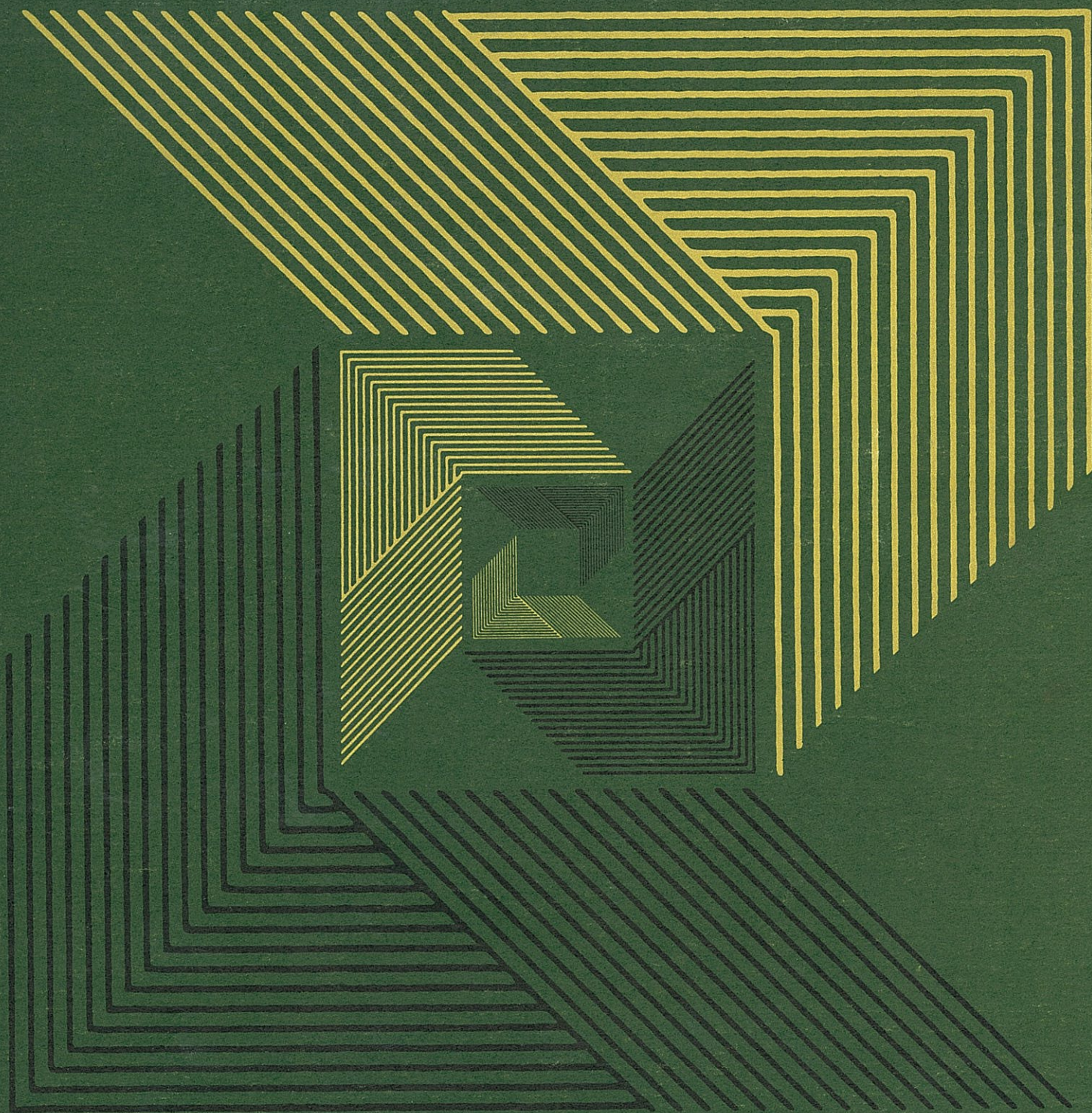


AUDIT REPORT NO. 76-3

MARCH 1976

MANAGEMENT AUDIT OF THE STATE FOUNDATION ON CULTURE AND ARTS

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



SUBMITTED BY THE LEGISLATIVE AUDITOR 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.
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**LEGISLATIVE AUDITOR
STATE CAPITOL
HONOLULU, HAWAII 96813**

FOREWORD

MANAGEMENT AUDIT OF THE STATE FOUNDATION ON CULTURE AND THE ARTS

A Report to the Governor

and the

Legislature of the State of Hawaii

Submitted by the

Legislative Auditor of the State of Hawaii

March 1976

Audit Report No. 76-3

AN OVERVIEW BY THE LEGISLATIVE AUDITOR OF THE MANAGEMENT AUDIT OF THE STATE FOUNDATION ON CULTURE AND THE ARTS

INTRODUCTION

The state foundation on culture and the arts was established by the legislature in 1965 in order to "stimulate, guide, and promote culture and the arts, throughout the State." As the officially designated state arts agency, the foundation receives federal grants from the National Endowment for the Arts. These federal funds, together with state and private funds, support a variety of cultural and artistic activities, including dance, theater, music, literature, fine arts, crafts, environmental arts, graphic arts, design, photography, and ethnic arts, crafts, and traditions.

In 1967, the responsibilities and financing of the state foundation on culture and the arts were augmented by the Art in State Buildings Law. Under this act, 1 percent of appropriations for construction of state buildings is set aside for the acquisition of works of art.

The audit of the state foundation on culture and the arts, which was requested by House Resolution 647, 1975, stemmed from legislative concern over the art-in-state-buildings program and whether the operations of the foundation are efficient, economical, and effective. This overview summarizes the results of the audit, our major findings and recommendations, and the response of the foundation.

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

The legislature defined the terms "culture" and "arts" broadly in order to allow the foundation considerable latitude in developing a program to meet the needs of the people of Hawaii. The foundation has been given wide programmatic responsibilities, and it has made some progress in carrying these out. However, it has not been able to adequately develop those plans, programs, policies, and criteria that would assist it in achieving its basic missions of stimulating art in Hawaii and developing Hawaii's artists and craftsmen. The foundation's difficulties can be traced, in part, to inadequate staffing. Its present regular staff consists of an executive director, an arts program specialist, and two clerks to manage an investment of \$1.9 million in commissioned and portable works of art and to administer a sizeable grants-in-aid program. In the next fiscal year, the foundation will be authorized a more adequate staff of seven, and this should enable it to execute its programs more effectively. In the meanwhile, it should proceed to correct the program and management deficiencies identified by the audit.

The Commission on Culture and the Arts

Responsibility for the State's culture and arts program is vested in a nine-member body that is appointed by the governor with the advice and consent of the senate. The legislature

established the commission as a lay body in order that it may reflect and express the pluralistic interests of the people of Hawaii. It was clearly intended that the commission would be more than an advisory body and that it would play an active role in planning, directing, and managing the State's culture and arts program.

We find, however, that the commission has not assumed an active role in directing the operations of the foundation. It has not planned for the future development of programs and it has not evolved a strategy for managing its own internal operations. The commission's own mode of operations has been unsystematic. It has no procedures to govern its activities, nor does it have subcommittees to facilitate and expedite the workings of the commission so that it might be more efficient and effective.

The commission must organize itself properly in order to carry out its responsibilities for the programs of the foundation. It must begin to focus on the missions to be achieved and, accordingly, formulate plans, policies, and budgets. However, the commission, as a noncompensated, lay body, cannot plan and administer this program by itself. It must have the support of an adequate staff with competence in program planning, budgeting, and management, as well as in culture and the arts.

The Art-in-State-Buildings Program

This program is intended to foster public appreciation of the arts and to develop Hawaii's artists and craftsmen. The 1 percent which is set aside from appropriations for the original construction of state buildings is used to finance works of art for specific locations and portable works of art. As of November 30, 1975, the foundation had commissioned 113 works of art and had purchased over 900 portable works of art for an approximate total of \$1.9 million. We find inadequacies in the foundation's management of the collection of portable works of art and commissioned works of art.

Portable Works of Art. The foundation's management of the collection of portable works of art has been seriously deficient. There are no guidelines or policies for the selection of art. The State's collection of portable works of art has been selected by relatively few individuals. The emphasis has been on works of art by established artists, and most of the purchases have been made from art galleries on Oahu. The foundation has expended over \$1 million on works produced by less than 5 percent (21 artists) of the total number of artists and craftsmen represented in the collection.

Management of the art collection has been unsystematic and haphazard. There is no system for the proper registration of works of art. Information on these works are not recorded in a complete and systematic manner. And, to date, there is no one complete and accurate inventory of the State's collection of portable works of art.

The foundation has no guidelines for the display of works of art. Portable works are exhibited and rotated in an informal manner. The foundation does not maintain routine contact with agencies that have been given works of art for display and, given turnover in personnel, there are agencies that do not even know how they came to have works of art, nor do they know to whom these works can be returned. Location sheets which purport to show

where works of art can be located are imprecise and out-of-date. In a physical inspection of a sample of works on display, we found 25 percent (109) were not at the designated locations given on the location sheets and, of these, 29 could not be located.

Most works of art on display bear no labels to show that they are state property or that they were acquired by the state foundation on culture and the arts. Generally, basic information such as the name of the artist or the title of the work is not given.

At present, the law restricts the display of works of art to public buildings. In practice, the collection of portable works of art is generally displayed in areas that are inaccessible to the public, such as in private offices and conference rooms. Another imbalance is that, in 1975, Oahu had 86 percent of the works of art while Hawaii had 4.1 percent; Kauai, 4.2 percent; Maui, 3.2 percent; and Molokai, none. Moreover, works of art tend to stay in one place after the initial installation. Our audit found that nearly half of the portable works of art purchased in 1970, 1971, and 1972 have never been rotated. Thus, the public has not been receiving the full benefit of state purchases of works of art.

The foundation should establish criteria and policies for the selection of works of art and develop and implement systematic procedures for the proper care, maintenance, and display of the State's art collection. The foundation should also explore ways in which the collection can be displayed so as to reach more people, particularly those on the neighbor islands. This would require a more vigorous rotation policy and legislation to permit exhibiting works of art in areas other than public buildings, such as banks and other financial institutions which are heavily frequented by the public.

Commissioned Works of Art. The legislature intended that the commission would play an active role in the art-in-state-buildings program. However, the primary decision-maker in selecting and commissioning artists for works of art is not the commission but the executive director. The commission has very little input in the commissioning process. Although project advisory panels are supposed to be established for each proposed commission in order to furnish user and community input into the work of art, these panels have not been effective as they have been given no clear-cut responsibility or authority.

The foundation's administration of contracts for commissioned works of art has been lax. Contracts for commissions call for the submission of a number of documents to ensure that the design, structural integrity and construction of the work of art are as desired. However, the foundation has not effectively monitored these contracts. This has resulted in delays in the progress of commissions, improper payments, and added costs. Finally, no formal procedures have been established for the acceptance of works of art, and the foundation has made final payment for works that have not been placed in their intended locations.

The commission on culture and the arts should play a more decisive role in the commissioning process. Community input should be maximized by developing policies and guidelines delineating the functions of the project advisory panels. And, the foundation should monitor more closely contracts for commissioned works of art.

Statutory Violations. Neither the foundation nor the department of accounting and general services, the two agencies responsible for implementing this program under the law, has established the necessary rules and guidelines. Consequently, the law has not been consistently observed or uniformly applied, and illegal and questionable practices have arisen, as in the following situations:

1. *Lack of uniformity in computing the 1 percent.* The department of accounting and general services has not set aside the 1 percent in a uniform and consistent manner. The method used in calculating the 1 percent varies from project to project, depending on the wording of the act appropriating the funds.

2. *Failure to set aside 1 percent by all agencies.* Although the department of accounting and general services is the principal expending agency for the construction of state buildings, other state agencies are also appropriated capital improvements funds. Among these are the department of transportation and the department of land and natural resources. The department of transportation has made some funds available for works of art; however, the amount set aside falls far short of 1 percent.

3. *Failure to set aside 1 percent by the department of accounting and general services.* The department has not always set aside 1 percent of appropriations for the construction of state buildings for works of art. It does not set aside 1 percent from those appropriations for structures which it does not consider to be buildings. Yet, it has not developed a standardized definition of the term "buildings." In some instances, the department has used the 1 percent moneys for purposes other than the acquisition of works of art, such as to cover construction costs.

4. *Illegal use of 1 percent funds.* The foundation has also used the 1 percent funds in an illegal or questionable manner. Although priority in the placement of works of art is supposed to be given to those buildings yielding 1 percent funds, the foundation has often aggregated funds generated by a number of different projects and used these funds for works of art that are not placed in the structures yielding the funds. There is no evidence that priority was given to buildings yielding the funds. The foundation has also used 1 percent funds to commission works for established facilities that do not qualify for these works of art. The attorney general has pointed to the illegality of this practice.

It is clear that, with respect to the art-in-state-buildings program, the deficiencies in operations of both the state foundation on culture and the arts and the department of accounting and general services require correction through rules, guidelines, policies, and proper management practices. The comptroller and the foundation must develop guidelines and procedures that can be uniformly applied and observed by all state agencies affected by the Art in State Buildings Law.

The Grants-in-Aid Program

The foundation's other major area of activity is its grants-in-aid program. The foundation's primary obligation here is to review applications for grants, award grants, and monitor and evaluate the effectiveness of the projects which it sponsors.

Here, again, we find that the foundation has no policies, criteria, or procedures. As a result, grants are awarded in an arbitrary, inconsistent, and discriminatory fashion. Certain organizations and individuals receive preferential treatment. The absence of criteria and procedures has allowed the foundation staff to award grants to favored projects. The

foundation has not evaluated the effectiveness of the activities which it funds and it has yet to develop the means for evaluating its grants-in-aid program. Although the foundation has been instrumental in establishing many community art organizations and art councils, it has failed to fully utilize these councils or allow them to play a meaningful role in shaping the state culture and arts program.

The foundation needs to establish policies and criteria for its grants-in-aid program and it should solicit the assistance of these councils in developing and implementing this program. The development and implementation of plans, policies, criteria, and procedures must also be extended to the area of evaluation.

RESPONSE OF THE FOUNDATION

Overall, the foundation concurs with our recommendations, except in one substantive area. In our audit, we stated that priority for works of art should be given to those new buildings yielding 1 percent funds and that permanently installed works of art should only be in new structures. The attorney general has rendered opinions to that effect. The foundation disagrees with our position and that of the attorney general. In view of the disagreement, this issue should be examined and clarified by the legislature.

CONCLUSION

In its response, the foundation has demonstrated its understanding of the problems which were pointed out in the audit and its commitment towards implementing most of the recommendations. We hope that this report will serve to assist the foundation in improving its programs and in its progress in carrying out a culture and arts program for Hawaii.

Clinton T. Tanimura
Legislative Auditor
State of Hawaii

March 29, 1976

FOREWORD

Hawaii joined the national movement towards governmental support of the arts when, in 1965, the legislature created the state foundation on culture and the arts. The foundation was established for the purpose of stimulating, guiding, and promoting culture and the arts throughout the State. It has been designated as the official state arts agency and, as such, it is authorized to receive and to administer federal grants from the National Endowment for the Arts. These federal grants have been combined with state funds and private funds to support projects in the various art media, such as dance, theater, music, literature, fine arts, crafts, environmental arts, graphic arts, design, and photography.

Since 1965, the State's responsibilities as a patron of the arts have expanded appreciably. The foundation's original role was augmented in 1967 when the legislature enacted the Art in State Buildings Law. Under this act, 1 percent of all appropriations for the original construction of any state building is set aside for the acquisition of works of art.

In 1975, the legislature expressed concern over the art-in-state-buildings program in view of a number of major construction projects which were pending and which would yield substantial 1 percent moneys. The legislature was also interested in determining whether the operations of the foundation were "efficient, effective, and economical." Thus, under House Resolution 647, the legislative auditor was requested to undertake a review of the art-in-state-buildings program as well as a financial and management audit of the state foundation on culture and the arts. This audit reports on our findings and recommendations.

While we have made a number of recommendations in this report for improving the culture and arts program, this is not to say that the foundation has not made progress since its establishment. We hope that this report will provide a basis for further progress and additional public benefits in the culture and arts field.

Clinton T. Tanimura
Legislative Auditor
State of Hawaii

March 1976

TABLE OF CONTENTS

		<i>Page</i>
PART I	INTRODUCTION AND BACKGROUND	
Chapter		
1	Introduction	2
	Objectives of the Audit	2
	Scope of the Audit	2
	Organization of the Report	2
	Terminology	2
2	Background	3
	Evolution of Governmental Support for the Arts in the United States	3
	History of the Foundation	3
	Composition of the Foundation	4
	Programs of the Foundation	4
PART II	FINDINGS AND RECOMMENDATIONS	
3	Introduction	7
	Summary of Findings	7
4	The Commission on Culture and the Arts	8
	Summary of Findings	8
	Program Responsibilities of the Foundation	8
	Program Emphasis	9
	Organization of the Commission	10
	The Budget	11
	What Needs to Be Done	13
	Recommendations	13
5	The Art in State Buildings Program	15
	Summary of Findings	15
	Introduction	16
	Accountability	16
	Statutory Violations	18
	Commissioned Works of Art	23
	Portable Works of Art	30

LIST OF TABLES

Chapter		Page
6	The Grants-in-Aid Program	39
	Summary of Findings	39
	Lack of Criteria	39
	Questionable Use of Appropriated Funds	43
	Nonuse of Advisory and Community Councils	44
	Failure to Monitor and Evaluate Grantee Performance	45
7	Financial Statements and Internal Control	46
	Summary of Findings	46
	Method of Accounting	46
	Denial of Audit Opinion	47
	Statement of Appropriations, Expenditures, and Unencumbered Balances (General Fund)	47
	System of Internal Control	51
	Failure to Enforce Financial Reporting Requirements	52
	Recommendations	53
PART III	RESPONSE OF THE AFFECTED AGENCY	
	Comments on Agency Response	55
	Attachment No. 1	57
	Attachment No. 2	58

LIST OF TABLES

<i>Table</i>	<i>Page</i>
5.1 Summary of 1 Percent CIP Funds Set Aside and Made Available for Works of Art, as of November 30, 1975 	17
5.2 Examples of the Use of the 1 Percent Funds for Construction Costs	23
5.3 Expenditures for Art-in-State-Buildings Program, As of November 30, 1975	24
5.4 Reports Submitted by Artists for a Sample of Commissions Awarded in 1971-72	27
5.5 Difference Between Scheduled and Actual Completion Times For a Sample of Commissions Awarded During FY 1971-72, as of December 31, 1975	28
5.6 Purchases of Portable Works of Art, by Island and Out-of-State, Fiscal Years 1972-1975	32
5.7 Display of Portable Works of Art Purchased in Calendar Years 1970, 1971, and 1972	36
5.8 Distribution of Art Work by Island	37
5.9 Public Accessibility of a Sample of Works of Art	37
6.1 Grants Awarded to Community Arts Councils	41
7.1 State Foundation on Culture and the Arts, Statement of Appropriations, Expenditures, and Unencumbered Balances-General Fund, for the Year Ended June 30, 1975 ...	48
7.2 State Foundation on Culture and the Arts, General Fund, Detailed Statement of Expenditures, for Year Ending June 30, 1975	49
7.3 Number of Missing Financial Reports, Fiscal Year 1973-74	52

Chapter 1

INTRODUCTION

PART I

INTRODUCTION AND BACKGROUND

Chapter 1

INTRODUCTION

This is a report on our audit of the state foundation on culture and the arts which was conducted in response to House Resolution No. 647, 1975 Regular Session. The resolution directed the legislative auditor to undertake a financial and management audit of the state foundation on culture and the arts, and a comprehensive review of the art-in-state-buildings program.

