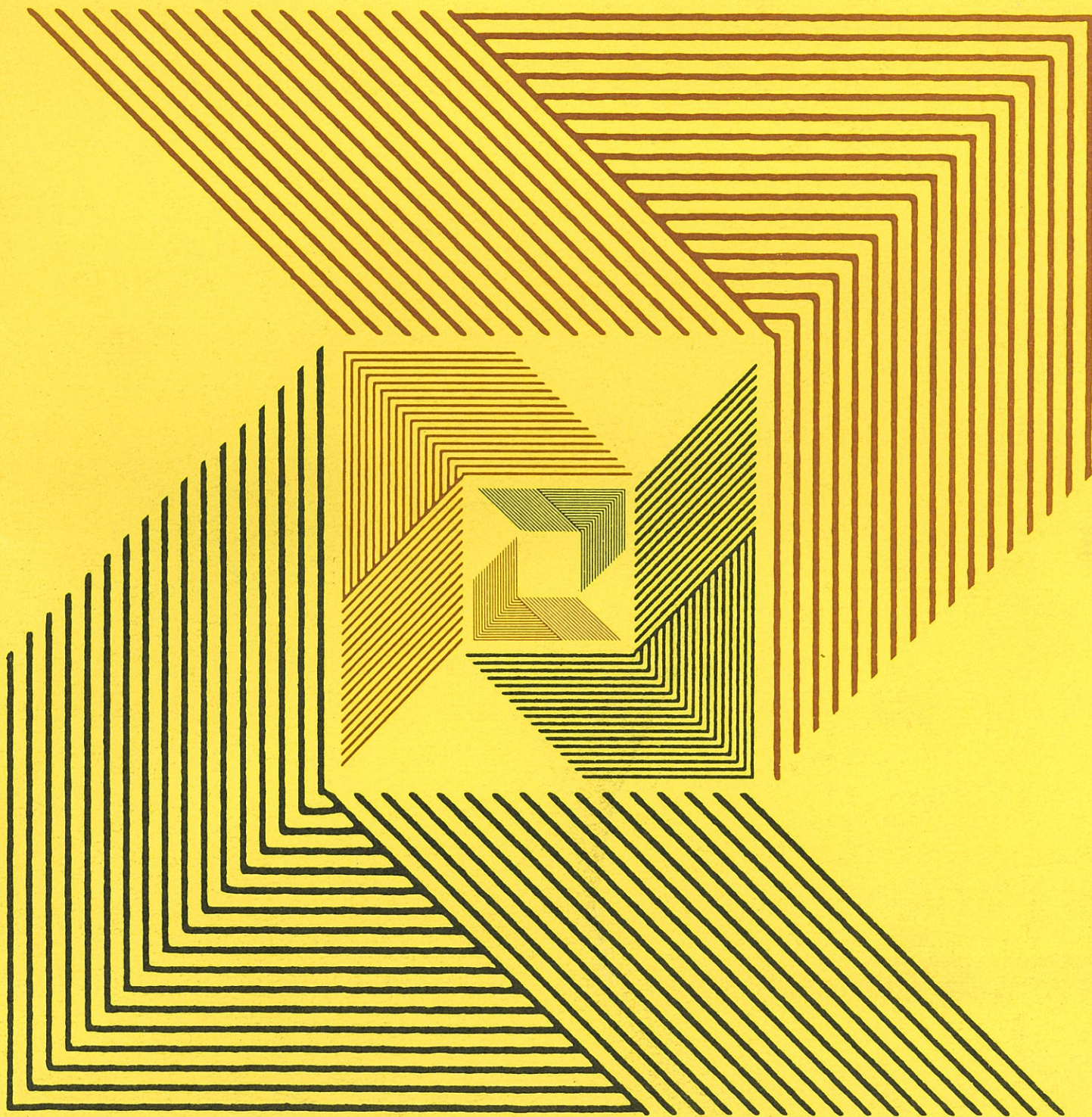


FINANCIAL AUDIT OF THE DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

A REPORT TO THE GOVERNOR AND THE LEGISLATURE OF THE STATE OF HAWAII



THE OFFICE OF THE LEGISLATIVE AUDITOR

The office of the legislative auditor is a public agency attached to the Hawaii State legislature. It is established by Article VI, Section 7, of the Constitution of the State of Hawaii. The expenses of the office are financed through appropriations made by the legislature.

The primary function of this office is to strengthen the legislature's capabilities in making rational decisions with respect to authorizing public programs, setting program levels, and establishing fiscal policies and in conducting an effective review and appraisal of the performance of public agencies.

The office of the legislative auditor endeavors to fulfill this responsibility by carrying on the following activities.

1. Conducting examinations and tests of state agencies' planning, programming, and budgeting processes to determine the quality of these processes and thus the pertinence of the actions requested of the legislature by these agencies.
2. Conducting examinations and tests of state agencies' implementation processes to determine whether the laws, policies, and programs of the State are being carried out in an effective, efficient and economical manner.
3. Conducting systematic and periodic examinations of all financial statements prepared by and for all state and county agencies to attest to their substantial accuracy and reliability.
4. Conducting tests of all internal control systems of state and local agencies to ensure that such systems are properly designed to safeguard the agencies' assets against loss from waste, fraud, error, etc.; to ensure the legality, accuracy and reliability of the agencies' financial transaction records and statements; to promote efficient operations; and to encourage adherence to prescribed management policies.
5. Conducting special studies and investigations as may be directed by the legislature.

Hawaii's laws provide the legislative auditor with broad powers to examine and inspect all books, records, statements, documents and all financial affairs of every state and local agency. However, the office exercises no control functions and is restricted to reviewing, evaluating, and reporting its findings and recommendations to the legislature and the governor. The independent, objective, and impartial manner in which the legislative auditor is required to conduct his examinations provides the basis for placing reliance on his findings and recommendations.



**LEGISLATIVE AUDITOR
STATE CAPITOL
HONOLULU, HAWAII 96813**

FINANCIAL AUDIT OF THE
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
STATE OF HAWAII
FISCAL YEAR ENDED JUNE 30, 1971

Conducted by
Peat, Marwick, Mitchell & Co.
Certified Public Accountants

A Report to the Governor and the Legislature of the
State of Hawaii

Submitted by the
Legislative Auditor of the State of Hawaii

Audit Report No. 72-3
January 1972

FOREWORD

This financial audit report is the result of the examination of the financial statements and records of the State department of labor and industrial relations for the fiscal year ended June 30, 1971. The audit was conducted by Peat, Marwick, Mitchell & Co., certified public accountants.

The audit was performed in accordance with the generally accepted auditing standards adopted by the membership of the American Institute of Certified Public Accountants. In addition, the audit was governed by the *Specifications and Instructions for Submitting Proposals for the Audit of the State Department of Labor and Industrial Relations*, issued by our office.

This report is divided into three parts. Part I, Accountants' Reports—Financial Statements and Schedules, displays the financial statements of the department and includes the auditors' opinion as to the reasonable accuracy of the financial statements. Part II, Examination of Specific Areas of Concern, includes the auditors' evaluation of the adequacy and effectiveness of the department's management information system and the adequacy of the financial records and controls. In addition, the policies, practices and operating procedures in certain areas were examined. These include the activities of the workmen's compensation division, temporary disability insurance division, employment service division, and the practices and procedures relative to the rental of office facilities.

It is our practice to request the agency audited to submit in writing its comments on the findings and recommendations and to indicate what action has been or will be taken. Agency response resulting from this audit is included in Part III of this report titled, Comments by the Affected Agency.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the officers and staff of the department of labor and industrial relations.

Clinton T. Tanimura
Legislative Auditor

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

June 30, 1971

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**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

INTRODUCTION

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

INTRODUCTION

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PEAT, MARWICK, MITCHELL & Co.

CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL PLAZA OF THE PACIFIC

P. O. BOX 4150

HONOLULU, HAWAII 96813

Legislative Auditor, State of Hawaii
Honolulu, Hawaii

Dear Sir:

We have completed an examination of the financial statements of the State of Hawaii, Department of Labor and Industrial Relations, for the year ended June 30, 1971 and submit herein our report containing our opinions on the financial statements, together with certain comments and recommendations relating to internal controls and accounting procedures.

OBJECTIVES AND SCOPE OF THE EXAMINATION

The primary purpose of our examination was to form an opinion as to the fairness of the representations as to the financial positions of the Funded Programs and Special Funds of the Department of Labor and Industrial Relations (DLIR) and the results of their operations. The nature of the operations of a governmental agency suggests that the objectives of such an examination be somewhat more comprehensive as public funds and trust are involved. The "Specifications for the Financial Audit of the State Department of Labor and Industrial Relations" issued by the office of the Legislative Auditor defines the objectives of the examination as follows:

1. To provide a basis for an opinion by the auditor of the reasonable accuracy of the financial statements of the Department of Labor and Industrial Relations;
2. To ascertain whether or not expenditures have been made and all revenues and other receipts to which the State is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the Federal Government (where applicable);
3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the Department with the proper information to plan, evaluate, control and correct program activities; and
4. To evaluate the adequacy, effectiveness and efficiency of the systems and procedures for financial accounting and internal control, and to recommend improvements to such systems and procedures.

In addition, our contract provides that we should review and report on specific areas of concern in DLIR, including the following:

1. The Department's information system.
2. The Department's financial management practices and fiscal controls.
3. The claims processing and records management system in the Workmen's Compensation Division.
4. The Temporary Disability Insurance Program.
5. The Department's practices and procedures relative to the rental of facilities.
6. The information program of the Employment Service Division.

SUMMARY OF FINDINGS

Our findings are described in detail in Part 2 of this report. A broad summary of our findings in each of the specific areas of concern is presented in the following paragraphs:

(a) Information System

- . Serious weaknesses exist in the timeliness and accuracy of the internal reporting systems.
- . Systems for meeting Federal reporting requirements are not integrated to produce information required by internal management.
- . Fiscal reports for most Special Funds are either nonexistent or inadequate for effective management of fund assets.
- . Major weaknesses in the accounting and internal control systems of the Job Corps Center result in reports which are totally inadequate for effective fiscal management and control.

(b) Financial Management Practices and Fiscal Controls

- . Improved effectiveness in accounts receivable collections and cash forecasting could provide an estimated \$500,000 of funds available for short-term investments.
- . Schedules of operating costs allocated to and paid for by the Federal Government have not been updated for ten years, resulting in an under-reimbursement to the State of an undetermined amount.
- . Reimbursable costs for depreciation and insurance have not been charged to Federal programs.
- . Reimbursable costs for employers' payroll taxes have not been charged to the Job Corps program.

(c) Workmen's Compensation Division

- . Present claims processing and records management procedures are largely ineffective.
- . A backlog of approximately 50,000 unprocessed and unfiled claims documents exists. Inability to process this backlog has resulted in erroneous and untimely statistical reporting.
- . Duplicate case files are unnecessarily maintained for neighbor island cases.
- . Many of the records have faded into illegibility with the passage of time, yet present retention requirements extend to 60 years.

(d) Temporary Disability Insurance (TDI) Program

- . Payment of disability benefits, withholding contributions, and the equivalency of plans and experience data are not adequately covered in the implementation plan for the TDI program.
- . Audits of financial statements, special assessment reports, and employer records are the primary means of ascertaining compliance with the TDI law.
- . Statements regarding policy and legal interpretations are not maintained in a manual for easy reference.
- . Certain essential activities of the TDI Division were observed to be inadequately performed :
 - Assisting the Administrator in the preparation of the budget.
 - Developing and drafting the Division PPB.
 - Researching and drafting legislative proposals.
 - Drafting procedural manuals, guidelines, forms, etc.
 - Developing handbooks, brochures for employees, employers and insurance carriers.
 - Preparing policy statements and legal interpretations.
 - Compiling workload statistics and preparing periodic reports.
 - Assisting the Administrator with development and formulation of Division plans.

(e) Rental of Facilities

- . Internal procedures are adequate to meet the future requirements of the Department. However, several key deficiencies exist:
 - Internal procedures have not been formally documented and included in prescribed departmental operating manuals and other appropriate documentation.
 - Internal requests for additional space have not been submitted to the Fiscal Office properly documenting specific space needs and attendant justification for these needs.
- . In cases where the provisions of Administrative Directive 1970-3 applied, documented requests for space were not submitted by the Department to DAGS. In the specific instance relative to the rental of the Tani Building, internal departmental control over the rental process was inadequate.
- . Except in the case of the Employment Service Division, present leased facilities are not directly correlated to specific facilities needs resulting from program and organizational requirements.
- . Primarily because of the lack of on-going exposure and accessibility to the rental market, Department personnel are not normally in the best position to expeditiously perform the detailed mechanics of the property rental process - e.g., property search, lease negotiations, etc.

(f) Employment Service (ES) Division Information Program

The ES information program, given its present structure and approach, lacks the proper mechanisms for inducing a significant increase in the demand for ES services above existing levels. Major deficiencies in this regard are as follows:

- . The media presently utilized are inadequate to reach and influence the actual recipients of ES services. As such, some of the people in the "market" groups are not being effectively addressed.
- . The ES Division does not have a division-wide program, supplemental to existing practices, which is totally directed towards "selling" ES programs and the specific services which are available within the Division.

ORGANIZATION OF THE REPORT

This report has been organized into two parts as follows:

1. Part 1 entitled "Accountants' Reports" contains the financial statements and schedules of the State of Hawaii, Department of Labor and Industrial Relations, for the year ended June 30, 1971, our opinion as to the fairness of the presentation of these statements, and explanatory comments on certain items included in the statements.

2. Part 2 entitled "Examination of Specific Areas of Concern" contains our findings and general recommendations relating to the specific study areas provided in our contract and is organized into six separate sections, corresponding to each of the areas of concern addressed during our examination.

* * * * *

We wish to express our appreciation for the cooperation and courtesies extended our representatives by the personnel of the Department of Labor and Industrial Relations.

Very truly yours,

Peat, Marwick, Mitchell & Co.

**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

Part 1

**ACCOUNTANTS' REPORT
FINANCIAL STATEMENTS AND SCHEDULES**

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Part 1

Accountants' Reports

Financial Statements and Schedules

June 30, 1971

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**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

Part 1

Financial Statements and Schedules

INTRODUCTION

The Department of Labor and Industrial Relations administers programs of apprenticeship, labor law enforcement, workmen's compensation, industrial safety, employment services, unemployment insurance, temporary disability insurance, and manpower development and training, to increase the economic security, physical and economic well-being and productivity of workers, and to achieve good labor-management relations in the State. The Hawaii Employment Relations Board, Hawaii Public Employment Relations Board and the Labor and Industrial Relations Appeals Board are placed within the Department of Labor and Industrial Relations (DLIR) for administrative purposes only.

This section of the report contains the financial statements of the State Funded Programs, Federally Funded Employment Security Program, Federally Funded Job Corps Program, and Special Funds of the State of Hawaii, Department of Labor and Industrial Relations, for the year ended June 30, 1971, our opinions as to the fairness of the presentation of these statements and explanatory comments on certain items included in the statements.

Accountants' Report

The primary purpose of our examination was to enable us to form an opinion as to the financial positions of the Funds and Programs of the State of Hawaii, Department of Labor and Industrial Relations, for the year ended June 30, 1971. The accountants' opinion represents the conclusion of the independent accountant regarding the fairness of the representations set forth in the financial statements, and the accountants' report is used to communicate such conclusion to interested parties. Since major weaknesses exist in the accounting records of the Federally Funded Job Corps Program and because an effective system of internal control has not been established (see - Part 2, Section 1, Chapters III and IV of this report), we express no opinion on the financial position or results of operations of the Federally Funded Job Corps Program for the year ended June 30, 1971.

Notes to Financial Statements

Notes to financial statements are used to disclose material facts relating to the financial statements required to present fairly financial position and results of operations.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Glossary of Selected Terms Used in Financial Statements

The following is a glossary of certain accounting terms associated with the financial statements:

Appropriations - Authorizations granted by a legislative body to make expenditures and to incur encumbrances for specific purposes. An appropriation is usually limited in amount and as to the time when it may be expended.

Appropriated receipts - Receipts, which are received and designated to be used for specific purposes, accounted for within the appropriation rather than a special fund.

Encumbrances and obligations - Commitments in the form of purchase orders or contracts which are chargeable to an appropriation (or obligational authority) and for which a part of the appropriation (or obligational authority) is reserved. They cease to be encumbrances when paid or when the actual liability is set up as warrants payable.

Expenditures - Cost of goods delivered or services rendered, whether paid or unpaid, including expenses, not reported as a liability of the fund from which retired, and capital outlays. Expenditures are distinguished from encumbrances (and obligations) in that expenditures relate to goods delivered or services rendered whereas encumbrances represent commitments for goods to be delivered or services to be rendered and for which no actual liability has been incurred.

Lapses - Denotes the termination of an appropriation or obligational authority.

Obligational authority - Authorizations granted by a Federal governmental agency to make expenditures and to incur obligations for specific purposes. Like an appropriation, an obligational authority is usually limited in amount and as to the time when it may be expended. However, see unallotted obligational authorities.

Transfer - Authorized allocation of an appropriation from or to another State department.

Unallotted obligational authority - The balance of an obligational authority which has not been expended or encumbered and is carried forward to the ensuing year until revoked or the purpose for which the funds were granted is completed.

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
FINANCIAL PLAZA OF THE PACIFIC
P. O. BOX 4150
HONOLULU, HAWAII 96813

Legislative Auditor, State of Hawaii
Honolulu, Hawaii:

We have examined the statement of changes in fund balance of the State Funded Programs of the State of Hawaii, Department of Labor and Industrial Relations, for the year ended June 30, 1971. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statement presents fairly the information presented therein of the State Funded Programs of the State of Hawaii, Department of Labor and Industrial Relations, for the year ended June 30, 1971, in conformity with generally accepted accounting principles. The supplementary data included in Schedules 1 and 2 have been subjected to the same auditing procedures, and, in our opinion, are stated fairly in all material respects when considered in conjunction with the basic financial statement.

Peat, Marwick, Mitchell & Co.

November 26, 1971

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

State Funded Programs

Statement of Changes in Fund Balance

Year ended June 30, 1971

Fund balance, July 1, 1970 - unliquidated encumbrances

\$ 242,516

Additions:

Appropriations:

Act 175, Session Laws of Hawaii 1970:

Administration	\$ 320,898
Apprenticeship	81,675
Labor Law Enforcement	280,808
Workmen's Compensation	313,304
Industrial Safety	359,885
Hawaii Employment Relations Board	27,278
Computer Center No. II	80,618
Temporary Disability Insurance	266,460
Manpower Development and Training	326,437
Labor and Industrial Relations Appeals Board	<u>121,470</u>
	2,178,833

Act 171, Session Laws of Hawaii 1970 - Public Employment Relations Board

\$ 2,453,075

Appropriated receipts to Computer Center No. II from:

State of Hawaii - Department of Taxation

DLIR - Federally Funded Employment Security Programs

164,480
<u>220,064</u>
<u>384,544</u>

Total additions

2,837,619

3,080,135

Deductions:

Expenditures:

1970

1971

Costs allocated by Federally Funded Employment Security Programs to State Funded Programs for joint programs

Transfer

Lapses

208,460

\$ 2,206,015

2,509,329

83,000

250,404

Total deductions

2,842,733

Fund balance, June 30, 1971:

Unliquidated encumbrances, July 1, 1970

Unliquidated encumbrances, June 30, 1971

15,916

222,206

Total

\$ 237,402

See accompanying notes to financial statement.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

State Funded Programs

Notes to Financial Statement

June 30, 1971

(1) State Funded Programs

Appropriations for State Funded Programs are used to administer programs of apprenticeship, labor law enforcement, workmen's compensation, industrial safety, temporary disability insurance, manpower development and training (MDTA) and to provide computer services for certain divisions within the Department. The Hawaii Public Employment Relations Board, Hawaii Public Employment Relations Board and the Appeals Board are under DLIR for administrative and budget purposes only.

(2) Accounting Principles and Procedures

The accounting system of the State of Hawaii was installed under the provisions of Act 181, Session Laws of Hawaii 1923, as amended by Act 220, Session Laws of Hawaii 1925. Under the authority granted to the Comptroller by Section 34-17, Revised Laws of Hawaii 1955, modifications in the system have been made from time to time to meet the many changes which have taken place with regard to the Territorial and State governments in the intervening years. Summarized below are the principles and procedures currently in effect for State Funded Programs.

(a) Basis of Accounting for Revenues:

Revenues are recorded when collected in cash.

(b) Basis of Accounting for Expenditures and Encumbrances:

Expenditures are recorded at the time vouchered for payment. At the end of a fiscal year, existing liabilities for which payment is due are vouchered and recorded as expenditures as of the end of the year. Other liabilities for which payment is not due and obligations in the form of open purchase orders are recorded as encumbrances at the end of a fiscal year and are not recorded as expenditures until the liability for payment is incurred.

(3) Commitments

- (a) The Department operates from office space under leases expiring at various dates to 1991. Annual rental under these leases approximates \$95,000.
- (b) Within certain limitations, employees of the State of Hawaii are entitled to receive cash payments for accumulated vacation pay upon termination of their employment. The State Legislature does not follow a policy of appropriating funds for such terminal vacation pay; therefore, current earned vacation pay, to the extent of vacations not taken by employees, is not charged against current operations, and the liability for such accumulated vacation pay is not reflected in the accompanying financial statement.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

State Funded Programs

Schedule of Changes in Fund Balance

Year ended June 30, 1971

	Unliquidated encumbrances, July 1, 1970	Appropriations	Appropriated receipts	Transfers in (out)	Expenditures	Lapses	Unliquidated encumbrances 1971	1970
Administration	\$ 28,662	320,898	-	-	303,519	13,784	7,666	1,921
Apprenticeship	28	81,675	-	-	71,287	10,330	58	-
Labor Law Enforcement	126	280,808	-	-	260,953	19,113	742	-
Workmen's Compensation	15,252	313,304	-	-	304,942	6,056	2,306	-
Industrial Safety	1,246	359,885	-	(43,470)	299,765	16,596	75	-
Hawaii Employment Relations Board	34	27,278	-	-	26,934	344	-	-
Computer Center No. II	1,455	80,618	384,544	-	393,858	71,365	204	-
Temporary Disability Insurance	91,112	266,460	-	43,470	233,454	6,999	69,900	13,275
Manpower Development and Training	103,700	326,437	-	(83,000)	168,708	16,941	71,825	-
Labor and Industrial Relations Appeals Board	901	121,470	-	-	116,523	4,368	622	-
Hawaii Public Employment Relations Board	-	274,242	-	-	120,926	84,508	68,808	-
Total	\$ 242,516	2,453,075	384,544	(83,000)	2,300,869	250,404	222,206	15,196

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
State Funded Programs

Schedule of Expenditures and Unliquidated Encumbrances

Year ended June 30, 1971

	Administration	Apprenticeship	Labor Law Enforcement	Workmen's Compensation	Industrial Safety	Hawaii Employment Relations Board	Computer Center No. II	Temporary Disability Insurance	Manpower Development and Training	Labor and Industrial Relations Appeals Board	Public Employment Relations Board	Total
Personal services	\$ 195,479	65,792	244,499	264,544	275,555	22,195	166,997	190,150	3,337	95,295	65,244	1,589,087
Building and equipment rentals	3,707	-	539	12,756	-	1,669	225,639	24,069	-	13,938	31,733	314,050
Training costs and allowances	-	-	-	-	-	-	-	-	216,260	-	-	216,260
Service fees	111	-	645	155	-	-	-	71,240	-	7	-	95,634
Travel and subsistence	6,819	1,462	7,905	3,536	16,945	1,507	-	6,847	511	3,840	23,476	53,418
Repairs, maintenance and renovation	8,727	85	1,161	715	1,089	35	187	1,005	-	-	4,046	45,004
Materials and supplies	6,890	852	2,068	11,793	3,992	115	1,013	3,519	8	1,208	6,305	37,763
Equipment	6,044	2,090	1,377	5,958	581	244	166	1,652	1,417	646	17,481	37,656
Communications	4,158	760	1,372	3,112	600	99	-	3,424	-	1,393	3,408	18,326
Sundry	2,726	284	636	3,010	629	618	60	902	-	518	2,129	11,512
Printing and binding	-	-	1,493	1,182	121	-	-	471	-	183	1,828	5,278
Dues and subscriptions	670	20	-	487	328	452	-	75	-	117	2,084	4,233
Total	\$ 235,331	71,345	261,695	307,248	299,840	26,934	394,062	303,354	221,533	117,145	189,734	2,428,221

Summary of 1971 expenditures and encumbrances:
Expenditures 2,206,015
Unliquidated encumbrances 222,206
\$ 2,428,221

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL PLAZA OF THE PACIFIC

P. O. BOX 4150

HONOLULU, HAWAII 96813

Legislative Auditor, State of Hawaii
Honolulu, Hawaii:

We have examined the statement of changes in fund balance of the Federally Funded Employment Security Programs of the State of Hawaii, Department of Labor and Industrial Relations, for the year ended June 30, 1971. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statement presents fairly the information presented therein of the Federally Funded Employment Security Programs of the State of Hawaii, Department of Labor and Industrial Relations, for the year ended June 30, 1971, in conformity with generally accepted accounting principles. The supplementary data included in Schedules 1 and 2 have been subjected to the same auditing procedures and, in our opinion, are stated fairly in all material respects when considered in conjunction with the basic financial statement.

