
1994 Annual Report

*State of Hawaii
Office of the Auditor*



**Marion M. Higa
State Auditor**

The Office of the Auditor

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.

To carry out its mission, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with the schedule and criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds and existing funds meet legislative criteria.
7. *Procurement reports* include studies and audits relating to the State's procurement of goods, services, and construction.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

THE AUDITOR STATE OF HAWAII

Kekuanao'a Building
465 South King Street, Room 500
Honolulu, Hawaii 96813



Printed on
Recycled Paper

**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
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



MARION M. HIGA
State Auditor
Phone: (808) 587-0800
Fax: (808) 587-0830

The Honorable Members of the Legislature
The Honorable Benjamin J. Cayetano, Governor
Citizens of Hawaii

April 19, 1995

Ladies and Gentlemen:

This Annual Report highlights activities and developments at the Office of the Auditor in calendar year 1994. It includes an essay on a topic that has been getting much attention lately: the future role of government auditors.

Now in the third year of my eight-year term, I remain deeply honored to serve as your State Auditor. The work of the office is being noticed, and public feedback has been favorable. More important, we believe that our reports are generating action to improve government effectiveness.

A special mahalo goes to Diana M. Chang, who recently retired as deputy auditor. Management expert Peter Drucker once said that all organizations need performance in three areas: obtaining direct results, building and affirming values, and developing people for tomorrow. In her twenty year career with the office, Diana contributed mightily in all three areas. Aloha and thanks, Diana.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marion M. Higa".

Marion M. Higa
State Auditor

TABLE OF CONTENTS

1994 - A Year of Shaping and Sharpening	1
Themes of the Reports	2
Essay: Reinventing Auditors?	4
Summary of Reports - 1994 Work Program	7
Follow-Up on Past Reports (Report Nos. 93-4 through 94-5)	14
Office of the Auditor, Appropriations and Expenditures for the fiscal year ended June 30, 1994	30

1994 – A Year of Shaping and Sharpening



Marion M. Higa
State Auditor

The year 1994 saw much progress at the Office of the Auditor. We reshaped some of our program, and our staff continued to sharpen their skills.

Reshaping our work

In 1959, the State Constitution gave the Auditor a primary mission: to conduct post-audits of the accounts, programs, and performance of state agencies. Subsequent laws placed increasing demands on our resources by requiring us to review health insurance proposals, agencies' administrative rules, occupational licensing programs, special funds, and procurement.

A 1994 law modified our responsibilities so that we can better focus our efforts. Under Act 279, no longer must we perform several "sunset" evaluations of occupational licensing programs each year as previously required. Instead, we will evaluate only the occasional new licensing program three years after enactment. Furthermore, Act 279 authorizes us to review agencies' administrative rules

selectively – that is, only as necessary to achieve our audit objectives.

As a result of Act 279, we were able to expand our audit follow-up work. Previously we often had to rely on the audited agencies for information on the status of our audit recommendations. With our sunset activities greatly reduced, we assigned staff in late 1994 to conduct follow-up on 11 audits selected from 1992 and 1993. Our work includes revisiting the agencies and reporting to the Legislature on what we find. The follow-up reports will be issued in 1995.

Stronger follow-up demonstrates our commitment to improving agency performance that extends beyond the issuance of the original audit. Follow-up will also help us assess the impact of our work, plan future audit efforts, and allocate our resources to where we can do the most good.

Also in 1994 we began reshaping our activities in response to the new Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes). Effective July 1, 1994, the law made significant changes in how state agencies purchase goods, services, and construction. Among other things, the law requires the Office of the Auditor to periodically review and audit the procurement practices of state agencies to ensure compliance. We are also responsible for advocating competition, fairness, and accountability in the procurement process. In 1994, we assigned staff and conducted the initial compliance audit.

Sharpening our skills

Our 1993 Annual Report emphasized that the professional development of our staff is a top priority. In 1994, we continued our formal training program to polish our staff's skills. Two courses presented by outside trainers – *Management Controls* and *Flowcharting for Auditors* – were particularly useful and well received.

Management controls are techniques, procedures, and plans designed to ensure that an organization meets its objectives, complies with law, prevents misuse of its resources, and maintains reliable data. Assessing management controls of state agencies is an essential element of our work. The training course reviewed the nature of management controls, standards for assessment, and how to go about it.

Flowcharts are very useful in understanding, describing, and assessing the functioning of the agencies we audit – including possible weaknesses in management controls. The training reviewed the purposes and benefits of flowcharts and how to prepare and read them. Already the course has had an impact; our staff are increasingly using flowcharts to analyze government operations, particularly those that are complex. Also, more of our reports in 1994 had flowcharts to assist readers.

We believe these and other staff training activities are paying off in greater productivity and higher quality reports.

Themes of the Reports

We produced 33 reports as a result of our 1994 work program, a record for the office. These included 20 performance audits and studies, 3 financial audits, 8 sunset evaluations, a sunrise analysis, and a health insurance analysis. Highlights of these reports begin on page 7. We also reviewed 72 proposed special and revolving funds for the 1994 legislative session.

Two main themes emerged from the reports. First, state agencies and programs need to account for their outcomes and effectiveness. Second, they need to control their costs.

Accountability for outcomes and effectiveness

Government exists to achieve a public good. Government programs must be held accountable – they need to demonstrate that they are needed and that they are effectively and efficiently accomplishing what is expected of them.

Our recent reports contain many suggestions to foster accountability for results. For example, we concluded that the Department of Business, Economic Development, and Tourism, the Department of Education, the Department of Human Services, and the state Aquaculture Development

Program all need to show how the contracts they award further their mission. The aquaculture program also needs to report more specifically on its progress in supporting Hawaii's commercial aquaculture industry; otherwise the program's value will remain unclear.

We also recommended that the Department of Education track its expenditures down to the classroom level and determine how its use of resources affects student outcomes. The Legislature should require the department to report its expenditures by function and account for differences in costs at the state, district, and school levels. Furthermore, the department needs better evaluations of the results of the "innovation" grants it awards to public schools.

We found that accountability in the state court system would be improved if the Judiciary made greater efforts to expend its appropriations only for the purposes intended by the Legislature. And the Department of Human Resources Development could help the line agencies get better results in staffing their programs by working with the Legislature to reform the cumbersome process of classifying and filling state positions.

We also concluded that many regulatory activities are unnecessary to achieve the State's goal of protecting consumers. These

include the entire licensing program for hearing aid dealers, several professional and vocational licensing boards whose duties could be taken over by the Department of Commerce and Consumer Affairs, the mandatory continuing education program for real estate agents, and a proposed licensing program for refrigeration and air conditioning mechanics.

Cost control

With the State tightening its belt, cost control is more important than ever. In 1994, we reported a continuing lack of appropriate controls over overtime in the correctional facilities operated by the Department of Public Safety. As a result, overtime costs have continued to soar. Several employees were actually compensated for more overtime hours than regular hours during FY1993-94. One employee received overtime pay of \$52,735 in addition to his regular pay of \$30,544.

While social service agencies may wish to serve everyone in need, they have in common with other agencies the responsibility to control costs. Yet we found many problems. In its Foster Board Payment Program – a payment system for foster children's room and board and other needed items – the

Department of Human Services was not adequately controlling expenditures or collections. There were no guidelines for social workers for discretionary outlays. We also examined the department's JOBS program, whose goal is to assist AFDC families to achieve personal and financial self-sufficiency. We found that the program's approach to employment and training is wasteful and does not focus on reducing welfare costs. Successful "exits" from the program cost taxpayers nearly \$100,000 per client.

Taxpayers expect government to exercise stewardship over their hard-earned dollars. We will continue to monitor the costs and accountability of government operations to help ensure that these expectations are met.

