
1992 Annual Report

State of Hawaii
Office of the Auditor



Marion M. Higa
State Auditor

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MISSION OF THE OFFICE OF THE AUDITOR

Through post-audits of the accounts, programs, and performance of state agencies, the office seeks to assure the accountability of government agencies for their implementation of policies, management of programs, and expenditure of public funds. The office reports its findings and recommendations to the governor and the Legislature to give policy makers timely, accurate, and objective information for decision making.

STATE OF HAWAII
OFFICE OF THE AUDITOR
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March 30, 1993

Honorable Members of the Legislature
The Honorable John Waihee, Governor
Citizens of Hawaii

Ladies and Gentlemen:

I am honored that in 1992 the Legislature appointed me to be the State Auditor. During my eight-year term of office, I hope to build on our past history of excellence and carry forward our commitment to serve the people of Hawaii through independent, objective, and timely evaluations and audit reports.

This first Annual Report of the Office of the Auditor highlights our accomplishments in calendar year 1992, the staff who made possible the accomplishments, the reports we issued, the legacy on which we build, and our hopes for the future. We conclude this report with an essay on one of the most important issues facing state government—fiscal responsibility and the respective roles of the Legislature and the Executive.

Sincerely,

A handwritten signature in cursive script that reads "Marion M. Higa".

Marion M. Higa
State Auditor

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INTRODUCTION TO THE STATE AUDITOR

Marion M. Higa was born in Honolulu and attended McKinley High School and the University of Hawaii. She graduated with honors from the University of Hawaii and continued her education at the University of Illinois at Urbana, Illinois, where she received a Master of Education degree.

Ms. Higa has been with the Office of the Auditor for over 22 years. She began as an assistant analyst and served as audit manager and deputy auditor before becoming Acting Auditor in late December 1991. As the State Auditor, she believes that “there is something to be said for longevity and institutional history, especially in government.” She was appointed by unanimous votes of the Senate and House of Representatives sitting in joint session on April 28, 1992.

Before becoming State Auditor, Ms. Higa supervised many projects including the audits of the Hawaii Visitors Bureau, the Community Hospitals, the Office of Hawaiian Affairs, the Hawaii Youth Correctional Facility, and the Department of Education.

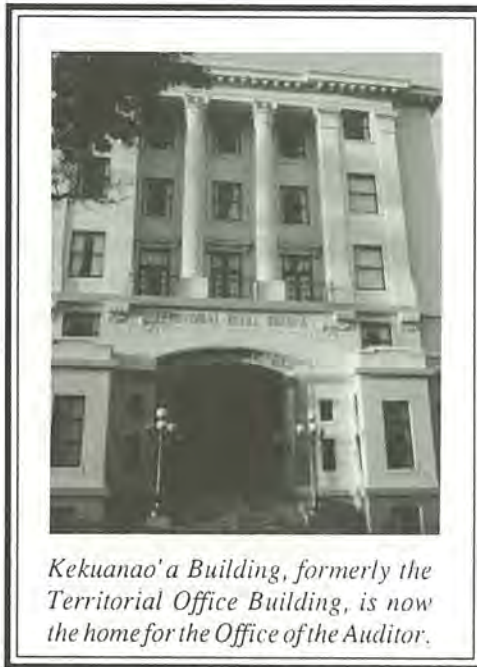
In 1992 Ms. Higa became a member of the executive committee of the National Legislative Program Evaluation Society, a section of the National Conference of State Legislatures. Made up of professionals in the field of legislative program evaluation and performance auditing, the society seeks to advance the art and science of legislative program evaluation, promote professionalism and training, and enhance the exchange of ideas and information. As a member of the executive committee, Ms. Higa will play an important role in planning and directing the activities of this national society.

1992--A BANNER YEAR

This was a banner year for the Office of the Auditor.

- We won the 1992 “History of Excellence Award” given by the National Legislative Program Evaluation Society, winning this national competition on our first try. Awards are based on three criteria: (1) a history of excellence in program evaluation or performance auditing, (2) contributions to legislative evaluation or auditing, and (3) impact on legislative decision making.
- We received a “stamp of approval,” an unqualified opinion; from the National State Auditors Association. An experienced peer review team of auditors from other states concluded that we have an effective quality control system and our audit work meets professional auditing standards.





OVERVIEW OF THE OFFICE

Constitutional Authority

The delegates to the 1950 Constitutional Convention considered the Office of the Auditor sufficiently important to be established in the State Constitution. They intended the office to help eliminate waste and inefficiency in state government. In placing the Auditor in the legislative branch with extraordinary independence, the delegates were forward thinkers; few other states then had similar provisions.

The State Constitution requires the Auditor to be appointed for

an eight-year term by a majority vote of each house in joint session. The Auditor may be removed only for cause by a two-thirds vote of the members in joint session. It is the constitutional duty of the Auditor to conduct post-audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions. The Auditor undertakes such additional studies and investigations as may be directed by the Legislature.