Objectives of the Audit

The objectives of the audit were:

1. To determine whether the foundation's programs have been effectively and efficiently implemented, and
2. To determine the accuracy of the foundation's financial statements and the adequacy of its system of accounting and internal control.

Scope of the Audit

The audit focuses on the management and financial practices of the state foundation on culture and the arts. The department of accounting and general services and other capital improvements program (CIP) expending agencies, such as the department of transportation, are included insofar as the audit examines the implementation of the art-in-state-buildings program.

The base period for our financial audit was fiscal year 1974-75. Our examination of the foundation's management practices and operations also emphasizes 1974-75, although prior years are included in order to allow a sufficient time period for purposes of analysis.

Organization of the Report

This report is presented in three parts:

Part I includes this introduction and some background on the establishment and organization of the foundation.

Part II presents our findings and recommendations on the effectiveness of the foundation in managing its programs and its financial affairs.

Part III contains the responses of the agencies affected by our findings and recommendations.

Terminology

Throughout this report we use the term "foundation" to refer to the state foundation on culture and the arts, including the nine appointed members and its employees.

The term "commission on culture and the arts" or "commission" is used to refer to only the nine appointed members of the foundation as a body. The members are also referred to as "commissioners."

Chapter 2

BACKGROUND

Evolution of Governmental Support For the Arts in the United States

Since the end of World War II, the arts in the United States have been faced with ever-growing financial deficits. It has become evident that support from private sources is no longer sufficient to ensure the viability of the arts. Studies conducted in the 1960's have noted the need for other sources of support, and proponents of governmental support for the arts have pointed to the European and British traditions of public support for the arts.¹

Governmental support for the arts began in New York State which, in 1960, created the first state council on the arts. Since then other states, such as California, New Jersey, and Washington, have followed with councils or commissions on the arts.² In addition to the states, the federal government has enacted legislation to provide support for the arts. In 1965, the Congress enacted Public Law 89-209, the National Foundation on the Arts and the Humanities Act. This act was patterned after the New York experience of providing seed money for art projects to be matched by private sources. Under this act, the National Endowment for the Arts (NEA) awards federal grants to authorized state art commissions and councils which are able to match the grants with either state or private funds or both. Each of the 50 states, the Virgin Islands, Guam, and American Samoa became eligible for bloc grants of an equal amount for statewide art programs.

History of the Foundation

In anticipation of federal funds under the national act, Hawaii enacted Act 269 in 1965 (HRS, chapter 9), creating the state foundation on culture and the arts in the governor's office. On January 4, 1966, the governor designated the foundation as the Hawaii agency to receive and administer grants from the National Endowment for the Arts.³

The foundation as established by Act 269, S.L.H. 1965, had a termination date of June 30, 1969. The act asked the foundation to make recommendations to the legislature on the long-range responsibility and the role which the State should assume with respect to the preservation and the furtherance of culture and the arts. The foundation was also asked to recommend organizational and administrative arrangements which should be provided by law for such a program.

In 1969, the legislature extended the termination date to June 30, 1970,⁴ and, in 1970, Act 192 removed the termination date

¹See Rockefeller Brothers Fund, *The Performing Arts*, McGraw Hill, 1965; and Baumal, William J. and Bower, William G., *Performing Arts - the Economic Dilemma*, Twentieth Century Fund, 1965.

²Scott, Mel, *The States and the Arts*, Berkeley, Institute of Governmental Studies, University of California, 1971.

³See state foundation on culture and the arts, *Report to the Governor and the Legislature*, 1968.

⁴Act 50, S.L.H. 1969.

and gave the foundation permanent status in the department of budget and finance.

The legislature designed Hawaii's culture and the arts program to meet the cultural and artistic needs of all of Hawaii's people as determined by the people themselves. And, while the legislature did provide some direction to the foundation by broadly specifying its duties and responsibilities, it chose to give the agency considerable latitude in charting its own course.

In general, the foundation was entrusted with the responsibility for administering the State's culture and the arts program by:

- promoting public awareness and appreciation of culture and the arts in the State,
- preserving and enhancing the cultures of the various ethnic groups in Hawaii, and
- facilitating opportunities for all people to participate in cultural and artistic programs and activities.⁵

In 1967, the State's role as patron of the arts was further augmented by Act 298, the Art in State Buildings Law (HRS, section 103-8). The legislature mandated that 1 percent of appropriations for capital improvements be set aside for the acquisition of works of art and made the state comptroller and the foundation responsible for the "selection of, commissioning of artist for, reviewing of design, execution, and placement of, and the acceptance of works of art."⁶

Composition of the Foundation

The foundation is composed of nine members appointed by the governor. The legislature intended that the program be democratic and broadly based by removing any and all qualifications for appointment to the foundation. Responsibility for effectuating the

State's culture and the arts program is assigned specifically by statute to these nine members who call themselves commissioners and who, together, form the "commission on culture and the arts."⁷

The present commission consists of six commissioners from Oahu, one from Hawaii, one from Maui, and one from Kauai. Four of the present commissioners were first appointed to the then temporary commission in 1966, four were appointed in 1973, and one in 1974. The present chairman was appointed by the governor in 1966 and has chaired the commission since its inception. The commissioners receive no compensation but are reimbursed for travel and other necessary expenses in the performance of their official duties.

The commission is authorized by law to select and employ an executive director who is professionally qualified in the fields of culture and the arts. The present executive director was appointed on July 1, 1966. The remaining foundation staff consists of an art program specialist III and two clerk-stenos. An additional arts program specialist position was authorized by the legislature in 1975 but was not filled as of December 31, 1975. Some supplementary personnel assistance is made possible by federal funds.

Programs of the Foundation

The foundation's efforts to achieve the purposes for which it was established fall into two major areas:

⁵Standing Committee Report No. 870 on H.B. No. 10, 1965, and Standing Committee Report No. 174 on H.B. No. 10, 1965.

⁶Act 298, S.L.H. 1967.

⁷State foundation on culture and the arts minutes, November 15, 1973. At this meeting, the members decided that, "The members, when functioning on behalf of the SFCA, form the Commission on Culture and the Arts (commission) and are called commissioners."

1. the art-in-state-buildings program, that is, the acquisition and commissioning of works of art for display in or at various state buildings; and

2. the awarding of grants-in-aid for projects in the various art media, e.g., dance, literary arts, music, theater.

1. *The art-in-state-buildings program.*

Annually, the department of accounting and general services sets aside, for works of art, a portion of the funds appropriated by the legislature for capital improvements. These funds are made available to and expended for purchases of completed, portable works of art, and for commissions for works of art to be placed at specific locations.

2. *The grants-in-aid program.* For fiscal year 1974-75, the legislature appropriated \$108,689 for programs of the foundation. In addition, the legislature specifically appropriated \$233,000 for six community organizations: the Honolulu Symphony Society, the Honolulu Theater for Youth, the Hawaii Youth

Symphony, the Honolulu Community Theater, and the Waianae-Nanakuli and the Kalihi-Palama culture and the arts organizations. These funds are administered by the state foundation on culture and the arts.

In addition to these state funds, the foundation received a bloc grant of \$200,000 from the NEA in fiscal year 1974-75. The foundation also applied for and received additional grants from the NEA for special projects for a total of \$354,000 in federal funds for fiscal 1974-75.

Federal funds and state funds not specifically appropriated by the legislature to designated community organizations are combined to support a program of grants-in-aid. The foundation does not implement any culture and the arts projects on its own. It awards, at its discretion, grants to individuals or organizations that propose projects in the areas of dance, literature, music, theater, crafts, fine arts, graphic and design arts, and ethnic arts. Funded by the foundation, these individuals and organizations then operate their own projects.

Chapter 3

INTRODUCTION

The purpose of this report is to provide a comprehensive overview of the findings and recommendations of the study. The study was conducted to identify the factors that influence the success of small businesses in the United States.

The study was conducted using a combination of qualitative and quantitative methods. The qualitative methods included interviews with business owners and managers, and the quantitative methods included a survey of small business owners.

The findings of the study indicate that there are several factors that influence the success of small businesses. These factors include the owner's experience, the quality of the product or service, the location of the business, and the level of competition.

Based on the findings of the study, several recommendations are made. These recommendations include providing training and support for small business owners, improving the quality of the product or service, and increasing the level of competition.

The study also found that there are several challenges that small business owners face. These challenges include limited access to capital, lack of marketing resources, and limited access to talent. The study suggests that these challenges can be addressed through a variety of measures, including government support, industry associations, and private sector initiatives.

The study concludes that the success of small businesses is a complex issue that requires a multifaceted approach. The findings of the study provide a valuable insight into the factors that influence the success of small businesses, and the recommendations provide a framework for addressing the challenges that small business owners face.

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Chapter 3

INTRODUCTION

This part of the report contains our findings and recommendations on the foundation's management and financial practices. In conducting this audit, we examined the overall performance of the foundation, with specific emphasis on the practices of the commission on culture and the arts and the foundation staff. A detailed review was made of the art-in-state-buildings program, the grants-in-aid program, and the foundation's financial practices in support of its programs.

While numerous findings regarding the planning and execution of the programs are discussed in this part, this does not mean that the foundation has not made progress since its establishment, or that the public has not benefited from its activities. Indeed, it is our view that further progress can be made and additional public benefits can be gained if the foundation corrects the policy and operational shortcomings identified in this part and its activities are adequately supported.

Many of the problems which are identified in this part can be attributed to inadequate staffing at the foundation. The foundation has been given broad responsibilities but it has not been given sufficient staff to be able to carry out these responsibilities properly. The effects

of this staff shortage are particularly evident in the management of the art-in-state-buildings program and the grants-in-aid program.

Summary of Findings

The foundation's activities lack purpose and direction. Although the programmatic responsibilities of the foundation are wide in scope, the foundation currently is simply engaged in making grants and selecting art for state buildings. It has no program plans, no policies, and no criteria by which its basic missions of stimulating the growth of art and developing Hawaii's artists and craftsmen might be carried out. Even in the limited area of grants-in-aid and the selection of art for state buildings, the foundation is without standards and criteria by which to make grants and to select art. As a consequence, grants are being made and art is being acquired in a haphazard, arbitrary, unsystematic, and often discriminatory fashion, with no assurance that the objectives of the program are being met. The foundation's internal organization, budgeting practices, and accounting system reflect this unsystematic management of the state program on culture and the arts.

Chapter 4

THE COMMISSION ON CULTURE AND THE ARTS

Although the commission is broad, in practice, the commission's activities have been limited to two major areas: grants-in-aid and selection of art for placement in state buildings. It has done very little of anything else. It has made no assessment of the state of culture and the arts in Hawaii or of the responsibility for the State's culture and the arts program. It has shown no evidence of planning and policy-making. It has been serving the community's needs by the commission's activities in the areas of grants-in-aid and selection of art for state buildings.

Summary of Findings

The commission has not adequately discharged its responsibilities for developing, implementing, and guiding the State's culture and arts program. It has failed to plan for the program in light of the ends to be achieved. As a result, the commission has been content to dwell principally on the operational aspects of awarding grants-in-aid and selecting art for state buildings.

Program Responsibilities of the Foundation

HRS, section 9-3, assigns to the foundation (i.e., the commission) the following program responsibilities:

"The foundation shall:

- (1) Assist in coordinating the plans, programs and activities of individuals, associations, corporations and agencies concerned with the preservation and furtherance of culture and the arts;

- (2) Appraise the availability, adequacy and accessibility of culture and the arts to all persons throughout the State and devise programs whereby culture and the arts can be brought to those who would otherwise not have the opportunity to participate;
- (3) Stimulate, guide and promote culture and the arts, throughout the State;
- (4) Devise and recommend legislative and administrative action for the preservation and furtherance of culture and the arts;
- (5) Study the availability of private and governmental grants for the promotion and furtherance of culture and the arts;

...."

In addition, HRS, section 103-8, provides that the foundation, together with the state comptroller, shall execute the art-in-state-buildings program.

The terms, "culture" and "arts," as used in chapter 9 and in section 103-8 are broadly defined. "Culture," for instance, includes "the arts, customs, traditions, and mores of all of the various ethnic groups of Hawaii," and "arts" includes "music, dance, painting, drawing, sculpture, architecture, drama, poetry, prose, crafts, industrial design, interior design, fashion design, photography, television, motion picture art, and all other creative activity of imagination and beauty."¹

In short, then, the programmatic responsibility of the foundation is broad: to

¹HRS, section 9-1.

stimulate, promote, and preserve culture and the arts of all forms and make such culture and arts accessible to all throughout the State.

Program Emphasis

Although the statutory responsibility of the commission is broad, in practice, the commission's activities have been limited to two major areas: grants-in-aid and selection of art for placement in state buildings. It has done very little of anything else. It has made no assessment of the state of culture and the arts in Hawaii or of public accessibility to culture and the arts, and it has developed no overall strategy or program for stimulating the growth of culture and the arts.

Moreover, even in the two areas of grants-in-aid and selection of art, the commission's performance has been principally operational in nature. It has shown no evidence of planning and policy-making in these areas. Thus, it has made no examination of the ends being served by the commission's activities in these areas; it has established no procedures, policies, or criteria to assist in determining how applicants are to be screened and selected for grants-in-aid or how art objects are to be selected for display in public buildings; and it has formulated no priorities among the different art forms. (The specific deficiencies in the grants-in-aid and art selection programs are discussed in subsequent chapters.)

The commission's awarding of grants-in-aid and selection of art have been largely routine, although they constitute the bulk of the commission's time. They generally involve the routine approval of the recommendations of the executive director on specific grants and specific art. In part this is due to the fact that it is the executive director, and not the commissioners, who has expertise in the fields of culture and the arts. However, in a large measure, it is due to the commission's lack of plans, policies, procedures, criteria, and priorities by which to judge the recommendations of the executive director.

The commission's focus on grants-in-aid and selection of art is, even in these areas, on operations rather than planning and policy-making, and reflects the commission's perception of its role. In interviews conducted during our audit, the following responses were elicited from the individual commissioners regarding their understanding of their duties and responsibilities.

"Don't really know—mostly approval of art selections and purchases."

"To examine applications for grants."

"To dispense funds, decide how money is to be used. Some policy-making for the art program."

"To work with communities and encourage participation."

"To carry out purposes of the act. To get out to the people and let them know about SFCA."

"To make decisions, help select art, and stimulate art in Hawaii."

"To undertake responsibility for approving contracts."

"To inform people, to assure certain kinds of programs."

"To make decisions, set programs, and to allocate funds."

Clearly evident from these responses is the fact that the commissioners perceive their role in a very limited fashion. The result is, of course, that the commission has not come to grips with the issues and programs in culture and the arts on any broad scale or with sufficient depth. This limited perception of the commission's role is further reflected in the commission's organization and budget.

Organization of the Commission

Over the years, the commission's organization has been largely informal and its mode of operations unsystematic. It has never adopted any bylaws or procedures to govern its internal operations. For years, the commission acted without any committees and without ensuring the presence of a quorum in the transaction of the commission's business. Only in recent times has it established some form of committees and only since 1972, upon the advice of the attorney general² has it begun to transact official business in the presence of a quorum. (Before 1972, the commissioners had assumed that official decisions could be made by the chairman with simply the advice of the other commissioners.)

Such informality and unsystematic method of operating might well have sufficed if the commission's responsibilities were limited in scope as the commissioners perceive. Indeed, it would appear that, under the commissioners' perception of their role, the lay commission might well have been purely advisory to the executive director, the professional in the field. However, it is clear that the statute did not intend this to be the case. The very purpose of creating a lay commission was to reflect the pluralistic interests of the people of Hawaii, both in planning and policy and in management and operations of the state program in culture and the arts. Indeed, in enacting Act 298 the statute creating the art-in-state-buildings program, the House in its committee report stated,

*"Consonant with the duties and responsibilities entrusted to it, your committee feels that the members of the state foundation should actively participate in the processes envisioned by this bill and therefore recommends that the state foundation, as a body, have one vote on the committee in lieu of its director."*³ [Emphasis supplied.]

In 1974, the commission inaugurated a "panel" system to assist it in its operations. This panel system, however, only affirms the narrow view that the commission holds regarding its role.

Under the panel system, two panels are in effect: (1) the performing and literary arts review panel and (2) the visual and environmental arts review panel. Five commissioners are on the first panel and four on the second. The reasons for establishing the panels were to reduce the workload of the commission at its regular meetings and to permit a more discriminating review of applications for grants-in-aid. The performing arts review panel assesses applications for grants falling in the areas of the theater, music, dance, and literature. The visual arts review panel does the same in the areas of fine arts, crafts, graphic arts, and environmental design, and also reviews works of art for state purchases and contemplated commissions for art work.

The establishment of the panels has not reduced the workload of the commission at its regular meetings (the commission at its regular meetings reviews the specific items which were previously assessed by the panels) and has not resulted in a more discriminating review of applications for grants-in-aid (commissioners do not faithfully attend panel meetings presided over by the executive director; at one recent panel meeting, only the executive director and one panel member were present).⁴ Aside from the fact that the purpose of setting up the panels has not been achieved, the panel system clearly is focused only on passing on grants-in-aid applications and selecting works of art for state buildings.

²The minutes of the foundation, dated March 16, 1972, note that the deputy attorney general assigned to the foundation advised the commission that it needed the presence of five commissioners for the commission to take official action.

³Standing Committee Report No. 695 on H.B. No. 859, 1967.

⁴The purported reason for the lack of attendance at panel meetings is the recently enacted "Sunshine Law."

In recent times, the commission has shown evidence of growing awareness that its functions include more than simply passing on applications for grants-in-aid and selecting works of art. For instance, in late 1973, it created four standing committees:⁵

- . the program and budget planning committee,
- . the policies and procedures committee,
- . the performing arts committee, and
- . the visual arts committee.

The chairman appointed commissioners to these four committees in January 1974. Each committee was to elect its own chairman and to augment itself with appropriate task forces as needed. The committees were to be responsible for reviewing presentations made by the foundation staff and for making recommendations to the full commission.⁶ However, the commissioners failed to follow through, and this committee system was never implemented. Instead, the panel review system was instituted.

Then, in August 1974, when the commission decided on the panel system, it noted that it would do the following:

- . Set aside one of the six regular meetings held annually to discuss long-range and detailed program plans;
- . Devote another of the six regular meetings to discuss policies and procedures; and
- . Formulate policy guidelines for the foundation staff, review panels, and the commission itself.

However, this intent was not thereafter actively pursued. The commission has yet to deal with matters of long-range planning and establishing policies, and the panel system, as noted above, has only reinforced the

commission's performance in the limited areas of routinely passing on individual grants-in-aid applications and selecting specific art objects.