Peat, Marwick, Mitchell & Co.

November 26, 1971

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Federally Funded Employment Security Programs

Statement of Changes in Fund Balance

Year ended June 30, 1971

Fund balance, July 1, 1970:					
Unliquidated obligations					\$ 190,076
Unallotted obligational authorities					<u>1,595,541</u>
					1,785,617
Additions, net (obligational authorities):					
Administration				\$ 3,757,730	
Concentrated Employment Program				277,046	
Work Incentive Program				130,000	
Manpower Development and Training				771,883	
Model Cities - Manpower Services				(2,100)	
JOBS Optional Program				95,000	
Other				<u>30,987</u>	
					5,060,546
Total additions					6,846,163
Deductions:					
Expenditures:					
1970				172,686	
1971					
Less costs allocated (note 2):					
DLIR - State Funded Programs			\$ 94,854		
DLIR - Agricultural Unemployment Compensation			11,326		
Administration Fund			<u>69,202</u>		
State of Hawaii Departments, other than DLIR			<u>175,382</u>	4,850,192	
					5,022,878
					<u>331,645</u>
Lapses					5,354,523
Total deductions					
Fund balance, June 30, 1971:					
Unliquidated obligations					541,615
Unallotted obligational authorities					<u>950,025</u>
					<u>\$ 1,491,640</u>

See accompanying notes to financial statement.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Federally Funded Employment Security Programs

Notes to Financial Statement

June 30, 1971

(1) Federally Funded Programs

Sources of financing for the Federally Funded Programs of the Department of Labor and Industrial Relations (DLIR) include Federal Grants, Titles III and IV of the Social Security Act of 1935, as amended; Title II of the Manpower Development and Training Act of 1962, as amended; and Title I of the Economic Opportunity Act of 1964, as amended. Expenditures from these sources are subject to audit and approval by the Federal Government. It is anticipated that there will be no significant changes in recorded amounts.

Federal funds are used by the Unemployment Insurance Division (UID) and the Employment Service Division (ESD) of DLIR. UID administers the unemployment insurance program and provides allowance payment services for persons enrolled in Federal and State training programs. ESD acts as the central and comprehensive manpower services organization in the State. Basic services of the Division include placement, employment counseling, testing, employer relations, industrial services, occupational analysis, manpower and employment information, community services, occupational training, and outreach.

(2) Cost Allocation

Certain expenditures made by Federally Funded Programs are reimbursed by State Funded Programs and by Special Funds for the following items:

- (a) joint personal and nonpersonal costs of Administration and Manpower Development and Training,
- (b) costs of administering the Hawaii Agricultural Unemployment Compensation Law, and
- (c) personal and nonpersonal costs of employment linkages in high schools.

(3) Commitments

- (a) The Department operates from office space under leases expiring at various dates to year 2000. Annual rental under these leases approximates \$225,000.
- (b) Within certain limitations, employees of the State of Hawaii are entitled to receive cash payments for accumulated vacation pay upon termination of their employment. The State Legislature does not follow a policy of appropriating funds for such terminal pay; therefore, current earned vacation pay, to the extent of vacations not taken by employees, is not charged against current operations, and the liability for such accumulated vacation pay is not reflected in the accompanying financial statement.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
Federally Funded Employment Security Programs

Schedule of Changes in Fund Balance

Year ended June 30, 1971

	Administration	Concentrated Employment Program	Work Incentive Program	Manpower Development and Training	Model Cities - Manpower Services	JOBS Optional Program	Other	Total
Fund balance, July 1, 1970:								
Unliquidated obligations	\$ 165,453	5,457	1,424	5,200	823	11,524	195	190,076
Unallotted obligational authorities	-	446,207	405,224	422,406	250,354	71,350	-	1,595,541
Total	<u>165,453</u>	<u>451,664</u>	<u>406,648</u>	<u>427,606</u>	<u>251,177</u>	<u>82,874</u>	<u>195</u>	<u>1,785,617</u>
Additions, net	<u>3,757,730</u>	<u>277,046</u>	<u>130,000</u>	<u>771,883</u>	<u>(2,100)</u>	<u>95,000</u>	<u>30,987</u>	<u>5,060,546</u>
Deductions:								
Expenditures:								
1970	148,242	5,457	1,424	5,080	823	11,524	136	172,686
1971	3,262,305	445,932	224,103	682,347	168,278	40,071	27,156	4,850,192
Lapses	<u>113,559</u>	<u>63,075</u>	<u>3,177</u>	<u>84,041</u>	-	<u>65,303</u>	<u>2,490</u>	<u>331,645</u>
Total deductions	<u>3,524,106</u>	<u>514,464</u>	<u>228,704</u>	<u>771,468</u>	<u>169,101</u>	<u>116,898</u>	<u>29,782</u>	<u>5,354,523</u>
Fund balance, June 30, 1971:								
Unliquidated obligations	399,077	7,517	95,525	8,147	4,068	25,881	1,400	541,615
Unallotted obligational authorities	-	206,729	212,419	419,874	75,908	35,095	-	950,025
Total	<u>\$ 399,077</u>	<u>214,246</u>	<u>307,944</u>	<u>428,021</u>	<u>79,976</u>	<u>60,976</u>	<u>1,400</u>	<u>1,491,640</u>

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Federally Funded Employment Security Programs

Schedule of Expenditures and Unliquidated Obligations

Year ended June 30, 1971

	Administration	Concentrated Employment Program	Work Incentive Program	Manpower Development and Training	Model Cities - Manpower Services	JOBS Optional Program	Other	Total
Personal services	\$ 2,526,543	257,329	123,693	158,175	120,444	16,034	24,546	3,226,764
Personal benefits	367,325	45,358	21,006	27,000	19,590	2,747	1,551	484,577
Trainee allowances	-	109,194	30,285	490,807	-	-	-	630,286
Outside services (A)	394,996	5,032	121,253	240	176	-	-	521,697
Office rental and related expenses	234,512	20,154	331	2,412	20,412	-	-	277,821
Sundry	91,105	718	14,099	1,156	928	41,047	-	149,053
Supplies	82,379	2,889	1,069	2,318	1,570	323	1	90,549
Travel	56,175	4,895	2,335	3,044	2,442	4,366	2,257	75,514
Communication services	50,894	6,662	2,583	2,243	2,442	684	164	65,672
Equipment	32,835	1,218	2,974	3,099	4,342	751	37	45,256
Total	<u>\$ 3,836,764</u>	<u>453,449</u>	<u>319,628</u>	<u>690,494</u>	<u>172,346</u>	<u>65,952</u>	<u>28,556</u>	<u>5,567,189</u>
Summary of 1971 gross expenditures and unliquidated obligations:								
Gross expenditures								\$ 5,025,574
Unliquidated obligations								<u>541,615</u>
Total								<u>\$ 5,567,189</u>

(A) Includes approximately \$220,000 for costs allocated from Computer Center No. II.

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL PLAZA OF THE PACIFIC

P. O. BOX 4150

HONOLULU, HAWAII 96813

Legislative Auditor, State of Hawaii
Honolulu, Hawaii:

We have examined the statement of changes in fund balance of the Federally Funded Job Corps Program of the State of Hawaii, Department of Labor and Industrial Relations, for the year ended June 30, 1971. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances except as stated in the succeeding paragraph.

Major inadequacies exist in accounting records of the Program and an effective system of internal control has not been established. Inasmuch as these conditions may materially affect the results of operation of the Program, and since it was impracticable for us to extend our auditing procedures sufficiently to enable us to make such a determination, we do not express an opinion on the accompanying financial statement taken as a whole.

Peat, Marwick, Mitchell & Co.

November 26, 1971

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Federally Funded Job Corps Program

Statement of Changes in Fund Balance

Year ended June 30, 1971

Balance, July 1, 1970:		
Unliquidated obligations		\$ 71,900
Unallotted obligational authority		<u>168</u>
		72,068
Additions to obligational authority		<u>1,457,202</u>
		1,529,270
Deductions:		
Expenditures:		
Enrollee expenses	\$ 281,450	
Operating and maintenance expenses	154,971	
Center staff expenses	895,066	
Recruiting expenses	57,613	
Capital expenditures	<u>20,966</u>	
Total expenditures	1,410,066	
Less miscellaneous reimbursements	<u>(9,063)</u>	
	1,401,003	
Lapses	<u>618</u>	
Total deductions		<u>1,401,621</u>
Balance, June 30, 1971:		
Unliquidated obligations	82,412	
Unallotted obligational authority	<u>45,237</u>	
		\$ <u>127,649</u>

See accompanying note to financial statement.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Federally Funded Job Corps Program

Note to Financial Statement

June 30, 1971

Operations and Financing

The Hawaii Job Corps Center operates a residential training program that provides basic education, vocational training, and work experience for out-of-school, underprivileged youth, 16-21 years of age. The Center also provides counseling, guidance, job placement, medical, and dental services.

The Program is financed entirely through Federal funds provided by authority of Section 107 of the Economic Opportunity Act of 1964, as amended.

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL PLAZA OF THE PACIFIC

P. O. BOX 4150

HONOLULU, HAWAII 96813

Legislative Auditor, State of Hawaii
Honolulu, Hawaii:

We have examined the combined balance sheet of the Special Funds of the State of Hawaii, Department of Labor and Industrial Relations, as of June 30, 1971 and the related combined statements of cash receipts and disbursements and changes in fund balances for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as described in the following paragraph.

Unemployment contributions paid by employers are collected by the State of Hawaii, Department of Taxation. Our examination of such contributions was limited to accounting, on a test basis, for the amounts remitted by the Department of Taxation to the State Treasury for the account of DLIR.

In our opinion, except as described in the preceding paragraph, the accompanying financial statements present fairly the combined balance sheet of the Special Funds at June 30, 1971, and the combined statements of cash receipts and disbursements and changes in fund balances for the year then ended. The supplementary data included in Schedules 1 - 3 have been subjected to the same auditing procedures and, in our opinion, except as described above, are stated fairly in all material respects when considered in conjunction with the basic financial statements taken as a whole.

Peat, Marwick, Mitchell & Co.

November 26, 1971

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Special Funds

Combined Balance Sheet

June 30, 1971

Assets	
Cash:	
In bank	\$ 2,881
With Treasury	804,114
Time certificates of deposit	<u>1,168,000</u>
	1,974,995
Receivables:	
Fully reserved:	
Employer contributions (note 2)	\$ 234,005
Overpayments of benefits to claimants	75,918
Defaulting, insolvent, or noncompliant employers	<u>95,943</u>
	405,866
Others:	
State of Hawaii and Counties	228,437
Agriculture Unemployment Compensation Revolving Fund	10,090
Contributions from self-financed agriculture employers	32,281
Accrued interest	22,038
Assessments receivable and sundry	<u>2,302</u>
	701,014
Investments administered by United States Department of Labor	<u>39,535,549</u>
Total assets	\$ <u>42,211,558</u>
Liabilities, Reserves and Fund Balances	
Liabilities:	
Due to employers	5,395
Due Unemployment Compensation Fund	10,090
Other	<u>24,368</u>
	39,853
Reserves for unrealized receivables	405,866
Fund balances	<u>41,765,839</u>
Total liabilities, reserves and fund balances	\$ <u>42,211,558</u>

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Special Funds

Combined Statement of Cash Receipts and Disbursements

Year ended June 30, 1971

Cash balance, July 1, 1970		\$ 1,034,496
Receipts:		
Employer contributions	\$ 14,190,283	
Reimbursement for claims paid from the State and Counties of Hawaii	1,334,888	
United States Department of Labor for Federal employees and ex-servicemen claims	4,751,118	
Transfer from Agriculture Unemployment Compensation Revolving Fund for agriculture employee claims	606,000	
Transfer from Unemployment Trust Fund account	21,725,000	
Delinquent contributions	363,679	
Penalties and interest	135,591*	
Assessments	32,601	
Special levy to insurance carriers and self-insured employers	239,695	
Claims from employees	31,935	
Redemption of time certificates of deposit	3,744,000	
Other	<u>68,512</u>	
Total receipts		<u>47,223,302</u>
		48,257,798
Disbursements:		
Unemployment benefits:		
Employees	21,756,693	
State and County employees	1,376,464	
Federal and ex-servicemen	4,831,041	
Agriculture employees	633,527	
Transfer to Unemployment Trust Fund account	13,964,762	
Transfer to Unemployment Compensation Fund	606,000	
Cost of administration	9,179	
Workmen's compensation benefits	281,890	
Temporary disability insurance benefits	8,247	
Claims	30,721	
Purchase of time certificates of deposit	3,912,000	
Other	<u>40,279</u>	
Total disbursements		<u>47,450,803</u>
Cash balance, June 30, 1971		\$ <u>806,995</u>

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Special Funds

Combined Statement of Changes in Fund Balances

Year ended June 30, 1971

Fund balances, July 1, 1970		\$ 47,221,727
Add:		
Employer contributions, other than State and Counties of Hawaii and self-financed agricul- ture employers	\$ 13,549,534	
Delinquent taxes	363,679	
Penalties and interest	2,397,783	
Assessments	32,602	
Special levy to insurance carriers and self- insured employers	239,695	
Other	<u>48,291</u>	
Total receipts		<u>16,631,584</u>
		63,853,311
Deduct:		
Employee unemployment benefits, other than State and Counties of Hawaii and self-financed agricul- ture employers	21,756,693	
Cost of administration	11,326	
Workmen's compensation benefits	281,890	
Temporary disability benefits	8,247	
Expenses	1,738	
Other	<u>27,578</u>	
Total disbursements		<u>22,087,472</u>
Fund balances, June 30, 1971		\$ <u>41,765,839</u>

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Special Funds

Notes to Financial Statements

June 30, 1971

(1) **Accounting Principles and Procedures**

The Special Funds (except for the TDI Special and Agricultural Unemployment Compensation Administration Funds, which are maintained on the accrual basis) are maintained on the cash basis of accounting, which basis does not give recognition to assets (except fully-reserved receivables) and liabilities or accruals of income and expense for which cash has not been received or disbursed.

(2) **Employer Contributions Receivable**

The balance in the employer contributions receivable account represents amounts receivable from employers who have remitted statutory reports but have not remitted the payments indicated on such reports. The amounts receivable from employers who are delinquent in filing their reports are not reflected in the accompanying financial statements.

(3) **Special Funds**

A brief description of the various Special Funds administered by DLIR follows:

(a) Unemployment Compensation Fund

The Unemployment Compensation Fund was created as a Special Fund in accordance with Chapter 383, Section 121 of the Hawaii Revised Statutes (HRS). Receipts of the Fund are primarily derived from unemployment insurance contributions from employers, reimbursements from State and Counties of Hawaii for benefits paid, obligational authorities from the United States Department of Labor, and interest. Disbursements from the Fund consist of benefit payments and refunds.

(b) Agriculture Unemployment Compensation Revolving Fund

The Agriculture Unemployment Compensation Revolving Fund was created as a Special Revolving Fund in accordance with Chapter 384, Section 5, of the HRS. The Fund activity consists of billing and collecting self-financed agriculture employers benefit payments made by the Unemployment Compensation Fund on behalf of the agriculture employers. The latter Fund is then reimbursed from this Fund.

(c) Agriculture Unemployment Compensation Administrative Fund

The Agriculture Unemployment Compensation Administrative Fund, created in accordance with Chapter 386, Section 6 of the HRS as a Special Fund, collects assessments from self-financed agriculture employers and pays for the cost of administering the Hawaii Agricultural Unemployment Compensation Law.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Special Funds

Notes to Financial Statements, Continued

(d) Special Compensation Fund

The Special Compensation Fund was established in accordance with Chapter 386, Section 151 of the HRS. The Fund derives monies primarily from the special levy to insurance carriers and self-insured employers. The Fund monies are used primarily for payment of workmen's compensation, permanent and partial disability benefits in excess of the maximum benefits chargeable to employers.

(e) Temporary Disability Insurance Special Fund (TDI)

The TDI Special Fund, established in accordance with Chapter 392, Section 61 of the HRS, derives monies from penalties, interest and collection of 1969 assessments. Payments are primarily made to individuals who become disabled while employed.

(f) Additional Unemployment Compensation Fund

The Additional Unemployment Compensation Fund was created in accordance with Chapter 385, Section 12 of the HRS to provide additional unemployment compensation benefits in the event of a disaster or upon the occurrence of a 6% or higher unemployment rate of the civilian labor force within any county or counties in the State.

(g) Wage-Claim and Wage-Hour Fund

This Fund is used to collect and disburse monies from employers and employees, respectively, resulting from the enforcement of wage laws of Chapters 387 and 388 of the HRS. The law is silent with respect to an establishment of a fund; however, the monies herein are represented for accountability purposes.

(h) Appeals Board Fund

This Fund, which is shown here for accountability purposes, is used to deposit bonding monies temporarily until an appeal is settled.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Special Funds
Schedule of Balance Sheets

June 30, 1971

	Assets	Unemployment Compensation Fund	Agriculture Unemployment Compensation		Special Compensation Fund	Temporary Disability Insurance Fund	Additional Unemployment Compensation Fund	Wage-Claim and Wage-Hour Fund	Appeals Board Fund	Total
			Revolving Fund	Administrative Fund						
Cash:										
In bank		\$ -	-	-	-	-	-	2,881	-	2,881
With Treasury		137,240	72,624	46,392	229,033	10,950	307,375	-	500	804,114
Time certificates of deposit		-	-	-	-	1,168,000	-	-	-	1,168,000
Receivables:										
Fully reserved:										
Contributions from employers		234,005	-	-	-	-	-	-	-	234,005
Overpayments of benefits to claimants		66,709	-	-	9,209	-	-	-	-	75,918
Defaulting, insolvent, or noncompliant employers		-	-	-	95,943	-	-	-	-	95,943
Others:										
State of Hawaii and Counties		228,437	-	-	-	-	-	-	-	228,437
Agriculture Unemployment Compensation Revolving Fund		10,090	-	-	-	-	-	-	-	10,090
Contributions from employers		-	32,281	-	-	-	-	-	-	32,281
Accrued interest		-	-	-	-	22,038	-	-	-	22,038
Assessments receivable and sundry		41	-	-	-	2,261	-	-	-	2,302
Investments administered by United States Department of Labor		39,535,549	-	-	-	-	-	-	-	39,535,549
Total assets		\$ 40,212,071	104,905	46,392	334,185	1,203,249	307,375	2,881	500	42,211,558
Liabilities, Reserves and Fund Balances										
Liabilities:										
Due to employers		-	5,395	-	-	-	-	-	-	5,395
Due to Unemployment Compensation Fund		-	10,090	-	-	-	-	-	-	10,090
Other		17,620	239	2,945	-	183	-	2,881	500	24,368
Reserves for receivables		300,714	-	-	105,152	-	-	-	-	405,866
Fund balances		39,893,737	89,181	43,447	229,033	1,203,066	307,375	-	-	41,765,839
Total liabilities, reserves and fund balances		\$ 40,212,071	104,905	46,392	334,185	1,203,249	307,375	2,881	500	42,211,558

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
Special Funds

Schedule of Cash Receipts and Disbursements

Year ended June 30, 1971

	Unemployment Compensation Fund	Agriculture Unemployment Compensation Fund	Administrative Fund	Special Compensation Fund	Temporary Disability Insurance Fund	Additional Unemployment Compensation Fund	Wage-Claim and Wage-Hour Trust Fund	Appeals Board Trust Fund	Total
Cash balance, July 1, 1970	\$ 272,811	37,875	36,976	243,029	134,763	307,375	1,667	-	1,034,496
Receipts:									
Employer contributions	13,549,534	640,749	-	-	-	-	-	-	14,190,283
Reimbursement for claims paid from the State and Counties of Hawaii	1,334,888	-	-	-	-	-	-	-	1,334,888
United States Department of Labor for Federal employees and ex-servicemen claims	4,751,118	-	-	-	-	-	-	-	4,751,118
Transfer from Agriculture Unemployment Compensation Revolving Fund for agriculture employee claims	606,000	-	-	-	-	-	-	-	606,000
Transfer from Unemployment Trust Fund account	21,725,000	-	-	-	-	-	-	-	21,725,000
Delinquent contributions	363,679	-	-	-	-	-	-	-	363,679
Penalties and interest	85,765	-	-	-	49,826	-	-	-	135,591
Assessments	-	-	18,595	-	14,006	-	-	-	32,601
Special levy to insure carriers and self- insured employers	-	-	-	239,695	-	-	-	-	239,695
Claims from employees	-	-	-	-	3,744,000	-	31,935	-	31,935
Redemption of time certificates of deposit	37,712	-	-	28,199	2,101	-	-	-	3,744,000
Other	42,453,696	640,749	18,595	267,894	3,809,933	-	-	500	68,512
Disbursements:									
Unemployment benefits:									
Employees	21,756,693	-	-	-	-	-	-	-	21,756,693
State and County employees	1,376,464	-	-	-	-	-	-	-	1,376,464
Federal and ex-servicemen	4,831,041	-	-	-	-	-	-	-	4,831,041
Agriculture employees	633,527	-	-	-	-	-	-	-	633,527
Transfer to Unemployment Trust Fund account	13,964,762	606,000	-	-	-	-	-	-	13,964,762
Transfer to Unemployment Compensation Fund	-	-	9,179	-	-	-	-	-	606,000
Cost of administration	-	-	-	281,890	-	-	-	-	9,179
Workmen's compensation benefits	-	-	-	-	8,247	-	-	-	281,890
Temporary disability insurance benefits	-	-	-	-	-	-	30,721	-	8,247
Claims	-	-	-	-	3,912,000	-	-	-	30,721
Purchase of time certificates of deposit	26,780	-	-	-	13,499	-	-	-	3,912,000
Other	42,589,267	606,000	9,179	281,890	3,933,746	-	30,721	-	40,279
Cash balance, June 30, 1971	\$ 137,240	72,624	46,392	229,033	10,950	307,375	2,881	500	47,450,803
									806,995

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Special Funds

Schedule of Changes in Fund Balances

Year ended June 30, 1971

	Unemployment Compensation Fund	Revolving Fund	Agriculture Unemployment Compensation Administrative Fund	Special Compensation Fund	Temporary Disability Insurance Fund	Additional Unemployment Compensation Fund	Wage-Claim and Wage-Hour Trust Fund	Appeals Board Trust Fund	Total
Fund balances, July 1, 1970	\$ 45,416,529	89,181	36,976	243,029	1,128,637	307,375	-	-	47,221,727
Add:									
Employer contributions, other than State and Counties of Hawaii and self-financed agricul- ture employers	13,549,534	-	-	-	-	-	-	-	13,549,534
Delinquent taxes	363,679	-	-	-	-	-	-	-	363,679
Penalties and interest	2,327,376	-	-	-	70,407	-	-	-	2,397,783
Assessments	-	-	18,595	-	14,007	-	-	-	32,602
Special levy to insurance carriers and self- insured employers	-	-	-	239,695	-	-	-	-	239,695
Other	20,092	-	-	28,199	-	-	-	-	48,291
	<u>16,260,681</u>	<u>-</u>	<u>18,595</u>	<u>267,894</u>	<u>84,414</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,631,584</u>
Deduct:									
Employee unemployment benefits, other than State and Counties of Hawaii and self-financed agriculture employers	21,756,693	-	-	-	-	-	-	-	21,756,693
Cost of administration	-	-	11,326	-	-	-	-	-	11,326
Workmen's compensation benefits	-	-	-	281,890	-	-	-	-	281,890
Temporary disability benefits	-	-	-	-	8,247	-	-	-	8,247
Expenses	-	-	-	-	1,738	-	-	-	1,738
Other	26,780	-	798	-	-	-	-	-	27,578
	<u>21,783,473</u>	<u>-</u>	<u>12,124</u>	<u>281,890</u>	<u>9,985</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,087,472</u>
Fund balances, June 30, 1971	\$ 39,893,737	89,181	43,447	229,033	1,203,066	307,375	-	-	41,765,839

**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**Part 2
Examination of Specific Areas of Concern**

SECTION 1 - EXAMINATION OF INFORMATION SYSTEM

**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**Part 2
Examination of Specific Areas of Concern**

SECTION 1 - EXAMINATION OF INFORMATION SYSTEM

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I. INTRODUCTION

The following paragraphs describe the objectives and scope of our examination of the Department's information system, how we performed the examination, and a summary of findings.