Program of Work

The annual program of work consists of reports mandated by statutes such as the Sunset Law, projects initiated by the office, and projects requested by the Legislature through concurrent resolution, provisos in the general appropriations act, and other acts. Typically, we undertake the following types of projects each year:

- Performance audits—Also called management audits, these are examinations of the effectiveness and efficiency of programs or their management or both.
- Financial audits—Examinations of the legality and propriety of agency expenditures, the adequacy of accounting and internal control systems, and the fairness of financial statements.
- Sunset evaluations—Evaluations of certain professional and vocational licensing programs to determine whether they should be terminated, continued, or modified. Occupations are scheduled for evaluation under the Sunset Law, Chapter 26H of the Hawaii Revised Statutes.
- Sunrise analyses—Analyses of proposals to regulate occupations to determine if they should be enacted for the protection of the public health, safety, and welfare.
- Health insurance analyses—Assessments of the social and financial impact of proposals to mandate health insurance benefits.
- Special fund analyses—Assessments of proposals to create special and revolving funds.
- Special studies—Focused reviews of issues of legislative concern. Legislative requests are made through laws, concurrent resolutions, or conference committee reports.



Analysts on a team discuss progress of project.

Results of our work

All work is performed in accordance with generally accepted government auditing standards. The office has established a quality assurance system to ensure that work is done by staff who are professionally proficient, free from any impairments to their independence, and who exercise due professional care in conducting the audit.

We report our findings and recommendations in written reports that are issued to the governor and the members of the Legislature. Agencies affected by the recommendations are given the opportunity to comment on a draft of the report.

Their comments are included in the final published report. Our reports are available free to members of the public. Evidence that supports each report is available for review at our office.



Analyst reviews and compiles documentation for a report.

ORGANIZATION AND STAFFING

The office is headed by the State Auditor who has overall responsibility for the policies and direction of the office. She is supported by a deputy auditor and two assistant auditors—one with primary responsibility for financial audits and the other with primary responsibility for performance audits. The organizational structure of the office is shown on the following page.

Office management, professional analysts, and office services staff work together to produce the published report.

A staff of 22 professional analysts, ranging from assistant to senior analysts, carry out the planning, research, and drafting of audit reports. They work individually or in teams. Our professional staff come from a variety of backgrounds including public administration, accounting, public health,

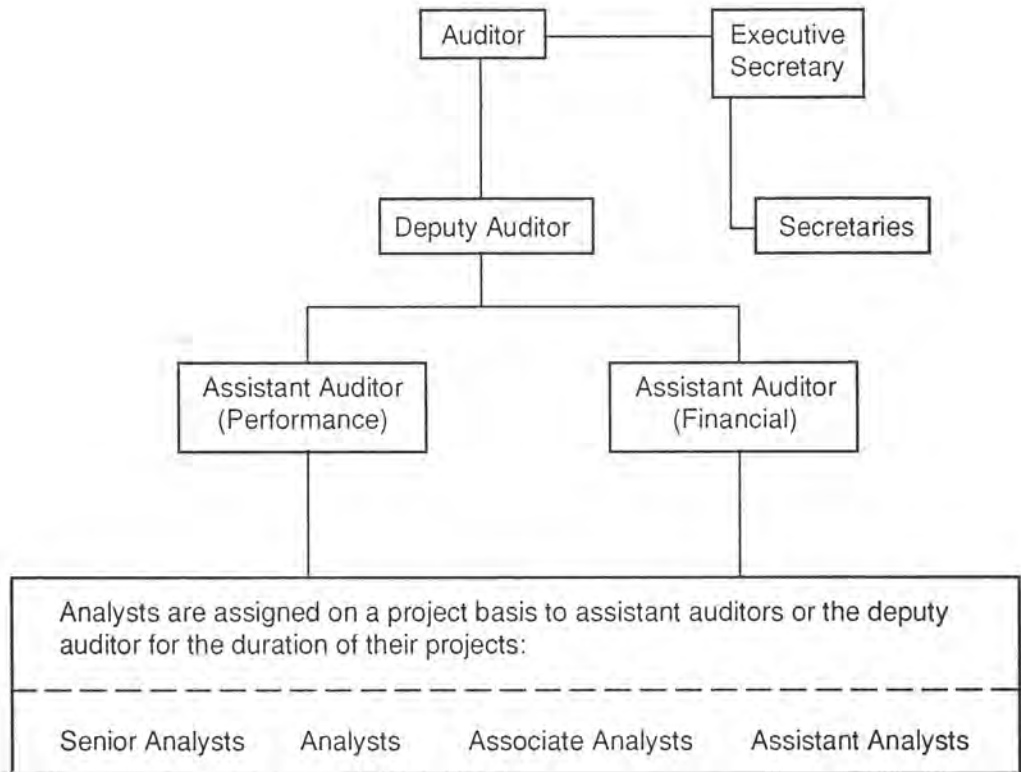
history, education, urban planning, English, law, fine arts, library studies, and business administration. Where specialized expertise is needed, we contract with consultants for assistance.

Four secretaries support the work of the office with duties ranging from administrative functions to publishing and distributing the reports.



Secretarial staff collate and publish the reports.

Organization of the Office of the Auditor



STAFF OF THE OFFICE OF THE AUDITOR

Marion M. Higa

State Auditor

Diana M. Chang

Deputy Auditor

Assistant Auditors

Dallas G. Weyand II

Financial Audits

J. James McMahon

Performance Audits

Analysts

David Brueck

Josephine L. Chang

Melanie A. Chinen

Joanna Crocker

Ben G. Forsland

Susan Hall

Craig A. Hopseker

Cindy Kam

Melvia C. Kawashima

Van Lee

Pamela K. Matsukawa

Robert A. McClelland

Nancy Millard

Janice V. Morrison

Roxane N. P. Orian

Heather B. Sanchez

Tony Smalley

Jim Sterling

John Swissler

Joseph W. Trias

Jess H. Walters

Michael T. Yamashita

Office Services

Evelyn Kanja

Carol J. Andrade

Deborah M. A. Higa

Patricia Mukai

BUILDING ON OUR HISTORY OF EXCELLENCE

The office has always strived to fulfill the vision of those who drafted Hawaii's State Constitution. The delegates to Hawaii's first constitutional convention believed they were breaking new ground in creating the

office. They saw the Auditor as one of the more important positions in state financial management. The office would be "an independent watchdog of public spending" to keep government honest and efficient and to provide the Legislature with a check against the powers of the executive branch. Since the Legislature determines state policy and how moneys are to be spent, the delegates decided to make the Auditor responsible to the legislative branch. To ensure independence, they gave the Auditor an eight-year term as a safeguard against undue pressure from any one Legislature.