The Budget

The budget and budgetary process of the foundation further reflect the narrow perception of the commissioners concerning their role.

Program categories. Culture and the arts program as a whole occupies a level IV spot in the state program structure and is within the level I state program entitled, "Culture and Recreation." The location of the culture and the arts program in the state program structure is as follows:

Level I	Culture and Recreation
Level II	Cultural Activities
Level III	Cultural and Artistic Events
Level IV	Performing and Visual Arts Events

The objective of each of these levels is the enrichment of the lives of the people of Hawaii. At levels III and IV, the objective is the enrichment of the people's lives through culture and the arts. In essence, as the statute provides, it is to stimulate the growth of culture and the arts among Hawaii's citizens and to develop Hawaii's artists and craftsmen.

Branching from the level IV program designation, "Performing and Visual Arts Events," the foundation has delineated the following as the foundation's programs:

- Statewide arts education
- Statewide dance program
- Statewide environmental arts
- Statewide expansion arts
- Statewide literary arts

⁵Foundation minutes of November 15, 1973.

⁶Foundation minutes of January 1974.

- Statewide music program
- Statewide public media program
- Statewide special projects
- Statewide theater program
- Statewide visual arts program
- General operating program

The foregoing listing is simply an enumeration of the various art forms with which the foundation is concerned. It says nothing about the "programs" of the foundation. It serves only as a convenient device for listing the activities that the foundation itself engages in or supports through the grants-in-aid program. It does little to orient the foundation to the fundamental purposes for which it was organized—to stimulate growth of culture and the arts and to develop Hawaii's artists and craftsmen. Indeed, one will search in vain for any expression of concern for these ends in the foundation's structure.

That it serves very little useful purpose is evident from the haphazard and inconsistent listing of the foundation's activities within each category. For example, dance projects are funded under the statewide arts education program, the statewide dance program, statewide expansion arts program, and the statewide special projects program. Then, under statewide special projects, arts festival category, projects such as an international dance festival, workshops at the Hawaii Volcanoes National Park, exhibition of art at the university of Hawaii art gallery, a conference on art for young children, a music and dance project by the university of Hawaii music department, and a cultural exchange project are funded. Where particular activities are placed often differs from year to year. For instance, in 1973-74, the publication of *Artists in Hawaii*, Volume I was placed in the arts festival category, and in 1974-75, it was shifted to the statewide fine arts category.

Where a particular activity is listed is, of course, of little consequence, for the categories

are not grouped by missions or objectives. Indeed, the breakout of activities by the categories listed appears to have been done only to comply with the state requirement for a structure as a part of the State's system of program budgeting. The structure is a facade; it is not a real program structure by any means. Nor is it used in any meaningful way for budgeting purposes. Indeed, it is not really needed for the operations of grants-in-aid and selection of art, the activities with which the foundation is most concerned. Note the funding practice discussed in the next section.

Funding. That the structure serves no purpose, at least not for the purpose of focusing on the issues and policies and planning is further affirmed by the practice which is followed of shifting funds from one activity to another and from one category to another as suits the whim of the foundation. Thus, for instance, in fiscal year 1974-75, the dance presentation activity within the statewide dance category received \$3000 in additional funds by transferring to it \$1000 from dance workshops, \$500 from dance support, and \$1500 from another category. Other examples include the transfer of all of the \$1500 set aside for statewide theater presentations to other activities and categories and the transfer to fine arts presentation of funds set aside for arts festival, music support, crafts support, and design-photography support. These transfers have occurred as demands for funds have arisen in given areas as a result of applications for grants-in-aid.

Budgeting process. It is fair to say that the commission pays little, if any, attention to budgeting. Indeed, the foundation's budget is generally put together without any input by the commission members. The focus of the commission seems to be to ensure that grants are made and funds are expended. No thought is given to the more fundamental ends that the commission should be pursuing and how the funds should be allocated to achieve the missions of the foundation.

What Needs to Be Done *organize itself in such a manner as to enable it to focus on the mission*

It seems clear that, if the foundation is to fulfill the expectations of the legislature, it must begin to focus on the program issues in culture and the arts and not be content with simply making grants and selecting art for state buildings. It must begin to formulate programs which effectively stimulate the growth of art and artists.

The commission, being an appointed, noncompensated, lay body, cannot by itself be expected to search out program issues and plan the course of the culture and arts program. It must be supported by a staff sufficiently cognizant of the requirements for issue identification and policy planning. The present staff does not have this capability. The executive director is a professional in the field of art, as mandated by statute. It would seem that, if the commission is to get into policy-planning and to assume programmatic rather than or as well as operational tasks, it needs a staff skilled in management, administration, and program planning, as well as a staff knowledgeable of the arts. This is not to say that the executive director should not be a professional in the arts, although for reasons noted below, it would appear preferable that he not be such. It is merely to say that professional skills in the art must be complemented by skills in management, administration, and program-planning.

There can be a disadvantage in having the executive director be a professional in the arts. As will be noted in subsequent chapters, a professional can bring with him his personal biases on matters of art. Such biases tend to surface in the programs that the foundation undertakes and the projects it supports, principally because the lay commission cannot match the professional's skill in reviewing art in its many complex forms. One way to prevent the professional's personal biases to control the work of the commission is to make ample use of advisory boards and councils. However, as will be demonstrated, the potential input by such boards and councils has not been fully realized

in the case of the state foundation on culture and the arts. The reason for this has been the strong sense of professionalism of the executive director. This situation is not likely to change even if managerial skills are injected into the foundation staff, for the executive director will still retain supervisory authority. *professional in the field of culture and the arts*

When viewed in light of this, it would seem that, while the presence of professionals on the staff of the foundation may be desirable, such presence probably should not be manifested in the position of the executive director; that rather the executive director should be a manager supported by professionals in the arts. A person other than a professional in the arts in the position of executive director is more likely to achieve success in securing the input of professionals and lay persons outside the structure of the foundation.

It should also be pointed out here that the foundation does not have staff in sufficient numbers and with the appropriate kinds of skills to properly carry out its programs. As noted earlier, in addition to the executive director, the foundation has only one other professional position, that of an arts program specialist. A second arts program specialist position was established by the legislature in 1975, but as of December 31, 1975, it had not been filled. If the executive director is to develop plans, programs, and policies for the foundation, he himself must be supported by an adequate staff. This would include individuals who have experience and training in budgeting and other administrative matters as well as individuals who are trained in the arts. In the following chapters, we will point to some of the foundation's deficiencies in managing and monitoring its programs. These deficiencies can be attributed, in part, to inadequate staffing.

Recommendations

We recommend as follows:

Chapter 5

THE ART IN STATE BUILDINGS PROGRAM

The Art in State Buildings Law (HRS, section 103-8) is intended to foster general public appreciation of the arts and to develop Hawaii's artists and craftsmen. The law mandates that 1 percent of all appropriations for the original construction of any state building shall be set aside for the acquisition of works of art. Responsibility for implementing this program rests with both the comptroller (the director of the department of accounting and general services) and the state foundation on culture and the arts.

Works of art purchased under this program may be either attached to the new structure, within or outside the structure, or they may be works that can be exhibited in other public buildings. This has resulted in a two-pronged program: the commissioning of works of art for specific locations and the purchase of portable works of art that can be rotated and displayed in any public building.

Summary of Findings

In general, our findings are as follows:

1. There is little accountability on the use of the 1 percent deducted from appropriations for the construction of state buildings. Information on how much was set aside, how much was used, and how much has been accumulated for the purchase of works of art is not routinely reported to the legislature.

2. The statutory requirement that 1 percent of the appropriations for the construction of new buildings be set aside and spent for works of art has not been fully and uniformly followed. The calculation in determining what constitutes 1 percent differs from project to project; the 1 percent is not always automatically set aside; priority in the use of 1 percent of appropriation is not given to the new building from whose appropriation the 1 percent is deducted; the 1 percent funds are used for commissioning works of art in other than new buildings; and the 1 percent funds are sometimes used for purposes other than the acquisition of art for display purposes.

3. The commissioning of art work for permanent attachment to buildings is without input by the commissioners and the public, and the contracts for commissions are not effectively monitored and enforced.

4. Portable works of art are selected arbitrarily without policies and criteria for selection, resulting in heavy emphasis on the works of established, rather than aspiring, artists who are based on Oahu; the collection of portable art is without adequate inventory and records, making it difficult, if not impossible, to account for state acquisitions or to determine their whereabouts; portable works of art are displayed in a manner which does little to provide the public with an opportunity to view them; and there is no system for storing, repairing, otherwise caring for the state collection of portable art, and there are no plans

for the future use and disposition of the growing inventory of portable works of art.

Introduction

As the law is written, an appropriation for the construction of any state building includes an amount equal to 1 percent of the appropriation for the acquisition of works of art. Appropriations for the construction of state buildings are made by the legislature to numerous different agencies. With respect to the appropriations made each year to the department of accounting and general services, that department automatically "sets aside" on its books 1 percent of the total appropriated amount for the acquisition of works of art. The mere act of "setting aside" 1 percent of the total amount appropriated each year does not mean that the 1 percent is "available" for the acquisition of works of art.

The normal experience is that the legislature often authorizes construction projects in numbers and dollar amounts in excess of those which the State actually undertakes. This means that the executive exercises the prerogative of determining which and how much of the projects authorized will actually be implemented. Thus, although 1 percent of the total amount appropriated by the legislature for any given year may be "set aside," the 1 percent may not all be "available" for the acquisition of works of art. Only 1 percent of those appropriations for projects that are specifically authorized for implementation by the governor is actually made available for works of art.

Table 5.1 summarizes: (1) the total amount (1 percent) set aside by the department of accounting and general services on its books for the acquisition of works of art, for the years from 1967 to 1975; (2) the amounts lapsed, and the appropriations against which no allotment has been made but which remains potentially available; (3) the amount available as of November 30, 1975 for works of art on account of each year's appropriation;

(4) the amount actually spent or encumbered; and (5) the unexpended balance of the amounts available.

As shown, as of November 30, 1975, \$1,632,120 was spent or encumbered for works of art on account of the appropriations made in the years 1967 to 1975; \$1,535,973 remained available for use; and \$1,035,920 was potentially available.

It must be remembered that table 5.1 reflects information on only those appropriations made to the department of accounting and general services;¹ it does not include information on appropriations made to other state agencies. Thus, the amounts available and potentially available for use in the acquisition of works of art as of November 30, 1975 were probably greater than those shown in table 5.1.

One pertinent observation needs to be made before proceeding any further. The statute vests responsibility over the use of 1 percent funds in both the comptroller and the foundation. In actual practice, the comptroller plays but a nominal role in expending those 1 percent funds. Other than setting aside and making available the 1 percent funds, the comptroller tends to leave the actual commissioning and purchasing of works to the foundation. This is particularly true with respect to purchases of works of art. In the discussions which follow, the practices noted are generally those of the foundation. Nevertheless, as appropriate, we have named the comptroller as well as the foundation in our discussions and recommendations.

Accountability

The law on art in state buildings grants to the comptroller and the foundation wide

¹Our examination of the practices of capital improvement program expending agencies as they relate to the art-in-state-buildings program was generally limited to the department of accounting and general services, for it is the principal expending agency for the construction of state buildings.

discretion on how the funds made available for the acquisition of works of art are to be used. That is, the statute authorizes the comptroller and the foundation to use the amount of 1 percent of the amount appropriated for a construction project (as made available) to be used for works of art to be placed in, on, or integrated into the project or for works of art to be placed in other public facilities. It also empowers the comptroller and the foundation to accumulate any unused portions of funds made available and to expend them for works of art in other projects.

This discretion appears to be without sufficient checks. Under current practices, there is no mechanism for accountability of the funds made available for the acquisition of works of art—at least, there is no accountability to the legislature and the general public. Information on the amounts made available, the amounts

accumulated for future spending, and the amounts potentially available are not at present routinely compiled and supplied to the legislature.

Since the funds for the acquisition of works of art in state buildings are public funds, we see no reason why the information should not be routinely transmitted to the legislature. Indeed, such transmission of information appears necessary if the legislature is to make judgments about the art-in-state-buildings program. Judgments that the legislature ought to make include: the results being achieved by the program; the need or desirability of expanding, reducing, continuing, or discontinuing the program; and the adequacy or inadequacy of the 1 percent formula.

Information on the status of funding, together with a report on plans for the use of

Table 5.1
Summary of 1 Percent CIP Funds
Set Aside and Made Available for Works of Art
As of November 30, 1975

Year of appropriation	Act	Amount set aside	Lapsed	Appropriations not yet allotted	Amount available	Expended and encumbered	Remaining available balance
1967	217	\$ 274,344	\$ 87,373	\$ —	\$ 186,971	\$ 186,971	\$ —
1968	40	304,796	165,780	—	139,016	139,016	—
1969	155	552,636	69,346	—	483,290	483,290	—
1970	167	115,040	—	—	115,040	111,758	3,292
1970	187	501,630	—	12,950	488,680	262,156	226,524
1971	68	630,070	—	204,200	425,870)	—	—
1971	197	198,530	—	39,670	158,860)	365,836	416,334
1972	176	154,230	—	44,180	110,050)	—	—
1972	202	107,480	—	20,090	87,390)	—	—
1974	218	909,190	—	228,250	680,940	83,093	597,847
1975	3	30,840	—	30,840	—	—	—
1975	195	747,726	—	455,740	291,986	—	291,986
Total		\$4,526,512	\$322,499	\$1,035,920	\$3,168,093	\$1,632,120	\$1,535,973

Source: Cost ledgers and appropriation control ledgers of the department of accounting and general services.

accumulated funds, and a general inventory of the art works in the State's possession by art forms and other meaningful categories, should be a part of the foundation's budget submissions. This means that the foundation should keep a tab on all funds set aside and made available for the acquisition of works of art by not only the department of accounting and general services but by all agencies to which the legislature appropriates funds for the construction of state buildings.

Recommendation. *We recommend that the comptroller and the foundation submit to the legislature as part of its budget submission, information on the status of the 1 percent funds. The information at the minimum should include data on amounts made available for acquisition of works of art, the expenditures made, the amount of the accumulated balance of the funds, and the amount potentially available in the future.*

Statutory Violations

Statutes mandating state programs often require the establishment of administrative rules or guidelines for the consistent and effective effectuation of the intent of the statutes. The statute establishing the art-in-state-buildings program is one of these. However, since the enactment of the law, neither the comptroller nor the foundation has established necessary rules or guidelines. In this section we note some apparent violations or questionable applications of HRS, section 103-8, that are occurring. It appears that much of these illegal and questionable practices have arisen because of the lack of appropriate guidelines. A description of these practices follows.

Lack of uniformity in computing 1 percent of project costs. The statute states that 1 percent of the amount appropriated for any new construction project should be set aside for the acquisition of works of art. The computation of

this 1 percent, however, appears to differ from project to project, depending on the wording of the act appropriating funds for the project.

There are two ways in which funds are appropriated for construction projects. Under one form, the legislature appropriates separate amounts for (1) land cost, (2) design, and (3) construction. Under this form, the appropriation language typically reads as follows:

"Land acquisition, site preparation, design, construction and equipment and furniture of X school

land cost	\$ 50,000
design	10,000
construction	40,000

Total \$100,000"

The second form in which the legislature appropriates funds for projects is to appropriate a single amount for all phases of a project. In this case, the wording of the appropriation is typically as follows:

"for acquisition of land, design and plans, construction, site preparation, and equipment and furniture of X school

..... \$100,000."

When funds are appropriated in the first form, the practice of the department of accounting and general services is to set aside for the acquisition of works of art 1 percent of the amount specifically noted for design and construction. However, when funds are appropriated in the second form, the department sets aside 1 percent of the total figure. This varying treatment of the amounts appropriated for projects, we submit, is without justification. A uniform method of calculating 1 percent should be applied to all projects.

When the legislature provides a single amount to cover all phases of a project, the

department administratively would need to establish how much of it would be devoted to land cost, how much to design, and how much to construction. Thus, if 1 percent is to be calculated on the basis of design and construction costs rather than the total costs of the project, it is just as simple to apply that methodology to cases where all phases of a project are funded by a single sum as to cases where the various phases of a project are funded separately. Indeed, often the legislature appropriates a single amount to cover all phases of a project because it is without information at the time of appropriation as to how much each phase may cost.

***Recommendation.** We recommend that the department of accounting and general services develop a consistent method for computing the amount to be set aside from each capital improvement appropriation that can be used by all expending agencies.*

Failure to set aside 1 percent. The requirement that 1 percent of the appropriated amount for the construction of state buildings be set aside has not been consistently followed by state agencies to which construction funds are appropriated. The violations of statute here fall into two classes of cases: those involving agencies other than the department of accounting and general services and those involving the department of accounting and general services.

1. Agencies other than the department of accounting and general services (DAGS). As already noted, although generally DAGS is the expending agency for the construction of state buildings, there are other state agencies which also expend funds for state building projects. Unlike DAGS, however, these other agencies do not "set aside" 1 percent of the appropriated amounts for projects for which they are responsible, nor do they make available to the comptroller and the foundation for the acquisition of works of art 1 percent of the amounts appropriated for projects they actually undertake. Thus, many state buildings are

presently being constructed without the mandatory 1 percent having been set aside and made available for works of art. This is, of course, in clear violation of statute.

The department of transportation (DOT) is unique among these other agencies. According to the foundation, it is the only one of these other agencies that has made some attempts to comply with the requirements of the law. The DOT has made some funds available for the acquisition of works of art in several new state airport facilities. However, instead of following the DAGS' procedure of automatically setting aside 1 percent from each pertinent CIP appropriation, the DOT has made funds available only upon request from the foundation for specific works of art for an airport building.

The amounts that have been made available by the DOT fail to come close to the required 1 percent. For example, Act 40 of the 1968 legislative session appropriated approximately \$30 million for the construction of various airport facilities throughout the State. Of the \$30 million appropriated, approximately \$7.2 million was actually expended for the construction of airport buildings. To date, only \$4715, or .07 percent, of this total cost has actually been expended for works of art.

The failure of the other agencies to comply with the law can be attributed partly to the fact that the law places responsibility only on the comptroller and the foundation for administering the law and partly to the failure of the comptroller and the foundation, as administrators of the law, to establish rules for the guidance of all agencies to which funds are appropriated for the construction of state buildings.

***Recommendation.** We recommend that the comptroller and the foundation establish rules to ensure that all state agencies to which are appropriated funds for the construction of state buildings set aside and make available 1 percent of the amount appropriated for each building project for the acquisition of works of art.*

2. **DAGS.** The department of accounting and general services in its implementation of HRS, section 103-8, has sought to interpret the word "building" as used in the statute to mean office buildings, educational facilities, hospitals, and airports. It has generally excluded from the definition such state structures as warehouses, portable classrooms, gymnasiums, and quarantine stations. Thus, it has not in the past set aside 1 percent of the appropriated amounts for the construction of the latter classes of structures for the acquisition of works of art.

This practice surfaced into a controversy in 1973. The dispute ended in a court litigation. The controversy revolved around the construction of the Aloha Stadium. In response to a complaint that the state comptroller had failed to withhold 1 percent of the Aloha Stadium appropriations for works of art, the state ombudsman investigated the matter. In this investigation, the comptroller admitted that the stadium had never been considered as a state building.