OBJECTIVES AND SCOPE OF THE EXAMINATION

The primary objective of our examination of the Department's information system was to determine the effectiveness of the reporting system, the procedures used in report preparation, and the usefulness of the reports in aiding management decision making. Specific objectives were to determine:

1. The adequacy of the reports furnished to different levels of management in terms of relevancy of information, timeliness, frequency, format, content, and usefulness.
2. The effectiveness of methods used in data gathering and report preparation in terms of an optimum utilization of clerical and electronic data processing capabilities.
3. The extent of integration in the information system to meet the reporting requirements of federal agencies as well as those of internal management.

EXAMINATION APPROACH

To meet the objectives described above we performed the following tasks:

1. Conducted fact finding interviews with personnel at the departmental and divisional management levels to identify unique characteristics of the organization, the interrelationship of divisional, functional, and program responsibilities, and the information requirements for effective planning and administration, at each management level.
2. Prepared questionnaires designed to identify characteristics of reports issued and evaluate the effectiveness of reports received. These were distributed to the top three levels of management in the Department.
3. Synthesized and analyzed questionnaire replies received.
4. Performed an in-depth analysis of the Department's major reports independently of the report evaluations prepared by Department personnel.
5. Reviewed methods used in data gathering and report preparation and analyzed the effectiveness of these methods.

6. Developed findings and recommendations for improving the effectiveness of the Department's management information system. These are presented in greater detail in the following sections of this report. Our findings are summarized below.

SUMMARY OF FINDINGS

Although it was not within the scope of this examination to perform an organization study, a prerequisite to evaluating any information system is an understanding of reporting relationships, lines of authority, and functional areas of responsibility.

In the present organization structure, 18 administrators, district managers, and staff officers report directly to the Office of the Director. Basically, the organization structure parallels the program structure with the exception of neighbor island district offices. District offices administer state-funded programs on neighbor islands with functional guidance from the respective division/program administrators but line responsibility to the Director.

A weakness of the present organization/program structure is that there is no assignment of responsibility for coordination of interdivision activities below the top management level. Not all personnel at the section, branch, district, or even division levels recognize the ramifications of an action taken within their sphere of operations on other divisions or programs. Consequently, the Director must monitor division operations and analyze the interrelationship, or cause and effect, ramifications of divisional activities.

The Director has considered a proposed plan of reorganization in which line responsibility would be vested in four district office administrators aided by a Department staff of three program administrators and one administrative services officer. A detailed analysis of the proposed plan was beyond the scope of our examination, however, any plan of reorganization should take into consideration the need for reducing the direct span of control, delegating authority to the lowest practical level, and simplifying reporting relationships and lines of communications.

The Department presently utilizes a combination of manual and data processing methods in preparing fiscal, statistical and narrative reports for management. Through the use of questionnaires (illustrated in Exhibit) and personal interviews, we identified 255 reports prepared at various levels in the Department. Evaluation questionnaires were distributed to 75 management personnel in the Department and resulted in 397 evaluations of 95 of the reports. The difference between the 255 reports identified and the 95 evaluated is primarily due to reports issued solely to meet federal requirements and/or for public information which are not considered to be management reports. An additional factor for the difference is some degree of duplication or inconsistency in the identification of reports. The Department does not have a master index of reports and many reports lack any type of identification number. The effect of this is that in some cases the same report may be referred to by different titles by different people and, conversely, different reports in some cases are referred to by the same title.

In addition to the DLIR management evaluation of the usefulness of reports received, PMM&Co. independently analyzed the major fiscal, statistical and narrative reports, and the accounting and report preparation procedures followed.

Our findings as to the value of the reports produced and the effectiveness of present methods of preparation are briefly summarized on the following page:

- . The present information system is characterized by a lack of integration of fiscal and statistical reporting functions.
- . While narrative reports in the present system are generally adequate, their value in terms of management usefulness can be increased.
- . Major weaknesses exist in statistical reports in terms of report timing, content, frequency, and methods of preparation.
- . Inadequacies in the statistical reporting systems require duplication of data processing and manual efforts. Major statistical reports are inaccurate and are not timely.
- . Internal fiscal reporting is inadequate for effective fiscal management in terms of report timeliness, frequency, and content. Fiscal reports are not designed around the concept of responsibility reporting.
- . Systems for meeting federal reporting requirements are not integrated to produce the information required by internal management.
- . Major weaknesses in the accounting system of the Job Corps Center result in reports which are totally inadequate for effective fiscal management and control.
- . Fiscal reports for special funds (except for the Temporary Disability Insurance Special Fund) are either non-existent or inadequate for effective management of fund assets.

Our specific findings and recommendations are presented in detail in the following chapters of this section of the report.

II. EVALUATION OF PRESENT MANAGEMENT REPORTS

Questionnaires were designed for analysis of departmental managements' evaluation of reporting effectiveness, and were distributed to the top three levels of management in the Department. For the purpose of this examination these levels were defined as follows:

- Level I - Office of the Director
- Level II - Division Administrators, Departmental Field Representatives, and Departmental Staff Officers reporting directly to the Office of the Director
- Level III - Specialists responsible for administration of branch activities reporting directly to Level II personnel.

Reports were evaluated for the adequacy of timeliness, frequency, number of copies, content, accuracy, format and usefulness.

The 397 evaluations received were tabulated by report and by level of management. The percentages of "adequate" versus "inadequate" responses are presented by management level in the following table.

SUMMARY OF REPORT EVALUATIONS

Report Characteristics	% of Replies*							
	Level of Management						Total	
	I		II		III			
	Adeq.	Inadeq.	Adeq.	Inadeq.	Adeq.	Inadeq.	Adeq.	Inadeq.
Timeliness	28%	44%	91%	7%	82%	13%	53%	32%
Frequency	72	28	98	2	90	4	91	4
Copies	100	-	97	3	87	6	90	5
Content	16	9	87	13	68	28	76	19
Accuracy	72	-	93	7	83	2	85	5
Format	44	56	91	9	82	11	89	6
Usefulness	44	28	96	4	83	3	88	4
Number of Replies	7		104		286		397	

*Not every characteristic was evaluated on every reply. Because "no response" tabulations are excluded from the above table, the total of adequate and inadequate responses may not equal 100% in all cases.

As can be seen in the Summary of Report Evaluations table, the most frequently expressed report inadequacies are a lack of timeliness and weaknesses in report content. The summary also discloses that management reporting is less effective at the top management level. Analysis determined that most of the "inadequate" replies were in reference to a relatively few reports which are critical to effective management planning and control. While improved effectiveness in the

Department's narrative, fiscal, and statistical reports can be achieved, the primary weaknesses are in the fiscal and statistical reporting areas. The following paragraphs describe the weaknesses of the present narrative, statistical, and fiscal reports.

NARRATIVE REPORTS

Narrative reports are the primary means by which the Director and his Deputy monitor the administration of division operations. This is accomplished through the use of a reading file and a monthly activity report.

(a) Reading File

The reading file is a semi-weekly accumulation of copies of all correspondence initiated at any level within the Department and serves the purpose of alerting the Director of actions taken which might affect other divisions. This appears to be the most effective means of accomplishing the intended purposes within the limitations of the present organization, but has the disadvantage of requiring that the Director spend a disproportionate amount of time reviewing routine, detailed correspondence.

(b) Monthly Activity Report

In addition to the reading file, a Monthly Activity Report is forwarded to the Director by each Division and District Office Administrator.

The major purpose of the Monthly Activity Report is to alert the Director of potential problems and recommended courses of action.

The frequency, timeliness, and format of the Monthly Activity Reports are generally adequate, but the effectiveness of the report content can be improved. Not all division administrators appear to recognize the potential problems which economic changes and/or policy changes by the Governor have on their respective operations and some division administrators admitted some uncertainty as to what types of information the Director is looking for in these reports. Consequently, the reports from individual administrators vary considerably in level of detail and the significance of items reported. For example the monthly activities reports from some divisions only report volumes of routine activities, some describe routine meetings, and some describe potential problems and recommended courses of action as intended.

We recommend the Director issue written instructions to division administrators enumerating the types of information required in the Monthly Activity Report and giving illustrative examples of each type. Where activity volumes are incorporated in the reports, these should be reported against some frame of reference, i.e., activity volumes this month and/or year to date would have more significance if presented in comparison with the respective volumes for the prior year. When the planning, programming, budgeting system being implemented has been refined to the point of having real value as an operational management tool, a more meaningful frame of reference would be a comparison of significant activity volumes with planned levels.

STATISTICAL REPORTS

The Department prepares a variety of periodic and special statistical reports in response to:

- . Internal management requirements
- . Federal reporting requirements
- . Legislative requests
- . Public and private research agencies requests
- . General public information.

Statistical reports prepared to meet internal management requirements are primarily for the purposes of evaluating program effectiveness, developing program plans, analyzing trend factors, analyzing effects of special legislation and developing recommendations for legislative changes.

(a) Timeliness of Statistical Reports

The overriding weakness of the statistical reporting system is a lack of timeliness. The following partial list of report periods and dates published is an example of the lack of timeliness of statistical reporting:

Report	Period Covered or Date of Report	Date Published	Time Lag
Workmen's Compensation in Hawaii	Calendar Year 1969	November 1970	11 months
A Report on Unfilled Job Openings	Quarter ended February 1971	May 1971	3 months
Unemployed Claimants in Hawaii	Calendar Year 1967	February 1971	38 months
Unemployed Claimants in Hawaii-Pensioner Study	Calendar Year 1967	June 1971	42 months

A contributing factor to the lack of timeliness of statistical reports is the necessity for manual accumulation of statistical data because of errors, a lack of timeliness and/or inadequate data in computer processed reports.

The major causes of the lack of effectiveness in computer processed reports appear to be procedural and will be described in Chapter IV under "Effectiveness of Data Gathering and Report Preparation Methods".

The following paragraphs describe other weaknesses in the major statistical reports produced to meet management needs.

(b) ESARS Reports

These are a series of reports designed to provide statistical data on individuals who apply for jobs through any Employment Service local office. Statistical data reported includes the method

of referral (i.e., agency or self motivated), age, sex, and other important claimant profile information. The reports are computer produced monthly at Computer Center III, Statewide Information System. The purpose of the reports is to produce information for management use in planning and evaluating the achievement of program goals.

The following summarizes the evaluations of this, approximately 1,600-page, monthly report. The sheer volume of the report is a weakness in itself.

Other major weaknesses of the report are a lack of accuracy and a complicated format. (Fifty-five per cent of the evaluations indicated the report is seldom or never accurate, 63% replied that the format is difficult to analyze.) The following are extracts of specific comments on the evaluation questionnaires:

- "
- . Limited value due to questionable accuracy and conflicting data.
- . Report is inaccurate--should be validated.
- . Information too voluminous but useful when detailed information is required. Accuracy questionable due to problem of inputting of data into system processing.
- . Could be an invaluable report if information were consistent.
- . Report is extremely inaccurate and a waste of time and money.
- . Report is not accurate enough for management decision making so is not used.
- . Information is inaccurate, incomplete, and useless. A manual count of activities is maintained for management purposes.
- . We are unable to make appropriate decisions based on this report due to the inaccurate data.
- . ESARS should be redesigned to simplify its operation. The system, as presently structured, is extremely complicated, cumbersome, replete with too many details, and the results from the system are totally inaccurate. The major shortcoming of the system is that operational staff need to spend too much time to meet the needs of the computer, rather than meeting the needs of the jobless. Computerization has also greatly added to office workload rather than reducing workload and simplifying operations."

In view of the potential value of this report, we have recommended in Chapter IV that a high priority be assigned to debugging the programs in this system so that reliable reports in a meaningful format can be produced.

(c) Workmen's Compensation Annual Report

As mentioned previously, the Workmen's Compensation Annual Report for calendar year 1969 was published in November 1970, a time lag of 11 months. The purpose of the report is to stimulate interest in accident prevention. The report is the major source of statistical information

available for evaluating the effectiveness of the Industrial Safety program. Its usefulness as a planning and evaluation tool for management is impaired not only by the lack of timeliness but more critically by weaknesses in content, format, and accuracy.

The primary cause of inaccuracies in the report is a large backlog of unprocessed claims which are not included in the statistical volumes reported. This is a procedural problem and is discussed in greater detail in the "Effectiveness in Data Gathering and Report Preparation Methods" chapter of this section and in Section 3, "Examination of Claims Processing and Records Maintenance System in the Workmen's Compensation Division".

The content and format of the report can be improved to make it more useful as a management tool in planning and evaluating program effectiveness. No trend information or comparative statistics are presented in the report except reported injuries by industry. This is only one of 23 statistical tables in the report and is insufficient to identify trends in injuries by major agency, type of accident, location of injury, nature of injury, etc. Case costs are not identified by year of injury and no disclosure of cost increases due to benefit rate increases is presented.

In the statistical tables of the report, totals are printed at the top of columns rather than at the bottom. While this is a seemingly minor point, the report is widely distributed to employers and the public who are more accustomed to a presentation of totals at the bottom of columns. Readability and ease of interpreting the reports can be improved if totals are consistently presented at the foot of columns.

(d) Workload and Time Analysis

This report is required by the Bureau of Employment Security to provide a method for measuring staff time devoted to employment security functions. The report (also referred to internally by the titles "Time Charges and Workloads" and "Workload Measurement Report") is a valuable management tool for use in planning staffing requirements and training needs, monitoring utilization of man hours and staffing trends in certain claims processing activities, and identifying activities for which time reducing procedures should be developed. This report is used to support requests for additional funds for costs of processing contingency workloads under the Employment Security program.

A summary of the evaluations received for this report is presented below:

Timeliness -- too late for effective decision making	30%
Frequency -- generally adequate	93%
Number of Copies -- inadequate	21%
Content -- adequate	86%
Accuracy -- adequate	100%
Format -- generally adequate	93%
Usefulness -- valuable and interesting	86%

The two points on which the report was generally rated less than adequate were timeliness and number of copies. The timeliness varies from 10 to 90 days after the end of the month. The evaluations which indicated that the number of copies was inadequate stated that a sufficient number of copies should be prepared for distribution to unit supervisors who are vitally interested in the workload and performance of their units.

This report is an effective management planning tool and we recommend that it be prepared for state-funded programs as well as the Employment Security Program.

(e) DLIR Annual Report

The DLIR Annual Report summarizes the operations and accomplishments of the Department for the fiscal year. Although some fiscal data are included in the report, it is primarily statistical in nature. The report is difficult to analyze and interpret because of inconsistencies in the time periods presented for the separate divisions. Specifically, while the period covered in most of the statistical tables is a fiscal year, tables relating to activities in the Workmen's Compensation program cover a calendar year. It is therefore impossible to relate the 38,259 industrial accidents reported under the Industrial Safety program for the fiscal year 1969-70, to the 30,725 injuries processed, as reported in the Workmen's Compensation program for the calendar year 1969. Though there is a direct correlation between the effectiveness of the Industrial Safety program and the volume of Workmen's Compensation program activity levels, the report does not provide any visibility into this.

The format is inconsistent between divisions with statistical totals presented at the top of columns in some tables and at the bottom in others. To improve the usefulness of the report we recommend that the time periods and statistical table formats be made consistent. We also recommend that greater use of a frame of reference be incorporated in the statistical table such as a comparison of volumes with the prior years.

FISCAL REPORTS

The Department's internal fiscal reporting is generally inadequate for effective fiscal management. The major weaknesses in the fiscal reports prepared are a lack of timeliness and inadequate content. The weaknesses of specific fiscal reports for state-funded programs, the federally-funded Employment Security Program, the federally-funded Job Corps Program, and special funds are described in greater detail below.

(a) State-Funded Programs

The principal fiscal report for state-funded programs is the "Statement of Disbursements and Balances by Categories". This report is issued quarterly for each of the following divisions:

- Administration (including staff offices)
- Apprenticeship
- Enforcement
- Workmen's Compensation
- Industrial Safety
- Hawaii Employment Relations Board
- Computer Center No. 2
- Temporary Disability Insurance
- Employment Service (State Manpower Development & Training)
- Appeals Board
- Hawaii Public Employment Relations Board

The purpose of the report is to inform division administrators of unexpended allotment balances to facilitate the timing of expenditures according to planned needs. A summary report is prepared for the Director which shows the total status of state funds by (a) Personal Services, (b) Other Current Expenses, and (c) Equipment categories.

The frequency and timing of the report practically totally dissipate any value the report might have as a tool for providing effective management control in meeting quarterly expenditure limitations. The report is prepared quarterly and the timing of distribution to division administrators varies from 30 to 60 days after the close of the quarter.

We recommend the report be prepared on a monthly basis and distributed to division administrators no later than the 15th day after the close of the month.

The report is presently prepared on a cash basis and, while it reflects unexpended allotment balances, its value as a management planning and control tool would be increased if it were prepared on an accrual or encumbrance basis so as to reflect the uncommitted allotment balances available.

Implementation of these recommendations will enable management to more effectively plan the timing of expenditures within the constraints of quarterly allotments. Unexpended allotments revert to the state and, even though the reason for an under-expenditure in any given quarter may be due solely to the timing of purchases, special requests must subsequently be made to recapture portions of the under-expenditure in later quarters. This requires additional time and efforts on the part of management personnel which can be avoided by more effective fund management.

A further weakness of the report is the inadequacy of line item detail presented. Expenditures are presently classified as to:

- (a) personal services
- (b) other current expenses
- (c) equipment.

Within the other current expense category are 15 object of expenditure classifications for identification of "input" costs. To facilitate the use of a report as a management control tool, we recommend that the status of each object of expenditure allotment be reported.

The report does not follow the concept of responsibility reporting. The single report for "Administration" includes the Office of the Director, the Office of Research and Statistics, the Administrative Services Office, and the Personnel Office. We recommend that expenditures and allotment status be separately reported for each responsibility unit. Explanations of the causes of significant variances between actual and budgeted expenditures should be explained. This is not presently done.

(b) Federally-Funded Employment
Security Program

This program encompasses the Unemployment Insurance Division, the Employment Services Division, and portions of the offices of Personnel, Research and Statistics, and Administrative Services. There is presently no integration of systems or processing for meeting the information needs of internal management and federal reporting requirements. Fiscal and budgetary reports prepared to meet federal requirements do not provide adequate information for internal management. Consequently division administrators do not presently receive any fiscal or budgetary reports which would enable them to plan and control the timing of expenditures within their respective divisions.

A "Status of Obligational Authority" report is prepared monthly, in accordance with federal requirements, which show obligations incurred and the balance of obligational authority received by object of expenditure for the total program but gives no visibility into the status of the respective organizational units within the program. The report is not distributed to the respective division administrators nor would there be any value in doing so considering the present format and content of the report.

To minimize the lapsing of unexpended funds, and to achieve effective fiscal planning and control, division administrators should receive a monthly report which would show the status of obligational authority applicable to the particular division.

The Department is in the process of implementing a data processing cost accounting system developed by the Federal Government for the Employment Security Program which is intended to meet the needs of operating management as well as federal reporting requirements. Operating management within the Hawaii State Department of Labor and Industrial Relations has not been given an opportunity to assist in the system design, however, so it may be anticipated that the system will not fully and effectively meet the information requirements of internal management. Although operating management in departments of labor in other states may have contributed to the design of the system, Hawaii has unique characteristics compared to other states. It is doubtful that a system designed without the consideration of these unique characteristics will fully meet the needs of Hawaii's DLIR management.

(c) Federally-Funded Job Corps Program

The DLIR is contractor for the U. S. Department of Labor Manpower Administration Job Corps and operates the Hawaii Job Corps Center. The Center includes three residential training facilities at Koko Head Camp, Kokee State Park, and Hawaii Volcanoes National Park. The Center is operated to prepare young disadvantaged men 16 through 21 years of age for the responsibilities of citizenship and to increase their employability. Approximately 250 men are covered under the program. The Contractor is obligated to furnish the necessary qualified personnel, services and materials to accomplish the contract, within the estimated cost of the contract.

Because of major weaknesses in the accounting system of the Job Corps Center (described in greater detail in Chapter IV of this section, "Effectiveness of Data Gathering and Report Preparation Methods"), the fiscal reporting of the Center is totally inadequate for effective fiscal management and control.

"Job Corps Financial Summary" and "Center Financial Report" reports are prepared monthly to meet Federal reporting requirements. The format of the financial summary provides for a comparison of actual expenses and income with budgeted amounts and a computed expense per equivalent man year. This information could provide a valuable management control tool if accurately reported. A major weakness of the present Job Corps accounting system, however, is that the accounting records are maintained on a cash basis rather than the accrual basis required by the contract. In preparing the financial summary, expenditures are arbitrarily timed to approximate the budgeted amounts. This procedure obviously destroys any value the report might have as a measure of budgetary performance.

The Job Corps does not perform any responsibility or cost center accounting or reporting which would compare actual expenditures (on an accrual basis) with budgetary constraints by cost center. No comparison of expenditures with quarterly or monthly budgets is made.