Staff of the Office of the Auditor

Marion M. Higa	<i>State Auditor</i>
Leslie I. Tanaka	<i>Deputy Auditor</i>
Dallas G. Weyand II	<i>Assistant Auditor</i>
J. James McMahon	<i>Assistant Auditor</i>
Van Lee	<i>Assistant Auditor</i>

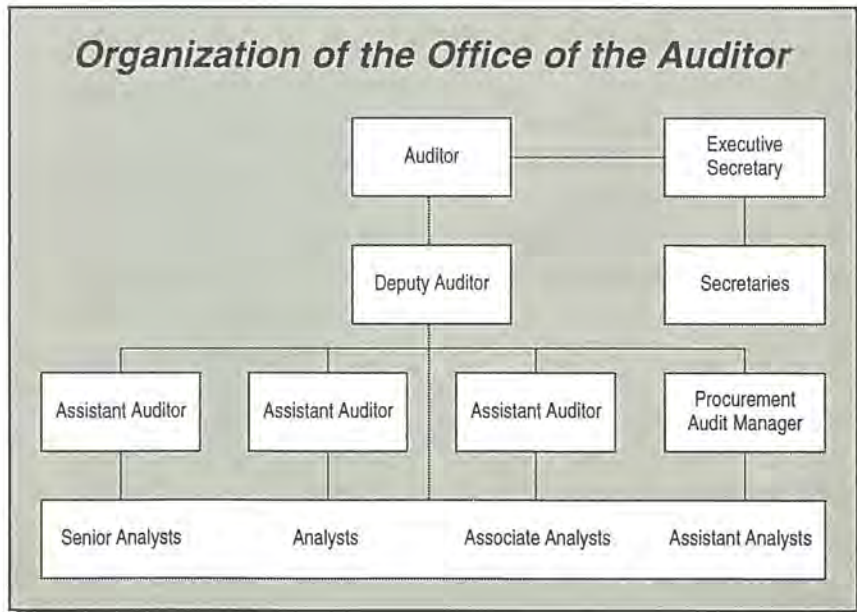
ANALYSTS

Rumiko Aihara	Richard P. Roll
Steven M. Araki	Andrew S. Rosen
Melanie A. Chinen	Heather B. Sanchez
Maria B.J. Chun	Tony Smalley
Susan Hall	Jim Sterling
Karen Ho	Janice Takano
Craig A. Hopseker	Shari Y. Tasaka
Cindy Kam-Spallina	Cheryl W. Tokunaga
Melvia C. Kawashima	Joseph W. Trias
Gansin K.S. Li	Michael T. Yamashita
Pamela K. Matsukawa	Richard A.K.L. Yuen
Robert A. McClelland	

OFFICE SERVICES

Evelyn Kanja	Deborah M.A. Higa
Carol J. Andrade	Patricia Mukai

Organization of the Office of the Auditor



Essay: Reinventing Auditors?

In auditing government agencies, we seek to foster accountability and improve the world around us. Recent events, though, are making it tougher to know just what the world expects of us. What, exactly, should be our contribution to government in the years ahead?

The challenge springs largely from the “reinventing government” movement. Reinvention strives for leaner, more effective public programs. The recipe for reinvention has many ingredients such as “cutting red tape,” “putting customers first,” “empowering employees to get results,” and “getting back to basics.”

These slogans provoke basic questions relating to the proper role of government auditors. Is reinvention more than a fad? Will reinvention change what auditors do and how we do it? Will auditors be reinvented too?

Our impression is that some form of government reinvention is here to stay. To meet the challenge of reinvention, auditors will need to be flexible and open to change. But we also will need to steer a steady course, preserving the essence of auditing and hewing to our legal authority.

Auditors and red tape

Reinvention calls for less red tape in government. Reinventors

envision government agencies and their employees focusing on effectively serving their customers, not acting as custodians of bureaucratic processes that stymie getting the job done.

We share this vision. In our audit reports, we frequently challenge cumbersome, unproductive processes – for example the State’s system for classifying its job positions. We often recommend streamlining, and we’ll continue to do so.

Much of reinvention, then, appeals to us as auditors. Nevertheless, some observers detect a tension between the traditional language of auditing, such as legal compliance and controls, and the new language of reinvention, such as empowerment and flexibility. The audit mentality is criticized for inhibiting government employees, while the reinvention mentality is hailed for unleashing their creativity and productivity.

As auditors, we will certainly need to hone our ability to distinguish needed from unneeded controls and avoid nitpicking about minor infractions. We should be open to reexamining the nature of accountability and how best to assess it.

While flexibility is often desirable, however, taxpayers still expect auditors to report whether government agencies are doing things “by the book” – according to applicable laws, regulations, procedures, and, yes, processes. For example, state law requires us to identify “unautho-

rized, illegal, irregular, improper, or unsafe handling or expenditure of state funds.” This is central to our mission.

To illustrate, in 1994 we reported that the state Department of Human Services, even after warnings from the governor and discussions with our office, had repeatedly circumvented state laws and fiscal controls by charging expenditures of certain programs to legislative appropriations meant for other programs. The department responded that it did this to ensure that its clients received adequate social and welfare services when funds for certain programs were inadequate.

In the department’s view, it was getting the job done and serving its customers. It said its “primary obligation to deliver essential social and welfare services is complicated by budgeting and funding constraints.”

But in our view, constraints exist for a reason – to impose ceilings, direction, and accountability on the expenditure of public funds. The department’s obligation to its social services clients does not transcend its obligation to its institutional clients – the Legislature, the Governor, and taxpayers. As auditors we play an important role in preserving this important value and checking up on agencies’ adherence to it.

For another illustration, Act 8 of the 1993 Special Session,

Hawaii's new government procurement law, requires us to audit agencies' procurement practices for compliance with the act. Reasonable people may disagree as to whether the new law will make it easier or more difficult for agencies to get their job done – whether it is too much red tape, to use the language of reinvention. But our legal duty is to assess compliance regardless.

Auditors as consultants

Increasingly, auditors in cities across the nation are being asked to serve as “consultants” to help municipal agencies structure their organizational systems and improve their business processes. This emerging role for auditors is also attracting interest at the state and federal levels.

Nontraditional – and some say desirable – activities of auditors have included advising a city in moving to a two-year budget and five year-financial plan, serving as consultants in implementing a quality program, and assisting agencies with public surveys and focus groups.

Understandably, government agencies may prefer to have auditors serving on the team setting up a program instead of arriving after-the-fact to find problems and place blame. Auditors are of course capable of helping agencies clarify their

mission, customers, and desired outcomes – a key goal of reinvention.

However, we doubt that we could remain independent – as required by the national auditing standards to which we subscribe – in the consultant role. How could we responsibly accept a later assignment to objectively audit the very program we helped design and the very officials with whom we worked so closely?

The conflict of serving as consultants, and the resources required, would increasingly limit the number of audits we could perform. Teaming with agencies to define their mission, customers, and outcomes would conflict with *our* mission of post auditing (established in the State Constitution). It would disserve our customers who expect independence, intrude on the territory of the Executive Branch, and threaten our intended outcome: objective reports for decision makers. Eventually, it would transform us into something other than auditors.

It is not that we are more concerned with an agency's past than its future. Our reports usually make recommendations for future action to improve government. We may call upon an agency to better define its purpose, set objectives, and develop measures of its success. We may propose other, very specific, improvements in agency management, operations, and

information. But we do all of this as independent “watchdogs,” not as participants in the audited program or consultants to it.

Auditors and policy analysis

The reinventing government movement has breathed new life into a recurring issue: How much should government auditors be involved in policy analysis?

In its purest form, government auditing involves determining whether agencies are meeting established criteria for sound performance. This is our primary mission. Policy is for others to make.

However, the line between auditing and policy analysis is not always clear. Performance problems may be rooted in policy problems – it's often hard to separate the two.

Also, the Legislature occasionally directs us to explore policy issues. For example, recently we were asked to assess whether a state antidiscrimination law should be strengthened and whether a tort reform law should be made permanent.

Reinvention intensifies the policy analysis issue. Reinvention seeks to scale down, combine, or eliminate government activities that are excessive, duplicative, or unnecessary. Decision makers may turn to

auditors for help in doing this, because auditors know how to investigate agencies' missions, scope, and effectiveness.

Thus, the Legislature in 1994 asked us to examine the possibility of combining the Hawaii Housing Authority, the Hawaii Community Development Authority, and the Housing Finance and Development Corporation into one agency.

These kinds of tasks, which are designed to resolve policy questions, require auditors to be creative. While they are not exactly audits, we respond as best we can by providing objective and accurate information to policy makers.

We also work hard to ensure that our policy work does not interfere with our audit work. In fact, our audits – particularly those that focus on what taxpayers are getting for their money – will often be useful to policy makers considering whether to preserve, modify, or reduce a program.