Subsequently in June 1974, the Kalihi-Palama Culture and the Arts, Inc., filed a civil suit in the state circuit court against the state comptroller for his failure to allocate 1 percent from the stadium CIP appropriations. This suit ended in a judgment being rendered against the comptroller. The court ordered DAGS to allocate a sum equaling no less than 1 percent or an approximate amount of \$270,000 for the exclusive purpose of acquiring art either for the stadium or for other projects.²

It is evident, of course, that not all construction projects consist of "state buildings." Although, in the case of the stadium, its inclusion within the meaning of the term "state buildings" is clear, such may not be the case in other instances. It would appear useful for the guidance of all agencies to which construction funds are appropriated for a standardized definition of the term to be established.

Recommendation. We recommend that the comptroller and the foundation establish a standardized definition of "buildings" which can be followed by all affected state agencies. In formulating such a definition, the common meaning of the term should be adhered to.

Failure to give priority to buildings yielding 1 percent. The law appears to indicate that in the use of funds set aside and made available from an appropriation for a specific project first priority should be given to acquiring works of art for that project. This appears to be so, even though the statute grants discretionary authority to the comptroller and the foundation in expending funds for works of art. The pertinent part of the statute states that "if the amount shall not be required in toto or in part for any project, the unrequired amounts may be accumulated and expended for other projects."³

Notwithstanding this apparent intent of the statute, there have been numerous instances where buildings did not receive works of art although 1 percent of the appropriations for these buildings was set aside and made available for works of art. Funds yielded by these construction projects have sometimes been aggregated and used for works of art for other sites.

To illustrate, all or portions of the 1 percent of the CIP appropriations made over a three-year period for the construction of 62 new buildings, including some 47 schools, some occupational therapy centers, and some judiciary projects, were aggregated and used to purchase and install sculptures near the state capitol. Some of these projects subsequently received works of art. However, other projects from which these funds were taken that did not receive works of art include:⁴

²Kalihi-Palama Culture and the Arts, Inc., v. Kenam Kim. Circuit Court of the First Circuit, Decision and Order Granting Plaintiff's Motion for Summary Judgment, January 30, 1975.

³HRS, section 103-8.

⁴See state foundation for culture and the arts, *Art-in-State-Buildings Statewide Base Plan*, July 29, 1974, pp. 28-29.

Aiea intermediate
 Ewa Beach intermediate
 Enchanted Lake elementary
 Kalani high
 Kalihi-waena elementary
 King intermediate
 Manana elementary
 Heeia elementary
 Kaiulani elementary
 Lanakila elementary
 Mokapu elementary
 Palisades elementary
 Palolo elementary
 Royal elementary
 Roosevelt high
 Waipahu elementary
 Waipahu 3 elementary
 Waipahu 4 elementary
 Waipahu intermediate

This practice of aggregating funds for a single work of art appears to be in violation of the spirit, if not the letter, of the law. A recent opinion of the office of the attorney general noted the apparent illegality of this practice. In referring to the statute, the opinion stated:

"We view the above language as expressing the Legislature's intent that the one percent set aside from each appropriation for the original construction of a State building should be used to purchase works of art for *that particular building* It is *only when the amount shall not be required* in toto or in part for any project that the unrequired amounts may be accumulated and expended for other projects."⁵ [Emphasis added.]

Of course, the statute does not rule out the use of funds, in whole or in part, for works of art for projects other than the one yielding the funds. It only requires that first priority be given to the project in question. It authorizes the comptroller and the foundation to use all or part of the funds "not required" for the project in question for other projects. However, in the

cases cited above, it does not appear that the comptroller and the foundation made any effort to determine the need for works of art for the projects from which the 1 percent funds were taken for other projects. The actions of the comptroller and the foundation in the cases cited appear to have been purely arbitrary. Indeed, the comptroller and the foundation have set no guidelines or criteria by which they can determine the need or requirements for works of art in new projects.

Recommendations. We recommend that:

1. *In consonance with statute, priority for works of art be given to those new buildings yielding 1 percent; and*
2. *The comptroller and the foundation develop guidelines and criteria for determining the requirements for works of art in state buildings.*

Use of 1 percent funds for permanent works of art in nonqualifying structures. The attorney general has held consistently that works of art which are an integral part of a structure (as contrasted from portable works of art) should only be commissioned for facilities under construction. In an early interpretation of the law, the attorney general ruled that:

"... If the Comptroller and the SFCA decide that 'no works of art' shall be acquired for the particular State building under construction, then the amount set aside may be accumulated and expended for acquisitions for other State buildings *under construction or to be constructed*."⁶ [Emphasis added.]

⁵Memorandum to the state comptroller, from a deputy attorney general, June 24, 1975.

⁶Letter to the director of the department of planning and economic development from the deputy attorney general, September 19, 1968.

In this opinion, the attorney general noted that "it is possible to benefit state buildings already constructed under section 2 of Act 298 which permits the acquired 'works of art' to be 'exhibited in other public facilities.'" Then, in 1972, the attorney general stated:

"Section 103-8 provides that the works of art to be acquired 'may be an integral part of the structure, attached to the structure, detached within or outside of the structure, or can be exhibited in other public facilities.' We believe that the word 'structure' has reference to the term 'state building' as used in the same sentence. Accordingly, it appears that the work of art is to be acquired for the particular state building *proposed to be constructed*, although acquisition for purposes of exhibition in other public facilities is also allowable."⁷ [Emphasis added.]

It appears quite clear from these two opinions that portable works of art can be acquired for exhibition in established buildings; however, works of art that become an integral part of a building are limited to those facilities that are either proposed to be constructed or are in the process of being constructed.

Despite these two opinions, the comptroller and the foundation have expended 1 percent funds to commission works of art for permanent attachment to buildings already in existence. For example, in 1975, \$6000 was paid for a baked enamel mural at the Manoa Library which last received CIP appropriations in 1964. The \$6000 was drawn from other projects. For this expenditure, the comptroller requested the opinion of the attorney general as to its legality. The attorney general replied that, "... money set aside under Section 103-8 should not be used at Manoa Library. . . . Manoa Library would not qualify as an 'other project', since it is an established, rather than a planned facility."⁸

Works of art for the Kaimuki Regional Library and the Waikiki Aquarium, both established facilities, were also commissioned. Again, the funds for these were drawn from the 1 percent yielded by new construction projects.

While it may be desirable to commission works of art for permanent attachment to existing facilities, unless and until the statute is amended, the expenditure of the 1 percent funds in this manner is illegal.

Recommendation. *We recommend that the comptroller and the foundation comply with the law by placing permanently installed works of art only in new structures.*

Use of 1 percent funds for purposes other than acquisition of works of art. The 1 percent deducted from the sums appropriated for the construction of state buildings is supposed to be used exclusively for the acquisition of works of art. However, this has not always been the case. The funds have sometimes been diverted to purposes other than the acquisition of works of art.

1. For construction. Sometimes the 1 percent funds have been used to cover cost overruns in the construction of buildings. Table 5.2 illustrates some of the instances when the department of accounting and general services has dipped into the 1 percent funds to cover the costs of constructions.

2. For grants. In recent years, the 1 percent funds have increasingly been used for what are known as "relocatable commissions." These commissions are awards granted to artists, not for creating permanent works of art for particular state buildings nor for portable works of art alone, but for enabling the artists to undertake personal projects. In essence, these commissions are "grants-in-aid."

⁷ Memorandum to the executive director of the foundation, from the deputy attorney general, June 14, 1972.

⁸ Memorandum to the comptroller, from the deputy attorney general, June 24, 1975.

Table 5.2
Examples of the Use of the 1 Percent Funds
For Construction Costs

<i>Building project</i>	<i>Amount set aside</i>	<i>Amount used for construction</i>
Kapunahala elementary school, Planning and construction of administration building and library	\$1,930	\$1,422
Hotel - restaurant facilities, Kapiolani community college	1,200	594
Hawaii Kai high and intermediate school	1,130	1,130

In 1974, four such commissions were awarded and, in 1975, ten were granted. The grants included those for works of art but also grants to support research, writing, painting, travel, taping commentaries and chants, and consulting all unrelated to the art-in-state-buildings program. The following are some examples of these grants.

- \$14,400 to undertake 12 paintings of little-known persons, places, and incidents in the island's history and to do research and writing and packaging of the paintings and printed text.
- \$10,000 to a photographer for two sets of 200 color slides and 25 color prints of scenic, cultural, historic, and scientific interest, together with taped commentaries and Hawaiian chants.
- \$2500 to the same photographer for two sets of 12 color slides and 12 color prints of the ocean, together with taped commentaries and Hawaiian chants and tapes, and to serve as a consultant to the Committee for Hawaii Environmental Awareness and Public Education.
- \$1,670 for 30 black and white photographic prints and 500 copies of a brochure. This grant was later

supplemented by an additional \$125 to offset increased costs of film and for travel.

\$750 to underwrite costs for a photographic exhibition, including costs for the film, equipment rental, transportation, meals, and per diem.

These activities supported by the grants may very well be deserving of such support. However, the use of capital improvement funds as grants-in-aid to certain artists is not in keeping with the statute on the art-in-state-buildings program.

Recommendation. *We recommend that the comptroller and the foundation cease diverting the 1 percent funds for purposes other than the acquisition of works of art.*

Commissioned Works of Art

Table 5.3 shows the growth in the acquisition of commissioned and portable works of art. As used in this report, "commissioned works of art" are works of art placed on, in, or integrated into a structure being built; and "portable works of art" are works of art which can be readily transported from one place of exhibit to another. In the administration of both commissioned and portable works of art, the performance of the comptroller and the foundation has not been adequate. Operations have not been directed towards achieving the purposes of the art-in-state-buildings program. In this section we note the operational deficiencies in commissioned works of art. In a subsequent section we observe the deficiencies in the area of portable works of art.

In examining the management of commissioned works of art, we reviewed a sample of the commissions awarded in 1971-72. That time period was chosen to allow sufficient elapsed time for us to follow the sample through from the inception of each commission to its completion. We also sampled

Table 5.3

**Expenditures for Art-in-State-Buildings Program
As of November 30, 1975**

Year	DAGS				DOT		Total	
	Portable works of art ¹		Commissioned works of art		Commissioned works of art			
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1969			7	\$ 58,000			7	\$ 58,000
1970	27	\$ 27,201	6	37,910			33	65,111
1971	116	53,132	18	157,893	6	\$ 75,325	140	286,349
1972	215	104,513	17	149,032	5	122,550	237	376,095
1973	245	93,956	22	344,640	5	100,000	272	538,597
1974	118	53,738	21	134,664			139	188,402
1975	182	113,520	22	229,500	2	42,500	206	385,520
	903	\$446,060 ²	113	\$1,111,639 ²	18	\$340,375	1,034	\$1,898,074

¹Includes relocatable commissions.

²DAGS' cost ledgers show total ASB expenditures and encumbrances of \$1,632,120 while the foundation's shows \$1,557,699 (\$446,060 + \$1,111,639). This discrepancy of \$74,421 is not accounted for by the foundation's inventory.

some recent contracts in order to determine if the problems found in the 1971-72 sample are still prevalent, and, indeed, we found that they are. We describe the deficiencies below. Before doing so, however, we describe the established procedure for commissioning works of art which is supposed to be followed.

The commissioning process. The commissioning procedure established by the comptroller and the foundation for commissioning works of art is as follows:⁹

1. A project advisory panel is created for each new building. This panel is chaired by the highest officer of the user agencies and is composed of the project designers, representatives of the user agencies, and the community.

2. The panel decides if a commission is needed, what it should be like, and which artists

could execute such a work. It then makes its recommendations to the foundation.

3. Recommendations are reviewed and final approval is given by the comptroller and the foundation and they enter into a contract with the artist. The contract with the artist calls for the following phases of work with progress payments at the completion of each phase:¹⁰

Conceptual phase — Site investigation, visual site survey, and a characterization report which is a written outline describing the work of art, together with a site plan, which is to be submitted to the comptroller

⁹ See *State Foundation for Culture and the Arts Annual Report, 1973-1974*, p. 26.

¹⁰In fiscal year 1974-75, a mobilization phase was added between the design and construction phases which regrouped certain aspects of both phases.

and the foundation for approval. Five percent of the total cost of the project is paid upon completion of this phase.

Design phase — Submission to the comptroller and the foundation of preliminary and final scale drawings; studies to determine safety factors, resistance to climate, compatibility with the master plan, maintenance, and completion of the project for the amount specified; installation plans; specifications showing final location, support, size, form, structure, materials, colors, and finishes. After approval of this phase, no substantial changes may be made to the work of art without the written approval of the comptroller and the foundation. Forty percent of the total cost, less the previous payment, is paid upon satisfactory completion of this phase.

Construction phase — Submission to the comptroller and the foundation of a production program and schedule describing the material to be used, where the material is to be purchased, the subcontractors to be used, and the work schedule; fabrication of the work of art; inspection by the comptroller and the foundation; and finishing of the work. Seventy percent of the total cost, less all previous payments, is paid upon satisfactory completion of this phase.

Installation phase — Installation, anchoring, and securing in place of the work of art; and finishing of the site work. One hundred percent of the total cost is paid on completion of this phase.

Although the above is the declared procedure, the actual practice does not always follow such procedure.

Circumventing statutory intent in the commissioning process. The statute provides that the selection of the artist and the review of the design and the execution, placement, and

acceptance of works of art shall be the responsibility of the comptroller and the foundation. By this, the legislature intended that the members of the commission would actively participate in the process. The legislature stated that the commission was to "have one vote on the committee *in lieu of its director*."¹¹ [Emphasis added.] To increase input into this process, the comptroller and the foundation can, as needed, have individuals and organizations serve in an advisory capacity to them.¹² This legislative requirement is not being followed:

- Instead of the commission, the primary decision-maker in the commissioning process is the executive director, and
- There is no meaningful community input as the project advisory committees are not given any clear-cut responsibility.

1. Lack of input by comptroller and commissioners. Contrary to statutory intent, the executive director, rather than the commissioners, is the central figure in the commissioning process. In the process established by the comptroller and the foundation, the commissioners are supposed to participate when the project advisory panels deliberate, and the commissioners are supposed to review, along with the comptroller, the recommendations of the project advisory panels. However, in practice, the roles of the comptroller and the commissioners have been superficial. Five commissioners have never participated in any project advisory panels, and two commissioners have participated in only one each. Only the two neighbor island representatives have sat on several panels with respect to commissioning works of art on their respective islands.

¹¹House Standing Committee Report No. 695, 1967, on H.B. No. 859.

¹²Senate Standing Committee Report No. 921, 1967, on H.B. No. 859.

There is almost never any formal contact between the comptroller and the commissioners and the project advisory panels, or between the comptroller and the commissioners and the artists. Interviews with commissioners reveal that some of them are even unclear as to how commissioned projects are initiated. Some believe that all new buildings are getting works of art and that the executive director works with the project architects and the advisory panels in deciding on works of art. To date, the comptroller's and the commission's primary responsibility in this matter has been the giving of formal approval for the final selection of the artist and the issuing of a contract.

It is usually the executive director who takes the lead in the selection of the artists and in the managing of the contracts with the artists. It is he who participates on the project advisory panels. It is through his efforts that the panels are organized and panel chairmen selected. Although he may have no vote on the panels, the executive director is instrumental in recommending the artists, determining the types of art, and setting the costs of the commissioned works.

2. Lack of input by the community. The role of the project advisory panels is vague and their involvement is often less than meaningful. For example, a principal of a school was asked to chair a project advisory panel for a commissioned art project. However, an out-of-state artist had already been selected before the organization of this panel. In response to the principal's request for some guidelines as to the functions of the panel, the executive director noted that the role of the advisory panel was essentially one of being a source of information and responding to the artists' proposals, as well as being the recipient of direct information on the progress of the works to share them with the public. However, upon the completion of the project, the principal remarked in a letter that the panel had no function, that it was never consulted and never had the opportunity to make recommendations, and that the

acceptability of the completed work of art by the people in his community was open to question.

The importance of community involvement in the selection of works of art has been emphasized by the National Endowment for the Arts. The director of the visual arts programs of the National Endowment for the Arts has stated that local communities must be given an opportunity to debate the merits of a work of art and to prepare themselves for works which they commission for themselves, that the criterion for success is not the production of a work of art but the degree to which the work enters into and enriches the life of the community.¹³

It is exactly this type of public participation which is being omitted from the commissioning process. Although contract agreements with the artists call for discussions between the artists and the project advisory panels on the scope, size, nature, symbolic meaning, and aesthetic purpose of the work of art, we find that this is sometimes overlooked.

Recommendations. We recommend that the comptroller and the commission:

1. Take a more active part in the commissioning process, as intended by statute.
2. Develop policies and guidelines clearly delineating the functions and responsibilities of project advisory panels so as to maximize public participation.

Nonenforcement of contract terms. Both the comptroller and the foundation have been lax in administering the terms of commission contracts and in monitoring progress. We note such laxity in two areas, as follows:

¹³ O'Doherty, Brian. "Public Art and the Government: A Progress Report," *Art in America*, 62:44-9, May 1974.

1. Submission of documentation.

Commission contracts invariably call for the submission by the artists of a characterization report, design presentation, and production program and schedule. These documents are to assure that the comptroller and the foundation get what has been contracted for within the time promised. However, very little effort is expended to ensure that these documents are submitted as required.

Table 5.4 shows the lack of documentation in the 17 commission contracts that we reviewed. There are no characterization reports in the contract folders for three of the commissions, design presentations are missing for nine, and production program and schedules are not available for any of the 17.

The most important of all these documentations is the design presentation. It is supposed to be submitted before the actual construction of the work contracted for and to reveal what the work of art is supposed to look like. Without the submission of the design presentation, there is no way of telling whether the design of the work is adequate, whether any changes have been made in the final design of the work of art, and whether the final product meets the desired specifications and requirements. The consequence of the failure to insist on adherence to this requirement for submission of a design presentation is illustrated in the following example.

A contract was awarded for a stainless steel sculpture to be placed in an outdoor setting at a new building at the university of Hawaii. According to the terms of the contract, studies should have been made during the design phase to ensure that the work would be safe and resistant to weather. However, when the sculpture was completed, it was discovered that it was structurally deficient and it could not safely withstand the wind without additional reinforcement of the sculpture. This, the artist felt, would destroy visually the sculptural concept. Consequently, it has not been possible to install the work at its intended location.

2. *Delays in the progress.* In order to effect the timely completion of commissions, each commission contract contains the following provision:

"The work on the Project shall commence immediately after signing of the agreement by all parties concerned and shall be pursued with reasonable dispatch and without interruptions, except when caused by strikes or other forces beyond your control. It shall be organized as to assure completions of the Project on or before the date stated in the agreement." [Emphasis added.]