We recommend that a cost center budgetary reporting system be implemented to provide the tools for effective fiscal planning and control which are completely lacking in the present system. Further detailed findings and recommendations relative to the Job Corps' accounting system are presented in Chapter III of this section.

(d) Special Funds

We reviewed the adequacy of fiscal reporting for the Unemployment Compensation Fund and the following special funds:

- . Agriculture Revolving Fund
- . Workmen's Compensation Special Fund
- . Temporary Disability Insurance Special Fund

While each fund has somewhat unique characteristics, the types of fiscal information required for effective fund management are generally the same. With the exception of reports prepared for the Temporary Disability Insurance Special Fund, special fund fiscal reports are either non-existent or inadequate for providing management with the information necessary to administer and control fund assets and liabilities. The following paragraphs describe the unique characteristics and information requirements for each fund.

1. Unemployment Compensation Fund - A monthly "Summary of Financial Transactions-Unemployment Fund" report is prepared to meet federal reporting requirements. The report shows cash transactions and account balances for the three accounts in the fund, i.e., clearing account, unemployment trust fund account, and the benefit payment account. Resources available for benefit payments are also shown in the report.

The report content is not adequate for effective fund management. Fully reserved fund assets and liabilities (specifically accounts receivable for employer contributions and benefit overpayments and liabilities for employers' overpayments) are netted against the respective reserves and do not show in the report.

We recommend that a statement of financial condition be prepared monthly to reflect the condition of all fund assets and liabilities and changes in fund balance. In support of this statement of financial condition, we recommend that aged accounts receivable schedules be prepared to show the status of delinquent accounts on a monthly basis. The average outstanding accounts receivable balance during 1970-71 was approximately \$250,000 which represented an average outstanding period of 90 - 100 days. Given the visibility into the condition of the assets which would be provided by the recommended reports, management could improve the administration of collection policies and procedures. Effective administration of accounts receivable collections should result in a reduction of the average outstanding period to about 30 days and make approximately \$160,000 of additional funds available for investment.

2. Agriculture Revolving Fund -- The Agriculture Revolving Fund is used to pay unemployment claims of agricultural workers. The fund is reimbursed by billing the appropriate employers for claims paid out. As is the case with the Unemployment Insurance Trust Fund, no reports are provided management which provide visibility into the financial condition of all the assets and liabilities of the fund or changes in fund balance. We recommend that such reports be prepared. We also recommend that aged accounts receivables schedules be prepared. Because of the seasonal nature of claims, we recommend that projections of cash flow requirements be made.

Without the recommended reports, the fund administration is considerably weakened. During the fiscal year 1970-71, the accounts receivable balance in the fund ranged from a low of \$31,000 to a high of \$151,000, with average monthly claim payment rate of \$50,000. Effective administrative controls over the collection of accounts receivable and cash planning could result in an increase in funds available for short-term investment.

3. Workmen's Compensation Special Fund -- As with the above funds, no report is prepared which reflects the total financial condition of the Workmen's Compensation Special Fund. We recommend that such a report and a cash projection schedule be prepared monthly.
4. Temporary Disability Insurance Special Fund -- Monthly reports are prepared for this fund which show the financial condition of the fund, projected cash requirements and funds available for investment, changes in fund balance, aging of accounts receivable, investment portfolio summary, and investment income measured against benefits paid. The reports are prepared on a timely basis and should be used as a guide in developing similar reports recommended for the other funds described above.

Procedural weaknesses in the administration of special fund accounts receivable are described in the next chapter of this section. Investment policies of idle funds are described in Section 2, "Examination of Financial Management Practices and Fiscal Controls".

III. EFFECTIVENESS OF DATA GATHERING AND REPORT PREPARATION METHODS

Essential to an effective information system is an adequate system of accounting and internal controls. Many of the weaknesses of the DLIR management reports described in the preceding chapter are the direct result of accounting and internal control procedural weaknesses as described in the following paragraphs. To assist the reader of this report in relating procedural weaknesses to the resulting reporting weaknesses, procedures are discussed in the same sequence as the description of management reports presented in the preceding chapter and not necessarily in order of magnitude.

STATISTICAL REPORTING

As described in Chapter II, the major data processing statistical reporting systems utilized by the Department are:

- . Employment Service Automated Reporting System (ESARS)
- . Continuous Wage and Benefit History (CWBH)
- . Workmen's Compensation Claim Statistics
- . Workload and Time Analysis

Procedural weaknesses in these applications are described in the following paragraphs.

(a) Employment Service Automated Reporting System

This system was designed to produce a series of reports of characteristics of job applicants and data for management use in planning and evaluating the achievement of program goals. Reports produced for the fiscal year 1970-71 excluded approximately 10,000 to 12,000 valid transactions according to Department personnel. The volume of input data rejected was approximately 30%. We were unable to verify the exact causes of rejected input, but the consensus of Department personnel was that the computer programs have not been completely debugged. It was noted that two different computer programs produce different totals for the same statistical data. Because the computer data is unreliable, the Department maintains duplicate statistical records on a manual basis.

While the system has the potential of providing valuable management information if the problem of rejected input is solved, its present value is questionable. We recommend that a relatively high priority be assigned to debugging the programs in this system or that it be replaced by a redesigned system.

(b) Continuous Wage and Benefit History Program

This is a comprehensive statistical program which "continuously" compiles and evaluates data on the personal characteristics and unemployment benefit experience of individuals who file claims

for unemployment insurance. The CWBH program serves as a management analysis tool in preparing and evaluating legislative proposals to amend the benefit and eligibility provisions of the Hawaii Unemployment Insurance Law. This program is also the basis for the "Unemployment Claimants in Hawaii" reports described in the preceding chapter. These reports have not been published until 38 and 42 months after the fact. The reason given for this time lag is that the computer-produced data have never been received on a timely basis and at present is four years behind schedule. We were unable to determine whether the cause for this delay is one of priority assignments or processing problems. It is obvious however that the value of these reports is considerably dissipated by the long time lag, and we recommend that departmental management make a more detailed investigation into the causes and take the appropriate corrective action.

(c) Workmen's Compensation Claim Statistics

This program produces statistical information for the Workmen's Compensation Annual Report and the DLIR Annual Report in the form of industrial accident characteristics. These statistics are the only practicable means of planning and evaluating the effectiveness of the Industrial Safety Program. The present coding classifications, however, are too general to effectively aid management in the program planning function. A more critical weakness is the inaccuracy of the statistics resulting from a backlog of unprocessed claims in the Workmen's Compensation Division.

As a result of omissions in the Workmen's Compensation statistical report caused by the unprocessed backlog and/or the employers' or carriers' failure to file accident reports, we are unable to verify the correctness of the special assessment levy against self-insured employers. The levy, computed to be \$62,000, is based on the ratio that average annual compensation paid by insurance carriers is to average total compensation paid. The average compensation paid by insurance carriers for 1969 and 1970, as reported by the DLIR, was \$7.25 million; however, the State Department of Regulatory Agencies, which consolidates the reports of all insurance carriers doing business in Hawaii, reported an average of \$9 million. The unprocessed backlog of approximately 50,000 reports is described in detail in Section 3, "Examination of Claims Processing and Records Maintenance in the Workmen's Compensation Division".

The present processing of claims involves manual procedures which might be effectively automated. As claims are received, they are manually typed on index cards, by claimant, prior to being coded for entry into the data processing statistical reporting system. The index file contains approximately 350,000 cards and, in view of the unreliability of the Division's files which is described in Section 3, the accuracy of the index file must be questioned.

We recommend that the data processing application be expanded to produce cross reference indices of claims by claimant, case, and employer. As each claim is presently being coded according to the nature of injury, time lost, etc., for entry into the data processing system, identifier information such as employer number and employee social security number could also be coded. This would eliminate the need for the manually maintained index cards and facilitate the records maintenance function. We also recommend that the coding function be given a higher priority than the physical filing.

(d) Workload and Time Analysis

As described in Chapter II, this report is a valuable management tool in program planning and evaluation. As presently produced, the report requires a combination of data processing and manual effort. A "Cost Center Distribution" report is generated on the computer which summarizes the hours spent performing each activity. The actual production or workload volumes for each activity must be entered manually, however, and the full time equivalent positions are

(b) General Ledgers

General ledgers should be maintained on an accrual basis in which the assets, liabilities, and fund balances for each fund should be recorded. The general ledger provides a permanent record of fiscal transactions and should be the basis for preparation of monthly reports of financial condition of each fund as recommended in Chapter III. At present no general ledger is maintained for the Workmen's Compensation Special Fund, the Wage Claim Fund, or the Additional Compensation Fund. General ledgers maintained for the Agriculture Revolving Fund, Agriculture Administrative Fund, and Unemployment Compensation Fund are only posted on a quarterly basis. We recommend that general ledgers be established for all funds that they be posted monthly from books of original entry, and used as a basis for preparation of monthly reports of financial condition. This is presently being done for the Temporary Disability Insurance Special Fund.

(c) Appropriations and Allotments

Appropriations and allotments are not distributed among the detailed expenditure ledgers. To facilitate preparation of reports which will provide visibility into the status of actual obligations and unexpended appropriation and allotment balances, we recommend that this be done.

(d) Billing and Accounts Receivable

Billing and accounts receivable control procedures can be strengthened in the following areas:

1. Unemployment Insurance accounts receivable were approximately \$294,000 at year end. This is the amount due based on employer's reports filed without remittances. We were not able to determine what amounts might be due the fund for delinquent or unfiled reports. Chapter 383-73 of the Hawaii Revised Statutes provides for interest to be charged at $\frac{2}{3}$ of 1% per month on delinquent payments. If an employer submits a timely report without payment, no interest is charged. If an employer files a delinquent report without payment, a computer-produced debit memo is prepared, billing the employer for penalty and interest from the due date of the return to the date of filing. No interest is charged for the actual period of delinquency of payment. This cannot help but have an adverse effect on the results of efforts to enforce timely payment of employer contributions and we recommend that interest be charged for the actual period of non-payment as provided by law.
2. The Agriculture Revolving Fund accounts receivable controls and billing procedures are inadequate. Sizeable differences exist between the balance reflected in the accounts receivable control account and the total of the subsidiary ledger. As far as we were able to ascertain, no attempt has ever been made to reconcile the subsidiary with the control. This results in a lack of internal control over accounts receivable and weakens the effectiveness of administration of fund assets.

The causes of the differences between the subsidiary records and the control account were not definitely identified since we did not attempt a detailed reconciliation. A primary cause, however, is probably the difference in timing of posting dates. The present billing procedure is to charge the accounts receivable control account as of the date of payment of benefit claims. Billings to the appropriate employers, for reimbursement of claims paid, may not be prepared for an additional two weeks. The subsidiary records are posted as of

the billing date which is a proper procedure but destroys the comparability between the subsidiary totals and the control account on any given date.

Possibly the simplest means of providing the necessary control would be to establish a separate control account titled "Unbilled Benefit Payments". This account should be charged as benefit payments are made. Billings to employers for reimbursement should be credited to the Unbilled Benefit Payments Account and charged to the Accounts Receivable control account. This would have the additional advantage of providing visibility into the magnitude of the unbilled benefit payments receivable.

We recommend that these procedures be implemented and that accounts receivable subsidiary ledgers be reconciled at least monthly with the control account. These recommended procedures are also applicable to the accounts receivable from state and county agencies in the Unemployment Insurance Trust Fund.

3. Accounts receivables in the Temporary Disability Insurance Fund have been written off as uncollectible without first seeking an opinion from the Attorney General under the provisions of Chapter 40, Section 82, Hawaii Revised Statutes. The Department, however, has subsequently requested an opinion from the Attorney General.
4. The Division of Industrial Safety does not mail billings for inspection fees on a regular basis nor prepare any aged schedules of accounts receivable. We recommend that billings be mailed no less frequently than monthly and that aging schedules of accounts receivable be prepared monthly.

(e) Cash Receipts Procedures

Internal controls over processing of cash receipts can be strengthened in the Unemployment Insurance Division, Industrial Safety Division, and the Job Corps Center.

Procedures for processing cash receipts in the Unemployment Insurance and Industrial Safety Divisions for refunds of claim overpayments and inspection fees, respectively, do not include preparation of a prelisting control by someone other than the person responsible for posting the detail accounts receivable records. To improve internal control, we recommend that a prelisting control be established by someone who does not have access to the accounts receivable records.

The Job Corps Center Administrative Officer is head custodian of the \$4,700 Koko Head Imprest Fund. The administrative accountant who is actual custodian of the fund prepares the monthly bank reconciliation, prepares and signs checks, and makes bank deposits. To strengthen internal control we recommend that the responsibility for making bank deposits and preparing bank reconciliations be delegated to another employee who is not involved in fund custodianship or preparation of checks.

(f) Cash Reconciliations

In the Unemployment Compensation Fund three bank accounts are maintained, i.e., a Clearing Account, an Unemployment Trust Fund Account and a Benefit Payment Account. Employer contributions are deposited in the clearing account which is reconciled by the Department of Budget and Finance (B&F). Checks are drawn on the clearing account to transfer funds to the

Trust Fund Account which is reconciled by the U. S. Department of Labor (USDOL). Based on cash requirements for benefit payments, as projected by DLIR, transfers are made from the Trust Fund Account to the Benefit Payment account which is reconciled by DLIR. There is a gap in the reconciliation process of the Clearing Account. B&F reconciles the Clearing Account with the bank statement and the DLIR reconciles its records of the account transactions with those of DAGS, but no reconciliations are prepared between DAGS and B&F or between B&F and DLIR.

An attempt to reconcile the records of DLIR with those of B&F at June 30, 1971 disclosed a difference of approximately \$55,000. One reconciling item was a \$3,500 payment to the U. S. Treasury which should have been charged to the Clearing Account but was charged against the State of Hawaii, Director of Finance, Trust Fund. It is conceivable that the entire difference has arisen from items of a similar nature.

We recommend that efforts be made to close the loophole in this reconciliation process.

(g) Cash Disbursements

In the state Manpower Development Training Act (MDTA) program we noted that the person responsible for preparing the "payment authorization list" for weekly compensation to program enrollees also approves the list for payment and submits the letter, without supporting documents, to the fiscal office for processing payments. Under this procedure, one person has complete control over authorization of cash disbursements. Internal control would be strengthened if someone, other than the person who prepares the payment authorization list, reviewed the list with the enrollee's attendance records and the initial enrollee authorizations.

In our review of cash disbursement procedures at the Job Corps Center we note the following weaknesses. The October 31, 1971 reconciliation of the Koko Head Imprest Fund bank account disclosed a \$581.04 item that has been outstanding since fiscal year 1970. We were informed that this represents unauthorized disbursements for which the State refused to reimburse Hawaii Job Corps. The contractor is attempting to collect these funds from USDOL.

No maximum limit has been set on disbursements made by this fund. It is recommended that an appropriate limit be established and an official policy be adopted restricting the types of disbursements which could be made from the fund. This would provide a tighter control and tend to prevent similar occurrences of this type of problem.

Checks for the Imprest Fund bank account are not prenumbered by the bank. To improve internal control, we recommend that checks be prenumbered when a reorder is placed. Checks were written payable to "cash". We recommend that this be discontinued and all reimbursement checks be written payable to the petty cash custodian.

The Petty Cash Fund, established at \$50.00, has an actual cash balance of \$10.28, the remainder being tied up in unreimbursed and probably unreimbursable vouchers which are not adequately supported. Because of this small working balance, this fund is not being used, and the Imprest Fund is being utilized as a petty cash fund. It is recommended that these disputed items be resolved as soon as possible so that this fund can function as it was originally intended.

(h) Payroll Procedures

In our examination of payroll procedures, record keeping, and accounting we noted that the following weaknesses exist:

1. Payroll Procedures -- The present computer-prepared semimonthly payroll registers require manual transcription of data to obtain program cost distributions. Gross earnings for each employee are transcribed from the payroll registers on columnar worksheets. The total of the two time periods are then summarized by employee and transcribed onto punch cards as input to the computer for production of a "Slotting Report". The slotting report distributes actual payroll costs to programs based on budgeted positions or fractional positions authorized. The clerical redundancies in this procedure are obvious. A further manual effort is required to distribute personnel fringe benefits costs and to maintain personnel leave records. A well designed payroll system should incorporate payroll distribution reports and maintenance of leave records without requiring the intervention of manual processing and record keeping. We recommend that a strong request be made for modification of the payroll programs to eliminate the need for the redundant manual procedures.

In our examination we performed a detailed test of the payroll and noted that errors in hourly rates, marital status, number of exemptions and retirement exemptions status coding were not uncommon. We were unable to determine the exact causes of such errors and in most cases they were subsequently corrected, but a probable cause is an inadequate edit of payroll changes input to the computer. We recommend that a detailed review be made to correct errors presently in the payroll records and a tightened edit procedure be implemented to insure that payroll changes are properly recorded in the computer records.

A weakness in internal control exists in the procedures for terminating employees. Division administrators (who receive payroll checks for distribution to personnel within the division) initiate personnel change notices for terminating personnel. No controls presently exist to insure the proper change notices are processed to the computer center to prevent issuance of checks after the date of termination. Our recommendations for time reporting as a basis for developing Workload Measurement Reports could provide the necessary internal control in this area.

2. Payroll Record Keeping -- We noted that confidential payroll records (file of personnel action requests, SF-5, and payroll registers) at the Job Corps Center are not being kept in a secure fire-proof cabinet. We recommend that this be done.

Personnel records for DLIR employees hired between May 26, 1966 and May 29, 1967 do not contain signed loyalty oaths. This was attributable to Opinion No. 66-18 from the Attorney General's Office indicating that such a requirement violated the Constitutional right to freedom of association protected by the First Amendment; however, the requirement was reinstated by Act 149 of the 1967 Legislature. Accordingly, we recommend the appropriate steps be taken to ascertain whether or not employees hired during the aforementioned period should be required to sign an Oath of Loyalty.

3. Payroll Accounting -- As noted above, personnel costs are allocated to programs on the basis of budgeted positions authorized rather than actual time spent in each program. To improve the basis of accounting for program costs, we recommend that cost distributions be based on time worked rather than budgeted positions.

Because of a program error, no allocation of the employer's cost of federal and state unemployment insurance and workmen's compensation insurance contributions is being made to the federally-funded Job Corps Program. Estimated unreimbursed costs for these items for the fiscal years 1970 and 1971 are approximately \$10,000. We recommend that a claim for these reimbursible costs be filed and that the computer program be corrected to properly allocate these costs.

(i) Purchasing and Receiving

Under the present procedures, difficulty exists in processing of receiving reports for partial receipts of goods or services. In the case of partial receipts against open purchase orders, the purchase order is being filed with the summary warrant voucher, leaving no record in the outstanding purchase order file of the balance to be received. The handling of partial receipts and related payments would be facilitated by holding the receiving copy of the purchase order until the order has been completely received and processing duplicates for partial receipts. This would eliminate the need to search for the purchase order on subsequent partial receipts in order to determine the basis for distribution.

A similar problem exists for travel expenditures when advances are involved. Travel authorizations are the source documents used for posting travel advances and costs of travel expended. Since the travel authorization document is filed with the travel advance summary warrant voucher when an advance has been made, it is difficult to locate the original encumbrances to make appropriate adjustments when the statement of completed travel is processed. We recommend that at the time the summary warrant voucher is prepared for the original travel authorization advance, a duplicate copy of that authorization be kept in an open file pending receipt of the statement of completed travel.

Our examination of the Job Corps Center purchasing and procurement procedures revealed that no determination of the availability of funds is made at the time purchase orders are issued. We recommend that procedures be established immediately to determine the availability of funds by contract prior to issuance of purchase orders.

The following observations are also applicable to purchasing procedures:

1. Procedure VI of CP 16-70 states that each functional area is charged with the responsibilities for proper planning, programming and scheduling of their supply and equipment requirements and that their needs must be scheduled and coordinated with Center and Supply well in advance of the target date of receipt. We were informed by the Supply Office that the functional areas are not preplanning their needs which necessitates procuring items on a "rush basis". Greater coordination is required between the requisitioning department and Supply. Consideration should be given to setting a cut-off time for "rush" purchases which would be delivered the following day. This would preclude the necessity for needless costly extra trips to town by the Supply Department and/or functional area.
2. The Supply Supervisor is involved in the actual procurement of goods rather than the supervision of these operations. While it is necessary to a certain extent that he become directly involved with purchasing subsistence supplies from Pearl Harbor, we believe that greater utilization of Job Corpsmen could eliminate the need for the frequent trips to Honolulu by the Supply Supervisor to pick up

materials from non-military suppliers. Pick-up trips should be pre-scheduled as much as possible to eliminate the need for several trips a day.

3. There were instances of purchase orders dated subsequent to related billings, evidencing uncoordinated procurement by other than authorized personnel.

Prior audits of the Job Corps Center by the Audit Division of the Office of Economic Opportunity, 1968, and the Department of Budget and Finance, 1971, recommended the adoption of and adherence to formal purchasing procedures in compliance with federal contract regulations. Hawaii Job Corps submitted its procurement procedures dated October 2, 1970, to the Department of Labor earlier this year; however, it had not received official approval as of November 9, 1971.

(j) Inventory Controls

The Fiscal Office maintains an equipment inventory listing which contains all acquisitions made through the Fiscal Office, but does not include items procured directly by means other than through program funds. Although the various program offices maintain separate inventory listings for these items, we recommend that a complete listing be maintained in the Fiscal Office.

It was also noted that separate insurance coverage is maintained for all items not on the state's property ledger. The advisability of including these items under the state's blanket policy should be determined.

Inventory controls at the Job Corps Center can be improved as described in the following paragraphs.

1. Subsistence Inventories -- Our review of controls over subsistence inventories revealed that little financial control, if any, exists over food costs. Budgeted figures estimate food costs at \$1.87 per corpsman day. This figure is used as a basis to determine the reasonableness of the reports that are being submitted by the Camps to Accounting. Some of these reports are not being prepared accurately and are accordingly not reliable for control purposes. The Accounting Department must rely on estimates for reporting purposes. We noted the following errors/discrepancies on the November 1, 1971 report from Kilauea Camp for October 1971:

- . Beginning inventory did not coincide with the closing inventory on the previous month's report.
- . Navy receipts for the month did not coincide with amounts per purchasing records.
- . The report contained extension errors.
- . Value of food consumed indicated a cost of \$3.53 per corpsman day although \$1.12 was used on the report and could not be related to food consumed per the report.
- . There was no evidence of review and approval by the Camp Director before submission to Accounting.

- . 18% accessorial costs charged by the U. S. Navy Supply Center are not reflected on all reports and must be computed by the Accounting Department.

We recommend that food costs per meal served be computed and analyzed to control food wastage and/or inventory shrinkage. All monthly reports should be reviewed and approved by the Camp Director.

Consideration should be given to adopting the Departments of the Army and the Air Force Master Menu which is issued monthly, and which contains daily menus together with provision requirements. While the Master Menu is based upon ingredients for 100 men, it could be easily converted to Camp requirements. Certain economics in purchasing would be effected and overstock and wastage could be reduced.

At Koko Head, the Food Service Supply Clerk has been active in setting up perpetual records and procedures for controlling the receipt and issuance of subsistence inventories. These procedures have been in operation since August and appear to provide adequate control and procurement information. We recommend that perpetual inventory records be maintained at each storage location.