If reinvention thrives, it will surely raise many more questions about the role of auditors. We'll be trying to figure it all out. We hope that this essay is a beginning.



Assistant Auditor **Van Lee**, standing, discusses audit findings with team members **Robert McClelland**, **Melanie Chinen**, and **Janice Takano**.

Summary of Reports – 1994 Work Program

PERFORMANCE AUDITS AND SPECIAL STUDIES

Management Audit of the Aquaculture Development Program in the Department of Land and Natural Resources, Report No. 94-21

Aquaculture, the farming of aquatic life, has long been seen as an opportunity for economic diversification in Hawaii. With an annual budget of about \$1 million, the state Aquaculture Development Program engages in a variety of activities to support commercial aquaculture. However, we found that the program's effectiveness cannot be determined. To ensure better oversight and accountability, the chair of the Department of Land and Natural Resources should require the program to develop a management strategy for accomplishing its mission. The program should report to the chair on progress in achieving specific objectives and on the potential commercial or economic benefit of the contracts it awards.



Evaluation of the Continuing Education Program for Real Estate Brokers and Salespersons, Report No. 94-25

State law requires real estate agents to complete ten hours of continuing education every two years as a condition of license renewal. However, evidence that this requirement has improved the protection of consumers is insufficient. Furthermore, the courses are developed for a difficulty level beyond entry into the occupation; this exceeds the appropriate use of the State's police powers. The Legislature should consider allowing the continuing education requirement to be repealed on July 1, 1995 as scheduled. If not repealed, the requirement should be limited to mandatory courses designed to ensure that licensees maintain a minimally acceptable level of competency.



Audit of Contract Administration and the Office of Space Industry in the Department of Business, Economic Development and Tourism, Report No. 95-3

The Department of Business, Economic Development and Tourism seeks to stimulate economic growth and to support business in Hawaii. The department spent \$31 million on contracts in FY1992-93. The department needs to do a better job of establishing the need for these contracts and identifying their intended benefits. Improvements should also include specifying the scope of contracts and allowing no work to begin before contract execution. We also found that the department's Office of Space Industry pursued a space launch facility for Hawaii without a strategic plan and relied on questionable contracts. The department should cease spending funds on a launch facility without clear evidence of private investment interest.



Audit of the Department of Human Services' JOBS, Food Stamp Employment and Training, and General Assistance Work Program, Report No. 95-4

The Department of Human Services spent \$14.5 million in FY1993-94 on these welfare-to-work programs, which are designed to make welfare recipients self-sufficient and exit from welfare dependency. We focused on JOBS, the federally mandated work program for AFDC recipients. We found the department has implemented an expensive program that has led to a long waiting list with only a few successful exits. The program's comprehensive multi-disciplinary approach to employment and training is inefficient, expensive, wasteful, and focuses neither on reducing welfare costs nor increasing employability. Contract administration is weak. The department should adopt a more balanced, work-oriented approach, improve management controls, and monitor program outcomes.



The Feasibility of Applying the Micro-Financial Analysis Model to Expenditures for Public Education in Hawaii: What Reaches the Classroom?, Report No. 94-6

The Legislature is seeking better information on where and how moneys are spent in Hawaii's \$1 billion unified public school system. We engaged Bruce S. Cooper, Ph.D. of Fordham University to apply his "cascade" model for tracking expenditures from administrative costs down to classroom instruction costs on a school-by-school basis. We found the model can be applied to generate useful information – separating costs for the state office, seven district offices, and 234 schools in various functional categories. The Department of Education should build Dr. Cooper's model into its Financial Management System and use the resulting data for strategic planning to improve education and to assess the relationship between the use of resources and student outcomes.



Study of the Families Together Initiative, Final Report, Report No. 95-6

The Department of Human Services began the Families Together Initiative (FTI) in 1993 to improve programs that seek to prevent out-of-home placement of children and to reunify families. FTI was the impetus for the appropriation of an additional \$4.8 million to the department for each year of the fiscal 1993-95 biennium. We found that FTI services are needed but limited. The program is not designed to meet the needs of all families and it has not demonstrably reduced the foster care caseload. FTI should be continued, but kept in perspective with the need for other social services programs. The Legislature should not expand funding for FTI beyond its current level. FTI should determine "success" by using multiple outcome measures, including the safety of the child as the primary criterion.



Status Report on Monitoring Fiscal Accountability of the Department of Education, Report No. 95-5

Act 272 of 1994 directed us to prepare annual fiscal accountability reports of the expenditures of the Department of Education and evaluations of its programs. The act also requires the department to provide us with electronic access to its computer-based information systems. We found that it would be best for us to access the department's centralized data warehouse instead of separately accessing each of the department's several independent information systems. We also found that the department's current reporting of costs by functions – such as classroom instruction as distinguished from classroom support – does not reliably identify how educational dollars are being spent. In addition, we found that the department lacks management controls to provide reasonable assurance that expenditures for services attributed to school sites by state and district offices are actually received by the schools.



Management and Financial Audit of the Foster Board Payment Program, Report No. 94-28

In conjunction with the certified public accounting firm of KPMG Peat Marwick LLP, we examined the Child Foster Care Payment Program administered by the Department of Human Services. The program was appropriated more than \$15 million for FY1994-95 to pay for foster children's room, board, and other items. We found that program administrators have not paid sufficient attention to budgeting or sufficiently scrutinized program funding requirements. The department needs to generate accurate demographic data on foster children and expenditures, assign responsibility for budget projections to the department's Committee on Payment Projections, and clearly identify the scope of the program. The department's Administrative Services Office should implement better controls over program expenditures and collections.



Study of the Impact of the 1986 Reforms on Liability Insurance in Hawaii, Report No. 94-26

Act 2 of the Special Session of 1986 made reforms to both the tort system and the insurance regulatory system to alleviate a “crisis” in the availability and affordability of liability insurance. Together with Ernst & Young LLP, we studied the impact of the reforms on commercial liability insurance. We found that the rate reductions imposed by Act 2 were among many factors that improved the availability and affordability of commercial liability insurance since 1986. We also found that certain tort provisions in Act 2 – such as those on arbitration and damages for pain and suffering – may have slightly restrained insurers’ costs. The Legislature should consider making permanent the sections of Act 2 of the 1986 Special Session scheduled for repeal on October 1, 1995.



An Audit of Hawaii’s Implementation of the New Procurement Law, Report No. 95-8

Act 8 of the 1993 Special Session established a new procurement code for the State of Hawaii. The law was enacted to increase competition, ensure fairness, and bring about greater uniformity in the purchase of goods and services by the State and counties. The law also established a procurement compliance audit unit in the Office of the Auditor. In our initial audit, we found the administration slow in implementing the procurement code. The procurement organizational structure is ineffective with conflicting and unclear roles and responsibilities. We also found that small purchase policies vary among agencies, agencies are “parceling” their purchases to avoid competitive bidding, and agencies are using the “alternate list” method of selection to avoid competitive sealed proposals for professional services.



Review of the Incentive and Innovation Grant Review Panel of the Department of Education, Report No. 94-24

The Incentive and Innovation Grant Panel reviews proposals and recommends grants for public schools for experimental and innovative instructional programs, in-service training, and other activities that promote innovation. The Legislature appropriated more than \$1.5 million for FY1994-95 for grant awards. We found that the panel does not review all projects receiving grants, lacks full access to available funds, and has unclear criteria that it applies inconsistently. Some schools receive grants without having to compete, and ongoing evaluations of incentive and innovation projects are inadequate. We recommended correcting these problems.



Audit of the Judiciary’s Management of its Resources, Report No. 95-1

The state Judiciary administers its own budgeting and civil service personnel systems. While the Judiciary has made progress in implementing some of our previous recommendations, we found that the budgeting system is undermined by arbitrary and unpredictable actions. Furthermore, the Judiciary does not consistently expend appropriations in accordance with legislative intent and has allowed some personnel actions that were perceived as unfair or preferential. The Judiciary could improve the budgeting system by giving its programs better information about priorities and by establishing guidelines for restrictions, adjustments, and transfers of appropriations. It could improve the personnel system by establishing time standards for recruitment and classification actions, considering broad-banding the job classification system (reducing the number of job classes), and improving training for non-judicial staff.