Table 5.4
Reports Submitted by Artists for a Sample of
Commissions Awarded in 1971-72

Artist contract number	Characterization report	Design presentation	Production program and schedule	Specifications and cost
2268	x			x
2171				x
2816	x			
3230	x	x		
2169	x			x
2170	x			x
2397				
1741	x	x		x
2378	x	x		
2120	x			x
2379	x	x		
2076	x	x		
2100	x			
2403				
1948	x	x		x
2153	x	x		
2953	x	x		x
	14	8	0	8

Despite this clause, there are frequent delays. Table 5.5 shows the extent of delays in the 17 commissions sampled. The foundation allots an average of 11 months for the completion of a commission. However, the average completion time is actually 23 months, or more than double the scheduled time. The projects take, on the average, a year longer to complete than the original contract completion date. Some projects take considerably longer than that. Three projects took over three years longer than their scheduled duration and, of these, two are still incomplete. Two others took more than two years longer.

Table 5.5
Difference Between Scheduled and Actual Completion Times
For a Sample of Commissions Awarded During FY 1971-72
(As of December 31, 1975)

Commission		Number of months		
Contract number	Cost	Scheduled completion	Actual completion	Difference
2268	\$ 3,000	7	49*	+42
2171	4,000	10	3	- 7
2816	5,000	7	21	+14
3230	5,000	5	4	- 1
2169	6,000	9	8	- 1
2170	6,000	7	8	+ 1
1741	7,500	16	17	+ 1
2378	7,500	17	16	- 1
2397	8,500	13	41	+28
2120	12,000	13	12	- 1
2379	12,500	6	42	+36
2076	12,500	10	49*	+39
2100	18,000	13	13	0
2403	18,000	10	12	+ 2
1948	25,000	7	36	+29
2153	37,930	13	18	+ 5
2953	42,120	26	38	+12
Average no. of months		11	23	12

*Incomplete as of December 31, 1975.

These delays occur partly because the schedules originally determined have no realistic basis, but they occur in a large measure because of the foundation's laxity in supervising the progress of the commissions. An illustration of an unreasonable initial scheduling is the following. An artist was given a six-month schedule to complete his work. However, the artist could not complete his work, as the building in which the art was to be installed was still under construction. The delay resulted in a cost increase in the contract.

Illustrating the failure to monitor progress is the following. A contract was awarded for a concrete and ceramic sculpture on December 1, 1971. The artist did not complete the conceptual phase until June 1973. No progress was made between June 1973 to December 1974, a period of 18 months. Instead of diligently monitoring the project to see what was causing the delays, the foundation freely granted two time extensions to the artist. Furthermore, the artist asked for a price increase of \$2500 due to increased materials and especially subcontractors' prices. He stated that without the price increase he would have to redesign the work as a smaller piece of sculpture. Subsequently, it took the artist only a little over a month to construct and install the work and an additional three months to make certain adjustments to complete the work. If the contract had been administered conscientiously, the delay and the extra cost might not have been incurred.

In this connection, we note that time extensions are freely granted. They are granted without written requests from the artists and even when no reasons are given for the requests.

Recommendation. We recommend that the comptroller and the foundation monitor closely the progress of commissions to ensure that all terms of the commission contracts are met and the work required is completed as scheduled, except for valid reasons.

Improper payments. Payments for commissioned works of art have not always adhered to requirements.

1. Improper certification of progress payments. Payments under the commission contracts are supposed to be made only upon satisfactory completion of each of the designated phases. The artist is supposed to certify that the phase has been completed and approved in accordance with the contract and to submit a signed request for payment. There is a standard payment request form for this purpose.

It is the practice of the foundation to forward a set of the blank payment request forms to the artist and to have him presign and return all forms. As word is received that specific phases are completed, the foundation completes and predates the form and processes the progress payment. This practice is contrary to good management principles. It provides an opportunity for the artist falsely to certify that he is meeting the terms of the agreement.

2. Improper advances. Each commission contract holds the artist responsible for all expenses incurred in the work of art. The contract reads:

"... From the above amount, you shall arrange and pay, or otherwise provide for all services for the design and design presentation; labor, materials and equipment for the fabrication and installation; travel and shipment; fees, rentals, insurances, and taxes, and all other costs and expenses required to complete the project in place to the satisfaction of the SFCA."

The contract has no provision for either advance payments or for assistance by the State with the purchase of materials and supplies. However, in order to help artists who are in need of financial assistance, occasionally, the foundation makes advance payments before performance of work in order to provide the

artists with the necessary working capital. This is, of course, contrary to the contractual intent.

The foundation also purchases materials and supplies for artists on a reimbursable basis. The foundation makes these purchases through its general operating funds. The costs of these purchases are not charged against the commissioned work and are not deducted from the progress payments made to the artists. It is expected, however, that the artists will reimburse the foundation when the full contract price is paid upon completion of the project. This practice of purchasing materials and supplies for artists is not proper. There is probably some justification for the foundation's purchasing materials and supplies for artists on a reimbursable basis, but the foundation does not properly account for such expenditures. *First*, it does not budget these expenditures so such expenditures affect other programs if the artists fail to reimburse the foundation. *Second*, the foundation does not maintain proper records of the reimbursable purchases, making it difficult to determine whether reimbursements have in fact been made. The only record the foundation has is the purchase orders processed by DAGS. The following example illustrates the problem.

On December 17, 1973, a contract was let for a pair of ceramic murals costing \$5600. On February 20, 1974, a purchase order of \$863.42 was issued for the purchase of materials and supplies on a reimbursable basis. When the first progress payment of \$2800 was processed on March 18, 1974, the artist reimbursed \$400 of the \$863.42. The project was completed, and the final payment of \$2800 was made on September 20, 1974. The balance of the \$863.42, being \$463.42, was not deducted from this final payment. Over a year has elapsed since the completion of the project, but there is no evidence that the \$463.42 has been repaid.

Recommendations. We recommend that the foundation:

1. Make no advance payments under commission contracts unless such advance

payments and the conditions under which they may be made are properly set forth in the commission contracts.

2. *Establish proper procedures, records, and methods of control in making purchases of materials and supplies for artists under contract on a reimbursable basis.*

Inadequate inspection and acceptance of commissioned works of art. The statute places the responsibility for inspection and acceptance of commissioned works on the comptroller and the foundation. In practice, there is no established procedure for the acceptance of commissioned works of art. It appears that final inspections after the construction and installation phase are made by various people: representatives of DAGS, the user agency, the project advisory panel, and the executive director. However, it appears that such inspections are not made for all commissioned works. Final payments are nevertheless made to the artists. For example, a final payment for the \$20,000 outdoor stainless steel sculpture at the university of Hawaii, described earlier in this chapter, was made even though the sculpture could not be completed by being safely installed in the intended location. The sculpture at present sits in a conference room on the top floor of the new building. Moreover, the base of the work had to be cut in order to move it to that temporary location.

Recommendation. *We recommend that the comptroller and the foundation develop procedures to ensure proper inspection and acceptance of works of art and that final payment not be made until the work is satisfactorily completed and installed.*

Portable Works of Art

The administration of portable works of art has been erratic at best, with no purposeful direction. Although the State has acquired over 900 pieces of portable art,¹⁴ the program still lacks guidelines and policies for the selection of

works of art. It also lacks proper care, exhibition, and maintenance of the collection. The entire responsibility for management of the collection has been delegated to a part-timer working 15 hours a week. Thus, the functions of registration, identification, inventory, cataloging, display, and maintenance of the State's art collection have not been adequately performed. In the paragraphs that follow we describe the deficiencies in greater detail.

Selection deficiencies. The effectiveness of selections of portable works of art depends on the purposes to be served. For example, if the aim is to enhance state buildings, then the selection is made with an eye towards its suitability for display in public buildings; if the purpose is to help developing artists, then the quality of the immediate work of art or its suitability for particular locations becomes less important than the promise that it shows; if the goal is to expose the public and foster appreciation for art, then the focus is on the educative value of work of art and its power to stimulate responses from the general public. The relative importance of these and other objectives should be clear to those responsible for selecting art for the State, and the expenditures of funds should reflect these purposes.

1. **Arbitrary selection.** The foundation has not articulated what it sees as the purposes served by the portable works of art program. Commissioners acknowledge that they have no policies or criteria for the selection of art and that decisions are made quite arbitrarily. In the absence of direction, what is found is random purchasing that meets the preferences of the moment.

The selection of portable art is supposed to follow the following procedure:

¹⁴The collection includes paintings, ceramic pieces, sculptures of varied materials, woodwork, batiks, photographs, prints, weavings, etchings, lithographs, collages, quilts, and other assorted art media.

Works of art are previewed by the foundation's executive director and the visual arts subcommittee comprised of four commissioners. Other commissioners are also encouraged to participate. Selections are made primarily from public, juried exhibitions.

The subcommittee makes recommendations to the rest of the commissioners who see either the work or a picture of the work before deciding on the purchase.

All purchases are made on the unanimous vote of the commission.

In practice, however, commissioners do not participate actively in the selection of art. In the preview phase, generally, only the executive director and one member of the visual arts subcommittee appear to participate. Two of the members of the subcommittee live on the neighbor islands. Most art exhibits are on Oahu. The two commissioners conscientiously attend showings whenever possible, but their attendance is generally possible only when they are in Honolulu for the bimonthly meetings of the commission. One of the remaining two members of the visual arts subcommittee is inactive in foundation activities. This leaves only one commissioner as an active participant in the selection of art. While other members of the commission are asked to participate whenever they can, they do so only infrequently.

In the second phase where the commission, as a body, is supposed to review the recommendations of the visual arts subcommittee, the commission rarely sees the work or a representation of the work recommended for purchase. Rather, the executive director only offers a brief description of each piece. After all the pieces listed on the agenda are thus described, the commission gives a perfunctory approval for purchase. Thus, in effect, the actual selection of portable art is made by very few individuals. This is contrary to the intent of the statute to secure a pluralistic

input in the selection of art. Indeed, it appears that, as a result of this procedure in the selection of art, the balance and variety in the art selected have been affected, as will be noted in the subsequent sections.

2. Concentration of purchases from established artists. At present, 425 artists are represented in the state art collection. However, the bulk of the money expended for art purchases appears to flow to a few established artists. For example, the foundation has expended over half of its art-in-state-buildings funds, or over \$1 million, on works produced by less than 5 percent of the total number of artists represented in the collection, or 21 artists.¹⁵

Except in a few cases, the substantial sum expended for works of this limited number of established artists represents payments not for one or two major works of the artists but for a number of works. The average number purchased from each artist in the top 5 percent is six works of art; whereas, the average for all artists in the collection is 2.4 works of art.

This support of a limited number of established artists has been criticized.¹⁶ One of the purposes of the art-in-state-buildings program is to encourage developing artists. By concentrating on works of art of a few established artists, this purpose is not being fulfilled.

3. Concentration of purchases on works of artists on Oahu. The art-in-state-buildings program is supposed to create opportunities for artists throughout the State. However, the foundation concentrates on supporting artists situated on Oahu. Table 5.6 shows the expenditures made for purchases of art, by islands, during the past three years. As shown, in the last three years, on the average, 79 percent of all expenditures were made for works of art

¹⁵This includes expenditures for both commissioned works of art and portable works of art.

¹⁶Iwasa, Warren. "Plugging Local Artists," *Hawaii Observer*, November 29, 1974.

Table 5.6

Purchases of Portable Works of Art
By Island and Out-of-State
Fiscal Years 1972 - 1975

Year	Oahu		Hawaii		Maui		Kauai		Out-of-state		Total
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
1972-73	\$74,750	(89.2)	\$8,750	(10.4)	\$330	(.4)	-	-	-	-	\$ 83,830
1973-74	49,490	(91.3)	3,095	(5.7)	-	-	-	-	\$ 1,600	(3.0)	54,185
1974-75	57,560	(63.3)	8,750	(9.6)	9,000	(9.9)	\$625	(.7)	15,050	(16.5)	90,985
Total*	\$181,800	(79.3)	\$20,595	(9.0)	\$9,330	(4.1)	\$625	(.3)	\$16,650	(7.3)	\$229,000

*The total dollar amounts do not coincide with those in table 5.3, as the source for that table includes added costs such as taxes and framing and is incomplete in other respects.

of artists on Oahu. For the single fiscal year 1972-73, the percentage was 89, and in 1973-74, it was 91. The decline in 1974-75 to 63 percent was due primarily to purchases of out-of-state art totaling \$15,050. Note that these out-of-state purchases were for works of art of established artists, not new artists. The \$9000 expended on Maui in 1974-75 was for a single work of art--again by an established artist living on Maui.

4. Purchases from art galleries.

Forty-two percent, or nearly half, of the expenditures made for works of art in 1972-1975 were made at art galleries. These galleries charge commissions ranging from 33-1/3 percent to 50 percent of the purchase price. This heavy buying of works of art from art galleries accentuates the emphasis on purchasing art works of established artists and on acquiring works of art of artists on Oahu. *First*, art galleries generally exhibit the work of artists with established credentials. Further, opportunities for exhibition are limited. Generally, on the average, one exhibition per month is mounted, and these are usually one-man shows. *Second*, the art galleries are concentrated on Oahu. Thus, artists, particularly those who are young and from the neighbor islands, have very little opportunity to have their works of art exhibited at the art galleries.

By concentrating on purchases from art galleries the foundation provides minimal assistance to young artists and artists on the neighbor islands.

Recommendation. *We recommend that the foundation:*

1. *Establish criteria for the selection of art that are consonant with the objectives of the art-in-state-buildings program;*
2. *Develop and follow procedures for the selection of art that would ensure pluralistic input into the selection process; and*
3. *Create opportunities for the support*

of young artists and neighbor island artists by facilitating the exhibition of works of young artists and by making more purchases on the neighbor islands.

Deficiencies in records management. The state art collection is in dire need of professional supervision and care. A systematic approach is needed to ensure proper inventory, registration, and records management for the growing collection.

1. Absence of a complete inventory. As a public agency, the foundation should be able to account for its expenditures and should have in its possession a master list which shows the acquisitions from year to year and in toto. However, there is no one accurate or complete list of the State's works of art. In order to gather such a list, we had to compile information from three main sources:

- *The Detailed Program and Budget Plan Art in State Buildings Program (DPBP).* This is an irregularly issued, cumulative listing of acquisitions by school districts and by building category, i.e., schools, university, office buildings, transportation.
- *The DAGS computer printout of Detail Inventory of Property,* which is based on information submitted by the foundation as required by HRS, section 106. The listing is arranged alphabetically by the title of the art work and then by island.
- *The master card file at the foundation.* This file is arranged by the name of the artist and includes a picture of the work. It provides information on the purchase price, year of purchase, source of purchase, and its past and present locations.

Of the three sources, the DPBP's list is probably the most complete. The annual inventory submitted to DAGS by the foundation is supposed to be a full and true statement of property belonging to the State; however, a cross-check between the 1975 DPBP

st and the 1975 inventory shows a total of 162 works of art missing from the inventory, or 17 percent of the portable works of art. This far exceeds any reasonable margin of error.

The master card file is similarly incomplete, but for the works of art that are included in the file, the file contains the most information about the works of art and is the most accurate source for locating works of art. The foundation also has location sheets which are supposed to show, by agency, where each work of art is located. However, these are hopelessly inadequate. When we undertook a physical inventory of some of the works of art on Oahu, we found numerous discrepancies between the location sheets and the actual locations. These discrepancies had to be reconciled using the master card file.

2. Poor registration practices. The foundation is in need of a sound registration system for the collection of art. A sound registration system serves as the basis for inventorying and identifying works of art. The present registration procedures are unsystematic and lack rationale. This is seen in the numbering of works of art.

The numbering system for registering works of art should give some indication of when each work was acquired, clearly identify the work, and be consistent. However, the numbers assigned to works of art vary from list to list. Numbers assigned in the card file are different from those in the printout inventory, and these, again, are different from those on the DPBP list. Further, the purchase dates for specific pieces of art are not consistent from one record to another. For example, 14 oils by Herb Kane are listed in the master card file as having been acquired in 1973, while they are shown on the DPBP list as having been acquired in 1971 and 1973. There is also confusion among the lists as to whether the calendar or fiscal year is used. Recorded purchase prices also vary from list to list. One source might include the cost of framing and taxes, while another would not.

Then there is no system for deleting works of art from the record. For example, "Vision II," a clay sculpture which was destroyed in 1972, one month after it was placed on display, is still being listed on the annual printout inventory. Furthermore, the card file shows it as having been rotated after it was destroyed.

Most importantly, the kinds of data that need to be recorded are not standardized and conscientiously maintained. For example, although the cards in the master file contain an entry for information about the dimensions of a work of art, this information is not always noted. Also, information about the materials used in the work, which is vital for maintenance or repair, is absent.

Recommendation. *We recommend that the foundation develop and implement systematic procedures for the inventory and registration of works of art and for recording all the other information that is needed for proper management and control of the state collection of art.*

Inadequate display and maintenance practices. The foundation's policy for displaying works of art, adopted in May 1973,¹⁷ provides that new acquisitions be displayed at three-month intervals at the lieutenant governor's office and state agency personnel be invited to these showings to select works of art that would be appropriate for their facilities. The portable works would then be circulated among all state buildings in order to expose the general public to a variety of art work and to stimulate appreciation for art.

This procedure is not always followed. Further, the foundation's supervision of the display of works of art is seriously deficient. Finally, the collection is not exhibited in a manner as to increase public exposure and appreciation for the arts.

¹⁷ Foundation minutes of May 10, 1973.

1. No guidelines for installing works of art. The portable works of art are circulated in a haphazard manner. *First*, notwithstanding the foundation's policy, not all works of art go to the lieutenant governor's office for initial exhibition and not all agencies are invited to select works of art at the quarterly showings.

Second, there is an entire lack of communication between the foundation and state agencies concerning how works of art may be requested, how they may be returned, and what is expected of the agencies receiving works of art for display. Some agencies have not heard of the art-in-state-buildings program. In some other cases, the agencies do not know how works of art in their offices got there and don't know to whom they should be returned. In most cases, once an art work has been installed in an office, the foundation makes no subsequent contact with the agency. For example, works were installed at the university of Hawaii chancellor's office in July 1973. Since then, the office has received no contact from the foundation at all. Thus, not knowing how to get rid of works of art placed in their offices, some agencies have been storing or laying aside those works of art that they either dislike or find unneeded. In our sample of 440 works of art, we found 12 works of art stored by the agencies, either in basements, file cabinets, or slipped between pieces of furniture. Sometimes the agencies move pieces from one place to another without notifying the foundation. For example, one work which is supposed to be in the university of Hawaii's chancellor's office was loaned by that office to a professor.

2. Inaccurate location sheets. The foundation maintains location sheets which purport to show where specific pieces of works of art are located. These location sheets are inadequate. The sheets do not contain sufficient detail and they are not updated or maintained with any semblance of order. They are thus of little value in maintaining control over the collection. The specific deficiencies include the following.

The location sheets do not specify the exact location of each piece. They only indicate the agency which has the piece. For example, a number of works of art are listed under the department of social services and housing. However, the works could be in as many as five different buildings occupied by the department.

Often, works of art that are supposed to be at a particular place are no longer there. Sometimes the master card file contains information regarding the new placement of works of art, even though the location sheets have not been updated. However, in other cases, the works of art are not at the locations given on either the location sheets or in the master card file. There is no record of where these pieces are. In our sample, 109 works of art or 25 percent were not at their given locations and, of these, 29 could not be located. There is no way of telling whether these works were lost, stolen, or merely moved by someone on his own to another location.