2. Clothing Inventories -- We reviewed the physical inventory procedures for clothing inventory at the Koko Head Camp. Stock record cards are maintained, but the actual quantities and dollar costs are not extended and correlated with the accounting records. Excess or unclaimed clothing is returned to the Supply Center where it is received at no cost, however it is valued for inventory purposes and upon subsequent reissue at full cost. This practice tends to overstate the cost of clothing issued and federal reimbursement requested. We believe that used clothing should be carried at no value and that charges for its reissue be discontinued.
3. Non-Expendable Property and Equipment -- Our review of accountable property records disclosed that inventory records list purchased equipment only. Contractor-constructed property is not recorded in the inventory records.

An example of an unrecorded property addition is the Automobile Mechanics Vocational Classroom constructed at an estimated direct cost of approximately \$1,500 (although accurate cost data were not available from the Accounting Department). Several other buildings that have been contractor-constructed in the past few years could also not be located on the Job Corps records.

We recommend that a complete physical inventory be taken of all assets and the source as well as the cost bases of each item be identified. Subsidiary cost records for Hawaii Job Corps-constructed property must be maintained by the Accounting Department. Cost data must be communicated to the property accountability section of Central Supply. The Center Director informed us that proposals have been solicited for an appraisal of all real property and that he is attempting to have this work done on or before early December 1971.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
ANALYSIS OF MANAGEMENT INFORMATION SYSTEM

EVALUATION OF MANAGEMENT REPORTS RECEIVED (A-1.1)

DIVISION _____

PREPARED BY _____

- A. Report Title _____
- B. Report Number (if any) _____
- C. Report Type (1. Financial;
2. Statistical; 3. Narrative;
4. Combination) _____
- D. Report Purposes

- E. Number of Pages in Report _____
- F. Number of Copies Received _____
- G. Frequency of Report _____
- H. Timing of Receipt of Report
(approximate number of days
after the report date that
report is received) _____
- I. Distribution of Report Copies
(list on reverse side if
necessary) _____
- J. Report Received from (indicate
all sources) _____

EVALUATIONS OF MANAGEMENT REPORTS RECEIVED (A-1.1)
(CONTINUED)

Evaluate this report in terms of its value to you in your specific area of responsibility.

1. Timing -- Date by which report is received is:
☐ (a) adequate for effective decision making
☐ (b) too late for effective decision making (what should the timing be? _____)
☐ (c) earlier than necessary
☐ (d) not important
2. Frequency -- The report is received:
☐ (a) more frequently than necessary
☐ (b) as frequently as needed
☐ (c) less frequently than necessary
If (a) or (c) is the answer, indicate the desired frequency _____
3. Copies -- The number of copies received is:
☐ (a) adequate
☐ (b) inadequate
☐ (c) more than adequate
If (b) or (c) is the answer, indicate the number needed _____
4. Content -- The report contains: (if appropriate, check more than one answer)
☐ (a) all necessary information
☐ (b) inadequate information
☐ (c) unnecessary information
☐ (d) too much detail
☐ (e) not enough detail
☐ (f) too many columns of information
☐ (g) not enough columns of information
☐ (h) information which is duplicated in other reports (identify the reports)

5. Accuracy -- The information in the report is:
☐ (a) always accurate
☐ (b) generally accurate
☐ (c) seldom accurate
☐ (d) never accurate

EVALUATIONS OF MANAGEMENT REPORTS RECEIVED (A-1.1)
(CONTINUED)

6. Format -- The report:

- _____ (a) is easy to read and interpret
_____ (b) is difficult to follow and analyze
_____ (c) requires much analysis to get meaningful information

7. Use -- The report is used for:

- _____ (a) general information only
_____ (b) control purposes
_____ (c) decision making
_____ (d) not useful, just filed

8. Usefulness -- The report is:

- _____ (a) interesting and valuable
_____ (b) interesting but of no real value
_____ (c) uninteresting and not of value
_____ (d) uninteresting but necessary

9. What information should be added to this report to make it more useful to you?

10. What types of decisions do you make based on the information in this report?

11. Other comments:

**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

Part 2

Examination of Specific Areas of Concern, Continued

**SECTION 2 - EXAMINATION OF FINANCIAL
MANAGEMENT PRACTICES AND FISCAL CONTROLS**

**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**Part 2
Examination of Specific Areas of Concern, Continued**

**SECTION 2 - EXAMINATION OF FINANCIAL
MANAGEMENT PRACTICES AND FISCAL CONTROLS**

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I. INTRODUCTION

This chapter describes the objectives and scope of our examination of the Department's financial management practices and fiscal controls. Details of our findings and related recommendations are presented in the following chapter.

OBJECTIVES AND SCOPE OF THE EXAMINATION

The specific objectives of our examination of the Department's financial management practices and fiscal controls were to determine the adequacy of policies and practices in the following areas:

1. Controls established for the collection of revenues and other receipts including the promptness by which the collections are deposited into the state treasury.
2. The prudence of financial administration of special and trust funds.
3. The reasonableness of usage of petty cash funds for low dollar value expenditures.
4. The legality and propriety of financial transactions of any agency funds transacted and accounted for outside the state treasury.
5. The reasonableness of the amount of operating costs paid for by the Federal Government.

EXAMINATION APPROACH

To accomplish the above objectives, in addition to applying normal audit techniques and tests of internal controls, we interviewed management and key clerical personnel in the Department and other state agencies.

We analyzed the results of our audit tests and fact finding interviews to determine the adequacy of accounting and management controls and policies in each of the functional areas listed above.

II. FINDINGS AND RECOMMENDATIONS

We found that the financial management practices and fiscal controls of the DLIR can and should be strengthened. Recommendations for the development of more useful and appropriate fiscal reports and correction of specific accounting and internal control procedural weaknesses were presented in Section 1 of this report. Additional specific findings and recommendations are presented in the following paragraphs.

REVENUE AND RECEIPTS COLLECTION CONTROLS

As described in the preceding section of this report, the effectiveness of accounts receivable billing and collection procedures and policies can be improved. Implementation of our recommendations should result in an increased availability of funds for investment. Other areas where collection weaknesses were noted are described below.

(a) Job Corps – Food Service Receipts

Cash receipts procedures are weak in the Food Service Program of the Job Corps Center. The following paragraphs describe our detail findings in our examination of the Food Service Fund.

- . Funds from the three camps' sales are commingled with the Imprest Fund.
- . Funds are generally being deposited twice monthly to the Imprest Fund Bank account.
- . Transfers are currently being made on a monthly basis to the Controller's Department.
- . Internal control and revenue reporting procedures were found to be inadequate. We noted that meal tickets are issued, cash is collected, and a daily reconciliation of sales is prepared by the same individual. Meal tickets are neither prenumbered for distribution control nor voided to preclude further use.
- . Food sales for breakfasts and dinners were not indicated on the sales record. We understand that cash is not collected for these meals at Koko Head.
- . Food consumed by STR staff and Resident Workers has not been recorded as food sales nor was cash collected for meals. Paragraph 17 of the current STR contract specifically states "STR staff members shall not receive any meals except upon payment of cash before each meal at prices established and approved by the DLIR for Center personnel". A fair value should be established for food consumed by STR members and if the number of meals consumed by them cannot be readily determined, a fair value taxable benefit amount should be reported for Federal and State income tax purposes.

Food service receipts, commingled in the Imprest Fund, are transferred monthly to the Revolving Fund although the State Controller's Regulation 4 requires daily depositing of cash collections. In view of the relatively small volumes (monthly transfers amount to approximately \$400), we believe that an exception may be justified and we recommend that a request for authorization to deviate from this regulation be submitted.

(b) Job Corps -- Federal Reimbursements

Reimbursement checks from the Federal Government are usually received by the 10th of the following month. On November 5, 1971, we noted that the check for July reimbursement for \$110,901 had not yet been received. We were informed that this problem has existed in the past whenever a new contract has been negotiated due to a delay in executing the actual contract by both parties. The Federal Government will reimburse Hawaii Job Corps only if a contract has been signed to authorize the disbursement. Accordingly, new contracts should be signed and returned to Washington as expeditiously as possible. An advance for \$242,866.00 was received from USDL Job Corps Division and deposited September 9, 1971. In the interim period the Hawaii Job Corps had been using State of Hawaii funds on an interest-free basis to finance their operation. Consideration should be given to including a clause in all subsequent contracts to the effect that the State of Hawaii will be automatically advanced 1/12 of the previous year's contract until such time as a new contract is executed if prior notice to terminate the contract has not been received. This would minimize the requirement for state funds and help preclude the untimely reimbursement of reimbursable expenses as evidenced by the long overdue July payment.

FINANCIAL ADMINISTRATION OF SPECIAL FUNDS

With the notable exception of the Temporary Disability Insurance Special Funds and the Unemployment Compensation Fund, no forecasting of special funds cash requirements are made and idle cash resources are not invested or if invested, interest is not being credited for the following funds:

	Cash Balance Range During Fiscal Year 1970-71
1. Agriculture Administration Fund	\$ 32,000 - 44,000
2. Agriculture Revolving Fund	41,000 - 134,000
3. Workmen's Compensation Special Fund	97,000 - 229,000
4. Additional Compensation Fund	<u>307,000</u> - <u>307,000</u>
Total	\$ <u>477,000</u> - <u>714,000</u>

No investments are made in the first three funds. The additional Compensation Fund is controlled by B&F and we were unable to determine whether idle cash in this fund is invested however no interest has been credited to the fund.

Greater effectiveness in accounts receivable collection efforts, as recommended previously in this report, would tend to increase the cash balances indicated above and we estimate that at least an additional \$500,000 of short-term investments could be achieved. We recommend that funds available for investment be pooled and that they be invested to yield the maximum return within the legal constraints of the state.

UTILIZATION OF PETTY CASH FUNDS

The Job Corps Center petty cash fund is not being utilized to maximum benefit. Although a limitation of \$100 per expenditure from the fund has been established, our review of the Center's purchase journal indicated that approximately 50% of the purchase orders issued were for amounts of \$50 or less. Many of these are for inter-island travel which requires preparation of three separate purchase orders for the expenses of air fare, car rental, and per diem costs.

We recommend the elimination of use of purchase orders wherever possible for small, petty purchases. In view of the fact that travel costs of the Job Corps program are approved in advance by the Center Director and reimbursed by the Federal Government, we recommend that the Job Corps request authorization to vary from the Department's verbal policy which requires DLIR prior approval of all inter-island travel, and eliminate the use of purchase orders by issuing cash advances for short trips from the petty cash fund.

AGENCY FUNDS NOT ACCOUNTED FOR THROUGH THE STATE TREASURY

Only one fund of this nature was noted in our examination. A wage-claim fund is maintained in the Enforcement Division. Money claims collected from employers for wage payments due employees are deposited in the wage-claim bank account. Checks are drawn on the account to pass the payments received on to the employees or ex-employees. The fund was established because checks from employers, for the benefit of claimants, are sometimes payable to the DLIR in accordance with legal judgments obtained by the Department acting as agent for claimants.

We were unable to determine the legality of this separate fund and bank account, which is maintained outside the control of the State Treasurer. We recommend however, that it be abolished by requesting that legal judgments specify that employers draw checks with the Department and the claimant as co-payees. The Department, upon obtaining a signed receipt from the claimant would then merely endorse the check over to the claimant. (In the cases where mailing the checks to claimants would be more practicable, certified or registered mail should be used.)

This procedure would have the advantage of eliminating the need for the Department to perform clerical functions which are properly the responsibility of employers. The functions of preparing bank deposits, drawing and signing checks, and preparing bank reconciliations would be eliminated.

OPERATING COSTS CHARGED TO THE FEDERAL GOVERNMENT

We examined the Department's bases of cost allocations to federal programs and the nature of the costs allocated. We found either the base or the nature of allocated costs to be less than the maximum allowable as defined in the Employment Security Manual. The major areas of exception are listed below and discussed in the following pages:

- . Operation and maintenance costs in lieu of rent for state-owned buildings.
- . Expenditures for goods and services furnished by other state departments.
- . Allocation of data processing charges from Computer Center II.

- . Allocation of employers share of federal and state unemployment insurance and workmen's compensation contributions.

(a) Operation and Maintenance Costs

Paragraph 2530 of the Employment Security Manual states that funds granted by the Bureau of Employment Security may be used in lieu of rent to meet costs incurred by the state for operating and maintaining space and provided for the state agency and state-owned buildings. Service and maintenance expense may include costs of heat, light, power, insurance, elevator service, janitor service, cleaning, painting, decorating, maintenance repairs, etc. A charge for depreciation may be included in operating and maintenance costs if such a charge can be supported.

We examined the composition of the maintenance charges on the Keelikolani Building. No charge for insurance or depreciation is included in the maintenance cost schedule. The schedule was computed as of June 30, 1961, and has not been updated to reflect cost increases in custodial salaries, supplies, utilities, or other items. We estimate that the total maintenance costs of approximately \$50,000 a month being charged the Department by DAGS could easily be understated by at least 50% based on the normal rate of increase in salary schedules which has not been reflected in the charges.

The allocation of these maintenance costs between state and federal programs includes an allocation of joint space used in relation to direct space used for employment security programs. No allocation of circulation and common area spaces is made. The allocation of joint space used is based on the percentage of personnel positions federally funded versus state funded. Space utilization ratios have changed since June 30, 1961, but the allocation basis has not been updated since that date.

We recommend that the space utilization ratio be reviewed at least annually and the allocation of maintenance costs be adjusted to reflect actual space usage. We also recommend that circulation and common areas be included in the allocation. DAGS should be requested to analyze current maintenance costs and adjust the monthly charge to reflect actual current costs. This would apply to the Keelikolani Building Annex as well as the main building. The monthly maintenance costs for the annex were computed in 1963 and have not been adjusted since that date.

(b) Expenditures for Goods and Services
Furnished by Other State Departments

Approval was obtained from the Bureau of Employment Security in August 1963 for a pro rata allocation of charges by other state departments for goods and services as outlined below:

1. State Retirement System administrative costs.
2. State Department of Accounting and General Services charges for telephone service.
3. State Department of Accounting and General Services charges for issuance of warrants for payments made under Title 3 funds and unemployment insurance benefit payments. This service includes pre-audit of vouchers and warrants, signing and mailing warrants, sorting, collating, reconciling and filing paid warrants.

4. State Department of Budget and Finance for services scrutinizing endorsements, fund segregation, adding of warrants for bank payment reconciliation of bank statements, and cancelling paid warrants.
5. State Department of Taxation for services in collection of contributions from employers. Services include receipting, cashiering, accounting, and mailing of receipts.
6. State Attorney General legal services.

We do not know whether the pro rata service charges for the above services have been updated since 1963 to reflect actual service costs. The DLIR also utilizes the DAGS Central Procurement Division, but apparently no service charge is allocated to the federal programs for this. This should be investigated and, if appropriate, a charge for these services should be allocated to the Employment Security Program. No charges for item 3 are prorated to the Job Corps and we recommend this be done.

(c) Allocation of Data Processing Charges

Monthly charges from Computer Center II for personal and nonpersonal costs are based on two elements, i.e., processing costs and data storage costs. Processing costs are allocated between federal and state programs on the basis of actual processing hours. (This ratio is currently 58% federal and 42% state.) Data storage costs are charged at a fixed rate based on the amount of storage units (Fastrand units) which were estimated would be required in 1966. We were informed that storage requirements have changed since the original estimate was developed, but no adjustment in the pro rata charges has been made. We were unable to locate any documentation of the original estimate nor were we able to identify the present ratio of data storage for federal and state programs. We are therefore not able to determine whether the present allocation of data storage costs of approximately \$63,000 and \$27,000 charged to state and federal programs respectively is appropriate.

We recommend that an analysis be made of the present data storage usage and the allocation be adjusted to reflect actual conditions.

(d) Allocation of Employers Payroll Taxes

Because of coding and/or programming error, the cost of employer's contributions for state and federal unemployment insurance and workmen's compensation has not been charged to the Job Corps Program. This was described in Section 1 of this report and we have recommended that a claim for reimbursement be filed with the Federal Government for approximately \$10,000 of these costs incurred for the last two fiscal years.

**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

Part 2

Examination of Specific Areas of Concern, Continued

**SECTION 3 - EXAMINATION OF CLAIMS PROCESSING
AND RECORDS MANAGEMENT SYSTEM IN THE
WORKMEN'S COMPENSATION DIVISION**

**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**Part 2
Examination of Specific Areas of Concern, Continued**

**SECTION 3 - EXAMINATION OF CLAIMS PROCESSING
AND RECORDS MANAGEMENT SYSTEM IN THE
WORKMEN'S COMPENSATION DIVISION**

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I. INTRODUCTION

This chapter describes the objectives and approach taken in our examination of the claims processing and records management systems in the Workmen's Compensation Division and presents an overview of the Division's activities.

OBJECTIVES OF THE EXAMINATION

The specific objectives of the examination were to determine the following:

- . The expediency by which claims are processed by the Workmen's Compensation Division.
- . The orderliness of the records and filing system of the Division.

EXAMINATION APPROACH

To accomplish the objectives of the examination, we performed the following tasks:

1. Conducted fact finding interviews with Division personnel to gain an understanding of the Division's activities and procedures followed in the claims processing, filing, and record keeping functions.
2. Analyzed the current procedures to identify processing bottlenecks and other weaknesses.
3. Developed recommendations to improve the effectiveness of the current procedures.

OVERVIEW OF WORKMEN'S COMPENSATION PROGRAM

Employers subject to the Workmen's Compensation Law are required by statute to obtain compensation for employees injured on the job by purchasing insurance from Hawaii licensed carriers, or by self-insuring. Claims and benefit payments are processed and paid by those insurers or self-insured employers.

If the employer fails to provide this insurance, payment may be made from the Special Compensation Fund and the Division seeks to obtain fund reimbursement from debtor-employers. The Division also assesses the promptness of weekly benefit payments to disabled employees.

Claimants and employers have rights of appeal on decisions rendered. Scheduled hearings are held for reviewing the facts related to a claim and issuing a decision affirming or reversing compensation awards.

The principal program activities are as follows:

- . Claims processing
- . Closing claims
- . Conducting hearings
- . Rendering decisions
- . Monitoring employer compliance with insurance requirements
- . Conducting investigations

Characteristics of claims are coded and recorded for statistical reporting purposes and claim files are maintained for varying periods of time (depending on the nature of the claim) up to 60 years.

Our findings and recommendations regarding the effectiveness of the present claims processing are described in Chapter II of this section.

II. FINDINGS AND RECOMMENDATIONS

We found that significant weaknesses exist in the present claims processing and records management systems of the Division. Our specific findings and recommendations are presented in the following paragraphs.

CLAIMS PROCESSING

The claims processing function involves:

- . Time stamping incoming case documents. Basic documents include industrial injury reports, medical examination reports, employee claims, and benefit payment reports. These are required to be filed by self-insured employers, insurance carriers, employees and medical examiners.
- . Reviewing, indexing, and recording new industrial injury reports,
- . Initiating case files,
- . Coding statistical data of new injury reports for input to the computer center, and
- . Filing of case documents in case folders.

Problems are experienced which adversely affect the timely processing of claims with the result that statistical reports and computation of special levies may be erroneous. These factors were described in Section 1 of this report.

A primary cause of delays in claims processing is an unacceptable volume of incomplete reports received from insurance carriers, self-insured employers, and employees. Types of information frequently omitted are social security number, date of accident, description of accident, description of nature of injury, missing medical reports, etc. Some reports are illegible. Duplicate initial reports are sometimes received from carriers and employers because of a lack of understanding of relative reporting responsibilities.

Since claims cannot be processed until the required information is complete, incomplete reports require corresponding with the employer or insurance carrier and involve additional clerical effort in filing and matching of supplemental reports. Obviously the duplications of original reports require additional clerical effort in indexing and matching to determine that a duplication has been made.

Another significant claims processing problem is caused by the failure to receive initial claims reports (WC-1) prior to receipt of medical and other reports. Case folders are created only upon the receipt of an initial report of injury. This is a proper procedure in that it tends to prevent the creation of duplicate case folders. The Division presently has a backlog of 15,000 unprocessed documents for which no case folder exists. An additional 35,000 are documents unfiled because,

the case folders cannot be located. Of the approximately 200 reports received each day, an estimated one-third are exceptions in that either no case records exists in the Division or the case folder cannot be located.

This is an unacceptable volume of exceptions for effective claims processing, and action is required on two fronts to eliminate these weaknesses.

- . Streamline internal processing procedures.
- . Improve the reporting timeliness and accuracy of reports prepared externally.

(a) Internal Processing Procedures

An estimated 200 to 300 case file documents are received daily. These are first alphabetized by claimant to facilitate identification with individual accident case numbers recorded on the individual employee injury cards. After the documents are alphabetized, the employee injury cards must be located and each document is marked with the proper accident case file number. After marking, documents are arranged numerically for filing in individual case folders. Numbered documents for which the case folders cannot be located are interfiled in boxes labeled "unmatched records". There are presently 35,000 documents which are unfiled because of "unmatched records". Two major procedural problems are inherent in this process. These are in the identification and marking of documents, and the filing of marked documents.

In Section 1, we recommended that the manually-maintained employee injury card files be replaced with a computer printout of cross reference listings. This would eliminate the need for first sorting the documents alphabetically and then resorting numerically for filing.

To eliminate the accumulation of documents for which case folders cannot be located, we recommend that "pocket" out cards be used when case folders are removed from the open case files. The out cards should be marked with the date and disposition of the folder removed. Documents received for filing while the case folder is out could be forwarded to the personnel working with the case or slipped into the pocket of the out card for subsequent filing when the folder is returned.

(b) Accident Reporting

A more effective program of instruction and enforcement is required if the present high volume of report exceptions is to be reduced. Although the Division has made efforts in this direction, a higher priority must be assigned to a rapid identification and followup of report exceptions.

As an initial step toward developing a more effective program, we recommend that report exceptions be cataloged by reporting party (employer, insurance carrier, medical examiner, etc.) and by type of exception. This information could serve as the basis for improving the effectiveness of instruction to the appropriate parties. We also recommend that consideration be given to reviewing present forms to determine whether greater simplification could result from a form redesign which might reduce reporting exceptions. If a form redesign is contemplated, consideration should be given to making a provision for insertion of statistical codes on the form itself to eliminate the present need for transcribing statistical data on a separate document. Checklists should be distributed with report forms to instruct employers and insurance carriers as to which forms each is responsible for initiating, and specifying additional documents which must be attached to the forms.

As an aid to improving the effectiveness of reporting, consideration should be given to developing departmental regulations to aid the Division in enforcing reporting requirements. A reduction in the time lapse within which reports must be filed and an expansion of the penalty provisions to include repeated non-compliance in the area of reporting accuracy and timeliness, regardless of cause, are examples of regulations which might be considered.

RECORDS MANAGEMENT SYSTEM

The maintenance of case files on a current basis is a critical factor if the Workmen's Compensation program is to effectively meet its objectives. The Division is not presently able to maintain these files on a current, timely basis, partially because of the procedural weaknesses in claims processing described above, and partially because of weaknesses in the records management system described below.

The Division is required to retain case files for 10 to 60 years, depending on the nature of the injury. These retention requirements date from the closing of a case. Case folders are filed in three locations:

- . Open case files -- approximately 26,000-30,000 maintained in the Division
- . Closed case files -- approximately 600,000 maintained in the Division
- . Closed case files -- an undetermined volume maintained in the State Archives.

These files include case folders for neighbor islands as well as Oahu, although case folders are also maintained on the respective neighbor islands. File volumes are significantly large in relation to the relatively low volume of retrievals for reopened cases. No record is made on the individual accident record index files when case folders are transferred from open files to closed files or when transfers are made to the archives. Transfers to the archives are made on a space available basis and destruction of case files is done by reviewing each file to learn the nature of the injury which determines the retention requirements.