The former Schuman Carriage Building, first home of the Office of the Auditor.

The office became a reality in 1965 when a joint session of the House and Senate appointed Clinton T. Tanimura as the State's first Auditor. The "watchdog agency" was initially housed in a corner of the former Schuman Carriage Building garage. "I started off alone," he stated, "but by the end of the year, there were three analysts and a secretary on the staff."

In that first year, Tanimura prepared a long and short range plan for the office that sought to answer the following questions: What is the reason for our existence? and What are we trying to achieve?

Tanimura believed that the Legislature had lost control of the “purse strings.” He said, “The Legislature finds itself in a position where it must rely on the executive branch to tell it where the money is going.” And he intended that the Office of the Auditor would help the Legislature maintain control over state money. He envisioned the Auditor as an independent critical observer of the executive branch and as an adviser to the legislative branch on the formulation of public policy.

To help legislators make effective policy decisions, Tanimura developed and implemented an audit program that consisted of three major types of audits: (1) financial—to check on the accuracy of financial statements, (2) operations—to examine the efficiency of management and how well agencies use resources, and (3) program—to determine the effectiveness of government programs. In practice, these distinctions are often blurred. Financial audits were the foundation but performance audits (which include both operations and program evaluations) became the major focus. Tanimura recognized that

money could be spent legally yet foolishly through poor planning and management.

A leader in performance auditing

Hawaii became one of the first state auditing agencies to conduct performance evaluations and to develop standards for their implementation. Our office became recognized as a leader in the field. A 1971 review found nine states with performance auditing programs and identified New York, California, and Hawaii as being the “most advanced.”

In *The Performance Post Audit in State Government* (Michigan State University, 1967), Lennis M. Knighton described Hawaii as one of the leaders among the states in the development and use of performance audit policies and procedures. Knighton cited the office’s first management report as one of the finest examples of performance auditing examined in his study.

Under Clinton Tanimura’s leadership, the office addressed many critical issues. The reports contributed to constructive debate about the management of

government resources, and they were instrumental in improving government services. Our 1975 report on the Public Utilities Commission was an early success in bringing about needed improvements. Various publications used the report as a case study, including *Auditing Performance in Government* (John Wiley and Sons, 1982) by Richard E. Brown, Thomas P. Gallagher, and Meredith C. Williams. Based on our recommendations, the Public Utilities Commission was completely reorganized with new rate-making and adjudication procedures, and a consumer advocate was established to handle appeals against the commission.

The office received national recognition for its work. In 1972 the National Conference of State Legislatures presented the office with a First Place Award For Excellence in a Legislative Report for its audit of the educational television system. In 1974, and again in 1981, the Governmental Research Association gave the office its "Most Distinguished Research Award." The 1974 award was for an audit of the faculty

workload at the University of Hawaii and the 1981 award was for a management audit of organization, planning, and personnel at the University of Hawaii.

Changing times mean changing ways

After serving more than two full terms, Clinton Tanimura retired in December 1988. Newton Sue, who had served as Deputy Auditor, became the new Acting State Auditor.

By 1989 all states had auditors responsible for post-audit functions. In addition, performance auditors had become a recognized profession with official standards. In 1989, Acting Auditor Sue adopted generally accepted government auditing standards for the office. These standards had been promulgated by the U.S. General Accounting Office to ensure the credibility, reliability, and quality of audit reports. Adopting the standards has meant new policies and significant changes in our operations, but we believe that the office now has a more credible and accountable audit operation.



Analysts research state and national data bases by modem.

In tandem with this improvement, we made a concerted effort to enhance the readability of our reports. Realizing that legislators deal with a flood of information, we made our reports more sharply focused and concise, including only information that is relevant and significant. In addition, we adopted a new format that highlights our findings and recommendations. We created a short detachable overview for each report that legislators can compile and put in notebooks for quick reference during committee hearings. And we started to use photographs to illustrate the findings.

When Marion Higa became Acting State Auditor on December 31, 1991, she instituted three new policies. To

strengthen communications with the Legislature, she, together with other office staff, presented testimony and briefed legislators on issues that we explored in our reports. She also initiated a procedure to follow up on recommendations made in prior reports to determine whether needed improvements had been made and to continue to hold agencies accountable for their performance. Also, in recognition of the constitutional language that created the position of an auditor, the new incumbent has dropped the adjective “legislative” from her title and is now known as the State Auditor.

Looking to the future

The office remains committed to its mission. Independence, objectivity, and credibility are our strongest assets in fulfilling this mission. We remain alert to ways that will make us more effective in helping the Legislature carry out its policy making responsibilities. To that end, we continue to evaluate our own performance just as we evaluate the performance of other state agencies in meeting their objectives.

A professionally competent and trained staff is essential. We require and provide continuing



professional education for their growth and development. We continue to look for ways to increase staff and management productivity and effectiveness.