Audit of the Administration of Personal Services Contracts in the Department of Education, Report No. 94-27

The Department of Education uses contracts for “additional personal services” to acquire a wide variety of services such as staff training, consultant services, diagnostic services, and program evaluation. We found that the department has spent millions of dollars for personal services from several thousand vendors without knowing whether the expenditures have furthered its educational mission. Furthermore, the use of additional personal services is not well managed. Problems include a lack of open competition, contracting with department employees to do work similar to their normal work, and circumvention of laws against parceling. To resolve these problems, a management system for acquiring personal services is needed.



Audit of the Process of Staffing State Programs, Report No. 94-23

Hawaii state government is the largest single employer in the state. We found that two fundamental problems plague Hawaii’s civil service system: (1) difficulties in filling positions, and (2) delays in classifying positions. The Department of Human Resources Development, the lead agency in the staffing process, should provide long-term commitment and leadership to reform the civil service system. With the number of job classes at 1,800 and rising, the department could improve the system by reducing the number of job classes (through “broadbanding”). The department should also establish clearer rules for establishing exempt positions in order to prevent abuses of the exempt process. The Department of Budget & Finance should clarify and expedite the process of agency reorganization.



A Preliminary Study of a Proposed Department of Housing, Report No. 95-7

The State promotes a wide range of housing programs to address the shortage of affordable rental and for-sale housing. The Hawaii Housing Authority, the Housing Finance and Development Corporation, and the Hawaii Community Development Authority operate programs that develop urban and rural infrastructure and construct rentals, for-sale units, and shelters for low to moderate income and homeless persons. The State has spent almost \$3 billion for these programs during the past seven years. We found that the agencies perform certain overlapping functions, although for somewhat different target groups. Before a decision is made on how housing efforts should be organized, it may be appropriate to reconsider which target groups the State could best serve, what housing goals should be met, and what strategy would best accomplish these goals.



Review of Revolving and Trust Funds of the University of Hawaii and the Departments of the Attorney General and Business, Economic Development and Tourism, Report No. 94-19

This is our second report under a law that requires the Auditor to review all existing revolving and trust funds in state government every five years. We reviewed 49 revolving and trust funds and trust accounts using criteria developed by the Legislature and by our office: whether the funds continue to serve the purpose for which they were created, do not require continuing general fund appropriations, and show a linkage between benefits and charges made on users or beneficiaries of the state program involved. For each fund or account, our report presents a five-year financial summary, the purpose of the fund, and our conclusions about its use.



Follow-Up Review of Security Staffing in the Department of Public Safety, Report No. 94-18

Working with Nishihama & Kishida, CPA's Inc., we followed up on our 1992 examinations concerning Hawaii's correctional institutions. We recommended in 1992 that the Department of Public Safety fix responsibility for security staffing at a senior management level, strengthen its leave data and staffing base, install a management approach to security staffing based on a model, and establish appropriate control over lost time (for training, leaves, vacancies) and overtime. Our follow-up found some progress but continuing problems. The department needs to fill the position of chief of security (who will focus on correctional institutions), put a priority on systems for producing reliable data, implement all elements of the model management approach, and pursue its efforts to identify and stop patterns of abuse of sick leave and overtime.



A Study of Special Fund Assessments and Reimbursements, Report No. 94-17

Unless exempted, special funds in state government by law are annually assessed for government-wide central services expenses and departmental administrative expenses. We found this appropriate because all special funds incur central services expenses and departmental expenses that are paid from general fund revenues. We also found that the existing assessment formulas need review because they are not linked to actual costs and no formal estimate of central services costs or departmental administrative costs has been made. Furthermore, the assessments should apply to all special funds, to trust funds, and to revolving funds, which is not presently the case.



A Study of the State Capitol Renovation Project, unnumbered

To date, \$65.2 million has been appropriated for the Hawaii State Capitol renovation project. Concerned about the need to contain remaining costs, the Legislature directed us to select a private consultant to study cost containment measures for the project. We chose H. Murray Hohns, Inc. to conduct the study. Among other things, Hohns found that what began as an attempt to fix the air-conditioning system evolved into asbestos abatement and a major renovation of the Capitol. Hohns estimated that it will cost an additional \$6.5 million or a total of \$71.7 million to complete the renovation project. This will delay the use of the Capitol until 1996. Hohns concluded that the expenditures were justified and project management by the Department of Accounting and General Services was acceptable under the circumstances. The report contains recommendations to improve future projects.



Study of Wage Equity in Public Employee Bargaining Units 1 and 10, unnumbered

At the Legislature's request, we retained a consulting firm to study wage equity in bargaining unit 1 (nonsupervisory employees in blue collar positions) and bargaining unit 10 ("nonprofessional" institutional health and corrections workers). We chose Hubbard & Revo-Cohen, Inc. to conduct the study. The consultants found that wage inequities exist. Female-dominated jobs – including food service, nursing, paramedical assistants, and occupational therapists – tend to be undervalued and underpaid compared with male-dominated jobs. Factors that may contribute to the inequities include Hawaii's narrative approach to job evaluation, the lack of comparisons across bargaining units, and outdated position descriptions and class specifications. The consultants recommend correcting these problems.

FINANCIAL AUDITS

Financial Audit of the Department of Agriculture, Report No. 94-22

We conducted this audit with the certified public accounting firm of Coopers & Lybrand L.L.P., which found that the department's financial statements present fairly its financial position and the combined results of its operations for the fiscal year ended June 30, 1994. We also found that the department has implemented most of the recommendations from our 1988 financial audit. However, the department still needs to strengthen its loan administration and adhere to its policies and procedures manual. We also found that moneys held in the Hamakua Sugar Loan Guaranty Trust Fund should be returned to the general fund. The Agricultural Park Special Fund and Irrigation System Revolving Fund should be repealed.



Financial Audit of the Department of Taxation, Report No. 94-20

This audit was conducted with the certified public accounting firm of Deloitte and Touche LLP. The department's financial statements present fairly its combined financial position and the combined results of its operations for the fiscal year ended June 30, 1994. The department has implemented most of the recommendations made in our 1985 financial audit. We recommend that the department strengthen its procedures for collecting unpaid taxes, deposit delinquent tax collections in a more timely manner, fill vacancies in the Collection Division and Audit Division, and consider acquiring a new income tax computer system.



Financial Audit of the Hawaii Housing Authority, Report No. 95-2

We conducted this audit with the certified public accounting firm of KPMG Peat Marwick LLP. The authority's financial statements present fairly its combined financial position and the combined results of its operations for the fiscal year ended June 30, 1994. We recommend that the authority use Section 8 unrestricted funds for badly needed maintenance programs at its housing projects. The authority should also maintain a complete listing of property included in the general fixed assets group, file all necessary documents with the state comptroller, and interview recipients of shelter and other services for the homeless when conducting site visits to providers.

MANDATED HEALTH INSURANCE

Study of Mandatory Health Insurance for Newborn Infant Adoptees, Report No 94-14

In 1991 the Legislature required insurers to extend to newborn adoptees the same health insurance coverage that they extend to natural born children of insured parents. The law is scheduled for repeal on June 30, 1995. We assessed the impact and implications of the law. We found that the requirement appears to have eliminated problems relating to insurance coverage faced by parents in adopting newborn children. The financial impact of the law is probably negligible. We recommend that the Legislature consider removing the repeal date of the law.

SUNSET EVALUATIONS

Boxing Contests, Report No. 94-8;
Elevator Mechanics, Report No. 94-12;
Hearing Aid Dealers and Fitters,
Report No. 94-7;
Medicine and Surgery, Report No. 94-13;
Motor Vehicle Industry Licensing,
Report No. 94-10;
Motor Vehicle Repairs, Report No. 94-11;
Pawnbrokers, Report No. 94-9; and
Podiatrists, Report No. 94-16

Applying the policies of Hawaii's Sunset Law, we found the entire licensing program for hearing aid dealers to be unwarranted. While the other regulatory programs evaluated are needed, they could be improved. For example, regulation could be simplified by terminating certain regulatory boards and assigning their responsibilities to the Department of Commerce and Consumer Affairs. This is the case with the Elevator Mechanics Licensing Board, the Board of Motor Vehicle Licensing, the Motor Vehicle Repair Industry Board, and – if regulation is continued – the Board of Hearing Aid Dealers and Fitters. In some cases, regulation could also be streamlined by reducing its scope. For example, the State no longer needs to license individual auto mechanics; it is sufficient to license the repair dealers who employ them.