3. Failure to identify works of art. Most works of art presently on display bear no identification. In the majority of cases, the only identification is the artists' signatures. Even the signatures are not always available, as the present vogue is for artists not to sign their work. There is generally nothing that identifies the title of each work, the artist, the medium, or even that it is state property. Indeed, some works of art still carry only the retail tags of the galleries from which they were purchased.

One of the purposes of display is to foster appreciation. This seems to require that some information about the work of art on display be available to the viewer. At the very least, the title and the name of the artist should be identified. But without such identification, in many offices, people in daily contact with the work are unaware of what the piece is all about or by whom it was created.

4. Failure to maintain and care for works of art. The foundation has no maintenance program. It does not routinely inspect the works

placed on display. The foundation assumes that the agencies will notify them when a work is in need of repair. However, many agencies are not familiar with the foundation's operations and do not know whom to call.

Further, the foundation has no procedures for handling any kind of repair work. Two sculptures at the university of Hawaii have been vandalized and a part of a third ceramic sculpture was destroyed. Although the staff was notified sometime ago, no efforts have been made to restore these works.

The foundation's lack of care for works of art extends to those kept by the foundation in storage. Works of art not on display are placed in storage in the basement of the Kamamalu Building. Many works spend a considerable amount of time in storage—some never leave storage at all. The present basement vault has no accommodations for the storage of art. Large paintings are lined up against the wall, one on top of another. This practice subjects works of art to possible damage.

The foundation has an obligation to the artists and to the general public to properly maintain the works of art and to treat them with care. Appreciation cannot be fostered if works of art are treated without respect, as if they have no value.

5. Failure to expose the public to works of art. Although a purpose of the art-in-state-buildings program is to expose the public to works of art, this is not being accomplished to the degree it should.

a. Lack of a rotation program. The works of art are not being circulated as they should be. We sampled the extent to which works of art are rotated by examining the rotation of works of art purchased in calendar years 1970, 1971, and 1972. (See table 5.7.) We found that, of the 352 works, 45 percent have remained in one place since their purchase, another 27 percent have been displayed in two places, 14 percent in three places, 8 percent in

four places, and only 4 percent have been displayed in five or more places. Seven, or 2 percent, have never been exhibited at all. Thus, the majority of the works of art have remained only in one place since purchase.

Table 5.7
Display of Portable Works of Art Purchased
In Calendar Years 1970, 1971, and 1972

No. of places displayed	Art works	
	No.	%
0	7*	2.0
1	157	45.0
2	97	27.0
3	50	14.0
4	27	8.0
5 or more	14	4.0
Total	352	100.0

*Seven works of art have never been displayed and have remained in storage since purchased by the foundation. Of the seven, two were purchased in 1971 and five were purchased in 1972.

Then, most works of art remain on Oahu. (See table 5.8.) The neighbor islands receive very little art work for display, even though the neighbor islands might be considered in greater need of exposure as the major cultural and artistic resources, such as the Academy of Arts, the Bishop Museum, and the galleries are already on Oahu. The foundation does have color slides of the works of art so individuals from the neighbor islands can make selections from these for display. However, these slides bear no identification to facilitate requests. We found only one instance in which slides were actually used to request art.

b. Restrictiveness of the law. The law restricts the display of the art collection to public buildings. This has the effect of limiting the exposure of the general public to works of art. Not all members of the general public frequent public buildings. Moreover, much of

Table 5.8
Distribution of Art Work by Island

	Number	Per Cent
Oahu	639	86.2
Maui	24	3.2
Hawaii	30	4.1
Kauai	31	4.2
Lanai	17	2.3
Molokai	-	-
Total	741	100.0

Note: The total number of works listed in the detail inventory is less than the total in the DPBP for, as we have indicated, a number of the works are missing from the detail inventory listing.

Source: Fiscal Year 1975 "Detail Inventory of Property" report to DAGS.

the art in state buildings is not displayed in publicly accessible areas. An analysis of display sites (see table 5.9) revealed that works of art are not in lobbies and reception areas but are in inner offices, conference rooms, and private offices, areas that are seldom frequented by the public. Thus, the primary beneficiaries of art work at present are the occupants of the buildings and offices rather than the general public.

The general public could derive greater benefits if the collection were made more accessible. One solution is to place and regularly rotate paintings in public areas of public buildings. Another solution is to expand the areas in which the art works can be shown. If the public does not have an opportunity to view much of the art in its present location, then the art should be taken to those places that the public frequents. Instead of limiting display to public buildings, the collection should also be displayed in exhibits at heavily trafficked areas such as banks and other financial institutions, where adequate security for property exists.

Table 5.9
Public Accessibility of a Sample of Works of Art*

	No.	%
Publicly accessible areas (includes all registration areas, court rooms, reception areas, lobbies, elevator areas, public hallways and the main library).	93	29.1
Semi-accessible areas (includes all anterooms, staff offices, conference rooms, inner hallways, dining rooms, school libraries).	68	21.3
Generally inaccessible areas (includes all supply rooms, private offices, judges' conference and reception rooms and small commission offices).	151	47.2
Other (includes other than state buildings or agencies having temporary possession of some state art works).	8	2.5
Total	320	100.0

*In our inspection of a sample of works of art, we categorized display sites into four groupings based on the degree of accessibility of the site to the general public.

Recommendations. We recommend that the foundation:

1. Establish a procedure for the acquisition and return of works of art by the various state agencies and for informing the foundation in cases of damage or loss of art on display and communicate such procedure to all state agencies.
2. Establish a mechanism by which the foundation may currently keep track of the location of all works of art.
3. Develop a system for inspecting works of art on display on at least a quarterly basis.
4. Prepare permanent identification labels to be attached to each work of art giving information on the title of the work, the artist, the date of purchase, and other educational and explanatory matters. The piece should also be clearly identified as being a purchase of the state foundation on culture and the arts.

5. *Establish a system for periodically rotating works of art from one state building to another and among the islands, and provide for the display of works of art in publicly accessible areas in public buildings.*

6. *Consider and formulate legislation allowing the exhibition of works of art at publicly accessible areas other than public buildings.*

Disposition of acquired art. As already noted, thus far some 900 pieces of art have been acquired by the State. This collection is destined to grow in future years. But there are limits to the amount of art the State can accumulate. There are no plans at present, however, as to what the State intends to do with the growing inventory of art, except to exhibit them in public buildings upon the request of the occupants of the buildings and offices therein. It appears that some of the art collection are hardly ever likely to be used.

There ought to be some plans for the future use and disposition of art work. It does not appear to be in the best interests of the State to simply collect works of art, many of which may sit in storage for long periods of time.

In planning for the future use and disposition of works of art acquired by the State, it would appear that the option of selling some of the collection, after they have been in

the possession of the State for some time, should be explored. There are several benefits to be derived from such sale. *First*, it can serve as a barometer of the judgment the State exercises in the purchase of art work. If, for instance, a piece of art work is sold for much less than what the State paid, the sale raises *some* questions about the value placed on the art by the State at the time of purchase. We stress the word "some," for not all sales of pieces of work at less than the purchase price necessarily reflect poor judgment. In some instances, the sale price may not necessarily be an accurate indicator of the true value of art purchased to meet the needs of Hawaii's people. Nevertheless, in general, the sales price can give some indication of the foundation's success in the purchase of portable art.

Second, the sale of works of art no longer in demand or needed for display in public buildings enables the State to recoup the expenditures of the past and to plow the proceeds of the sale back into the purchase of new works of art. In effect, a revolving fund could be created for the purpose of furthering the ends of the art-in-state-buildings program without continuous demand for state appropriations.

Recommendation. *We recommend that the foundation formulate plans for the future disposition of the growing state collection of works of art. In such planning, the sale of works of art no longer needed or in demand for exhibit in public buildings should be considered.*

Chapter 6

THE GRANTS-IN-AID PROGRAM

Besides the art-in-state-buildings program, the other major area of activity of the foundation is the grants-in-aid program. The foundation has been given state and federal funds for the support of projects that "stimulate, guide, and promote culture and the arts throughout the State."

In this program the foundation's functions are to review applications for grants, to award grants, and to monitor and evaluate the effectiveness of the projects which it sponsors.

Summary of Findings

In summary, our findings are as follows:

1. The foundation currently has no policies and criteria for evaluating grant applications. As a result, grants are being made in an arbitrary, inconsistent, and discriminatory fashion. The lack of policies and criteria has further led to the funding of projects favored by the foundation staff.

2. The foundation has engaged in a questionable practice of using funds appropriated for other purposes for the grants-in-aid program.

3. The foundation has failed to utilize the various advisory councils established to assist the foundation in making decisions regarding the programs of the foundation, the awarding of grants, and the stimulation of culture and the arts at the grassroots level. As a result,

foundation programs and grants are being implemented in accordance with the limited views of its professional staff.

4. The foundation has no system for monitoring and evaluating performance by the grantees and for evaluating the foundation's grants-in-aid program as a whole.

Lack of Criteria

The grants-in-aid program is intended to assist individuals and groups in carrying out projects that stimulate and promote culture and the arts. Conceivably, there are many projects and many organizations and individuals to whom such grants may be made. Some judgment thus must be exercised as to what projects and which organizations and individuals should be given financial assistance, particularly when the sources of funding are limited. Thus, it would seem that there ought to be some guidelines and criteria for determining when and to whom and for what kind of projects grants may be given and how interested individuals and organizations may go about applying for such grants. The foundation, however, has not established the criteria for granting awards and the procedure to be followed in applying for grants.

This total lack of criteria and procedure is justified by the foundation on the grounds that it desires to encourage spontaneity and creativity. It claims that artists should not be burdened with forms and bureaucratic procedures. However, the purpose of

establishing criteria and procedures is not to place a burden upon the applicants, but to assist them with information and to ensure fairness in the decisions that the foundation renders in approving or disapproving requests for grants. In the absence of criteria for awarding grants and the procedure for applying for grants, grants have been made in an arbitrary, discriminatory, and inconsistent fashion. It has led to preferential treatment of some organizations and artists and to the manipulation of the system and budgets to fund projects the foundation staff prefer.

Preferential treatment of certain organizations. Grants are awarded to both individuals and organizations, amateur and professional, profit and nonprofit. Some organizations that receive grants have been organized under the auspices of the foundation. The organizations that receive grants are classified as follows:

Umbrella organizations for each art form. Each of these organizations serves as a focal point for individuals and organizations interested in a particular art form. It is the official spokesman for those within the organization. These organizations include:

- Statewide Theater Council
- Statewide Dance Council
- Statewide Music Council
- Hawaii Literary Arts Council
- Hawaii Film Board

Ethnic art councils. The ethnic art councils use the foundation grants for their own grants-in-aid programs. Among the ethnic councils are:

- State Council on Hawaiian Heritage
- State Council on Filipino Heritage

Community art councils. These councils were organized to promote and facilitate interest and participation in the arts. Most of these are geographically based in order to develop and stimulate interest in the arts at the local level. Among such councils are:

- East Hawaii Cultural Council
- West Hawaii Culture and Arts Council
- Molokai Arts Council
- Kauai Community Arts Council
- Maui Arts Council
- Waimea Arts Council
- Waianae Coast Culture & Arts, Inc.
- Kalihi-Palama Culture and Arts, Inc.
- Hawaii Council for Culture and the Arts

The geographically based community councils established with the assistance of the foundation are generally automatically funded every year. They are not required to submit any formal applications. They are awarded grants even though they may have no need for such grants. Often they are given grants without the vaguest notion as to the purpose of the grants. Note, for instance, the following: On August 22, 1973, the foundation notified the Kauai Council on Culture and the Arts that a grant of \$1250 was being made to it for the Kauai Craft Studio, a cooperative project of the Kauai Council on Culture and the Arts through the Kauai Art Group and the Kauai Community College. On December 4, 1973, the Kauai Art Group requested information of the foundation as to the purpose and the conditions of the grant.

The community art councils are not only automatically funded each year but they are given an incremental increase every year (see table 6.1) even though they may have been unable to expend all the funds received the preceding year. We were informed by the foundation that these funding methods are followed to support and encourage these citizen councils to participate in the state culture and arts program.

Organizations other than the community art councils are treated inconsistently. Some are asked to submit budgets and some are not. Some organizations enjoy excellent rapport with the foundation and appear to be able to secure without much trouble most or all of their requests. Other organizations, however, find it difficult to secure grants from the foundation and thus lobby actively with the legislature for

Table 6.1
Grants Awarded to Community Arts Councils

Council	1972-73	1973-74	1974-75	1975-76
East Hawaii Cultural Council	\$600	\$1200	\$1200	\$1800
West Hawaii Council on Culture and the Arts ...	400	900	900	900
Kauai Community Arts Council	350	1200	1200	1800
Maui Community Arts Council	600	1200	1200	1800
Molokai Community Arts Council	—	600	600	900

funding. Among these latter organizations are the groups concerned with the Kalihi-Palama and Waianae Coast culture and arts projects.

Preferential treatment of certain artists.

Not only are certain organizations preferred over others in the awarding of grants, but also some artists appear to be given preferential treatment over others. Moreover, certain artists are given special consideration and are actively encouraged and given special assistance. For instance, one photographer was encouraged to submit an application for funding as a Bicentennial project. No other artists appear to have been similarly invited to submit proposals. In addition to grants awarded in prior years, in fiscal year 1974-75 alone, the same photographer benefited from the following grants:

Artist-in-the-School	\$5000
Milolii photo exhibit	130
Commission—Ka'u General	
Hospital	5000

The foundation was also instrumental in helping him to secure an NEA grant for \$25,000 for fiscal year 1975-76.

It is unclear as to when and why certain applicants receive particular assistance. It is understandable, of course, for the foundation to encourage certain artists whom it sees as having potential. However, it seems that a wide range of persons are not being encouraged to submit project proposals. Independently submitted

applications of those not “in” with the foundation are frequently not even acknowledged. For example, one applicant applied for a grant on April 1, reapplied on July 1, and, not having received a response as of July 30, wrote to the foundation concerning the status of her application. It was not until the third letter that the foundation finally acknowledged the application. This treatment differs markedly from that afforded the more favored applicants who do not even have to exert themselves to apply in order to be assured of a grant.

Inconsistent treatment of applicants.

Applicants for grants are inconsistently treated. Applications for similar projects are denied in some cases but granted in others. This practice appears to reinforce the belief that preferential treatment is being given to some over others. Note the following examples.

A research project on land use initially dealing with the metamorphosis of values and concepts relating to land, but later revised on the suggestion of the foundation staff to a summarization of prior foundation-sponsored studies on environmental and urban design, was funded by the foundation. However, a similar proposal on land use by another applicant was subsequently turned down on the grounds that it was predominantly research, documentation, and report-related, and not sufficiently

concerned with the activities of living people to fall within the scope of culture and the arts.

On March 12, 1975, the foundation denied an application for support of a master's thesis project on the grounds that the foundation does not sponsor research projects or student work in the field. Yet, on October 8, 1975, the foundation awarded \$1000 to a student to complete a master's thesis study on "The Morphological Evolution of Hawaiian Towns."

In December 1973, the foundation denied a grant to support a concert tour on the grounds of travel restrictions. However, a request for a grant to cover transportation expenses for a poet for a public poetry reading was approved in February 1974.

A request to fund the publication of a book was disapproved as being outside of the foundation's program scope in August 1975, although, at a preceding commission meeting, the publication of poetry on single, postcard-like sheets had been approved. The foundation had also previously cosponsored the publication of *Artists in Hawaii*, Volume I.

Bias in project approval. Freedom for the artists is said to be essential. However, there appears to be efforts exerted by the foundation staff to interfere with this freedom and to fund favored projects. We already noted how certain artists are sought out to formulate project proposals for funding. It is the staff in these instances who assists in formulating the applications.

In addition to formulating proposals for projects that the staff likes, the staff also engages in two other practices to ensure that funding goes to those projects which it favors. They are as follows.

1. Interference with project proposals. Sometimes the staff causes project proposals to

be recast to accomplish that which the staff desires. An example is the land use study noted above. The applicant in this case initially proposed to do research and to publish a manuscript containing his findings on the metamorphosis of values and concepts relating to land in Hawaii. At the staff's suggestion, the project was recast as a summarization of prior foundation-sponsored studies on environmental and urban design and the applicant was awarded a grant as a consultant for preparing a manuscript incorporating the findings of the previous studies.

At other times, the staff recasts an application to say one thing when, in effect, the objective is to accomplish the purpose originally proposed which meets with favor of the foundation staff. This ploy is used when the staff believes that the original purpose would not meet with the approval of the commission or is beyond the programmatic scope of the foundation. For instance, a request for \$800 to photograph a certain quilt for printing on postcards was recast with the assistance of the foundation staff into a request for \$1200 for a quiltmaking workshop, even though the quiltmaking had already commenced and was nearing completion. It was felt by the staff that as originally cast the project could not receive funding from the commission. The request as altered was approved by the commission. Seven hundred dollars of the \$1200 grant was a "fee" to the artist to be used as the artist chose. Of course, the artist's choice was to photograph the quilt and print the postcards. In effect, the recast application was no more than a ploy to secure funding to accomplish the initial objective.

2. Manipulation of funding. Sometimes the funding mechanism is used to grant awards to projects which the foundation favors.

It is true that more moneys are available at certain times of the year than at others. More funds seem to be available for grants in the fall than in the spring. Applicants, of course, generally do not know when the foundation has

moneys to be awarded as grants, and thus they apply at random throughout the year. Thus, sometimes applications are not approved because they are acted on at a time when the foundation has no available funds in a particular program category. However, in cases where a project is to the liking of the foundation, it has not hesitated to transfer funds to make moneys available, although a proposal for a project in the same program area had previously been turned down for lack of funds.

The minutes of the commission show numerous examples of applications being denied because of insufficient fund balances, but other applications for projects in the same area subsequently being approved through fund transfers. To illustrate, a cantata project was denied funding in September 1973 because of insufficient funds in the music support area. However, a few months later additional funds were transferred into the music support area to fund two other projects.

Manipulation by the foundation staff to cause funding of projects it likes or prefers is contrary to the principle of engendering freedom by the artists to experiment with the form and content of art. It causes artists to cater to the preferences of the staff rather than to be creative. It results in the promotion principally of the art forms and contents towards which the staff has a bias. It forces artists to fit into the mold created by the staff.

Need for criteria. The above examples of preferential treatment of organizations, artists, and projects cry out for policies and criteria for evaluating applications for grants and for a procedure by which grants may be applied for. Such policies and criteria are essential if all applicants are to be treated fairly and all forms and contents of art are to be encouraged.

Recommendation. *We recommend that the foundation establish policies and criteria for the evaluation of applications for grants to ensure fairness in treatment of all applicants. We further recommend that procedures be*

established for the filing of applications, including a spelling-out of the supporting data required to be filed.

Questionable Use of Appropriated Funds

Earlier we mentioned the foundation's cosponsorship of the book, *Artists in Hawaii*, Volume I. We noted there that the cosponsorship was authorized by the commission even though a request for the publication of another book had earlier been disapproved as being beyond the scope of the foundation's program. The relevance of *Artists in Hawaii*, Volume I to the objectives of the foundation is itself highly questionable. The book was published with the intent of elevating certain of Hawaii's established artists to national and international prominence.

