best approach to upgrade the PUC's DMS. Based on the recommendations from these

IT experts, the PUC issued an RFP in 2018 for a feasibility study on the enhancement or replacement of DMS.

The feasibility study was completed in 2018 and included an assessment of the current system as well as the requirements of Commission staff and other parties. Based on the feasibility study, a recommendation was made to replace the current system, and the PUC developed a strategy to achieve this objective.

The PUC recently awarded a contract for a systems integrator to design, configure, and implement a new Case and Document Management System and integrated workflow solution, which will replace the current DMS.

Although the PUC did not issue a RFI as initially intended and as recommended in Report No. 18-05, the RFP and contract for a feasibility study as well as the PUC's strategic plans to replace DMS appear to meet the original intent of the recommended RFI. Accordingly, we concluded circumstances have changed such that this recommendation is no longer applicable.