We also recommend a variety of improvements in the administration of individual regulatory programs, such as consistently enforcing licensing requirements for boxing contests, ending the State's discrimination against mainland-trained applicants for certification as emergency medical service personnel, and authorizing license denial, suspension, or revocation for pawnbrokers convicted of certain felonies.

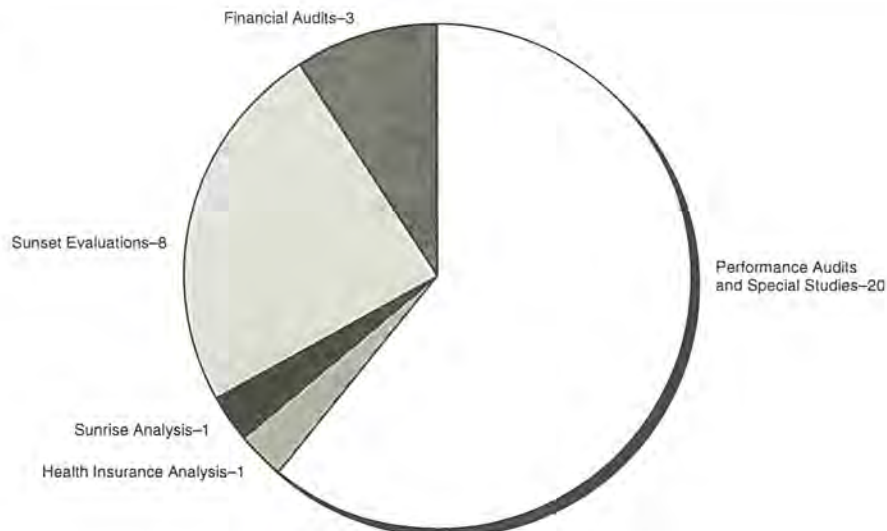
SUNRISE ANALYSIS

A Proposal to Regulate Refrigeration and Air Conditioning Mechanics, Report No. 94-15

A bill introduced in the 1994 Regular Session proposed to require the licensing of refrigeration and air conditioning mechanics. We analyzed the proposal and concluded that licensing is not necessary. We found no documented evidence of abuses by refrigeration and air conditioning mechanics. Few states regulate them. We also found that the engineers, contractors, supermarket managers, and others who would be using licensed mechanics have the experience and knowledge to protect themselves. Federal programs in environmental protection, state programs in health, union apprenticeship programs, and other activities provide additional protections.

13

Number and Types of Reports – 1994



Follow-Up on Past Reports (Report Nos. 93-4 through 94-5)

This follow-up is based primarily on our review of activity in the 1994 legislative session and state agencies' responses to our October 1994 request for information concerning actions they have taken on our recommendations.

For selected reports, we are revisiting the agencies to obtain additional information on actions taken. In these cases, we will issue detailed follow-up reports during 1995.

Sunset Evaluation Report: Nurse Aides, Report No. 93-4

Recommendations: Reenact Chapter 457A, HRS, to continue regulation of nurse aides. Define nurse aides, certification requirements, and the nurse aide registry. Require director of commerce and consumer affairs to set minimum standards, issue certificates, and maintain registry.

The Department of Commerce and Consumer Affairs (DCCA) should develop a working agreement with the Department of Health (DOH) and the Department of Human Services (DHS) delineating respective roles and responsibilities. DCCA should issue rules governing the entire certification program, including updating the registry.

Actions Taken: Act 279, SLH 1994, made Chapter 457A permanent. Act 185 defined nurse aides and required DCCA to issue certificates to qualified nurse aides and maintain an up-to-date registry including names of certified nurse aides, their places of employment, and disciplinary actions.

DCCA reports it now has an interagency agreement with DHS setting forth each department's responsibilities. DCCA also has drafted administrative rules.



Sunset Evaluation Update: Travel Agencies, Report No. 93-5

Recommendations: Reenact Chapter 468L, HRS, to continue the regulation of travel agencies.

DCCA should ensure implementation of the law by monitoring client trust accounts, ensuring that travel agencies inform group travelers of the consumer bill of rights, and improving the administrative rules. DCCA should obtain statutory authorization to use the balance in the Travel Agency Education Fund (TAEF) to pay outstanding claims

of the Travel Agency Recovery Fund (TARF) and to transfer any remaining balance to DCCA's Compliance Resolution Fund.

Actions Taken: Act 279, SLH 1994, made Chapter 468L permanent.

DCCA says it sees no problem with compliance with the trust account law. It will respond to complaints and monitor trust accounts as appropriate and will consider our recommendations when revising the rules. Act 41, SLH 1994, authorized the use or transfer of TAEF funds as we recommended.



Sunset Evaluation Update: Pharmacists and Pharmacy, Report No. 93-6

Recommendations: Reenact Chapter 461, HRS, to continue regulation of pharmacists. Amend licensing provisions to reduce the practical experience requirement from 2,000 to 1,500 hours and delete requirement of passing a state jurisprudence examination.

The Board of Pharmacy should abandon its efforts to regulate further nonresident pharmacies, to impose unnecessary requirements on pharmacist assistants, and to take over certain regulatory responsibilities of the Department of Health (DOH). DCCA should work with the board to correct inaccuracies in the board's operational manual and licensing forms, and to delete the requirement of a personal photograph.

Actions Taken: Act 279, SLH 1994, made Chapter 461 permanent. Act 39 reduced the practical experience requirement from 2,000 to 1,500 hours.

The board disagrees that it should abandon efforts to regulate further nonresident pharmacies and to take over certain DOH responsibilities. It says its proposed rules do not impose unnecessary

requirements on pharmacy assistants. The board says any inaccuracies in the manual have been corrected or are being addressed. It has moved to delete the personal photograph requirement. (Note: Act 124, SLH 1994 removes licensing boards' authority to require photographs.)



Sunset Evaluation Update: Nursing Home Administrators, Report No. 93-7

Recommendations: Reenact Chapter 457B, HRS, to continue regulation of nursing home administrators. Amend to define "nursing home," require public members on the Board of Examiners of Nursing Home Administrators, clarify experience requirements, and strengthen grounds for disciplining administrators.

The board should amend its rules to remove the state laws examination, set the length of internship training programs in clock hours, and delete the requirements for fitness, suitability, and photographs.

Actions Taken: Act 279, SLH 1994, made Chapter 457B permanent. Act 184 defined "nursing home," required at least one public member on the board, authorized the board to set minimum qualifications of education, training, and experience, and strengthened the grounds for disciplining administrators.

The board says it has voted to amend its rules as recommended.



Sunset Evaluation Update: Nurses, Report No. 93-8

Recommendations: Reenact Chapter 457, HRS, to continue regulation of nurses and amend to repeal disciplinary proceedings for "gross immorality."

The Board of Nursing should amend its rules to require a single educational standard for all license applicants, require a background check for all states in which an applicant for licensure by endorsement has been licensed previously, and require all nursing education programs to acquire and retain accreditation from the National League of Nursing.

Actions Taken: Act 279, SLH 1994, made Chapter 457 permanent.

The board says it supports a single educational standard. It has not formed a consensus on background checks. It proposes to require all new nursing programs to first be accredited by the National League of Nursing.



Sunset Evaluation Update: Dental Hygienists, Report No. 93-9

Recommendations: Reenact Chapter 447, HRS, to continue regulation of dental hygienists. Amend to allow all dental hygienists to perform routine dental hygiene under the general supervision of a dentist, allow licensure by credentials of licensed dental hygienists from other states, authorize dental hygienists to administer intra-oral infiltration local anesthesia only if they provide documentary proof that they are certified in the procedure, and substitute two dental hygienist members for two dentist members on the Board of Dental Examiners.

The Board of Dental Examiners should amend its rules to eliminate the requirement for a state written examination for dental hygienists.