The following recommendations are designed to reduce records volumes to a manageable level, to facilitate identification of the physical location of case records, to enable maintaining case records in a usable form, and to facilitate record transfers and ultimate destruction.

- . Cases should be coded and filed according to time retention requirements. This should be done at the time a case is closed.
- . Duplicate central files of neighbor island cases should be eliminated. Statistical reporting requires that copies of case documents be sent to Division offices for coding as input to the computer. After these duplicate documents are coded, they should be destroyed.
- . Statistics should be maintained for reopened cases which would enable an analysis for the purpose of reducing present retention periods. Such statistics as length of time before reopening, by nature of injury would be appropriate
- . A shorter records destruction schedule should be adopted. We recommend that consideration be given to utilizing micro-filming equipment to facilitate the acceleration of records destruction.

- . Transfers of case records from open to closed files and to the archives should be recorded on the individual accident record index files.

GENERAL OBSERVATIONS

The personnel position to which primary responsibility for claims processing has been assigned became vacant in April 1971. The position was filled on a provisional basis through October, but has since been vacated. The functional responsibilities of this position are critical to the effectiveness of claims processing and a high priority should be assigned to filling it.

We noted that the procedures manual for the Division is incomplete and out of date. The manual contains policy statements and special memos, but no specific descriptions of individual activities or procedures. The manual is not indexed or cross-referenced by subject area. To facilitate training of personnel and properly identify functional responsibilities, we recommend that a detailed procedures manual be developed and maintained on a current basis.

**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

Part 2

Examination of Specific Areas of Concern, Continued

**SECTION 4 - EXAMINATION OF THE TEMPORARY
DISABILITY INSURANCE PROGRAM**

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Part 2
Examination of Specific Areas of Concern, Continued

SECTION 4 - EXAMINATION OF THE TEMPORARY
DISABILITY INSURANCE PROGRAM

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I. INTRODUCTION

Another specific area of concern delineated for examination in our financial audit was the Department's Temporary Disability Insurance (TDI) Division. The primary emphasis of our examination was to generally assess certain areas relating to implementing the TDI plan.

EXAMINATION OBJECTIVES

Under the specifications established by the Legislative Auditor, the specific objectives of our examination were:

1. to determine the existence and adequacy of the implementation plan for the TDI law;
2. to identify and to evaluate the alternatives considered and steps taken to ensure that all subject employers are complying with the requirements of the TDI law; and
3. to describe the difficulties encountered or that may be encountered in the administration and enforcement of the program including any recommendation for statutory change.

EXAMINATION APPROACH

To achieve the examination objectives above, we performed the following principal tasks:

1. Collected and studied key data to ascertain the present status of an implementation plan for the TDI law.
2. Identified methods of compliance with the TDI law by conducting in-depth interviews with all personnel in the central office in Honolulu currently in the TDI Division.
3. Conducted sessions with our employee benefits consulting and actuarial staff as well as with key personnel in the TDI Division to suggest possible TDI law reforms to reduce the difficulties already encountered or anticipated in the administration and enforcement of the program.

PRELIMINARY OBSERVATION ON THE TEMPORARY DISABILITY PROGRAM

A report was submitted by the Director of Labor and Industrial Relations (in response to Senate Resolution No. 244 and House Resolution No. 311 of the Fifth Legislature, 1970) on the implementation of the TDI program. The report covers the period June 1969 to December 31,

1970 and presents a comprehensive discussion of the TDI Division's specific activities and accomplishments attendant to the implementation of the TDI Program.

The historical development of the TDI program is discussed. A detailed discussion of the activities of the TDI Division covering the period January 1, 1970 through December 31, 1970, the problems encountered, and specific recommendations relating to additional legislation required to improve the TDI program are presented. Future requirements and plans of the TDI program and a discussion of program objectives, manpower and financial requirements, and alternative approaches to implementing some of the aspects of the program are also included. A statistical summary of program accomplishments and details various workload data relating to completed investigations, claims processed, and other similar data are also presented.

II. FINDINGS AND RECOMMENDATIONS

The results of our examination may be classified into three areas corresponding to each of the three examination objectives above.

IMPLEMENTATION PLAN FOR THE TDI PROGRAM

An implementation plan for the TDI program does exist and can be found in Section III of the Director's Report.

We compared all provisions of the TDI law with the details of this implementation plan. Our review disclosed three areas of the TDI law that are not adequately covered in this implementation plan. These exceptions are summarized as follows:

(a) Payment of Disability Benefits

Sec. 392-44 Payment of disability benefits of the Hawaii Temporary Disability Insurance Law provides that "benefits provided under this chapter shall be paid periodically and promptly and, except as to a contested period of disability, without any decision by the director."

The implementation plan in the Director's Report does not provide a means for the Director to enforce this provision.

Furthermore, we observed procedures at the Division to ascertain whether steps were being taken to enforce this provision, in spite of the omission from the implementation plan. We found there is little investigation as to whether prompt benefit payments are being made by insurance carriers and self-insured employers.

(b) Withholding Contributions

Sec. 392-43 Authority to withhold contributions of the Hawaii Temporary Disability Insurance Law provides that "... an employer may deduct and withhold contributions, from each employee of one-half the cost but not more than .5 percent of the weekly wages earned by the employee"

The implementation plan in the Director's report does not provide a means for the Director to enforce this legislation.

Again, we observed procedures at the Division to determine whether steps were being taken to enforce this provision in spite of the omission from the implementation plan. We found there is little auditing as to whether employers are making proper deductions of employees' contributions.

(c) Equivalency of Plans and Experience Data

Part II of the Hawaii Temporary Disability Insurance Law describes temporary disability benefits under this law. Benefits under an employer's plan must be at least as favorable as these statutory benefits to be acceptable.

The implementation plan in the Director's report does not provide a means for the Director to determine adequately this equivalency of plans on an ongoing basis.

We found that a consulting actuary was initially selected who constructed a table of actuarial equivalency to assist the TDI Division in determining whether employer plans are at least as favorable as the statutory benefits.

Because of the newness of the TDI coverage and the consequent lack of directly applicable experience data, the construction of such a table was necessarily a matter of considerable actuarial judgement. On the other hand, the actuary of a hypothetically existing TDI program could have before him the past history of that program for use as a guide in determining the bases to be used in constructing such a table. In the case of the new TDI program, suitable records of the past experience of the employees concerned were non-existent. And even if they were available, they could only be accepted with caution since the table of equivalency itself could have been affected by the introduction of the TDI program itself. The only reasonable course of action at the onset of the TDI program was to adopt the experience of an existing group of employees who appeared likely, in the judgement of the actuary, to have a similar experience to that which would be shown by the employees covered by the TDI program.

Consequently, it is imperative that the implementation plan include a way of generating appropriate experience data. As such data emerges from the TDI program each year, actuarial experience studies can be made perhaps each five years for the purpose of testing the equivalency table and accordingly adjusting it.

Again, we reviewed the actual activities of the TDI Division to ascertain whether suitable experience data would be generated each year in spite of this activity's omission from the implementation plan. We found there is insufficient information being obtained for meaningful actuarial experience studies to be made and therefore the presently adopted equivalency table cannot be properly tested as TDI benefit experience emerges and the table accordingly adjusted.

METHODS OF COMPLIANCE WITH THE TDI LAW

We observed various methods of ensuring compliance by employers with the TDI law. The TDI law itself was mailed to employers initially. Investigations have been held when complaints have been received. Finally, legal action was taken when required. However, audits of financial statements, special assessment reports, and employer records are the primary means of ascertaining compliance.

(a) Computer Controls

A computer data bank identifying employers in the State, showing which employers have already registered and those who have not yet registered, is being developed and, when completed, should provide a firm basis on which to better ensure that all subject employers are complying with

the requirements of the TDI law. It is the intention of this computer bank when fully operational, to provide adequate assurance of compliance. The target date for completion of this computer data bank is December 31, 1971.

Reports are required of self-insured employers and employers' insurance carriers annually by January 31 of the following calendar year. The information includes data relating to the claims processed during the year, etc. The data contained in these reports will be input into the computer data bank discussed above so that cross-checks of information may be made.

(b) Audit Coordination

The audit function of the TDI program has been coordinated with other state programs in the following ways:

. Coordination External to the Department

With regard to the audit activities of the TDI program, coordination external to the Department occurred with the Department of Taxation, Department of Budget and Finance and the Department of Regulatory Agencies, as required.

. Coordination Internal to the Department

We found the audit function of the TDI program is closely coordinated with the Unemployment Insurance and Workmen's Compensation Divisions. This coordination occurs because the benefits payable from either one of these two programs are related to those that may be payable to a disabled employee and conversely.

DIFFICULTIES ENCOUNTERED

In addition to implementation problems mentioned above, as well as in the Director's report of February 10, 1971, others are summarized below:

- . The statements regarding policy and legal interpretations are current, but not maintained in a manual for easy reference.
- . Certain essential activities of the TDI Division were observed to be inadequately performed, viz.
 - Assisting the Administrator in the preparation of the budget.
 - Developing and drafting the Division PPB.
 - Researching and drafting legislative proposals.
 - Drafting procedural manuals, guidelines, forms, etc.
 - Developing handbooks, brochures for employees, employers and insurance carriers.

- Preparing policy statements and legal interpretations.
- Compiling workload statistics and preparing periodic reports.
- Assisting the Administrator with development and formulation of Division plans.

RECOMMENDATIONS

Based on our examination, discussed above, we recommend the following courses of action be taken:

1. The implementation plan for the TDI law should be revised to strengthen the investigation and audit function with respect to TDI plan transactions of covered employers.
2. Consideration should be focused on the adequate performance of certain essential activities, previously described, for the TDI Division.
3. The statements regarding policy and legal interpretations should be maintained in a manual for easy reference.
4. The TDI law should be reformed so that sufficient information would be required each year from the appropriate source(s) to permit actuarial experience studies to be made properly.
5. The computer data bank identifying employers in the State and showing which ones have not registered their plan with the TDI Division, should receive high priority for completion.

**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

Part 2

Examination of Specific Areas of Concern, Continued

**SECTION 5 - EXAMINATION OF DLIR PRACTICES AND
PROCEDURES RELATIVE TO THE RENTAL OF FACILITIES**

**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**Part 2
Examination of Specific Areas of Concern, Continued**

**SECTION 5 - EXAMINATION OF DLIR PRACTICES AND
PROCEDURES RELATIVE TO THE RENTAL OF FACILITIES**

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I. INTRODUCTION

Another specific area of concern delineated for examination in our financial audit was the Department's (DLIR) use of privately-owned office facilities. The primary emphasis of this examination was to generally assess the adequacy of DLIR's practices and procedures relative to the rental of office facilities.

OBJECTIVES OF THE EXAMINATION

Under the specifications shown in our contract with the Legislature Auditor, the primary objectives of our examination were to:

1. Determine the exhaustiveness of the search for rental facilities.
2. Determine the reasonableness of the rental costs.
3. Determine the need for office facilities at the locations selected.

EXAMINATION APPROACH

To achieve the objectives of the examination, we performed the following work tasks:

1. Compiled an inventory of physical facilities under the administration of the Department, to include: the organizations (programs) occupying the facilities; the location of the facilities; and the bases for ownership of the facilities (e.g., state-owned or privately-owned).
2. Collected key data relating to facilities which are leased by the Department from private sources. Data collected included: terms of the various lease agreements; area leased; costs incurred; and general description of the physical features of the facilities.
3. Conducted in-depth interviews with key personnel currently occupying leased facilities located in Honolulu, selected Department administrative personnel, and members of other state operating departments.
4. Defined the mechanics of the property rental process, to include: property search; lease negotiations; and administrative responsibilities for the rental process.
5. Collected data relating to the existing structure of rents in the greater Honolulu area.

6. Defined existing program requirements for facilities and the present utilization of leased facilities.
7. Identified problem areas and developed broad recommendations.

II. SUMMARY OF FINDINGS, RECOMMENDATIONS AND OBSERVATIONS

In this chapter, we have summarized the results of our examination of DLIR practices and procedures relative to the rental of office facilities. In this regard, we have presented the major findings resulting from our examination and enumerated broad recommendations relative to the courses of action which should be taken by the DLIR. In addition, we have presented selected observations on the rental process made during the course of our study. These observations, although important, are not amenable to treatment as recommendations because they relate primarily to factors external to the DLIR.

MAJOR FINDINGS

1. State-wide procedures (e.g., Administrative Directive 1970-3) governing the rental of office facilities were not established until August 1970. Despite the lack of established procedures, adequate provisions were made internally to attempt standardization of DLIR rental procedures. These procedures were consistently applied in cases where facilities were leased prior to August 1970. In addition, the process followed in conducting the search for facilities was adequate and reasonable.
2. Internal DLIR procedures are adequate to meet the future requirements of the Department. However, several key deficiencies exist:
 - . Internal procedures have not been formally documented and included in prescribed departmental operating manuals and other appropriate documentation.
 - . Internal requests for additional space have not been submitted to the Fiscal Office properly documenting specific space needs and attendant justification for these needs.
3. In cases where the provisions of Administrative Directive 1970-3 applied, documented requests for space were not submitted by the Department to DAGS. In the specific instance relative to the rental of the Tani Building, internal DLIR control over the rental process was inadequate.
4. Except in the case of the Employment Service Division, present leased facilities are not directly correlated to specific facilities needs resulting from program and organizational requirements.
5. Present rental costs incurred by the DLIR appear reasonable in light of existing market conditions.
6. Some DLIR organizations are presently incurring both real property and general excise tax costs in the rental of facilities.

RECOMMENDATIONS

Based on our findings presented above and on the detailed review contained in the body of this report, the following recommendations are presented for your consideration.

1. Retain existing internal procedures governing the rental process, but insure that these procedures are documented and communicated to all concerned. In addition, provide for the incorporation of state-wide procedures contained in Administrative Directive 1970-3 into existing internal processes.
2. Require that all requests for additional space, both internal to the DLIR and those being forwarded to DAGS, be documented and maintained in the Fiscal Office.
3. Require that an investigation be made regarding the propriety of costs presently being incurred for payment of general excise taxes.
4. Secure exemption from payment of real property taxes at the King-McKinley Building and the Pan American Building.

OBSERVATIONS ON THE RENTAL PROCESS

The procedures established in Administrative Directive 1970-3 do not explicitly provide for review by DAGS of leases in the process of being renewed or renegotiated. In view of the consequences to the state, we feel that this is an area which should be included in Directive 1970-3. First of all, it is possible that the terms of the lease renewal or renegotiation may be unfavorable to both the Department and the state from the standpoint of the rental rates or other considerations. A lease ultimately commits either state or federal resources for a fixed period of time, normally in excess of five years. Since public monies are involved, every effort should be made to ensure that these funds be expended wisely. Provision for review by DAGS during the renegotiation or renewal process should allow better control to be exercised over premature or inappropriate commitment of resources. Secondly, it is also highly possible that state-owned facilities may be available for use at the time of expiration of an existing lease. Thus, if departments are allowed to unilaterally extend existing leases without knowledge of vacancies, optimum use of public facilities cannot be realized.

As a second observation, it became apparent from our discussions with DLIR personnel that the search for facilities, although adequate, was normally a time-consuming and tedious process. The primary factor contributing to this situation was the amount of primary research which had to be conducted relative to rental market conditions and office facilities available. There was no "data bank" of information on the rental market for easy referral. Therefore, the alternatives which had to be evaluated and screened prior to making a selection were many. Furthermore, DLIR personnel felt that they did not possess the requisite background on the real estate market to effectively deal, on an on-going basis, with the mechanics of the property rental process.

It should be determined whether the aforementioned observations are also applicable to other state departments. In this regard, it is recommended that consideration be given to centralizing all aspects of the rental process with a department such as DAGS. DAGS presently has the responsibility for administering the procedures established in Directive 1970-3. The centralization of control over the rental process would not only ensure more consistent application of existing criteria for the selection of facilities, but would place the responsibility for making decisions

relating to the rental of facilities with those who are more familiar with the mechanics of the property rental process. Under this approach, all departments would still be required to submit their requirements for space to the central agency. However, those aspects of the rental process such as property search and lease negotiations would be performed by the central agency.

III. EXAMINATION OF DLIR PRACTICES AND PROCEDURES RELATIVE TO RENTAL FACILITIES

This chapter contains the detailed results of our examination of the Department's practices and procedures relative to rental facilities. Herein, we have presented:

- . The process followed in securing facilities from private sources; the facilities rented and attendant lease terms agreed upon.
- . The utilization of the rented facilities by respective divisions of the Department.
- . General comments concerning problem areas relative to the rental process.

INVENTORY OF RENTED FACILITIES

The table on the next page represents an inventory of private rental facilities with a summary of key data relating to the location of the office buildings, lease terms, etc., specifically enumerated. From the table, it can be seen that the DLIR currently leases space in 11 privately-owned office buildings. Of the 11, eight are located on Oahu, while the remaining three facilities are located on the islands of Hawaii, Kauai, and Maui.

ESTABLISHED STATE PROCEDURES GOVERNING OFFICE SPACE RENTAL

The procedures to be followed by all state operating departments relative to the rental of office facilities are delineated in Administrative Directive No. 1970-3 issued in August of 1970. As stated therein, all departments are required to adhere to the following procedures:

- "1. Agency establishes amount of space necessary to accommodate needs.
2. Agency requests are reviewed by Department of Accounting and General Services. If space is justified, DAGS will either assign State-owned space or authorize the agency to lease space.
3. If leased space is involved, agency will submit prior to entering into lease agreement:
 - a. Location of leased space.
 - b. Area of leased space.
 - c. Cost per month for leased space.
4. DAGS will review and approve or disapprove.
5. Where approvals are rendered and a lease is consummated, a copy of the lease agreement shall be submitted to DAGS for their files."

Organization (Program) Occupying Facility	Location ¹	Primary Source of Program Funding	Term of Lease	Gross Area Leased (sq.ft.)	Monthly Base Rental Cost (Dollars)	Monthly Rental Cost/ sq.ft.	Other Costs Incurred	Amenities Provided	Comments
Waianae Coast CEP Intake Center	Nakatani Bldg.	Federal	Periodic Renewal	3,200	750	.23	Not available		
Kalihi-Palama CEP Intake Center	Honolulu Gas Bldg.	Federal	9/1/70- 10/31/71	2,500	945	.38	Maintenance \$98/ month		
Temporary Disability Insurance (Temporary Disability Benefits)	Pan American Bldg. (port. 6th flr.)	State	1/1/70- 12/31/71	3,800	2,650	.70	Real property taxes	Elevator; parking facilities; carpet & drapes; air conditioning	Rent includes: utility costs; elevator & air conditioning maintenance; janitorial services
Public Employment Relations Board	Tani Bldg. (port. 2nd flr.)	State	6/1/71- 5/31/72	2,600	1,430	.55		Air conditioning; parking facilities; elevator	Rent includes: utility costs; air conditioning & elevator maintenance; janitorial services & maintenance
Cooperative Area Manpower Planning System (CAMPS)	State Annex Bldg. (HC&D)	Federal	Yearly renewal	550	200	.36	Utilities	No real amenities except for adequate parking facilities	Building very old & scheduled for demolition

¹ All facilities located on Oahu, unless otherwise stated.

² In some cases, the original lease has been renegotiated; therefore, terms provided are based on the most recent agreements.

³ Covered under single lease agreement; costs allocated on basis of relative space occupied by program staff; above comments applicable to each of the three programs.

⁴ Covered under single lease agreement; space and cost allocations between programs sharing common facilities not available.

⁵ same as (3) above.

DESCRIPTION OF INTERNAL DLIR PROCEDURES FOR RENTAL OF FACILITIES

Prior to the issuance of Administrative Directive 1970-3 discussed previously, there were no state-wide procedures governing the rental process. Each department followed its own internal procedures relative to securing office facilities. Based on our review of the Department, we have in the following paragraphs described the procedures which have been developed by the DLIR:

1. Each division or agency within the Department is responsible for determining its own space requirements.
2. All requests for facilities are cleared through the Fiscal Office prior to proceeding with subsequent phases of finding and selecting suitable office space. This procedure is also followed by branch offices located on the neighboring islands. The Fiscal Office functions as the coordinating agency within the Department and centrally controls and monitors facilities which are rented by the Department.
3. Fiscal Office personnel and division administrative personnel jointly conduct the search for facilities. This involves visits to various office buildings, consulting with realtors and property management companies, and perusal of advertisements in newspapers and magazines. In the case of federal programs, DLIR personnel utilize various manuals (e.g., Employment Security Manual) to guide them in their selection process; these manuals provide federal guidelines regarding acceptable office size and other criteria regarding the type of facilities (e.g., physical characteristics and amenities) which should be selected.
4. Negotiations with lessors are handled by the Fiscal Office and division personnel. The review of lease terms for legality of form and content are handled by state attorneys assigned to the DLIR. For federally-funded programs, prospective lease terms are forwarded to the appropriate regional office for approval prior to the consummation of the agreement.
5. All lease agreements are approved by the Director of the DLIR.
6. The administration of leases, once executed, rests with the Fiscal Office. Separate files are maintained for each lease agreement in effect and are updated as the need arises. Furthermore, the Fiscal Office monitors complaints registered by the occupants of the leased facilities, determines the legitimacy of the complaints, and meets with lessors to discuss and resolve points of contention. Finally, the Fiscal Office audits all payment requests submitted by lessors prior to forwarding warrant vouchers to DAGS for payment.

EVALUATION OF THE DLIR RENTAL PROCESS

In this section, we have presented some of the more pertinent observations made during the course of our examination regarding the Department's rental procedures and practices. These observations are enumerated on the following page:

1. In the absence of state-wide procedures governing the rental of facilities prior to August 1970, the Department was guided by the internal procedures described in the preceding section. All but two of the 11 office facilities currently leased were governed by these internal procedures. Only the facilities located in the Tani Building and the Kendall Building were leased subsequent to the issuance of Directive 1970-3.

Our review indicates that:

- . These procedures are generally adequate to meet the internal requirements of the Department. The procedures provide for adequate control over the rental process by placing the responsibility for coordinating and administering specific activities within the process with a single agency, e.g., Fiscal Office. Since the Fiscal Office is responsible for performing the accounting and budget control functions for all DLIR divisions, it is imperative that this section actively participate in all phases of the rental process. Furthermore, the procedures appear to provide sufficient bases for securing office facilities in an orderly manner without premature completion of one activity at the expense of another.
- . The procedures were generally followed in specific situations where facilities were secured prior to August 1970. Since the Fiscal Office provides basic support services relative to accounting and budgeting matters for all DLIR divisions, divisions in need of additional space initially seek the aid of this section as a normal course of action. As such, there is apt to be more uniformity in the manner by which rental facilities are secured by virtue of the control which can be exercised by the Fiscal Office over subsequent phases of the rental process.
- . The search for facilities appears to have been reasonably conducted. Following the procedures described in the preceding section, a considerable amount of time and effort was expended by both division administrators and Fiscal Office personnel in finding suitable office space. The tedious process of visiting available office facilities, talking to realtors and management companies and searching through advertisements was necessary in view of the limited resources available to these individuals at that time. However, it is felt that the search for facilities could have been conducted much more expeditiously had proper information been available at the outset and more experienced (in real estate) personnel been given the task initially.