To ensure the office is responsive to the needs of the public and the Legislature, we will continue to initiate audits of government programs that significantly impact the lives of Hawaii's citizens, that have policy implications, and that bear potential for improvement. We will respond to the legislative requests as directly and fully as possible.

HIGHLIGHTS OF THE REPORTS

The office issued 24 reports as the result of our 1992 work program: 11 performance audits and special studies, 7 sunset evaluations, 1 sunrise analysis, 1 health insurance analysis, 3 financial audits, and a summary report on our review of special and revolving funds.

These reports examined important issues that deal with both the accountability of state agencies for their performance and the concerns of the public who receive state services. We also analyzed 50 proposed new special and revolving funds.

In many instances management and program operations of state agencies could be improved by better management controls and clearer missions and priorities. Our recommendations covered state programs involving child support enforcement; conservation of marine and natural resources; curriculum, budgeting, and repair and maintenance of Hawaii's public schools; programs for persons



Reports issued by the Office of the Auditor.

with developmental disabilities; and mental health services for public school children.

We studied security staffing for the State's correctional institutions, the adequacy of the procurement law, and the status of the Department of Education's financial management systems. We reported that the security staffing formula used by the Department of Public Safety is reasonable but supported by questionable data. The procurement law does not meet the State's procurement needs and we recommended that the State revise the law using the American Bar Association's model procurement code as a framework. The education

department's financial management system has not produced the intended results.

Seven occupational licensing programs were studied. We recommended improvements in regulatory programs for podiatry, massage, medicine, osteopathy, physical therapy, and time sharing. Using criteria in the Sunset Law, we recommended that the regulation of bail bond agents be discontinued and that proposed regulation of counselors not be enacted.

We studied the social and financial impact of requiring health insurance coverage to

screen children for lead poisoning. We found that there is little demand for coverage; that insurance alone may not lead to more screenings; and that coverage would likely increase health care costs and insurance costs.

Our financial audits disclosed weaknesses in internal controls at the Departments of the Attorney General, Health, and Public Safety. We recommended improved policies, procedures, and the institution of appropriate controls.

Summaries of each of our reports can be found in Appendix A.

FOLLOW-UP ON PRIOR RECOMMENDATIONS

The office follows up on recommendations made in prior reports to determine whether prompt and appropriate actions have been taken. Our policies require us to track the status of both legislative and management actions.

During the legislative session, our monitoring team attends hearings, reviews testimony, and

tracks any legislative actions taken to implement our recommendations. In October of each year, the State Auditor sends a letter to state agencies requesting information on actions they have taken to implement recommendations.

Agency responses to letters sent in October 1992 are summarized in Appendix B.

ESSAY: FISCAL RESPONSIBILITY AND ACCOUNTABILITY

Fiscal responsibility and accountability are always demanded of government officials, but in times of tight budgets and constrained revenues, the public's expectations of its officials find greater voice. We add our voice to the call.

In a speech to a 1972 Pacific Conference of Legislators, then State Auditor Clinton Tanimura described fiscal responsibility from several perspectives.

The first perspective means public officials demonstrate fidelity and honesty in financial transactions. Government officials are expected to adhere to laws, rules, and policies in collecting and expending public funds.

A second perspective requires public officials to be accountable for efficiency and economy of operations. Government agencies should conserve funds and not spend public money on luxuries, unnecessary frills and other nonessential costs.

A third and most important perspective is that government

agencies must be held accountable for the results and accomplishments of their programs. He cautioned that agencies may be spending money efficiently but not achieving the desired results.

The Legislature plays a key role in ensuring fiscal responsibility. Under the doctrine of the separation of powers as provided for in both the State and U.S. Constitutions, legislative, executive, and judicial branches are to be coequal. The Legislature's power lies in its control over revenues and expenditures. To the extent that this power is eroded, the integrity of the Legislature as an institution is undermined. It is unable to assure either its own fiscal responsibility or that of the executive branch.

Two of the reports of our 1992 work year highlight the issue of the Legislature's loss of control over public moneys. In *Loss of Budgetary Control: A Summary Report of the Review of Special and Revolving Funds* (Report No. 92-14), we noted that the power of the Legislature is partly a function of the amount of

money in the general fund. We found an increasing effort by agencies to establish and use special funds. We believe that this has weakened the Legislature's ability to control the state budget. Funds diverted are funds not available for other current or more pressing programs.

We found cash balances in special and revolving funds aggregated about \$1.5 billion. As of June 30, 1991, cash balances in funds we recommended for repeal amounted to \$146 million. We recommended that the Legislature should consider repealing those special and revolving funds we identified for repeal and establish sunset dates for all existing and newly established special and revolving funds. We also recommended clearer definitions for special funds—that the funds should be used only when this means of financing is essential to the successful operation of a program, and when a clear link exists between the program and the sources of revenue dedicated to its support. Finally, we recommended that any proposal to create a new special or revolving fund be supported by evidence of need.

In another report, *A Study of Legislative/Executive Fiscal Relations* (Report No. 93-2), we identified improvements that could strengthen the Legislature's power to set policy for the State. We found that with respect to budget review, the Legislature lacks the resources to deal with the executive branch on an equal footing. Budget documents are obscure and difficult to use, much of the information legislators need is missing, budget requests and information are not submitted in a timely manner, and legislative staffing is inadequate.