Actions Taken: Act 279, SLH 1994, made Chapter 447 permanent. Act 183 implemented the recommendation concerning intra-oral infiltration local anesthesia and added a dental hygienist to the board.

The board reports it has deleted the state written examination.



Audit of the Research Corporation of the University of Hawaii, Report No. 93-10

Recommendations: The Legislature should require the University of Hawaii (UH) to report to the 1994 legislative session on its plans to restructure the relationship between RCUH and the University of Hawaii. The report should include how UH intends to hold RCUH accountable; the role and function of the RCUH Board of Directors; and the RCUH rela-

tionship to other UH research activities. A final report on implementation of the reorganization should be presented to the 1995 legislative session.

RCUH should report accurately on its revenues and expenses in its financial statements. It should adhere to its written policy and generally accepted accounting principles in its treatment of fixed assets.

UH should ensure that RCUH develops clear policies, criteria, and guidelines for the types of projects it will accept from state agencies; develops management controls and a monitoring program ensuring that state projects are not inappropriately circumventing state laws and contracts; and formalizes policies for a management fee for contracts that is based on its administrative costs and defines the use of revenues derived from the fee.

The governor should develop policies for the executive branch that identify the conditions and criteria under which state agencies may contract with RCUH and establish a system for reviewing requests for contracting with RCUH.

Actions Taken: Senate Resolution 139, S.D. 1 of the 1994 session requests UH to make a final report to the 1995 session on implementation of the reorganization of the RCUH-UH relationship. The resolution also requests action on our other recommendations. RCUH reports that effective with its audited financial statements for FY1992-93, the statements have reported the capitalization of administrative fixed assets and the annual related depreciation expense. In addition, the quasi-endowment fund is identified as "investments" on the balance sheet, and income and expenses for investments and research assistantships are separately stated on the statement of revenues and expenses.

UH reports that RCUH has begun discussion with the attorney general and the Department of Budget and Finance (B&F) to develop a master agreement with the State including criteria and guidelines for contracting for RCUH services. UH also says that RCUH is working on an indirect cost rate for state projects that will recover RCUH administrative expenses and support working capital requirements.

B&F reports that the master agreement will describe the terms and conditions under which state agencies and RCUH may enter into contracts with each other.



Final Report on Job Sharing in Hawaii State Government, Report No. 93-11

Recommendation: The Legislature should consider authorizing all agencies in the three branches of state government to implement job sharing at their discretion. The legislation should encourage agencies to examine carefully the appropriate use of job sharing as a means of improving operations and retaining effective employees. Agencies, in turn, should share information about positions suitable for job sharing, where job sharing has worked, and where it has not.

Actions Taken: Our legislative recommendation was not implemented in 1994.



Sunrise Analysis of a Proposal to Regulate Crane Operators, Report No. 93-12

Recommendation: Do not enact House Bill No. 1931 of the Regular Session of 1993, which proposes licensing of crane operators.

Actions Taken: The bill was not enacted in 1994.



Study of Emergency and Budget Stabilization Funds, Report No. 93-13

Recommendations: If the Legislature decides to create a "rainy day" fund, it should consider clearly stating the fund's purpose and establishing requirements for deposits and withdrawals that protect the purpose. The Legislature should determine whether the fund is designed to meet short-term revenue shortfalls, unexpected emergencies, or both, and whether either the Legislature or the Executive would maintain control over the fund – or share control.

The Legislature should also consider other means of budget stabilization. A promising approach is contingent spending, accomplished by enacting a multi-part appropriations act designed to address unexpected revenue shortfalls.

Actions Taken: No legislation implementing these recommendations was enacted in 1994.



**Final Report on Administrative Flexibility
Granted to the University of Hawaii and the
Department of Education, Report No. 93-14**

Recommendations: The Department of Education (DOE) should develop measures of effectiveness and institute a system of monitoring its fiscal activities. The University of Hawaii (UH) should continue to monitor its affected fiscal activities.

Both the UH and DOE should focus upon ensuring timely vendor payments by installing systems for dating and monitoring accounts payable.

UH and DOE – both separately and jointly – should give clearer focus and stronger overall direction to their educational assessment activities.

The Legislature should extend indefinitely the administrative flexibility granted to DOE and UH under Act 321, SLH 1986, as amended by Act 371, SLH 1989. Since DOE is now required (under Act 364, SLH 1993) to report annually to the Legislature on its educational assessment results, the Legislature may wish to impose a similar requirement on UH. Further, the Legislature may wish to extend the requirement to include the assessment of joint efforts by the two educational agencies.

Actions Taken: DOE says it has developed measures of effectiveness and instituted a system of monitoring its fiscal activities. UH says it will continue to monitor its fiscal activities by preparing reports designed to measure its effectiveness.

UH says new software for its financial management information system can record and store dates for encumbrance and expenditures to more efficiently control and monitor payments. DOE says it

will collect and review data quarterly to ensure that payments to vendors are completed within 30 days after receipt of goods and invoice.

UH says it has given direction to educational assessment by studying student flow and progress on multiple campuses as well as supporting campus-based assessment activities. DOE says it is planning to develop a comprehensive school assessment and accountability system.

Act 272 of 1994 provides increased budgetary flexibility. No legislation was enacted in 1994 requiring UH to report annually on educational assessment or requiring reports on assessment of joint efforts.



**Study of the Enforcement of Hawaii's "Little
Davis-Bacon Act," Report No. 93-15**

Recommendations: The Department of Labor and Industrial Relations (DLIR) should adopt its proposed plan for reorganizing the Enforcement Division.

DLIR should take the lead in developing a memorandum of understanding with the governmental contracting agencies that clearly delineates the roles and responsibilities of each party in enforcing Chapter 104, HRS, Hawaii's "Little Davis-Bacon Act." DLIR should also adopt amendments to the Chapter 104 administrative rules so that monetary penalties for first violations can be enforced as soon as possible.

The contracting agencies should work with DLIR to provide at least minimal training on Chapter 104 for all enforcement personnel and should develop written policies and procedures to guide their personnel. The Highways Division of the Department of Transportation (DOT) should update its procedures on labor compliance to be in accord with current statutes and policies.

The Legislature should consider amending Chapter 104 to provide for an administrative hearings process within the Enforcement Division of DLIR and to authorize the DLIR director to make final decisions on Chapter 104 appeals of notifications of first violations, determinations of second and third violations, and other disputes related to Chapter 104.

Actions Taken: DLIR says that the reorganization has been approved and is being implemented in phases to be completed by the end of December 1994.

DLIR reports that it sent a proposed memorandum to DAGS, but has yet to receive a response, and is developing a memorandum with DOT. DLIR has submitted a proposed penalty structure to the attorney general. It is also proposing amendments to the administrative rules to be consistent with changes at the federal level. DLIR also says it has been regularly conducting workshops on Oahu and the neighbor islands.

DOT reports that it has worked with DLIR, most of its engineers and inspectors have been trained in Chapter 104, and it will ensure that all personnel receive training. DAGS says engineers and building inspectors of its Public Works Division have attended training. Policies and procedures are contained in a Division of Public Works construction contract administration manual that was initially designed for consultants. Area engineers and building inspectors were informed that the manual applied to them as well.

The City and County of Honolulu says it has not implemented the recommendations due to staffing constraints. The County of Maui hopes to implement the recommendations in the future. The County of Hawaii says that staff from its Department of Public Works attended a training session held by DLIR and attendees received an information packet. (The County of Kauai did not respond to our request for information on actions taken.)

DOT says it has updated its labor compliance procedures.

Our legislative recommendation was not implemented in 1994.



Financial Audit of the Department of Labor and Industrial Relations, Report No. 93-16

Recommendations: The Legislature should consider amending Section 392-62, HRS, to require excess funds to be transferred from the Special Fund for Disability Benefits to the general fund. The Legislature should also consider repealing the Special Premium Supplementation Fund.

DLIR should request DCCA to process and deposit on a daily basis all disability compensation assessment payments received. DLIR should also develop a policy that all estimates used to prepare wire transfers from the unemployment compensation trust fund held at the federal treasury be reviewed and approved, prior to processing, by an appropriate supervisor. The department should follow its policy of requiring preparation of a Treasury Deposit Receipt (TDR) for each deposit into the state treasury.

