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**“Should we be spending more money on something that officially has no value to us?”**

***– Department of Transportation official when asked if the State was maintaining the idle and rusting barges once used in Superferry operations.***

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

**Report No. 12-01, February 2012**

## *Less than one-third of 2008 recommendations have been implemented; State liable for $63 million in Superferry expenses*

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 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 is 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 has 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 remain open, with little progress made. Most notably, the past issue of tightening controls over the use of Hawaiian Studies Program funds still remains. With a reported annual budget of $2.6 million in the last fiscal year, the department and the Hawaiian Studies Program administrator need to develop a means to ensure accountability over funds. We determined that 8 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. For example, the system’s flow of water would increase if at least some of the air-relief valves were replaced. At the time of our field work, 16 of 17 valves were inoperable. Exacerbating the problem was the large workload shared among a small staff.

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

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over operations and maintenance, acquiring needed materials and supplies, evaluating large-scale projects and entering into contracts to pursue those projects, and working with the Legislature to make statutory changes specific to the system's advisory board. Of Report No. 08-03'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), the fourth-largest public hospital system in the nation, 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 to respond to the health care needs of its specific communities, the Legislature enacted Act 290, which established regional system boards. As a result, 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 are not clearly delineated. In addition, the corporate management office's power to intervene and assist other regions when warranted has been curtailed. The corporation acknowledges there are areas for improvement but would like to address these shortcomings through collaborative internal policy development.

## *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 inter-island 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 the Big 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. Driving this process was Hawaii Superferry, Inc. and its claim that it had to have all environmental clearances in place by June 30, 2005. In our audit, 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 of Hawai‘i will be paying approximately $63 million in Superferry-related expenses, which inlcudes $60 million for the general obligation bond liability and related interest through fiscal year end 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 Big Island barge *Kūpa‘a*, 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 intends to sell the barges, plans were put on hold.

**"This administration does not have much of an appetite for dealing with these rules."**

***– Environmental Council member after voting to postpone all future meetings until conditions improved.***

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