With respect to budget execution, we found that the Legislature has granted the executive so much latitude that legislative power to implement state policies through program appropriations has been undermined. The Legislature has regularly included provisions in the general appropriations acts that allow the governor to make transfers among appropriations and programs. This has given the executive branch the power to reduce funds for certain legislatively initiated programs or not fund them at all. It has also allowed the executive to initiate and fund major programs without legislative authorization.

We had also noted in an earlier report the large backlog of authorized but unimplemented capital improvement projects—*Examination of Selected Aspects of the State General Obligation Bond Fund* (Report No. 82-3). The impact of this backlog is a long lead time between legislative authorization and actual implementation so that the CIP budget is an unrealistic spending plan. A second—and more important—impact is that the backlog allows the governor to pick and choose which projects will be implemented.

We recommended in our recent report on legislative/executive fiscal relationships that the budget process be made more useful and understandable. The Legislature should consider establishing a joint committee to amend the Executive Budget Act, Chapter 37, Hawaii Revised Statutes. The Legislature should

also consider enacting legislation to limit executive flexibility to make transfers and restrictions. It should strengthen its resources by expanding its fiscal staff, gaining independent access to detailed information on revenues and expenditures, and adopting such tools as fiscal notes.

We stated in a prior report, “Informed legislation is a fundamental prerequisite of responsible government.” The Legislature must have timely and relevant information so that it can stake out its position and become an informed and independent voice in determining state policy. The Legislature can take action on many fronts to regain control over the purse. This is increasingly important to restore public trust that government is allocating resources in the most effective, responsive, and responsible manner.

SUMMARY OF REPORTS—1992 WORK PROGRAM**PERFORMANCE AUDITS AND SPECIAL STUDIES****Review of the Insurance Rate Increase Request by AIG Hawaii, Inc. (Report No. 92-13)**

The Insurance Division of the Department of Commerce and Consumer Affairs granted AIG Hawaii, Inc. a 44 percent increase in automobile insurance rates. Soon after, the Insurance Commissioner resigned and accepted a position as president of AIG Hawaii. Because of the potential conflict of interest, the Legislature requested the State Auditor to review AIG Hawaii's rate filing. We secured the services of the Casualty Actuarial Practice of KPMG Peat Marwick to assist us in this review. We found the increase was warranted and the Insurance Division's review complied with its own standards and procedures and Hawaii's motor vehicle insurance rating laws as well as generally accepted actuarial principles of ratemaking. We recommended that the Insurance Division develop a policy and procedures manual for reviewing rate filings and a checklist for documenting its review.

Study of Costs Incurred by Financial Institutions to Comply with Investigative Subpoenas (Report No. 92-15)

Investigative subpoenas, served on financial institutions, are used to obtain records useful for cash flow analyses prior to taking legal action. Because both the attorney general and the Honolulu prosecuting attorney complained that financial institutions charged widely varying fees to reproduce documents, the Legislature passed Act 273, HRS, to set uniform rates of \$15 per hour for research and 50 cents per page for reproduction. In addition, the Legislature asked the State Auditor to review the situation. We found no consistent relationship between charges and costs reported by financial institutions. Research charges ranged from \$10 to \$40 per hour and reproduction from 15 cents to \$3 per page for a total of \$40,000 in response to 106 investigative subpoenas. We concluded that the fees set in Act 273 offered a reasonable compromise.

Study of Curriculum, Budgeting, and Repair in Hawaii's Public Schools (Report No. 92-31)

We found that the Department of Education (DOE) lacks an effective curriculum management system. Educators disagree on the substance of the core curriculum and that of add-on programs. Therefore, we recommended that the Board of Education better manage its curriculum, develop new policies to fix responsibility for curriculum management, and monitor the department's implementation of those policies.

We found that the proposed restructuring of the department's program budget, though well-intentioned, gives only slightly more decision-making authority to schools and that this is offset by a large loss in accountability. We recommended that the Legislature not appropriate according to the proposed new lumpsum program categories for the next fiscal biennium appropriations but authorize a lumpsum budgeting pilot project.

To improve the school repair and maintenance program, we recommended that the DOE and the Department of Accounting and General Services (DAGS) update their memorandum of agreement, implement a training program for school administrators on the basics of repair and maintenance, and develop standards for school inspections. In addition, DAGS should determine how to deploy its repair

and maintenance positions to ensure that Oahu schools receive the same level of service as those on the neighbor islands. And the Legislature could consider providing consistent funding for major programmed repairs.

Study of Hawaii's Procurement Code (Report No. 92-29)

We found Hawaii's procurement system to be inefficient and costly because the law is out of date, incomplete, open to interpretation, and unable to meet state purchasing requirements. In addition, we found state procurement to be decentralized both for policy and practice. No central authority is responsible for issuing procurement rules or managing state procurement. We therefore recommended that the State revise its procurement law using the American Bar Association's model procurement code as a framework. Furthermore, we recommended that the Legislature establish an independent Procurement Policy Office, assisted by a Procurement Advisory Committee, to issue rules, administer policy, develop a manual, and train officials.

Review of Security Staffing at the Department of Public Safety (Report No. 92-27)

We found that the Department of Public Safety used questionable data to calculate security staffing needs. In addition, we found that high overtime costs (\$8.4 million in FY1991-92) were just one aspect of the department's lack of controls over time lost through leaves and vacancies. We recommended that the department fix responsibility at a senior management level for security staffing and for assuring the reliability of data used to determine staffing needs. The department should install a security staffing system that includes policies, procedures, and guidelines for creating adequate staffing plans and for monitoring performance and compliance. Also, the department should establish appropriate management controls over lost time and overtime.