Recognizing the continuing need for sound internal procedures to complement the requirements imposed by Directive 1970-3, we have isolated deficiencies in several areas. First, the internal procedures discussed above have not been documented and included in prescribed departmental operating manuals and other appropriate documentation. This is important because of the fact the procedures have evolved rather informally through common usage. In this regard, it is necessary that the procedures be documented and communicated to Department personnel not previously exposed to the rental process. Second, based on discussions with Fiscal Office personnel, it was found that requests

for additional space considerations have not normally been submitted by divisions in writing. Most communications have been effected orally. As such, there is a lack of proper documentation regarding specific division needs and the attendant justification for additional space requirements.

2. With respect to the two facilities (e.g., Tani Building and Kendall Building), it was found that the existence of special circumstances precluded strict conformity to established internal and state-wide procedures. In the case of the Kendall Building, the facility was leased by DAGS prior to any DLIR involvement. As such, the terms and conditions of the initial lease had already been established. With the availability of space in the Kendall Building, the DLIR was then assigned to occupy the facility. In view of DAGS' involvement in the process from the outset, the procedures which would normally have been followed were to a large degree circumvented.

The procedures followed in securing office facilities in the Tani Building reflected the need for the Public Employment Relations Board to find suitable facilities to meet its current operating requirements. The urgency with which the facility was secured resulted in circumvention of certain departmental procedures. Little control over proceedings was directly exercised by the Fiscal Office. Communications with DAGS and negotiations with the lessor of the facility were handled apart from Fiscal Office involvement. Our review suggests that the individuals involved were unaware that internal departmental procedures existed. This points to the necessity for proper documentation and dissemination of departmental procedures.

In both cases cited above, there is no evidence that documented requests for space were ever submitted by the Department to DAGS. Review of Fiscal Office files did not reveal any documentation to this effect. In this regard, oral communication of specific departmental facilities requirements does not lend itself to proper documentation of specific space needs and supporting justification for these needs.

3. Directive No. 1970-3 does not explicitly provide for review by DAGS during renegotiations or renewals of existing lease agreements. It is always possible that the terms and conditions of lease agreements may change during the process of renegotiation or renewal. In this situation, terms and conditions which may have been favorable to the state may not be continued. Furthermore, state-owned facilities may be available for use. As such, it is necessary that DAGS be involved and kept apprised of all leases which are being subjected to renegotiation or renewal.
4. Some of the DLIR personnel interviewed felt that they did not possess the requisite background or information on the real estate market to be able to effectively deal with the detail mechanics of the property rental process on an on-going basis. This is primarily due to the non-recurring nature of this function and the relatively limited exposure to the rental market received by these personnel during the normal course of their day-to-day activities. As a result, there is no central "data bank" within the DLIR where current market information relating to rental rates, lease terms, etc., are maintained for easy reference and referral.

RENTAL FACILITY NEEDS

In this section, we present the results of our examination of DLIR needs for office facilities and the extent to which these needs are related to the facilities presently being leased by DLIR organizations. The basic assumption underlying our review is that an office facility should be selected on the basis of how well its amenities and physical features meet the specific program and organizational requirements of the group in question.

(a) Program and Organizational Requirements and the Need for Facilities

For each of the organizations presently occupying leased facilities, we established the relationship between program and organizational requirements and the specific facility needs generated therefrom. The table on the facing page summarizes our findings in this regard.

In block (A) of the matrix, shown in the table, we have delineated the primary functional responsibilities of each organization which best describes the nature of the work performed by the organization. This is not to say that the Workmen's Compensation Division, for example, does not perform basic planning functions. However, above all other functions the primary concerns of this Division are to investigate and process claims and to perform direct client-related services (e.g., conduct hearings).

Block (B) represents our findings regarding the characteristics of the clientele served by each organization. The parameters listed at the top of the table (e.g., number of clients served at facility, etc.) describe the magnitude and frequency of demands placed on the organization for services. The indicators "H", "M", and "L" represent measures of these demand parameters and correspond to the terms "heavy", "medium", and "low", respectively. It should be noted that our assessment is based upon a comparison of relative workload statistics provided by the various DLIR organizations and therefore are not indicative of the quality of services offered.

Block (C) of the matrix relates program and organizational requirements to facility needs. In other words, both the nature of functions performed and services offered by an organization, in concert with the characteristics of the clientele served, determine the specific features (e.g., location, parking, etc.) required of an office facility. In selecting suitable facilities, some features are more important than others and weigh more heavily in the final selection. The indicators "P", "S", and "T" represent the relative importance of each of the features and are related to the specific circumstances described in blocks (A) and (B). These indicators denote whether specific features such as building location, amenities, etc., would rate primary, secondary, or tertiary importance in the ultimate selection of a facility.

As an example of the points discussed above, the Hawaii Employment Relations Board (HERB) is primarily responsible for providing direct client services by adjudicating complaints through hearings and conferences. Based on discussions with HERB officials, it was found that the caseload for this division averages from eight to ten cases per month. As a result, the frequency and magnitude of direct client contact is relatively low. In addition, all of the hearings and conferences are scheduled in advance. Furthermore, many of the clients of this division are attorneys, labor officials and others who are primarily located in the downtown area. Given these circumstances, HERB does not have any unique requirements for facilities. A conventional office facility with provisions for a conference or meeting room would enable this division to effectively discharge its responsibilities. However, in view of the concentration of clients in the downtown area, the location of the facility would appear to be of primary importance in selection of an office site.

STATE DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
Program/Organizational Requirements and Facility Needs

Organization	(A) Nature of Services Offered & Functions Performed			(B) Characteristics of Clientele Served			(C) Facility Needs				
	Administration and Planning	Internal Processing Investigatory Enforcement	Direct ¹ Client Services	Frequency of Unscheduled Appointments	Frequency of Client Contact at Facility	Number of Clients Served at Facility	Location of Building	Special ² Amenities	Availability of Parking Facilities	Availability ³ of Space to Satisfy Special Requirements	Location of Office Facility within Building
Hawaii Employment Relations Board			X	L	L	L	P	T	S	T	T
Workmen's Compen- sation		X	X	L	H	H	P	T	P	S	T
Labor & Industrial Relations Appeals Board			X	L	H	H	P	T	P	S	T
Employment Service			X	H	H	H	P	P	P	P	P
Temporary Dis- ability Insurance	X	X		L	L	L	S	T	T	T	T
Public Employment Relations Board			X	L	M	M	P	T	S	S	T
Cooperative Area Manpower Planning System	X			L	L	L	S	T	T	T	T

NOTES:

¹ This category includes all activities which require that some degree of personal attention be given to the client. As examples, counseling, testing, hearings, etc.

² This category refers to special needs such as the provision of a ramp for easy ingress and egress by handicapped clients. This does not include conventional amenities such as air conditioning, drapes, carpets, etc.

³ Included herein is the need for unusually large space requirements such as large conference rooms, lobby and reception areas, interview areas, and sufficient space for expansion. This category does not include space needs normally required by conventional offices such as coffee rooms, offices, etc.

Legend: H = High P = Primary
M = Medium S = Secondary
L = Low T = Tertiary

(b) Need for Facilities at the
Locations Selected

Based on the analysis presented in (a) above, it is our general observation that, of all the DLIR organizations presently leasing office space, only the Employment Service Division (ES) has significant and unusual facility needs. This Division performs primarily client-oriented services in the form of personal counseling, testing, and job placement. The frequency and magnitude of client contact is relatively high numbering approximately 5,000 individuals per month at the Honolulu Placement Center and 1,300 per month at the Employment Opportunity Center. There is also a high incidence of "walk-in" traffic at both locations. Furthermore, federal program requirements dictate that office facilities for ES programs be located within close proximity of public transportation lines and that ES offices be located on or near the ground floor of a building. Finally, for the Concentrated Employment Program (CEP), federal regulations require that the offices for administration of this program be physically located in the various neighborhoods designated as Model Neighborhood Areas (MNA's). There are two such MNA's in Hawaii--Kalihi-Palama and Waianae.

The ES maintains leased facilities at four locations on Oahu: Seaboard Building; King-McKinley Building; Honolulu Gas Company Building (Kalihi-Palama); and the Nakatani Building (Waianae). Given the program and organizational requirements of this Division, it is felt that these requirements do justify the leasing of facilities outside of the main DLIR complex. Our review indicates that the facilities currently leased are adequate in terms of satisfying the operating requirements of this Division. We found that the facilities are: (1) located on major thoroughfares close to public transportation lines; (2) situated on or within a few floors of ground level; (3) readily accessible to clients; (4) provided with sufficient space for lobby and reception areas, and personal counseling and testing purposes; and (5) provided with adequate parking facilities.

The specific needs for facilities of the other DLIR organizations are not as obvious as those for the ES Division. A comparison of the results presented in the facing table with the facilities presently leased suggests that present facilities maintained by these organizations are not directly correlated to the needs generated from program and organizational requirements. In this regard, facility needs are "over satisfied". This means that immediate needs for office facilities could have been met by the facilities available within the DLIR complex. As an example, for most of the organizations only two factors were of primary consideration--location of building and availability of parking facilities. In this regard, both of these requirements would be adequately satisfied by offices located within the DLIR complex.

However, our review seems to suggest that the primary reason for leasing private facilities is the lack of adequate space in the Keelikolani and Annex Buildings. This observation is primarily based on the results of our discussions with DLIR officials and DAGS personnel and takes into account the current renovation plans of the Department. In this regard, it is anticipated that the Temporary Disability Insurance Division (TDI) will eventually return to the Keelikolani Building after completion of building renovation. The area to be occupied by the TDI is presently being utilized as a "holding" area in the interim. The only other vacant area within the DLIR complex is the first floor of the Annex Building. This space will eventually be occupied by a portion of the Unemployment Insurance Division upon completion of renovation. DLIR officials have estimated that the total time required for renovation of the complex will approximate 300 days.

REASONABLENESS OF RENTAL COSTS

In the preceding section, we analyzed the needs of certain DLIR organizations for office facilities and assessed the necessity for office facilities at the locations selected. However, we did not consider the costs incurred by the organizations in leasing these facilities. Herein, we present our review of rental costs with a view towards determining the reasonableness of these costs.

(a) Rental Costs Presently Incurred

The table, introduced earlier in this chapter, contains pertinent cost data for each of the leased office facilities. From the data presented in the table, it can be seen that base monthly rental costs range from a high of \$.70 per square foot at the Pan American Building (American Savings and Loan Building) to a low of \$.23 per square foot at the Nakatani Building.

As can be seen, there is a high degree of variability in the rental rates paid. This is a result of a number of factors such as location of building, age of building, amenities provided, and the items included in the base rental rate. For example, the two highest rental rates are being paid for facilities located in the Kendall and Pan American Buildings, while the lowest rate is being paid for facilities leased in the Nakatani Building. The former facilities are located in greater Honolulu and are relatively new buildings with all of the latest amenities, while the latter is situated in Waianae in a much older and physically less attractive building. As another example, there is some variability in the different rental agreements in effect. In some cases (e.g., Seaboard Building; Tani Building), gross lease rental arrangements are utilized, while in others (e.g., Kendall Building; Pan American Building), forms of net lease rental arrangements are in effect. Under the gross lease rental arrangement, the lessee pays a fixed rental rate to the lessor, who in turn pays the property taxes, maintenance expenses, etc., from the amount received. The net lease rental arrangement provides that the lessee assume property taxes, maintenance expenses, etc. while the lessor actually receives only the net value of the lease rent.

(b) Comparison of Rental Costs with Selected Market Data

A commonly used method for evaluating the reasonableness of rental costs in a given area is to compare the rental rates being assessed in selected office facilities. This comparative analysis provides some indication of the "going" rates for comparable facilities. It should be noted, however, that the comparison must take into account various factors such as age of building, location, amenities, etc.

To establish the dimensions of the rental rate structure in Honolulu, we surveyed office facilities of two basic types. First, we reviewed the rental rates in a selected number of larger and more prominent facilities in greater Honolulu; this includes the more recent "first class" office facilities. Second, we surveyed rental rates in neighborhood areas such as Kalihi-Palama and Liliha; this includes smaller and older office facilities with considerably less in the way of amenities and appointments. By proceeding in the above manner, a relatively good indication of the structure of rental rates in effect could be derived.

Our survey of the "first class" office buildings located within the Central Business District and contiguous areas indicates that basic monthly rental rates normally average from a low of \$.50 per square foot to \$.85 per square foot. The facilities surveyed included the Davies Pacific Center, Financial Plaza, Amfac, Bishop Trust, Ala Moana, Gold Bond, Ward Plaza, and others of similar type and quality. The range of rental rates observed reflected a number of different factors. Generally speaking, the rates tended to vary in accordance with the amount of space rented,

the life of the lease, and the inclusion or exclusion of items such as utility costs, maintenance and real property taxes from the base rental rate. In all buildings surveyed, amenities such as air conditioning, elevators, drapery, carpets, and security were provided.

Rental rates assessed in neighborhood areas such as Kalihi-Palama and Liliha were much lower than those observed in the preceding cases. Our survey of buildings in the Liliha area indicates that rental rates (per square foot per month) range from a low of approximately \$.23 to a high of approximately \$.46. Rental rates observed in the Palama area were slightly higher. These rates ranged from \$.35 to \$.48 per square foot per month. In the specific situations examined it was found that the buildings were much older and provided fewer amenities than those encountered in the preceding discussion. However, the variability in the rental rates were also caused by the same factors as those found in the "first class" office facilities, e.g., items included/excluded from base rental rates; utilities, etc.

A comparison of the survey results with the rental costs presently incurred by DLIR organizations suggests the following:

- . The monthly rental costs incurred by DLIR organizations fall within the range of rates established in the survey. As an example, the rental rates for the Kendall and Pan American Buildings of \$.63 and \$.70, respectively, are within the \$.50 to \$.85 range found to exist in our survey. In addition, the amenities found in both of these office facilities such as air conditioning, carpeting, security, etc., were generally the same as those provided by buildings included in our study. Finally, the net lease rental arrangement being utilized for the two facilities is common to many situations encountered in our sample of office buildings.

The key factors affecting the difference in rates, \$.63 vs. \$.70, between the aforementioned two facilities were found to be the life of the lease and the gross area rented. In the case of the Kendall Building, these two factors were 20 years and 61,100 square feet, respectively. For the Pan American Building, the life of lease was one year and the gross area leased approximated 3,800 square feet.

The rates for some of the other DLIR facilities are also comparable to those established in the survey. For example, the rental rate of \$.38 per square foot per month for the Palama CEP Intake Center (Honolulu Gas Building) falls within the range of rates (e.g., \$.35 to \$.48) observed during our survey of the Kalihi-Palama area.

As another example, the rental rate of \$.50 assessed at both the Seaboard Building and the King-McKinley Building falls close to the mid-point of the range of rates (\$.23 to \$.85) observed in our study. An inspection of these two facilities indicates that they are both of better quality (i.e., size; age; amenities) than those generally found in the Liliha or Kalihi-Palama area. On the other hand, these two facilities are of lesser quality than facilities such as the Financial Plaza, Ward Plaza and others of similar nature. It is therefore reasonable that the rental rates assessed for these two facilities be mid-way in the range of rates established in our market survey.

- . In the case of the Kendall Building, the terms of the lease agreement provide for an increase in the base rental cost of 15% every five years. This represents an average increase in base rental costs of 3% per year. This provision is common

in many lease agreements and is generally included to protect the lessor from marginal increases in expenses over that which is covered by the base rent. Based on our analysis, the 3% per year increase is reasonable. Historically, price increases due to inflation have normally occurred at an average rate of from 3 to 5% per year.

- . With respect to real property taxes, Section 246-36(2) of the Hawaii Revised Statutes allows for exemption from property tax payments for real property which is leased to the state or any county. Under existing DLIR lease agreements (e.g., King-McKinley Building and Pan American Building) real property taxes are being paid by the lessee.
- . General Excise taxes are being paid under the conditions of the lease for the Kendall Building. In conventional lease agreements it is not uncommon that these taxes be assumed by the lessee. However, it is not certain whether these assessments are legitimate as against governmental agencies or whether these agencies should be exempt from incurring these costs.

**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

Part 2

Examination of Specific Areas of Concern, Continued

**SECTION 6 - EXAMINATION OF THE EMPLOYMENT
SERVICE DIVISION'S INFORMATION PROGRAM**

**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**Part 2
Examination of Specific Areas of Concern, Continued**

**SECTION 6 - EXAMINATION OF THE EMPLOYMENT
SERVICE DIVISION'S INFORMATION PROGRAM**

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I. INTRODUCTION

Also in conjunction with our audit of the financial records and transactions of the DLIR, we were asked to generally assess the present information program of the Employment Service Division (ES). In this chapter, we have delineated the objectives of our examination, the approach followed in conducting this examination, and the factors affecting the scope of our review.

OBJECTIVES OF THE EXAMINATION

The primary objective of this examination was to review present ES Division practices and procedures relative to the dissemination of information. In this regard, we were to generally assess the adequacy of the ES Division's existing program for communicating to the public the nature and extent of employment services provided by the Division.

EXAMINATION APPROACH

In conducting this examination, we followed a series of predetermined procedures. First, we determined the services provided by the ES Division and the general characteristics of the clients served. Second, we described the general characteristics of the ES information program and attendant parameters such as the media utilized and the type of information disseminated. Given the results of the first two steps, we isolated deficiencies in the present program and assessed the overall adequacy of the information program.

In concert with the approach outlined above, and to accomplish the objective of the examination, the following work tasks were performed:

1. Reviewed the Plan of Service for the overall ES Division and each of the operating branches.
2. Reviewed the ES budget for Fiscal Year 1972 to ascertain the allocation of program funds to various activities.
3. Determined the objectives of the ES Division.
4. Defined the functional responsibilities and activities of the operating branches.
5. Determined the employment services provided by the various operating branches and the applicable ES programs.
6. Defined the target audiences reached through the information program.
7. Determined the methods and media used to disseminate information.
8. Conducted interviews with ES administrative personnel and other key personnel within the Division.

9. Determined the content and characteristics of the information presently disseminated.
10. Assessed the key parameters (media used; type of information disseminated; etc.) of the information program and analyzed their impact on the target audience.
11. Defined problem areas in sufficient detail to allow broad recommendations to be formulated.

II. SUMMARY OF FINDINGS AND RECOMMENDATIONS

Summarized herein are the results of our examination of the ES information program. We have presented the major findings resulting from our examination and enumerated broad recommendations relative to the courses of action which should be taken by the DLIR.

MAJOR FINDINGS

1. The present ES information program is structured to reach and influence two principal target audiences--employers/unions; and public/private agencies involved in manpower programs. The principal means of disseminating information to these groups has been through the application of personal communications techniques (e.g., direct or indirect personal contact with groups). This approach has been only moderately effective because of the limited coverage possible through this type of information dissemination program.
2. It appears that the ES information program, given its present structure and approach, lacks the proper mechanisms for inducing a significant increase in the demand for ES services above existing levels. Major deficiencies in this regard are as follows:
 - . The media presently utilized are inadequate to reach and influence the actual recipients of ES services. As such, some of the people in the "market" groups are not being effectively addressed.
 - . The ES Division does not have a Division-wide program, supplemental to existing practices, which is totally directed towards "selling" ES programs and the specific services which are available within the Division.

RECOMMENDATIONS

On the basis of our findings summarized above and on the detailed examination presented in the body of this report, we recommend that the Employment Service Division:

1. Continue present efforts directed towards reaching and influencing target audiences such as employers/unions and agencies involved in manpower programs.
2. Develop, as an adjunct to the above, a Division-wide program for disseminating to the public selected information relating to:
 - . A description of the ES Division and the programs it administers;
 - . The nature and scope of services available;
 - . The location of the various branch offices;
 - . General eligibility requirements for participation in the programs.

Concerted effort should be directed towards addressing those groups who are actually the potential recipients of ES services. In this regard, the Division should consider the use of printed materials such as brochures, etc. because of the more extensive coverage which can be realized through the use of this medium. Furthermore, the Division should determine whether a separate presentation is to be developed for employers, in view of their unique requirements.

III. EXAMINATION OF THE EMPLOYMENT SERVICE DIVISION'S INFORMATION PROGRAM

This chapter contains the results of our examination of the ES Division's information program. We have included the following:

- . Description of the employment services provided by the Division and the general categories of people served.
- . Description of the nature and characteristics of the information program.
- . Evaluation of the ES Division's information program.

EMPLOYMENT SERVICES PROVIDED AND MARKETS SERVED BY THE ES DIVISION

The ES Division offers a broad range of services through the various programs it administers. Generally speaking, the services provided by the Division include: (1) assessing job seeker interests, potentialities, qualifications and aptitudes through activities such as counseling, testing, and employment orientation; (2) training in specific vocational fields (food processing, mechanical trades, etc.) under programs such as the Federal Manpower Development and Training Act Institutional, Job Corps, and State Manpower Development and Training; (3) finding/developing and placing job seekers in meaningful occupations; (4) providing industrial services to employers and labor organizations; and (5) supplying labor market information to public and private agencies, employers, job seekers, schools, etc.

The markets or people served by the ES Division are varied and differ in accordance with the specific program in question. As an example, the Manpower Centers under the CEP program serve only the people who are residents of the Waianae and Kalihi-Palama areas and are classified as "disadvantaged" in accordance with specific federal criteria with respect to income and other related factors. Generally, the client groups served include: welfare recipients, "drop-outs", handicapped people, chronic and long-term unemployed, aged citizens, and veterans. The people served by the Division can also be classified as either "poor" or "non-poor" depending on specific federal income requirements. Another classification for client groups frequently used is the "non-job ready" or "job ready". The former category includes those who do not possess the qualifications or skills to find employment and/or those who are not sufficiently motivated to help themselves. Included in the "job ready" category are those who possess skills, but are either unable to find a job or are not aware of the opportunities that exist.

It should be noted that the emphasis placed by the Division on particular client groups served tend to vary over time in accordance with federal program requirements. As an example, veterans and those people classified as "disadvantaged" are presently receiving the most attention. This is not to say that other people are denied assistance. Moreover, it means that more resources are applied towards assisting specific groups or classes of people.

NATURE AND CHARACTERISTICS OF THE ES INFORMATION PROGRAM

(a) General Overview

The ES Division's documented program for information dissemination as delineated in the Division's Plan of Service (FY 1972), encompasses three broad areas: (1) Manpower and Employment Information; (2) Employer Relations; and (3) Community Relations. The Manpower and Employment Information component includes activities directed towards the dissemination of labor market and employment information to employers, public and private agencies, job seekers, and community organizations. The Employer Relations component includes those activities directed towards establishing and improving the ES Division's relationship with individual employers and employer groups. The third component, Community Relations, incorporates activities aimed at establishing and maintaining working relationships with public and private organizations involved in manpower-related programs.

The aforementioned program is developed by the administrative and planning units within the ES Division, e.g., Employer Relations Coordination unit. The implementation of the information program activities is effected primarily by the three operating branches (Employment Opportunity Center; Honolulu Placement Branch; CEP Manpower Centers) and the Research and Statistics Office of the DLIR (R and S). In actuality, all levels of the Division are expected to conduct various activities in either the employer or community relations areas. As an example, the staff of the Basic Programs Section are required, in addition to their primary duties, to maintain working relationships with organizations such as Commission on Aging; Governor's Committee on Employment of the Handicapped, etc.

There is no provision in the Division's operating budget for the development and implementation of promotional or publicity programs utilizing conventional advertising or mass media. Funds are appropriated for the effectuation of the activities included in the three components (e.g., Employer Relations, etc.) of the total information program. The magnitude of resources (in man years) allocated for each of three components in FY 1972 is as follows: Manpower Information--1.4 man years (excluding Model Cities); Employer Relations--7.3 man years; Community Services--1.8 man years.