The Research and Statistics Office should reevaluate its methodology used to project quarterly unemployment compensation benefit payments to former state employees. The department should perform random audits of insurance companies and authorized self-insured employers to ensure that they are actually paying the benefit adjustments for which they are seeking reimbursement.

Actions Taken: Our legislative recommendations were not implemented in 1994.

DLIR reports it is working with DCCA on the processing of payments, has established a policy requiring supervisors to approve wire transfers prior to preparation, and is generating a TDR for each deposit.

DLIR says it has worked to develop a new estimating methodology. Due to limited funding and staffing in its Disability Compensation Division, random audits of insurance companies and authorized self-insured employers have not been conducted.



Financial Audit of the Department of Budget and Finance, Report No. 93-17

Recommendations: B&F should continue to use the request for proposal process in selecting underwriting firms. It should develop and document procedures used to evaluate the firms' performance. It should seek an opinion from the attorney general on the legality of its practice of depositing more than 60 percent of available funds with one institution. The department should also transfer the balances in the special fund accounts of the Information and Communications Services Division to the State's general fund.

B&F should consider the need for collateralization of deposits with paying agents. It should also review its trust agreements to assure that the schedule for maturing investments allows adequate time for trustees to transmit funds to paying agents. Further, B&F should enforce the tri-party agreement by requiring the custodial banks to obtain proper authorization from the department prior to releasing securities to depository financial institutions. B&F should consistently enforce its collateral requirements and perform periodic checks for accuracy of collateral data. In addition, B&F should review its collateral requirements to determine the appropriateness of the percentages used to value the collateral.

Actions Taken: B&F reports it has continued to use the request for proposal process. A process is being tested to evaluate the performance of underwriting firms. B&F says it received an opinion from the attorney general affirming the legality of depositing more than 60 percent of available funds in one depository, provided that the depository offers a higher yield than other depositories within the state. B&F also says it transferred funds from the special fund accounts to the general fund. It transferred \$2,221,686 as of July 31, 1993, the balance of \$28,644 on September 10, 1993, and \$1,026,426 as of August 1994.

B&F says it does not find collateralization of deposits to be cost-effective or beneficial to the State at this time. It has reviewed its trust agreements and established payment schedules requiring trustees to transmit funds to paying agents at 7:00 a.m. on the day debt service funds are payable to bondholders. Further, B&F agrees that the tri-party agreement should be enforced and has informed custodial banks that securities should not be released without proper authorization. It has instituted procedures to confirm its collateral account balances on a quarterly basis to ensure more effective monitoring of pledged collateral. B&F says it has revised procedures to require a weekly review of collateral adequacy. Also, it daily scrutinizes withdrawals from depositories to identify any large collateral withdrawals to ensure that such withdrawals would not jeopardize the safety of state deposits. B&F says it has reviewed its collateral

policy and says that while conservative, the policy is appropriate, necessary, and should be continued to ensure protection of the deposit of State funds in accordance with Sections 38-2 and 38-3, HRS.



Study of Civil Rights Protection for State or State-Funded Services, Report No. 93-18

Recommendations: State agencies and private organizations with state-funded programs should strengthen their internal means of resolving discrimination complaints by adopting written nondiscrimination policies and discrimination complaint procedures.

The Legislature should expand Section 368-1.5, HRS (concerning access to state-funded programs), to include race, sex, national origin, and religion as protected classes.

The Hawaii Civil Rights Commission should work with the Judiciary's Center for Alternative Dispute Resolution to design a plan integrating alternative dispute resolution into the commission's procedures.

Actions Taken: The commission reports that its outreach programs have advocated the strengthening of agencies' internal procedures for providing education and resolving discrimination complaints.

Our legislative recommendation was not implemented in 1994.

The commission says that integrating alternative dispute resolution has been approached cautiously because of funding constraints but various alternatives are being explored. The Center for Alternative Dispute Resolution says it is prepared to work with the commission to design a plan.



Study of Insurance Ratemaking Procedures Under Article 14, Chapter 431, Hawaii Revised Statutes, Report No. 93-19

Recommendation: The Legislature should consider changing Hawaii's casualty insurance ratemaking laws to let the marketplace establish rates through

open competition following as a model the *Property and Liability Model Alternative Competitive Pricing and Appropriate Support Systems Act* of the National Association of Insurance Commissioners.

Actions Taken: Our recommendation was not implemented in 1994.



Examination of Selected Aspects of Capital Projects Funds, Report No. 93-20

Recommendations: To strengthen the State's capital improvements program, the Legislature should consider:

1. requiring the executive branch to submit a realistic budget for a three-year CIP program showing the schedule of spending by the cost categories of planning, design, and construction;
2. appropriating funds for capital improvements projects in increments based on a three-year spending schedule and cost categories;
3. requiring that in-house personnel costs of CIP be included in the executive operating budget request instead of the CIP budget requests;
4. providing a statutory definition of an encumbrance that restricts encumbrances to obligations in the form of purchase orders and executed contracts;
5. designating the responsibilities of expending agencies for CIPs so that they may no longer engage in interagency contracting to circumvent constitutional lapsing requirements
6. repealing the Works of Art Special Fund and requiring works of art to be treated as a part of each CIP project;
7. ceasing the practice of generally allowing appropriations needed for federal funding to be non-lapsing. Instead, the Legislature should follow the intent of the State Constitution and positively determine that particular federal aid projects are deserving of not being lapsed in the legislative session just preceding the lapse date; and
8. requiring the Department of Accounting and General Services (DAGS) to submit an annual report on activity in the project adjustment fund.

DAGS should monitor more strictly the encumbrance practices of expending agencies to make sure the encumbrances continue to be justified. B&F should ensure that surplus appropriations are transferred to the project adjustment fund.

Actions Taken: Our legislative recommendations were not implemented in 1994.

B&F states that it has transferred its surplus appropriations to the project adjustment fund. It says it is required to do so by Executive Memorandum No. 94-01, which instructs all departments to transfer surplus appropriations. (DAGS did not respond to our request for information on actions taken.)



Management Audit of the Traffic Violations Bureau, Report No. 93-21

Recommendations: The administrative director of the courts should clarify the responsibilities, authority, and reporting relationships of the manager of the Traffic Violations Bureau.

The Judiciary should establish a separate program budget for the bureau and submit a specific appropriation request to the Legislature for the program. The Legislature should fund the bureau with its own program identification number in the Judiciary's appropriations act.

The Judiciary should officially make the Deferred Court Fines Section a part of the bureau or return the deferred fines function to the Judicial Services Office.

The manager of the bureau should investigate the feasibility, costs, and benefits of integrating advanced technology with the current traffic violations computer system (TRAVIS), such as optical image scanning and recognition and automated citation writing devices. In addition, the manager should study the feasibility of enhancing the current system to: calculate points for abstracts, automate tracking of bench warrants and penal summonses, tie in cash intake stations, provide access for police officers, and develop alternatives to manually intensive procedures. The feasibility analysis should consider not only monetary factors but also other factors including the following: speed of processing

tickets, elimination of manual procedures, worker morale, public convenience and satisfaction, generation of revenue, and adaptability to future computer systems. The analysis should accompany any request for appropriation by the Legislature.

The manager of the bureau should independently complete the steps outlined in the computerization planning methodology created by the Telecommunications and Information Services Division (TISD); once done, the manager can reevaluate the data, applications, and computer system needs of the bureau. Any proposed system must be coordinated with the Judiciary-wide computer system.

The Judiciary's Fiscal Office should work with the bureau to simplify the process of depositing checks received for fines. Checks should be deposited directly into the bank with the bureau's daily cash deposits. The bureau manager should ensure that a separate party determines if bureau cash registers balance at the end of the day. The supervisor or an independent third party should initial cash record (tally) sheets to document that the cash register balance was checked for the day. The manager should also ensure that the bureau's policies and procedures manual is updated.

Actions Taken: The Judiciary says roles and relationships are clear. The new district court administrator will review them.

The Judiciary will consider establishing a separate organization code within the district court budget for the Traffic Violations Bureau. No legislative action was taken in 1994 on funding the bureau as a separate program.