Management Audit of the Child Support Enforcement Agency (Report No. 92-22)

In 1992, Hawaii's Child Support Enforcement Agency (CSEA), the largest division in the Department of the Attorney General, collected more than \$55 million in child support and disbursed about \$54 million to custodial parents. We initiated this audit because previous audits and recent complaints indicated serious deficiencies in the agency's financial management. We found that CSEA lacked a system for financial management and a system for case management. As a result, the agency could not ensure the accuracy of case records, collections, and payments. Families dependent on child support suffer the consequences.

We recommended that CSEA should hire a controller to design and install a financial management system. In addition, the agency should establish management controls over its case processing.

Review of the Transfer of the Marine Patrol and Potential Transfer of the Division of Conservation and Resource Enforcement to the Department of Public Safety (Report No. 92-28)

Responsibility for protecting Hawaii's natural resources and users of those resources is shared between the Department of Land and Natural Resources (DLNR) and the Department of Public Safety (PSD). We found that the transfer of the marine patrol to PSD had not improved conservation and enforcement efforts because DLNR and PSD had not coordinated enforcement activities. The transfer of DLNR's enforcement arm, the Division of Conservation and Resource Enforcement (DOCARE), to PSD would result in similar problems. Therefore, we recommended that the Legislature clarify the mission, role, and responsibilities of the marine patrol and either transfer the marine patrol to DLNR or require PSD and DLNR to coordinate their enforcement activities. Further, we recommended that DOCARE remain within DLNR.

Study of the Department of Health's Administration of Contracts for Purchases of Service for Persons with Developmental Disabilities (Report No. 92-32)

Developmental disabilities, such as autism and profound mental retardation, severely limit a person's ability to function in daily activities. The Legislature asked the State Auditor to study the Department of Health's contract policies and administrative processes for providing services to persons with developmental disabilities. We found that the department did not base its payment to private service providers on the costs of services. Therefore, we recommended that the Legislature require the department to develop a purchase of service payment system based on reasonable and equitable costs. In addition, the director of health should not only execute and pay purchase of service contracts on time but also monitor those contracts uniformly. Further, the department should develop better ways to determine whether services are being provided to all who need them.

Study of the Memorandum of Agreement for Coordinating Mental Health Services to Children (Report No. 93-1)

In 1980 the Legislature required that the Department of Health and the Department of Education develop a memorandum to coordinate mental health services for public school children. The Legislature asked us to assess the effectiveness of the agreement and we found that it is no longer serving its intended purpose. We recommended that the two departments implement, monitor, and update the memorandum. The Department of Education needs to ensure predictable mental health services for special education children, and the health department needs to define its mission and priorities for children's mental health. Legislative action may be appropriate.

Study of the Fiscal Relationship Between Hawaii's Legislative and Executive Branches (Report No. 93-2)

In requesting this study, the Legislature noted that the executive branch has increased its authority over spending matters while the Legislature's role has eroded. We found that with respect to budget review, the Legislature lacks the resources to deal with the executive branch on an equal footing. With respect to budget execution, the Legislature has granted the executive so much latitude that legislative power to direct state policies through program appropriations has been undermined. We recommended steps to simplify and make more useful the State's budgeting system; to strengthen the Legislature's staff and its access to budget information; and to limit executive flexibility to make transfers and restrict appropriations.

Update on the Department of Education's Financial Management System and School Information System (Report No. 93-3)

In this report we followed up on our January 1991 report on the development by the Department of Education of two major computer systems—the Financial Management System (FMS) and the School Information System (SIS). We found that the department has expended over \$17 million so far on the FMS, but the system does not deliver important benefits that the department said it would. It does not integrate the budget system with the accounting system. Ignoring our earlier advice, the department has implemented the system without proper testing. We recommended that the department make appropriate organizational changes to better integrate budgeting and FMS; develop budget preparation capability at the school level; and work with the State's Information and Communication Services Division (ICSD) to improve system availability and response time.

SUNSET EVALUATIONS

Bail Bond Agents (Report No. 92-16)

Bail bond agents charge about 10 percent of the total bail amount to post a bond guaranteeing that amount if the defendant fails to show up in court. We found no evidence that bail bond agents have harmed consumers of their services; therefore, we recommended repeal of the licensing requirement.

Massage (Report No. 92-17)

Massage is the manipulation by rubbing, pressing, or kneading of soft body tissues for therapeutic purposes. We found that regulation of massage helps to reduce the potential for harm, diminish the association between massage and prostitution, and establish the boundaries of practice. We therefore recommended continuing the regulatory program for massage under the Board of Massage Therapy while maintaining the current requirements for training and apprenticeship.

Medicine and Surgery (Report No. 92-25)

Physicians, physician assistants, and emergency medical service personnel are regulated by the Board of Medical Examiners. We found that practitioners who diagnose incorrectly or treat patients incompetently can cause serious harm. We also found that the board does not pay sufficient attention to the regulation of physician assistants and emergency medical personnel. We therefore recommended continuing the regulation of all three occupations under a restructured board that includes a physician assistant and mobile intensive care technician.

Osteopathy (Report No. 92-24)

Osteopathic physicians are medical practitioners who emphasize the relationship of the neuro-musculoskeletal system to the other body systems. We found the dangers posed to the public by incompetent osteopathic physicians are similar to those posed by medical doctors. Therefore we recommended continuing the regulation of osteopathic medicine but doing so under the Board of Medical Examiners. The Board of Osteopathic Examiners would then be terminated.