(b) Content and Characteristics of Information Disseminated

Three general categories or types of information are presently being disseminated. The first type represents information relating to manpower and labor market data. This includes employment trends and conditions, occupational opportunities and job shortages, economic and demographic characteristics of the labor force, etc. Information of this type is disseminated for a number of different purposes, such as to fill management needs for statistical information useful in program planning and evaluation and further, to create public awareness of labor market conditions. The second type of information disseminated relates to specific job opportunities and job placement activities. Generally, this type of information includes descriptive material relating to job characteristics, compensation and benefits, and minimum qualifications for placement. The purpose of disseminating information of this type is to publicize available job opportunities and thereby, promote achievement of ES job placement objectives.

The third type of information communicated includes data relating to the various ES programs and activities. The primary objective of communicating information of this type is to increase public awareness of the specialized services which are presently being provided by ES. As an example, in the current fiscal year, one of the areas which is being publicized is the New Job Bank system and its potential uses and benefits.

(c) Methods and Media Utilized
to Disseminate Information

Conventional forms of mass media such as radio, television, newspapers, etc., are not presently utilized by the ES Division on a programmed basis. In the past, "spot" advertising of job openings were aired over KHVH radio under the auspices of the DLIR Information Officer. However, since the recent retirement of the Information Officer, this practice has not been continued. Occasionally, mass media are utilized by branches such as the Honolulu Placement Branch to advertise job vacancies. However, this is effected intermittently and only when provided by the radio stations and newspapers as a public service. There has been a general reluctance to utilize conventional advertising because of the effects of competition on private, employment service bureaus.

House organs or other printed material are generally not developed and utilized by either the EOC or the HPB. In both of these organizations, primary reliance is placed on the use of material prepared by the R and S Office. In contrast, CEP Manpower Centers utilize internally developed brochures and other printed materials on a more frequent basis. In conjunction with the Honolulu Model Cities Program, different types of printed material have been developed. The Information Specialist (Model Cities) attached to the R and S Office of the DLIR is primarily responsible for this function. The D.O.T. series of brochures describes in easily understandable language various facts regarding different occupations. Generally, these brochures describe: the nature of the job; work experience and qualifications required; work benefits; working conditions; opportunities for training (i.e., on-the-job; MDTA, etc.); and other similar types of information. As another example, the "Manpower Center Job Bulletin" provides information on available job vacancies. Another brochure entitled "Do You Know About Your Manpower Center?" is also being utilized; this brochure contains information relating to the locations of the branch offices and the services available therein.

An additional type of printed material used by the ES Division is that developed and disseminated by the R and S Office relating to labor market information. A number of different publications are generated at given points throughout the year by the R and S Office. As examples: "Labor Force Estimates"; "Occupational Employment Trends"; "Annual Report on Occupational Requirements for Vocational Education"; "Annual Manpower Planning Report"; "A Report on Unfilled Job Openings"; "Hawaii/Honolulu Labor Area Summary"; etc. The R and S Office has made extensive use of mailing lists in distributing their various publications.

Another method by which information is disseminated within the ES Division is through personal (verbal) communications. This has been carried out in different ways. In the CEP Manpower Centers, for example many means have been developed. These include door-to-door campaigns, use of a mobile communications unit; telephone soliciting, etc. In the other centers, personnel have given speeches and talks to schools and community organizations. Finally, both the EOC and the CEP Manpower Centers conduct "outreach" activities through internal staff. For example, the coaches on the CEP Employability Development Teams and the ES Aide assigned to the Youth Employability Development Section of EOC perform basic "outreach" functions.

STATE DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Profile of E.S. Information Program Characteristics

<u>Parameters</u>	<u>High*</u>	<u>Medium*</u>	<u>Low*</u>
1. <u>Contents & Characteristics of Information Disseminated</u>			
Manpower & labor market	X		
Job openings; placement		X	
Services provided; nature of programs			X
2. <u>Methods & Media Utilized</u>			
Mass media			X
Internally generated printed materials, e.g., brochures; publications; etc.		X	
Personal communication, e.g., "door-to-door"; telephones; outreach; speeches; etc.	X		
3. <u>Target Audiences Addressed by Disseminated Information</u>			
Employers & unions	X		
Public/private agencies; associations; etc.		X	
Potential recipients of E.S. services			X

*The indicator "X" placed midway between either one of two combinations of measures high, medium, or low, reflect situations where the extent and frequency of use were observed to fluctuate between the classifications.

(d) Target Audiences Addressed Through
the Information Program

The information presently being disseminated are directed towards three principal audiences: (1) Employers and unions; (2) Public/private agencies involved in manpower activities; and (3) Recipients of ES services.

Labor market information, of the type published by the R and S Office, are primarily addressed towards public and private agencies (e.g., Employers Council; Chamber of Commerce; Small Business Administration; etc.), employers, private individuals or groups involved in research such as professors at the University of Hawaii and the Bank of Hawaii Research Department.

In the employer relations component of the information program, the emphasis is totally on reaching the various business establishments throughout the state. As an example, the HPB presently maintains central files containing records on approximately 900 individual employment units.

The primary emphasis of the community relations component of the information program is towards maintaining and establishing liaison and working relationships with various governmental/private agencies and individuals who are involved in manpower and employment programs. A representative list of these agencies includes: Public Welfare and Vocational Rehabilitation, Youth Coordinators of the Community Action Agencies, Veterans Administration, Armed Forces Separation Centers, American Legion Honolulu Community Action Area Council, CEP and Model Cities Citizen Advisory Committees, Department of Education, Department of Social Services, etc.

EVALUATION OF THE ES INFORMATION PROGRAM

A synthesis of the data presented in the preceding section indicates that a general profile of the nature and characteristics of the ES information program can be developed. The results of our analysis are summarized in the table on the facing page. In this table we have listed three key parameters of the information program, e.g., methods and media utilized, etc. Each of the specific types of media, information, etc. were assessed to estimate the relative frequency and extent of their present application. This is shown on the right side of the table under the columns denoted "high", "medium", and "low". The information presented in the table is a composite of the results derived from similar analyses effected for each of the three operating branches and the R and S Office. The individual results were then ordered in terms of their relative importance to the overall Division. The basic intent of the presentation is to illustrate the major characteristics of the information program which have or have not been emphasized and thereby discern patterns in approach and underlying objectives.

The profile of characteristics indicates relative use measures for specific areas within a given parameter. As an example, for the "methods and media" parameter the specific types of media/methods can be ordered in terms of the frequency and extent of relative use, i.e., direct contact, most heavily used; mass media, least used, etc. A rearrangement of the data presented in the table reveals much more relevant data regarding the characteristics of the information program. In the table presented on the next page, the relationship between the two principal means (mass media has been excluded because its use is presently negligible), of communicating, the types of information disseminated, and the respective target audiences are shown. The "high", "medium" and "low" indicators denote the frequency and extent of application for each of the latter two parameters, given the type of media used.

STATE DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Relationship Between Methods/Media Utilized, Type
of Information Disseminated, and Target Audiences Addressed

METHODS/MEDIA UTILIZED	TYPE OF INFORMATION DISSEMINATED	TARGET AUDIENCES ADDRESSED		
		High*	Medium*	Low*
1. Internally-Generated Printed Material	Manpower & Labor Market	X		
	Job Openings; Placement; etc.			X
	Services Provided & Nature of Programs		X	X
2. Personnel Communication	Manpower & Labor Market			
	Job Openings; Placement; etc.	X		X
	Services Provided & Nature of Programs		X	X

*The indicator "X" placed midway between either one of two combinations of measures high, medium, or low, reflect situations where the extent and frequency of use were observed to fluctuate between the classifications.

Based on the foregoing analyses, several observations can be made regarding the ES information program. These observations are presented below:

- . The type of information most extensively disseminated appears to be that relating to manpower and labor market data.
- . The primary method of disseminating information appears to be through the use of personal communications efforts. This includes field visits to employers and various agencies, "outreach" efforts, telephone canvassing and personal interaction at community events, meetings, and manpower conferences.
- . The primary emphasis of the ES information program is towards reaching either one of two "target" audiences--employers, or public/private agencies.
- . Two types of media and information combinations are most extensively used by the Division. The first includes the use of various R and S publications relating to manpower and labor market information to reach employers/unions and various public/private agencies. The second represents the application of personal communications to convey to employers information regarding ES job placement activities and other employer services.
- . In contrast to the above, the least frequently used combinations include the employment of internally-generated printed material to communicate information relating to ES services and activities to reach the principal target audiences (e.g., employers; recipients of ES services; etc.).

From the foregoing analyses, the relative strengths and weaknesses of the ES information program can be identified. In general, the information program, as a means to accomplish Division objectives, has been structured to address two critical problems faced by ES. First, the primary emphasis of the program is to overcome traditional employer/union opposition to hiring people associated with governmental employment programs. The intensive employment of personal communications efforts should in the long run contribute towards increasing present levels of job placement. Second, through the community relations component of the information program, the ES has been able to generally increase the overall output from its limited resources. Through personal communications efforts, the ES has established working relationships with various public/private agencies (e.g., Department of Social Services; Community Action Programs; etc.) which are in constant contact with many of those in need of assistance. As such, the ES has, in effect, been able to utilize these sources as a means of supplementing the efforts of its basic information program (i.e., "outreach", etc.).

However, it was also apparent from our examination of the information program that several key weaknesses presently exist. In this regard, it appears that the information program, given its characteristics, lacks the proper mechanisms for expanding the scope of its present coverage; thereby, is unable to effect increases in the demand for ES services over existing levels.

(a) Present ES Demand Characteristics

An indication of what is required in the way of information dissemination techniques can be gleaned from a review of the characteristics of present recipients of ES services. CEP has been excluded from the analysis because it normally does not service referrals from welfare programs and other similar organizations. In addition, the nature of its operations is different from the other two ES branches because it presently shares resources with the Model Cities Program. Based

on discussions with ES administrative personnel, it was found that the majority of people presently being serviced are referrals from other agencies or mandated by law to apply for job placement (e.g., Unemployment Insurance claimants). As an example, approximately 50 to 55% of all people serviced by the Honolulu Placement Branch are claimants of Unemployment Insurance. In the case of the EOC Branch, it has been estimated that approximately 60 to 65% of all program participants are referrals from agencies such as the Department of Education and Department of Social Services.

From the above, it appears that a major portion of the existing demand for ES services is, in essence, "captured". Therefore, the remaining portions of the existing demand should partially reflect the effects of present promotional efforts. Given these conditions, it is anticipated that significant increases in the demand for ES services over existing levels will require some changes to present information dissemination practices.

(b) Markets Addressed by Information Program

The primary emphasis of the information program to date has been towards reaching and influencing two primary target audiences--employers/unions and various agencies associated with manpower programs. From the standpoint of generating increases in the demand for ES services, total reliance on this approach is inadequate because only minimal coverage of the people actually in need of assistance is achieved.

First of all, the media/methods presently used to disseminate information provide for relatively intensive, rather than extensive coverage of people in the primary market groups. Primary reliance on personal communications techniques has practical limitations. The process is time consuming and relatively inefficient because of the high "down-time" caused by travel, personal contact, etc. In addition, there are only a limited number of ES staff personnel involved in basic "outreach" activities. In the EOC Branch, there is only a single individual (e.g., ES Aide) conducting "outreach" activities. Furthermore, a total of ten staff personnel (e.g., coaches) are presently involved in this function at the CEP Manpower Centers. From the above, it is apparent that a single individual or group can be expected to reach only a limited number of people over a given period of time.

Furthermore, the media/methods presently used are inappropriate to reach people in the primary market group who either do not reside in the two CEP MNA's or are in the "non-poor" category and as such, would not normally be in contact with manpower agencies. For example, both the Honolulu Placement Branch and the Employment Opportunity Center provide services to people who possess the aforementioned characteristics. There is no adequate provision for communicating with these people.

Second, it also appears that the type of information presently being communicated is also inappropriate. The predominant type of information disseminated through the various ES publications relates to manpower and labor market data. Normally, this type of information would not be useful to those seeking employment assistance, primarily because of the technical content of the material presented. In addition, the information included in these publications does not refer to specific job opportunities, but rather deals with generic occupational categories.

(c) Dissemination of Information Relating to ES Services

Another deficiency in existing information dissemination practices is the absence of an overall information program directed towards communicating to the public the nature and scope of services available within the Division. To date, this type of information has been primarily disseminated

through personal communications efforts. However, the coverage is sporadic because this approach depends on personal contact between individuals, which normally occurs irregularly. Conventional media (e.g., radio, etc.) have not been used to disseminate this type of information. Internally-developed, printed material have also not been extensively used, except in the case of the CEP programs. However, this represents an unusual situation because of CEP's joint participation with the Model Cities Program. As a result, an information specialist, funded by Model Cities, is available to develop various programs.

The importance of disseminating information of the type discussed above cannot be understated. For future expansion in the activities of the Division, a need exists for communicating to the public information which will "sell" the programs and services of the ES Division. With the proliferation of different programs (there are approximately 12 special programs administered by ES), it is conceivable that some public confusion may exist as to the specific services offered by different programs. In addition, it is highly probable that those in need of assistance would not only be unaware that employment services are, in fact, available and further, be informed as to where they should go to seek such services.

(d) Employer Relations Program

Another potential area for improvement is the employer relations component of the ES information program. This aspect of the information program deals with the actual job placement function and is one of the major employment services offered by the ES Division. The primary deficiency in this area is the total dependence on disseminating information relating to ES services and activities through personal communications techniques. The basic limitations of utilizing this approach were stated in the preceding section and need not be reiterated here. However, the relatively limited coverage which can result from total reliance on this approach is indicated by reference to the personnel resources presently available within the ES to "develop" the employer market. Presently, there are approximately 19 staff personnel actively "developing" the employer market. These personnel include: 3 WIN "Employer Services Representatives"; 10 Honolulu Placement Branch "Employer Services Representatives"; and 5 CEP "Job Developers". Discussions with ES administrative personnel have indicated that many of these personnel are presently burdened with ancillary activities. As such, they have not been able to concentrate all of their efforts towards accomplishing their primary employer development objectives.

More extensive coverage of the employer market could be achieved through the use of other means, supplemental to personal communications methods. At present, printed materials specifically tailored to address the unique needs of the employer market are not being utilized. Material dealing with manpower and labor statistics are extensively disseminated. However, these do not provide specific data relating to ES services and programs.

**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

**Part 3
COMMENTS OF AGENCY**

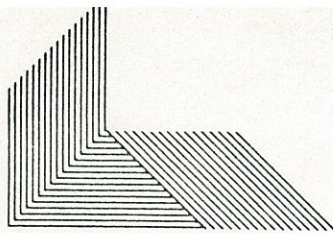
**A MEMORANDUM ON THE
COMMENTS BY THE AFFECTED AGENCY**

This financial audit report of the State department of labor and industrial relations was completed in January 1972 by Peat, Marwick, Mitchell & Co., certified public accountants. A preliminary copy of the report was transmitted to the department of labor and industrial relations. A copy of the transmittal letter is attached. The department was requested to submit its comments on the recommendations contained in the report, including information as to the specific action it has taken or intends to take with respect to the recommendations.

The department, in its response (see attachment), expressed agreement with the recommendations made by the contract auditors and stated that it will create a task force to ascertain the implications of the findings and recommendations and to proceed with the correction of the deficiencies.

We are pleased that the department has accepted the findings and recommendations with such a positive attitude. We are further encouraged by the department's prompt and earnest efforts in implementing the recommendations contained in the report.

THE OFFICE OF THE AUDITOR
STATE OF HAWAII
STATE CAPITOL
HONOLULU, HAWAII 96813



CLINTON T. TANIMURA
AUDITOR

YUKIO NAITO
DEPUTY AUDITOR

January 14, 1972

C
O
P
Y

Mr. Robert K. Hasegawa, Director
Department of Labor and Industrial Relations
State of Hawaii
Honolulu, Hawaii

Dear Mr. Hasegawa:

Enclosed are five copies of our preliminary report on the *Financial Audit of the State Department of Labor and Industrial Relations* covering the fiscal year ended June 30, 1971. The audit was conducted by Peat, Marwick, Mitchell & Co., certified public accountants, under contract with this office.

The term "preliminary" indicates that the report has not been released for general distribution. However, copies of this report have been forwarded to the Governor and the presiding officers of both houses of the State Legislature.

The report contains a number of recommendations directed at your department. I would appreciate receiving your written comments on them, including information as to the specific actions that have been taken or will be taken with respect to the recommendations. Please submit your response to our office by January 26, 1972. The report, which will include your response, will then be finalized and released shortly thereafter.

If you wish to discuss the report with us, we will be pleased to meet with you on or before January 21. Please call me to fix an appointment. A "no call" will be assumed to mean that a meeting is not required.

We appreciate the assistance and cooperation extended to our auditors by the officers and employees of your department.

Sincerely,

/S/ CLINTON T. TANIMURA

Clinton T. Tanimura
Legislative Auditor

Encl.

JOHN A. BURNS
GOVERNOR



ROBERT K. HASEGAWA
DIRECTOR

ROBERT C. GILKEY
DEPUTY DIRECTOR

STATE OF HAWAII

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

825 MILILANI STREET
HONOLULU, HAWAII 96813

January 31, 1972

RECEIVED

OFFICE OF THE AUDITOR

Honorable Clinton T. Tanimura
Legislative Auditor
State of Hawaii
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

We have reviewed your Preliminary Report on the financial audit of the State Department of Labor and Industrial Relations and, as you requested, offer the following comments:

1. The report generally focuses upon areas of deficiencies and weaknesses which were known to the department, and efforts to assess and correct such weaknesses and deficiencies have been and are continuing to be made.
2. The recommendations generally affect all operational areas of the department and, to a greater and substantial extent, affect the Federal-State programs and functions.

For the above reasons and following intensive discussions with the Financial Management Office of the San Francisco Regional Office, Manpower Administration, U. S. Department of Labor, tentative agreement has been reached to establish a joint Federal/Department of Labor and Industrial Relations Task Force to accomplish the following objectives no later than three weeks after its organization and its first meeting:

1. Ascertain scope of problem areas within the totality of the Department of Labor and Industrial Relations' operations.
2. Evaluate the deficiencies indicated to determine effect on the Department of Labor and Industrial Relations' functions and responsibilities.
3. Establish methods and procedures required to remedy problems.
4. Determine resource requirements to eliminate pertinent deficiencies.

January 31, 1972

5. Develop a schedule for implementing remedial actions needed to resolve pertinent problems.
6. Prepare standard operating procedures (SOP) covering activities related to the problems surfaced.
7. Report findings and recommendations to the Director and obtain his approval of the procedures, guidelines and policies developed and of implementation of SOP's.

We will inform you as soon as the Task Force composition is established and its first meeting scheduled. We would also welcome your participation and assistance in the planning work of the Task Force.

As recommendations are implemented, we would be pleased to keep your office informed to the extent that you may desire.

Your report is most appreciated since it should assist the department in improving its internal management, leading to better use of public funds in the conduct of our various operations.

Respectfully,



Robert K. Hasegawa
Director of Labor and
Industrial Relations

PUBLISHED REPORTS OF THE LEGISLATIVE AUDITOR

Audit Reports

- 1966 1. Examination of the Office of the Revisor of Statutes, 66 pp. (out of print).
- 1967 1. Overtime in the State Government, 107 pp.
- 1968 2. Management Audit of Kula Sanatorium, 136 pp.
1. Financial Audit of the Department of Health for the Fiscal Year Ended June 30, 1967, v.p. (out of print).
2. Financial Audit of the Department of Planning and Economic Development for the Fiscal Year Ended June 30, 1967, v.p. (out of print).
3. Financial Audit of the Department of Regulatory Agencies for the Fiscal Year Ended June 30, 1967, v.p. (out of print).
4. Financial Audit of the Department of Hawaiian Home Lands for the Fiscal Year Ended June 30, 1967, 54 pp.
5. Financial Audit of the Oahu Transportation Study for the Period July 1, 1962 to August 31, 1967, 68 pp.
6. Financial Audit of the Hawaii Visitors Bureau for the Period July 1, 1966 to January 31, 1968, 69 pp. (out of print).
7. State Capital Improvements Planning Process, 55 pp. (out of print).
8. Financial Audit of the Hilo Hospital for the Fiscal Year Ended June 30, 1967, 43 pp. (out of print).
9. Financial Audit of the Hawaii Visitors Bureau for the Period July 1, 1967 to June 30, 1968, 42 pp.
- 1969 1. Financial Audit of the General Fund, State of Hawaii, for the Fiscal Year Ended June 30, 1968, v.p. (out of print).
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4. General Audit of the Department of Personnel Services, State of Hawaii, 129 pp. (out of print).
4. A Summary of the General Audit of the Department of Personnel Services, 53 pp.
5. Financial Audit of the Samuel Mahelona Memorial Hospital for the Fiscal Year Ended June 30, 1968, 34 pp.
6. Financial Audit of the Honokaa Hospital for the Fiscal Year Ended June 30, 1968, 41 pp.
7. Financial Audit of the Kohala Hospital for the Fiscal Year Ended June 30, 1968, 34 pp.
8. Financial Audit of the Kona Hospital for the Fiscal

- 1970 1. Management Audit of the Department of Water County of Kauai, 65 pp.
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3. Audit of the Medical Assistance Program of the State of Hawaii, 392 pp.
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2. Audit of the County/State Hospital Program, 124 pp.
3. Audit of the State Vendor Payment Process, 63 pp.
4. Audit of the Hawaii Educational Television System, 153 pp.
- 1972 1. Audit of the Office of the Public Defender, 39 pp.
2. Financial Audit of the Department of Agriculture for the Fiscal Year Ended June 30, 1971, v.p.

Special Reports

- 1965 1. Long and Short Range Programs of the Office of the Auditor, 48 pp. (out of print).
2. A Preliminary Survey of the Problem of Hospital Care in Low Population Areas in the State of Hawaii, 17 pp.
- 1966 1. Procedural Changes for Expediting Implementation of Capital Improvement Projects, 9 pp.
- 1967 1. The Large School: A Preliminary Survey of Its Educational Feasibility for Hawaii, 15 pp.
2. State-City Relationships in Highway Maintenance, and Traffic Control Functions, 28 pp.
3. Manual of Guides of the Office of the Legislative Auditor, v.p.
- 1969 1. Transcript of Seminar in Planning-Programming-Budgeting for the State of Hawaii, 256 pp.
2. Airports System Financing Through Revenue Bonds, 9 pp (out of print)
3. Second Annual Status Report on the Implementation of Act 203, Session Laws of Hawaii 1967 (Relating to State-County Relationships), 13 pp. (out of print).
4. An Overview of the Governor's 1969-70 Capital Improvements Budget, 61 pp. (out of print)
5. A Supplementary Report on the Audit of the Hawaii Visitors Bureau, 2 pp. (out of print)
- 1970 1. A Study of the Compensation of Coaches of Inter-scholastic Athletics of the State Department of Education, 31 pp.
- 1971 1. A Study of the State Highway Special Fund, 14 pp.

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8. Financial Audit of the Kona Hospital for the Fiscal Year Ended June 30, 1968, 44 pp.
9. Financial Audit of the Kauai Veterans Memorial Hospital for the Fiscal Year Ended June 30, 1968, 30 pp.
10. An Overview of the Audits of the Act 97 Hospitals, 18 pp.

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- 1972 1. A Study of Hawaii's Motor Vehicle Insurance Program, 226 pp.

**LEGISLATIVE AUDITOR
STATE CAPITOL
HONOLULU, HAWAII 96813**