More importantly, however, *Artists in Hawaii*, Volume I was published with funds siphoned off, in part, from other specific legislative appropriations. The foundation's share of the cost of the publication was estimated at \$24,124. To raise this sum, the commission requested and received the release of \$24,124 from appropriations made by the legislature specifically for other programs, including appropriations that had been made to the Honolulu Youth Symphony and the Honolulu Theater for Youth. As a result, the Honolulu Youth Symphony and the Honolulu Theater for Youth found their allocations reduced from \$30,000 to \$21,250 and from \$35,000 to \$25,000, respectively.

Originally, this diversion of funds was supposed to have been a temporary measure and the \$24,124 was supposed to have been refunded from a subsequent quarterly grant release from the National Endowment for the Arts. However, at the request of the foundation, repayment was postponed for one year, and the \$24,124 received from the National Endowment for the Arts is being used to publish Volume II of *Artists in Hawaii*.

Recommendation. *We recommend that the foundation institute proper budgeting procedures as earlier recommended.*

Nonuse of Advisory and Community Councils

The foundation has been instrumental in establishing many statewide councils and art organizations made up of individuals in the art professions. Among these councils are the Statewide Theater Council, the Statewide Music Council, the Statewide Dance Council, the Hawaii Literary Arts Council, the Hawaii Film Board, the various ethnic heritage councils, and the geographically based community art councils.

Among other things, these councils were to serve in an advisory capacity to the foundation and as sources of professional advice. For example, the Hawaii Literary Arts Council was established with the financial assistance of the foundation in order to help the foundation determine how it might assist writers and writing in Hawaii and to serve in an advisory capacity to the foundation. However, the foundation has not permitted the councils to participate in shaping culture and the arts programs. Projects are not routinely referred to the councils for consideration and recommendation. Even when projects are referred to the councils, their advice is frequently ignored.

For example, at the request of the foundation, the Hawaii Literary Arts Council reviewed three requests for funding at its meeting on August 2, 1974. The council members recommended approval of one of the projects, postponed a decision on the second in order to gather more information, and recommended denial of the third. However, a week later, the commission completely disregarded the council's recommendations and approved all three. In doing so, the commission did not even afford the council the courtesy of allowing the council time to gather necessary information on the second project.

The community art councils have fared no better. These community councils were supposed to assist the foundation in determining local needs and preferences. However, the foundation has not referred projects to the community art councils for their assessments of the appropriateness of the projects for the particular communities. Indeed, it appears that these community councils, although created by the foundation, receive very little support or assistance from the foundation in all aspects of the councils' supposed responsibilities. In addition to advising the foundation on local needs and tastes, the councils were supposed to assume such responsibilities as coordinating services, offering opportunities for participation, sponsoring cultural and artistic events, and otherwise stimulating culture and the arts at the local level. The councils, however, have received little support from the foundation in carrying out these functions. The councils in effect have been shunted aside to play only a peripheral role, such as taking care of accommodations for visiting artists, preparing publicity, arranging for meeting halls and exhibition areas, etc. No real function of stimulating community interest in the arts has been assigned to them. As a result, many of the councils have ceased to be viable community forces.

One of the consequences of the nonuse of the advisory panels is that the commission, composed of lay persons, must depend very heavily on the foundation staff in exercising judgment concerning the forms, contents, and quality of art. It would appear that such judgment is better exercised upon the input of a variety of persons, both professional and lay, rather than on purely the limited input of the staff.

Recommendation. *We recommend that the foundation provide the assistance necessary to make the advisory councils viable instruments in the implementation of the State's culture and the arts program. The councils should be given a greater participatory role in the decisions that the foundation makes.*

Failure to Monitor and Evaluate Grantee Performance

The foundation has no real means of monitoring the grants it awards and of evaluating the effectiveness of the grants-in-aid program. In part this is due to the manner in which grants are awarded. As noted, the application procedure is haphazard and, in the majority of cases, there is no delineation at the time of the grant as to what the project intends to achieve and what foundation objective the project is supposed to further. Thus, there is no way in which the projects funded and the foundation programs as a whole can be evaluated.

This is not to say that reports on projects are not required or submitted. Contracts to grantees specify that a narrative and a financial report must be submitted to the foundation. However, reports are not submitted in all cases,

and where they are submitted, the reports are generally brief and often consist only of financial reporting. This is not surprising, for the foundation has no real means of evaluating projects and programs and thus is unable to specify what facts are required to be included in the reports. Data on such matters as target groups and results achieved are not requested. The only evaluation, if it can be called that, is that one made by the grantee himself rating his project as outstanding, good, average, or below average. Needless to say, most of the ratings were outstanding.

Recommendation. We recommend that, in addition to establishing policies and criteria for determining approval and disapproval of grant applications, the foundation formulate the mechanism necessary to evaluate the effectiveness of each project funded and the grants-in-aid program as a whole.

Summary of Findings

There are several deficiencies in the foundation's method of financial accounting and system of internal control. We find that:

1. The foundation's financial records are inaccurate and the cost ledgers are not reconciled with those of the Department of Accounting and General Services.

2. The inaccuracy of the financial records has made it impossible for us to render an opinion as to the fairness of the general fund expenditures for the 1974-75 fiscal year.

3. The foundation's system of internal control is weak. It fails to properly separate accounting functions and lacks a vendors' invoice verification policy.

4. The foundation has not been enforcing the financial reporting requirements of the program grant contracts.

Capital assets purchased by the foundation are recorded as operating expenditures and are not shown as assets on the financial statements of the foundation. These capital expenditures are shown as assets in the statewide general fund asset group of accounts. Depreciation on these assets is currently not recorded by the State.

In accordance with the practice followed by other state agencies, the foundation does not reflect in its financial statements any earned vacation and sick leave credits. Vacation credits, although technically accrued when earned, are recorded as expenditures and charged against the foundation's appropriation only when the vacations are taken or claimed (in cases of employment termination). Sick leave credits, although accrued, can only be applied when an employee is ill; there is no cash payoff for unused accrued sick leave credits upon termination of employment.

Chapter 7

FINANCIAL STATEMENTS AND INTERNAL CONTROL

This chapter includes the results of our examination of the financial statements of the foundation for the fiscal year July 1, 1974 to June 30, 1975, and our opinion as to the accuracy of the financial statements. Our findings and recommendations on the foundation's financial accounting practices and its system of internal control are also presented.

Summary of Findings

There are several deficiencies in the foundation's method of financial accounting and system of internal control. We find that:

1. The foundation's financial records are inaccurate and the cost ledgers are not reconciled with those at the department of accounting and general services.
2. The inaccuracy of the financial records has made it impossible for us to render an opinion as to the fairness of the general fund expenditures for the 1974-75 fiscal year.
3. The foundation's system of internal control is weak. It fails to properly segregate accounting functions and lacks a vendors' invoice verification policy.
4. The foundation has not been enforcing the financial reporting requirements of the program grant recipients.

Method of Accounting

The foundation maintains its accounts and prepares its financial statements on a modified cash basis of accounting. Generally, under the modified cash basis of accounting, revenue is recognized when actually received in cash and expenditures are recognized at the time liabilities are paid, except for the encumbrance of funds for commitments. Commitments are recorded at the time contracts are awarded and orders for services, equipment, and supplies are placed.

Capital assets purchased by the foundation are recorded as operating expenditures and are not shown as assets on the financial statements of the foundation. These capital expenditures are shown as assets in the statewide general fixed asset group of accounts. Depreciation on these assets is generally not recorded by the State.

In accordance with the practice followed by other state agencies, the foundation does not reflect in its financial statements any earned vacation and sick leave credits. Vacation credits, although technically accrued when earned, are recorded as expenditures and charged against the foundation's appropriation only when the vacations are taken or claimed (in cases of employment termination). Sick leave credits, although accrued, can only be applied when an employee is ill; there is no cash payoff for unused, accrued sick leave credits upon termination of employment.

All full-time state employees of the foundation are required by section 88-42 of the Hawaii Revised Statutes to become members of the employees' retirement system of the State. The system requires contributions to be made by both the employee and the employer (State). The employer's share of the contribution for the foundation's employees is appropriated annually to the department of budget and finance and is not reflected in the financial statements displayed in this chapter.

Denial of Audit Opinion

One of the major objectives of a financial audit is to ascertain whether the financial statements of an organization are reasonably accurate. Ordinarily, an auditor conducting a financial audit of an agency is able to attest to the accuracy of the agency's financial statements. However, we find the foundation's financial records to be incomplete and inaccurate. Thus, we are unable to attest to the accuracy of the foundation's 1974-75 financial statements.

One of the procedures used by auditors to verify the accuracy of an agency's financial records is to compare the agency's records with the records maintained by the department of accounting and general services. If the financial records of an agency agree with the records at the department of accounting and general services (DAGS), or if differences in amounts can be reconciled, then confidence can be placed on the accuracy of such financial records.

Each state agency is responsible for reconciling its accounting records with those at DAGS. This should be done at least quarterly. This periodic comparison and reconciliation would enable the agency to detect any errors at an early stage so that adjustments can be made immediately.

Our examination disclosed that financial records maintained by the foundation have not been reconciled by the foundation for the fiscal

year ending June 30, 1975. There are numerous differences between the records of the foundation and those maintained by DAGS.

Reconciliation of the numerous discrepancies between the foundation's records and those maintained by DAGS calls for auditing procedures that are beyond the scope of the present audit. Thus our audit does not extend to the reconciliation of these differences.

The statement of appropriations, expenditures, and unencumbered balances displayed later in this chapter as table 7.1 was prepared from official records of the state department of accounting and general services. However, in light of the above-mentioned differences in the records of the foundation and those of DAGS, the statement does not necessarily reflect the foundation's financial position.

In one limited respect, we do find the foundation's statement to be fairly stated and in conformity with generally accepted accounting principles. This is in respect to the general fund receipts of the foundation for the year ending June 30, 1975.

A detailed statement of general fund expenditures is presented in table 7.2 for purposes of supplementary information. The data for the table were taken from the financial records of the foundation and were subjected to the tests and other auditing procedures applied in the examination of the basic financial statement. In view of the discrepancies noted above, however, we cannot express an opinion on the accuracy of this detailed statement of expenditures.

Statement of Appropriations, Expenditures, and Unencumbered Balances (General Fund)

The foundation's statement of appropriations, expenditures, and unencumbered balances (general fund) for the year ending June 30, 1975 is shown in table 7.1.

Table 7.1

State Foundation on Culture and the Arts
Statement of Appropriations, Expenditures, and Unencumbered Balances—General Fund
For the Year Ended June 30, 1975

	Total	Performing and Visual Arts Events (BUF-881)	Ethnic Group Presentations (BUF-883)	Performing Visual and Craft Arts (BUF-884)	General Administration (BUF-887)
Resources					
Appropriations					
Act 218, Session Laws of Hawaii 1973	\$108,689.00	\$ 24,250.00	\$22,100.00	\$ 2,350.00	\$ 59,989.00
Act 218, Session Laws of Hawaii 1974	233,000.00	173,000.00	—	60,000.00	—
Appropriated Receipts					
Federal Funds	354,179.00	177,739.00	34,825.00	113,190.00	28,425.00
Private Donations	44,701.36	10,851.36	—	28,500.00	5,350.00
Balances—July 1, 1974	33,381.87	20,563.14	1,284.86	2,205.00	9,328.87
Transfers and Other Credits	8,268.00	754.00	[3,925.00]	[100.00]	11,539.00
Total Resources	\$782,219.23	\$407,157.50	\$54,284.86	\$206,145.00	\$114,631.87
Expenditures					
Personal Services	\$ 51,113.05	\$ —	\$ —	\$ —	\$ 51,113.05
Other Current Expenses	684,241.35	388,404.60	41,635.27	201,033.64	53,167.84
Total Expenditures	\$735,354.40	\$388,404.60	\$41,635.27	\$201,033.64	\$104,280.89
Excess of Resources over Expenditures	\$ 46,864.83	\$ 18,752.90	\$12,649.59	\$ 5,111.36	\$ 10,350.98
Lapses	1,097.58	113.94	8.97	85.00	889.67
Unencumbered Balances—June 30, 1975	\$ 45,767.25	\$ 18,638.96	\$12,640.62	\$ 5,026.36	\$ 9,461.31

Table 7.2

**State Foundation on Culture and the Arts
General Fund
Detailed Statement of Expenditures
For Year Ending June 30, 1975**

<i>Performing & Visual Arts Events – BUF 881</i>		
Statewide arts festival program	\$109,124	
Statewide dance program	11,500	
Statewide literature program	4,500	
Statewide music program	112,270	
Statewide theater program	88,724	
Statewide crafts program	10,375	
Statewide design/photography program	28,613	
Statewide fine arts program	11,273	
Total performing & visual arts events		\$376,379
<i>Ethnic Group Presentations – BUF 883</i>		
Cultural development program	\$ 55,815	
Total ethnic group presentations		55,815
<i>Performing Visual and Craft Arts – BUF 884</i>		
Artists-in-the-school program	\$ 84,509	
Artists-in-the-community program	10,000	
Artists-in-the-neighborhoods program	103,310	
Total performing visual and craft arts		197,819
<i>General Administration – BUF 887</i>		
Statewide culture and arts information program	\$ 34,342	
Statewide art-in-state-building services program	11,331	
General operating program	8,602	
Total general administration		54,275
Total expenditures		<u>\$684,288</u>

General description of the statement. The statement presents a summary of the general fund transactions of the foundation for the year ending June 30, 1975. The state general fund is used for all resources not specifically reserved for special purposes. Any state activity not financed through another fund is financed by the general fund. The statement presented in table 7.1 reflects only the general fund resources, and expenditures and obligations of the foundation. It does not include resources made available and expenditures made for the acquisition of works of art. These are reflected in the financial records and statements of the agencies authorized to expend funds for such acquisitions.

The general fund resources that were made available to the foundation and the expenditures made therefrom are described below.

Resources. 1. State general fund appropriations. For the fiscal year beginning July 1, 1974, and ending June 30, 1975, the state legislature, by Act 218, S.L.H. 1973, appropriated a total of \$108,698 from the general fund revenues of the State for the operations of the foundation. In addition, the 1974 legislature, by Act 218, S.L.H. 1974, appropriated a total of \$233,000 to the foundation specifically for aid to the following community organizations:

Organization	Amount
Honolulu Symphony Society	\$ 50,000
Hawaii Youth Symphony	50,000
Honolulu Community Theater	38,000
Honolulu Theater for Youth	35,000
Waianae-Nanakuli Culture & Arts Society	30,000
Kalihi-Palama Culture & Arts Society	30,000
Total	<u>\$233,000</u>

2. **Appropriated receipts.** Appropriated receipts are funds received by the State for designated purposes and specifically authorized by the state legislature to be expended for those purposes. Depending upon the designated purposes of the receipts, the funds may lapse at the end of the fiscal year or be carried over until completely expended. During the fiscal year ending June 30, 1975, the State received a total of \$354,179 in federal funds to support the programs of the foundation. These federal funds were received from the National Endowment for the Arts, an independent agency of the federal government which makes grants to organizations and individuals concerned with the arts throughout the United States.

In addition, the foundation received a sum total of \$44,701.36 in private donations and contributions from various private trust funds, corporations, and individuals.

3. **Prior fiscal year carryover balances.** On July 1, 1974, the foundation had a total of \$33,381.87 in funds carried over from the prior fiscal year. Of this total, \$24,298.59 represented federal funds which were received in the prior fiscal year and allowed to be carried over until completely expended. The remaining \$9,083.28 represented the carryover of matching federal, state, and county funds earmarked for the Environmental and Urban Design Proposals for Hawaii Project. This project was initially funded in 1967 by a grant totaling \$50,850 from the National Endowment for the Arts. Matching funds were acquired from the department of land and natural resources, department of transportation, Oahu Development Conference, city and county of Honolulu, and the counties of Hawaii, Maui, and Kauai, for a project fund total of \$121,435. Of this total, \$112,351.72

had been expended in prior fiscal years, and the balance of \$9,083.28 represented the unexpended portion carried over at July 1, 1974.

4. **Transfers and other credits.** During the fiscal year, the foundation made several inter-program transfers of funds. These transfers did not affect the total resources made available to the foundation. The increase in the amounts for some programs was offset by a decrease in the amounts for those programs from which the amounts were transferred.

In addition, the foundation received a transfer of \$8,268 from the state general fund to finance the salary increases for the fiscal year 1974-75 as authorized by Act 218, S.L.H. 1973, and amended by Act 218, S.L.H. 1974.

Expenditures. During the fiscal year, the foundation expended a total of \$735,354.40. As explained earlier in this report, expenditures relating to the acquisition of works of art are not reflected in table 7.1. The major categories of expenses included in the \$735,354.40 total expenditure of state general fund were as follows.

1. **Personal services.** "Personal services" include salaries, overtime pay, and other pay adjustments. For the fiscal year ending June 30, 1975, personal services totaled \$51,113.05, or approximately 7 percent of the foundation's total operating expenditures.

2. **Other current expenses.** This category of expenses includes all expenditures other than personal services and equipment. For the fiscal year ending June 30, 1975, the foundation incurred a total of \$684,241.35 in current expenses. Of this total, approximately \$8,601.53, or 1 percent, was expended for operating expenses of the foundation (i.e., supplies, postage, printing, equipment rental, etc.). The balance, or \$675,639.82, was expended as program grants and for activities of

the foundation. Table 7.2 displays a detailed listing of the other current expenses.¹

Excess of resources over expenditures. In the fiscal year ending June 30, 1975, the total resources available to the foundation exceeded the total expenditures by \$46,864.83 (\$782,219.23 – \$735,354.40).

Lapsed balance. Of the \$46,864.83 excess remaining at the close of the fiscal year, the sum of \$1,097.58 lapsed and was returned to the state general fund. This lapsed balance represented the unexpended and unencumbered funds appropriated by the legislature by Act 218, S.L.H. 1973, for the fiscal year ending June 30, 1975.

Unencumbered balances. The unexpired and unencumbered balance was \$45,767.25. Included were \$30,773.61 of federal funds received during the fiscal year from the National Endowment for the Arts, \$4,083.28 of matching federal, state, and county funds for the Environmental and Urban Design Proposals for Hawaii Project, and \$10,910.36 in private contributions which were permitted to be carried over to the next fiscal year(s) until completely expended.

System of Internal Control

The phrase, "system of internal control," refers to the plan of organization and the methods and procedures adopted by an agency in order to ensure the accuracy and reliability of its accounting data, to promote its operational efficiency, and to assure adherence to prescribed laws, policies, and rules and regulations of the agency and the State of Hawaii. A sound system of internal control includes two basic elements: (1) the adoption of procedures requiring prior authorization for expenditures, prompt collection of revenues, accurate and timely recording of transactions and control of assets and liabilities, and (2) the assignment of duties in such a manner that no one individual controls all phases of a transaction without a cross-check by some other individual.

Our review of the foundation's system of internal control revealed two main weaknesses:

- the improper segregation of accounting functions, and
- the absence of a vendors' invoice verification policy.