Physical Therapy (Report No. 92-20)

Physical therapists treat and rehabilitate persons suffering from pain, loss of mobility, or a disabling injury or disease. We found that improper application of physical therapy techniques could cause serious harm. We therefore recommended continuing the regulation of physical therapists under the Board of Physical Therapy.

Podiatrists (Report No. 92-18)

Podiatrists are independent medical practitioners who diagnose and treat conditions affecting the human foot and ankle. We found that podiatrists who make incorrect diagnoses or offer incompetent treatment can cause harm. Therefore, we recommended continuing the regulatory program, adding a podiatrist to the Board of Medical Examiners, and requiring applicants to pass national examinations on the sciences and clinical competency.

Timesharing Plans (Report No. 92-19)

Timesharing offers buyers exclusive right of occupancy in a unit of real estate, generally a condominium apartment, for a recurring period of time, usually one to four weeks each year. We found that regulation

of time sharing has protected consumers against foreclosures on their units and misrepresentation by developers and salespersons but has not adequately addressed problems in plan management. We therefore recommended continuing the regulatory program with several improvements including stronger controls over plan management.

SUNRISE ANALYSIS

Counselors (Report No. 92-23)

Counselors help people with personal, social, educational, and career problems. We found insufficient evidence of harm by counselors to warrant regulation, and we recommended that the proposal to regulate counselors should not be enacted.

HEALTH INSURANCE

Study of Health Insurance for Lead Poisoning Screening (Report No. 92-10)

Our office was asked to assess the social and financial impact of requiring health insurance coverage to screen children for lead poisoning. We found that few individuals are using this screening for a variety of reasons. Insurance alone will not guarantee that more people will get screened, and requiring coverage will probably increase the cost of health care and insurance rates.

FINANCIAL AUDITS

Financial Audit of the Department of the Attorney General (Report No. 92-21)

We contracted with the CPA firm of Deloitte & Touche for a financial audit of the Department of the Attorney General for FY 1991-92. We found that—except for the checking accounts maintained by the Child Support Enforcement Agency (CSEA), a division of the department—the department's financial statements present fairly its financial position and the results of its operations as of June 30, 1991. However, we found a deplorable lack of internal controls at CSEA. The agency had no record of the balances in its checking accounts and had not matched support payments of \$465,000 to its case records. We made these recommendations among others: the agency should establish internal controls over its bank accounts and take immediate steps to identify the unknown payors and payees of child support.

Financial Audit of the Department of Public Safety (Report No. 92-26)

In conjunction with the CPA firm of Coopers & Lybrand, we examined the financial statements and internal controls of the Department of Public Safety for FY 1991-92. We found that, except for the general fixed assets account group, the department's financial statements present fairly its financial position as of June 30, 1992. In contrast, we found the department's internal controls, particularly on the use of overtime at the correctional facilities, to be insufficient, resulting in a pattern of abuse. Supervisors at the Halawa Correctional Facility were allowing employees to regularly misuse overtime so that some employees were collecting almost double their annual salary. And shift supervisors approved timesheets authorizing overtime when no overtime was earned. We therefore recommended that the department institute controls over the approval and use of overtime and ensure that timesheets are accurately filled out.

Financial Audit of the Department of Health (Report No. 92-30)

After examining the financial statements and internal controls of the Department of Health, our office in association with the firm of Nishihama & Kishida, CPA's, Inc. reported the following: except for the state hospitals fund and the general fixed assets account group, the department's financial statements present fairly its financial position as of June 30, 1992. However, the department had weaknesses in its financial management and neither executed nor monitored its contracts efficiently. We recommended that the department complete its contracts before services begin, clarify payment terms, and develop monitoring standards. Further, the department should deposit and record cash receipts daily, transfer money improperly held in special funds to the general fund, and perform monthly bank reconciliations.

SPECIAL FUND ANALYSES

Loss of Budgetary Control: A Summary Report of the Review of Special and Revolving Funds (Report No. 92-14)

Special and revolving funds, created to finance specific activities or programs on a continuing basis, divert moneys from the general fund, thus reducing the Legislature's control of state finances. We reviewed 166 funds totalling about \$1.5 billion that is not available for other programs. We recommended that 70 of these funds (totalling \$146 million) be repealed, discontinued, or sunsetted. Further, we recommended that the Legislature establish sunset dates for all existing and newly created special and revolving funds, repeal the authority of the University of Hawaii to establish these funds administratively, and require that proposals for new funds be supported by evidence of need.

**Follow-Up on Past Reports
(Report Nos. 91-16 through 92-12)**

Title of Report	Recommendation(s)	Comments*
91-16 Sunset Evaluation Report: Social Workers	Repeal Chapter 467D, HRS	Chapter 467D was repealed.
91-17 Sunrise Analysis of Process Servers	Repeal Chapter 634D, HRS	Chapter 634D was not repealed.
91-18 Sunset Evaluation Update: Sanitarians	Repeal regulation of sanitarians from Section 321-13(a)(1), HRS.	Not repealed.
91-19 Sunset Evaluation Report: Auctions, Pawnbrokers, Secondhand Dealers, and Scrap Dealers	Amend Chapter 445, HRS to return control over these four business licenses to the counties	Implemented except for pawnbrokers.
91-20 Management Audit of the Legal Aid Society of Hawaii	<p>The Board of Directors of the society should improve its committees, evaluate the executive director, and maintain records in good order.</p> <p>The society should improve planning, ensure staff input, monitor outcomes, improve working conditions, and computerize as appropriate.</p>	<p>The society says that it has reviewed its committee structure, evaluated its executive director, and improved record keeping.</p> <p>It has begun work on its second five-year plan and discussion on operational issues.</p>
92-1 Financial Audit of the Department of Personnel Services	The department should ensure that organizational changes are authorized; explore restitution of pay made as a result of an unauthorized reorganization; and periodically reconcile its accounting records with those of the Department of Accounting and General Services.	The department plans to submit a reorganization plan for approval, has pursued restitution of pay, and is reconciling its accounting records as recommended.

*Includes actions reported in 1992.

Title of Report	Recommendation(s)	Comments*
92-2 Financial Audit of the Department of Land and Natural Resources	The department should cease releasing certificates of deposit to lessees in default; establish policies and procedures governing the release of all certificates of deposit or other forms of cash performance bonds to lessees; comply with the requirements of Section 171-20, HRS concerning notice of breach or default; and establish procedures to ensure that all lessees' surety bonds are maintained on a current basis.	The department reports that it has taken action to implement the recommendations.
92-3 Review of Special and Revolving Funds of the Housing Finance and Development Corporation and the Department of Business, Economic Development, and Tourism	Repeal or modify various funds.	No legislation enacted.
92-4 Study of Financing for Heart Transplant Services in Hawaii	No recommendations.	
92-5 Review of the State Health Planning and Development Agency	<p>The Legislature should consider limiting the agency's function to regulating large capital investments in health care facilities and medical technology.</p> <p>The agency should determine the appropriateness of its numerous service categories, and recommend more meaningful thresholds for those it decides to retain. It should also develop better ways to measure its effect on containing costs; monitor the projects it approves; improve management controls over the certificate of need process; reduce the number of reviews by advisory committees; and develop its research capacity.</p>	No legislation enacted. The agency prefers to address annual and operating costs rather than one-time capital costs. It is working to implement some recommendations, disagrees with others, and points to insufficient resources as a problem.

*Includes actions reported in 1992.

Title of Report	Recommendation(s)	Comments*
<p>92-6 Study of the Division of Community Hospitals</p>	<p>The Legislature should establish the Hawaii Community Hospitals Public Corporation to operate the community hospitals and enact interim measures to improve hospital management before the corporation becomes effective.</p> <p>The division should appoint a permanent, qualified person to manage the Community Hospitals Information Processing System (CHIPS). The division should also improve the management of the hospitals' accounts receivable; improve its financial management system to identify the cost of services; and report to the 1993 Legislature how much general fund support is needed for indigent care.</p>	<p>Legislation enacted requiring the department to formulate policies for autonomous operation of certain hospitals and meet with private health care providers to draw on their management expertise. The division reports hiring a CHIPS manager, reducing accounts receivable, and instituting a financial management program.</p>
<p>92-7 Study of Transportation Services for Persons with Disabilities</p>	<p>The Legislature should clarify the State's responsibility for supporting transportation services for persons with disabilities. It should appropriate resources to augment and strengthen existing transportation services, and help the counties meet the requirements of the American with Disabilities Act.</p>	<p>No legislation enacted.</p>
<p>92-8 Review of Special and Revolving Funds of the Departments of Commerce and Consumer Affairs, Education, Health, and Human Services</p>	<p>Repeal or modify various funds.</p>	<p>No legislation enacted.</p>
<p>92-9 Review of Special and Revolving Funds of the University of Hawaii</p>	<p>Repeal or modify various funds.</p>	<p>No legislation enacted.</p>
<p>92-10 Study of Health Insurance for Lead Poisoning Screening</p>	<p>No recommendations.</p>	

*Includes actions reported in 1992.

Title of Report	Recommendation(s)	Comments*
<p>92-11 Review of Special and Revolving Funds of the Judiciary and the Departments of the Attorney General, Labor and Industrial Relations, Land and Natural Resources, Personnel Services, Taxation, Transportation, and Public Safety</p>	<p>Repeal or modify various funds.</p>	<p>No legislation enacted.</p>
<p>92-12 Financial Audit of the Department of Business, Economic Development, and Tourism</p>	<p>The department should stop contracting with other state agencies to avoid constitutional provisions on the lapsing of appropriations. It should be required to comply with the State Accounting Manual and the governor's budget execution policies; should develop guidelines for administering contracts, and documenting loan activities. Other improvements should be made in the areas of segregation of duties, depositing of receipts, recording of security deposits, and controls over petty cash.</p>	<p>The department reports it has developed contracting guidelines and will be making improvements in loan operations and internal controls. It disagrees that it contracts with state agencies to avoid lapsing.</p>

*Includes actions reported in 1992.

**Office of the Auditor
Appropriations and Expenditures
for the fiscal year ended June 30, 1992**

APPROPRIATIONS

Act 1, SLH 1991 (operations)	\$ 1,816,000
Act 1, SLH 1991 (special studies)	150,000
Act 222, SLH 1991 (collective bargaining augmentation)	<u>6,250</u>
	1,972,250

EXPENDITURES

Staff salaries	\$ 1,206,289
Contractual services	293,215
Other expenses	<u>312,740</u>
	1,812,244

Excess of appropriations over expenditures \$ 160,006

EXCESS OF APPROPRIATIONS OVER EXPENDITURES

Act 1, SLH 1991 (operations)	\$ 10,006
Act 1, SLH 1991 (special studies)	<u>150,000</u>
	<u><u>\$ 160,006</u></u>