Improper segregation of accounting functions. The foundation employee responsible for the approval of all purchase orders and summary warrant vouchers is also the individual responsible for the distribution of the state warrants (checks) to the vendors. This delegation of authority both to approve payments and to distribute warrants to the same individual is improper and precludes an adequate system of internal control.

It is often difficult to achieve an adequate system of internal control in an organization with a limited number of personnel, such as the foundation. However, management must take all possible steps to avoid delegating all important accounting functions to one employee.

In this connection, the foundation engages in another practice that is questionable. DAGS is normally the state agency responsible for processing all of the obligations of the State for payment and for the actual distribution (mailing) of the state warrants to the respective vendors. However, the foundation has asked DAGS to forward to the foundation all warrants constituting payments to artists and grant recipients. A foundation employee then mails out the payments. We were informed by the foundation that this practice provides them with assurance that the artists and grantees actually receive payment for their services.

¹As mentioned in the opinion section of this chapter, the figures shown in table 7.2 were obtained from the records of the foundation, and, as such, the differences were not reconciled with the figures at DAGS.

This practice is not justified and the benefits derived, if any, are negligible. There is no need for the foundation to mail out its own warrants since DAGS does inform all of the state departments and agencies of the payments they have made. This information, which includes the vendor's name, amount paid, date paid, and the state warrant number, should be more than sufficient assurance to the foundation that proper payments have actually been made.

The foundation practice not only adds another step to an already time-consuming state vendor process, but, more importantly, subjects the warrants transmitted to the foundation to possible loss or theft. The foundation can eliminate this deficiency in its internal controls by simply permitting DAGS to mail out all of the warrants.

Lack of a vendors' invoice verification policy. The foundation does not have a policy which ensures that all of the vendors' invoices have been properly checked for numerical accuracy and actual receipt of goods or services.

The foundation does not have any form of visual check, such as an invoice payment stamp. Such a stamp can be imprinted on the original copy of the vendors' invoices and the boxes and spaces provided can be checked or filled in and initialed to verify: (1) whether only a part or all of the goods or services for which the invoice was issued were received; (2) whether the invoice prices, extensions, and footings are mathematically correct; and (3) the dates on which the goods, services, and invoice were received. The purpose of checking and filling in these spaces is to ensure that the invoice is a legitimate obligation of the foundation and to process the invoice within a reasonable time under the DAGS' vendor payment procedures. The foundation invoices we examined lacked any visual evidence that the goods or services shown on the processed invoices were actually received. Thus, the possibility exists that some of the invoices may have been processed for payment prior to actual receipt of the goods or services.

Failure to Enforce Financial Reporting Requirements

As mentioned in chapter 6 of this report, the foundation requires individuals and groups receiving financial grants from the foundation to submit a financial report detailing the expenditures and sources of funding for each project. These financial reports must be submitted to the foundation within 45 days after the end of the grant period, or by November 30 (for the fiscal year ending June 30), whichever comes first. The purpose of this financial report is to determine whether the grantees have expended the grant funds appropriately and to meet reporting requirements of the National Endowment for the Arts.

Our examination of a sample of the financial grants awarded by the foundation revealed the findings noted in table 7.3.

Table 7.3 shows that many individuals and organizations have failed to comply with the foundation's financial reporting requirements. Of our sample of 122 program grants, 47, or 38.5 percent, did not submit the required financial reports to the foundation. Moreover, of

Table 7.3
Number of Missing Financial Reports
Fiscal Year 1973-74*

Program area	No. of grants examined	No. missing financial reports
Performing and visual arts events	74	30
Ethnic group presentations	14	4
Cultural opportunities	24	8
Audience building	10	5
	122	47 (38.5%)

*Fiscal year 1973-74 was selected for sampling to allow sufficient elapsed time for grantees to file reports.

the 75 reports that were submitted, many were so incomplete that they were of no benefit to the foundation. For example, many of the reports had only a total expenditure figure and failed to detail the types of expenditures incurred.

Despite the high percentage of unfiled financial reports, the foundation has done very little to pursue delinquent individuals and groups. In fact, the foundation's lax attitude towards the financial reporting requirement seems to contribute to the problem. It does little to make the grantees aware of the need for reporting.

The foundation should emphasize the importance of the financial reports to the grantees and encourage them to file their reports in a timely and complete manner. Without these reports, the foundation has no way of determining whether the grant funds have been expended for the intended purposes or whether any surplus funds remain unexpended. In addition, these financial reports should furnish the essential cost data necessary for an adequate cost-effectiveness analysis of each program grant. Such an analysis should be an integral part of the foundation's evaluation process of its

present programs and for the planning of future programs and financial requirements.

Recommendations

To improve the foundation's financial accounting practices and system of internal control, we recommend as follows:

- 1. The foundation reconcile its financial records with those of the department of accounting and general services each quarter and at the close of the fiscal year.*
- 2. The foundation allow DAGS to mail out all of its state warrants to vendors.*
- 3. The foundation establish an invoice verification policy which includes the use of an invoice payment stamp to establish the numerical accuracy of the vendors' invoices and to ensure that payment is made only for goods and services actually received.*
- 4. The foundation take measures requiring all individuals and organizations receiving grants to file their financial reports in a complete and timely manner.*

COMMENTS ON AGENCY RESPONSE

A preliminary draft of this report was sent to the affected agencies on October 1, 1964, and the agencies were requested to comment on the report by October 15, 1964. The agencies were requested to comment on the report by October 15, 1964.

A copy of the preliminary draft of the report is included in the appendix. The agencies were requested to comment on the report by October 15, 1964.

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PART III

RESPONSES OF THE AFFECTED AGENCIES

The agencies were requested to comment on the report by October 15, 1964. The agencies were requested to comment on the report by October 15, 1964.

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COMMENTS ON AGENCY RESPONSE

A preliminary draft of this report was transmitted to the state foundation on culture and the arts and the department of accounting and general services for their comments on our findings and recommendations.

A copy of the transmittal letter to the foundation is included as attachment 1. A similar letter was sent to the department of accounting and general services. The response of the state foundation on culture and the arts is included as attachment 2. No response was received from the department of accounting and general services.

Comments on the Foundation's Response

The foundation demonstrated, in its response, an understanding of the problems which led to the recommendations presented in the audit report, and we are confident that the foundation is committed towards implementing those recommendations that are within its capabilities.

The foundation concurs with the findings and recommendations in all substantive areas, except one. In the audit, we found instances where the 1 percent amount for works of art for new structures was being used for works of art for existing structures. We noted that this practice of not giving priority to new structures was in violation of the spirit, if not the letter, of the law. The attorney general supports our view in a recent opinion wherein he states:

"We view the above language as expressing the Legislature's intent that the one percent set aside from each appropriation for the original construction of a State building should be used to purchase works of art for *that particular building* It is *only when the amount shall not be required* in toto or in part for any project that the unrequired amounts may be accumulated and expended for other projects." [Emphasis added.]

In another opinion, the attorney general also held that works of art which are an integral part of the structure (as contrasted from portable works of art) should only be commissioned for new structures. We thus recommended that priority for works of art be given to those new buildings yielding 1 percent and that the comptroller and the foundation comply with the law by placing permanently installed works of art only in new structures.

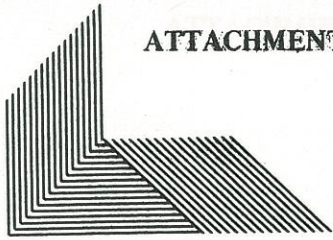
The foundation disagrees. It states:

"The statute refers to new buildings only as source of 1 percent funding. It says neither that priority should be given to buildings which serve as funding sources, nor that works of art be limited to new buildings. A recent opinion by the attorney general, which raised these issues, is being contested. The original intent of the statute was to bring the opportunity to enjoy and experience works of art to locations where they do not adequately exist, to be shown in public facilities, new or old. People should neither have to travel long distances to be able to share in this statewide program, nor should they have to wait, perhaps for years or decades, for the new construction of a state building to be undertaken; many of the rural towns have only older buildings. Residents would be arbitrarily deprived of equal access to the benefit they would obtain from works of art."

In view of the two clearly conflicting interpretations, we and the attorney general on the one hand, and the foundation on the other, this matter should be clarified by the legislature.

ATTACHMENT NO. 1

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



CLINTON T. TANIMURA
AUDITOR
RALPH W. KONDO
DEPUTY AUDITOR

March 18, 1976

C
O
P
Y

Mr. Masaru Yokouchi, Chairman
State Foundation on Culture and the Arts
State of Hawaii
Honolulu, Hawaii

Dear Mr. Yokouchi:

Enclosed are three copies of our preliminary report on the *Management Audit of the State Foundation on Culture and the Arts*.

The term "preliminary" indicates that the report has not been released for distribution. Copies of the preliminary report have been transmitted to the governor, the presiding officers of both houses of the legislature, the director of finance, and the state comptroller.

The report contains a number of recommendations to which I would appreciate receiving your written comments. Please submit your comments to us by March 25, 1976. They will be incorporated into the final report which will be released shortly thereafter.

Should you wish to discuss the report with us, we will be pleased to meet with you, at our office, on or before March 23, 1976. Please call our office to set an appointment. A "no call" will be assumed to mean that a meeting is not required.

We appreciate the assistance and cooperation extended to us by the personnel of the state foundation on culture and the arts.

Sincerely,

Clinton T. Tanimura
Legislative Auditor

Enclosure

THE
STATE
FOUNDATION
ON
CULTURE
AND
THE ARTS



GEORGE R. ARIYOSHI
Governor

EILEEN R. ANDERSON
Director
Dept. of Budget & Finance

MASARU YOKOUCHI
Chairman

ALFRED PREIS, FAIA
Executive Director

March 25, 1976

RECEIVED

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OFF. OF THE AUDITOR
STATE OF HAWAII

Mr. Clinton Tanimura
Legislative Auditor
State Capitol
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

May I thank you for having given me and the staff of the State Foundation on Culture and the Arts (SFCA) the opportunity to preview the preliminary draft for the Management Audit of the State Foundation on Culture and the Arts, for having given me the benefit of a conversation with you, and for members of the staff of the SFCA to have met in discussion with members of your staff. All these opportunities were extended with friendly courtesy, for which we are truly appreciative, and proved to be enlightening and helpful.

The Commission of the SFCA has met on the afternoon of March 23, 1976 in special session to study the draft of the audit and to make the following comments thereon in single voice:

The SFCA accepts the report, however negative some of its points may appear, in a spirit of constructive and helpful criticism, and as a valuable tool for continued planning.

In order to focus onto these constructive elements, our comments will be limited to the Recommendations made in your audit.

Part II, Chapter 4, in which you recommend as follows:

1. The foundation organize itself in such fashion as to enable it to focus on the missions of its programs and to formulate policies and plans for its program.

Comments:

Concur. The SFCA will continue to seek ways to involve its Commissioners in various groupings to enlarge their direct, creative participation and to exert their greatest impact in all aspects of planning.

Mr. Clinton Tanimura
Page 2
March 25, 1976

2. The foundation formulate program budgeting and determine how it ought to allocate funds it receives in light of the ends to be sought.

Comments:

Concur. The foundation will reduce its large-area goals into written form, and correlate them with the objectives, key policies, and program and budget plans within the PPB system.

3. The foundation include in its staff managerial and planning capabilities. In this connection, the legislature should consider deleting the current statutory requirement that the executive director be a professional in the fields of culture and the arts.

Comments:

Concur with the first sentence. In the second sentence we concur partly. Reverting to the original text of Act 269, we would agree to delete the word "professional", making the executive director a person who by reason of education or extensive experience is generally recognized as being qualified in the fields of culture and the arts. . . .

We believe it to be important that the director would be able to match the required managerial qualifications with sympathetic understanding of the nature and aspirations of artists and with sufficient insight and knowledge of the processes of art production.

Should the foundation continue to grow, allowing the addition of specialists in the various art forms, the balance between managerial qualifications and understanding of culture and the arts in the person of the director could then shift towards managerial specialization.

Part II, Chapter 5, in which you recommend as follows:

1. We recommend that the comptroller and the foundation submit to the legislature as part of its budget submission, information on the status of the 1 percent funds. The information at the minimum should include data on amounts made available for acquisition of works of art, the expenditures made, the amount of the accumulated balance of the funds, and the amount potentially available in the future.

Mr. Clinton Tanimura
Page 3
March 25, 1976

Comments:

Concur. Itemized and summary data on the 1 percent amounts set aside and made available for potential acquisition of works of art should be provided only by the comptroller. Only the comptroller has firsthand information on these data. This will avoid the problem of differing records between the SFCA and the comptroller.

2. We recommend that the department of accounting and general services develop a consistent method for computing the amount to be set aside from each capital improvement appropriation that can be used by all expending agencies.

Comments: Concur.

3. We recommend that the comptroller and the foundation establish rules to ensure that all state agencies to which are appropriated funds for the construction of state buildings set aside and make available 1 percent of the amount appropriated for each building project for the acquisition of works of art.

Comments: Concur.

4. We recommend that the comptroller and the foundation establish a standardized definition of "buildings" which can be followed by all affected state agencies. In formulating such a definition, the common meaning of the term should be adhered to.

Comments: Concur.

5. We recommend that:
 1. In consonance with statute, priority for works of art be given to those new buildings yielding 1 percent;

Comments:

Disagree. The statute refers to new buildings only as source of 1 percent funding. It says neither that priority should be given to buildings which serve as funding sources, nor that works of art be limited to new buildings. A recent opinion by the attorney general, which raised these issues, is being contested.

The original intent of the statute was to bring the opportunity to enjoy and experience works of art to locations where they do not adequately exist, to be shown in public facilities, new

Mr. Clinton Tanimura
Page 4
March 25, 1976

or old. People should neither have to travel long distances to be able to share in this statewide program, nor should they have to wait, perhaps for years or decades, for the new construction of a state building to be undertaken; many of the rural towns have only older buildings. Residents would be arbitrarily deprived of equal access to the benefit they would obtain from works of art.

2. The comptroller and the foundation develop guidelines and criteria for determining the requirements for works of art in state buildings.

Comments: Concur.

6. We recommend that the comptroller and the foundation comply with the law by placing permanently installed works of art only in new structures.

Comments: Disagree. See comments for Part II, Chapter 5, Recommendation 5.

7. We recommend that the comptroller and the foundation cease diverting the 1 percent funds for purposes other than the acquisition of works of art.

Comments:

Concur. SFCA will continue to limit funding to the production of the works of art, including appropriate means not only of identification, but also serving their development of greater understanding, enjoyment and appreciation.

8. We recommend that the comptroller and the commission:
1. Take a more active part in the commissioning process, as intended by statute.
2. Develop policies and guidelines clearly delineating the functions and responsibilities of project advisory panels so as to maximize public participation.

Comments: Concur.

9. We recommend that the comptroller and the foundation monitor closely the progress of commissions to ensure that all terms of the commission contracts are met and the work required is completed as scheduled, except for valid reasons.

Comments: Concur.

Mr. Clinton Tanimura

Page 5

March 25, 1976

10. We recommend that the foundation:
1. Make no advance payments under commission contracts unless such advance payments and the conditions under which they may be made are properly set forth in the commission contracts.
 2. Establish proper procedures, records, and methods of control in making purchases of materials and supplies for artists under contract on a reimbursable basis.

Comments: Concur.

11. We recommend that the comptroller and the foundation develop procedures to ensure proper inspection and acceptance of works of art and that final payment not be made until the work is satisfactorily completed and installed.

Comments: Concur.

12. We recommend that the foundation:
1. Establish criteria for the selection of art that are consonant with the objectives of the art-in-state buildings program;
 2. Develop and follow procedures for the selection of art that would ensure pluralistic input into the selection process; and
 3. Create opportunities for the support of young artists and neighbor island artists by facilitating the exhibition of works of young artists and by making more purchases on the neighbor islands.

Comments:

1. and 2.: concur; 3.: concur, provided the works of art are of adequate qualitative levels.

13. We recommend that the foundation develop and implement systematic procedures for the inventory and registration of works of art and for recording all the other information that is needed for proper management and control of the state collection of art.

Comments: Concur.

14. We recommend that the foundation:
1. Establish a procedure for the acquisition and return of works of art by the various state agencies and for informing the foundation in cases of damage or loss of art on display and communicate such procedure to all state agencies.

2. Establish a mechanism by which the foundation may currently keep track of the location of all works of art.
3. Develop a system for inspecting works of art on display on at least a quarterly basis.
4. Prepare permanent identification labels to be attached to each work of art giving information on the title of the work, the artist, the date of purchase, and other educational and explanatory matters. The piece should also be clearly identified as being a purchase of the state foundation on culture and the arts.
5. Establish a system for periodically rotating works of art from one state building to another and among the islands, and provide for the display of works of art in publicly accessible areas in public buildings.
6. Consider and formulate legislation allowing the exhibition of works of art at publicly accessible areas other than public buildings.

Comments:

- 1., 2., 3., 4., and 5.: Concur, provided staff will be adequate.
- 6.: Postpone, until the needs of state buildings are satisfied.
15. We recommend that the foundation formulate plans for the future disposition of the growing state collection of works of art. In such planning, the sale of works of art no longer needed or in demand for exhibit in public buildings should be considered.

Comments: Concur, with emphasis on the word "future."

Part II, Chapter 6:

1. We recommend that the foundation establish policies and criteria for the evaluation of applications for grants to ensure fairness in treatment of all applicants. We further recommend that procedures be established for the filing of applications, including a spelling-out of the supporting data required to be filed.

Comments: Concur.

2. We recommend that the foundation institute proper budgeting procedures as earlier recommended.

Comments: Concur.

Mr. Clinton Tanimura

Page 7

March 25, 1976

3. We recommend that the foundation provide the assistance necessary to make the advisory councils viable instruments in the implementation of the State's culture and the arts program. The councils should be given a greater participatory role in the decisions that the foundation makes.

Comments: Concur, subject to adequate staffing and travel funds.

4. We recommend that, in addition to establishing policies and criteria for determining approval and disapproval of grant applications, the foundation formulate the mechanism necessary to evaluate the effectiveness of each project funded and the grants-in-aid program as a whole.

Comments: Concur, subject to adequate staffing and travel funds, same as under 3.

Part II, Chapter 7:

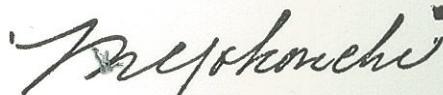
To improve the foundation's financial accounting practices and system of internal control, we recommend as follows:

1. The foundation reconcile its financial records with those of the department of accounting and general services each quarter and at the close of the fiscal year.
2. The foundation allow DAGS to mail out all of its state warrants to vendors.
3. The foundation establish an invoice verification policy which includes the use of an invoice payment stamp to establish the numerical accuracy of the vendors' invoices and to ensure that payment is made only for goods and services actually received.
4. The foundation take measures requiring all individuals and organizations receiving grants to file their financial reports in a complete and timely manner.

Comments: Concur with 1., 3., and 4.; disagree with 2. because handling of warrants by the foundation is faster and does not force the financially more dependent artists to wait for routine mailing.

Thank you again for your courtesy and cooperation.

Sincerely yours,



Masaru Yokouchi, Chairman
State Foundation on Culture and the Arts

AP:rf

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