The district court administrator and a new Fees and Fines Committee will examine the issue of the Deferred Court Fines Section. The Judiciary says the manager of the bureau is not required to, and may not, possess the kind of technical expertise required by the TISD. The manager of the bureau has the subject expertise to work collaboratively with TISD to plan for automation needs. The manager has contacted various companies concerning optical imaging, integrated cash registers, and other technologies. Data concerning abstract policies and retention schedules is being collected from other states.

The Judiciary also reports that decriminalization of minor traffic offenses pursuant to Act 214, SLH 1993 demanded changes to TRAVIS and other activities taking time away from finding new technologies. A subcommittee will be formed to find a replacement for TRAVIS.

The Committee on Fees and Fines will work to streamline collections. The bureau now requires the section supervisor or assistant to run totals on the cash register separately from the person counting the money. The policies and procedures manual has been updated.



Secretaries **Deborah Higa** and **Patricia Mukai** work on the production phase of an audit report.

**Management and Financial Audit of the
Department of Hawaiian Home Lands,
Report No. 93-22**

Recommendations: The Hawaiian Homes Commission should assume its appropriate responsibilities by:

1. clarifying the administrative rules relating to the oversight authority of the commission and that delegated to the chair of the commission;
2. establishing a committee structure to address important policy issues facing the department;
3. requiring the chair to compile the commission's policy decisions and a manual for commissioners on their functions and responsibilities and on the operations of the department;
4. creating an executive committee to work with the chair in improving commission operations and approving agenda for commission meetings;
5. requiring the director of the department to regularly submit management information to the commission on the programs of the department;
6. rigorously supporting the department's loan collection procedures; and
7. refraining from guaranteeing any additional loans until the outstanding balance of guaranteed loans falls within statutory limits.

The director of the Department of Hawaiian Home Lands (DHHL) should:

1. prepare a comprehensive strategic plan as a guide for agency programs. The plan should include goals, milestones, and monitoring controls over agency initiatives and programs. The director should submit the plan to the Hawaiian Homes Commission for approval;
2. give priority to developing a recordkeeping system and adopting written management control policies and procedures to ensure that records are properly stored and secured;
3. enforce its collection policy expeditiously;
4. accurately record its deposit with the Federal Housing Administration as an asset on its accounting records using "cash on deposit with other parties" or a similar descriptive title. The deposit should also be presented as an asset on the department's balance sheet.

Actions Taken: The commission concurs with our recommendations in only two areas: loan collections and records management. The commission says loan staff have been working to reduce the loan delinquency ratio by analyzing options to reduce each delinquency, scheduling contested case hearings to address the most serious delinquency problems, and closely monitoring loan collection activities.

The commission also reports that the department has taken a number of steps to address deficiencies in its records management system. The department has recalled and reissued keys to authorized personnel, changed locks, stored documents in a fire-safe vault, contracted with a vendor to microfilm vital documents, compiled a records inventory, and developed a retention schedule for unique records.

(Note: Senate Resolution 99, S.D. 1, requested the Senate Committee on Governmental Operations, Environmental Protection and Hawaiian Programs to review the operations and policies of the Hawaiian Homes Commission and DHHL, to review the appropriateness of the recommendations of the Auditor, and to report on this to the Senate, no later than 20 days prior to the 1995 legislative session.)



**Study of Proposed Mandatory Health Insurance
for Temporo-Mandibular Joint Disorders,
Report No. 93-23**

Recommendations: None.



**Study of the Financing of the Small Boat
Harbors and Boat Ramps Program of the
Department of Land and Natural Resources,
Report No. 93-24**

Recommendations: The Legislature should transfer the marine patrol from the Department of Public Safety to the Department of Land and Natural Resources (DLNR).

DLNR should develop a comprehensive statewide boating program. The program should include:

1. a plan that describes and sets statewide standards for facilities and services to be provided to the boating public, that defines policies for setting fees to finance these costs, and that establishes goals and milestones for bringing facilities and services up to standards;
2. security measures that address the security needs of users of small boat harbors and boat ramps, keep harbor offices open on weekends and holidays, and provide harbor agents with enforcement authority;
3. clear and concise administrative rules; and
4. a comprehensive financial accounting and budgeting system that would enable the department to track expenditures by facility and by type.

The department should also make the transfer of functions from the Department of Transportation (DOT) a priority, and correct problems with its internal accounting controls by:

1. segregating accounting functions or, at a minimum, requiring the use of cash registers;
2. maintaining a log of all receipt books, and securing unused cash receipt books;
3. depositing cash receipts daily;
4. ensuring that Treasury Deposit Receipts are prepared on a timely basis for all cash deposits;
5. reconciling internal collection records with reports of the State's official accounting records (FAMIS);
6. preparing written accounting procedures;
7. reconciling security deposits per harbor records to the department's trust fund for security deposits; and
8. properly recording fixed assets in the state's fixed asset inventory records.

Actions Taken: Our legislative recommendation was not implemented in 1994.

DLNR reports that all the primary functional elements of a comprehensive boating program exist but legislative and budgetary constraints have limited the ability to become fully operational in all functional areas. Statewide standards have not yet been adopted. More harbor offices are open weekends, additional enforcement authority is being considered, simplified rules are being developed, and an interim budgetary system is in effect.

DLNR also says it has placed top priority on the transfer of boating functions from DOT. In Honolulu, cash receipts and deposit slips are prepared by different persons. Cash registers are planned for all islands, logs of receipt books are being maintained statewide, and individual offices have been reminded to make daily deposits. Treasury deposit receipts will be timely, reports reconcilable to FAMIS will soon be required, and consolidated accounting procedures will soon be completed, as will reconciling security deposits and properly recording fixed assets.

(Note: Several resolutions passed in the 1994 regular session supported our report by asking DLNR to comply with our recommendations, make additional improvements, and report to the Legislature. The resolutions included such requests as a guidebook of rules for boat harbor users, an oversight committee to monitor program progress, and working with elective advisory boards at each harbor.)



Management and Financial Audit of the Hawaii Visitors Bureau, Report No. 93-25

Recommendations: The Board of Directors of the Hawaii Visitors Bureau (HVB) should strengthen its internal organization to enhance its ability to lead and maintain oversight over the bureau. To do so, the board should maintain the reduced number of directors on its board, develop clear functions for each of its committees, provide written guidelines for committee members, create opportunities for its general membership to participate more actively on the board, and develop a strategic plan for improving the bureau with a timetable for achieving specified goals. The plan should be shared with and approved by the general membership.

The HVB president should clarify the functions of HVB's mainland regional offices and the authority of its neighbor island chapters. HVB should make better use of its Market Research Department for internal management, including strategic planning and evaluation.

The director of the Department of Business, Economic Development, and Tourism (DBEDT) should improve management of tourism promotional programs by refraining from using HVB resources and those of other promotional offices for DBEDT initiatives that are not planned with HVB management and boards; and by submitting annual reports to the Legislature that contain the information requested by the Legislature on tourism promotion programs and their effectiveness.

DBEDT should improve its contract management by:

1. developing written guidelines for monitoring and managing contracts with the bureau and other promotion agencies. The guidelines should require submissions to be in written form;
2. enforcing contract reporting requirements for HVB. The reports should include measures of effectiveness on how public funds are being used. In addition, all reports in the contract should be in written form unless otherwise specified;
3. removing the restriction from the contract that prohibits HVB employees from testifying before the Legislature; and
4. ensuring that contracts are signed on time at the beginning of each fiscal biennium.

Actions Taken: The HVB president reports that the board has dramatically reduced the number of directors and issued guidelines for its committees. The board has directed the Membership Committee to encourage greater participation by evaluating and recommending membership benefits. Internal restructuring will be followed by an overall strategic plan for presentation to the general membership.

The president says that the regional offices have been evaluated and their responsibilities redefined primarily as sales and marketing offices supporting the HVB marketing plan. The Market Research Department is developing a procedure to estimate

taxes generated by increased visitor arrivals attributable to HVB, providing strategic analysis of visitor trends for the overall marketing strategy, and developing other tools to measure HVB programs.

DBEDT says it has ceased using HVB resources and those of other promotional offices for DBEDT initiatives that are not planned with HVB management and boards. DBEDT will forward to the Legislature HVB's annual report to DBEDT, which is required to assess HVB's effectiveness quantitatively.

DBEDT reports that it has established guidelines for monitoring and managing contracts. It will soon evaluate HVB on the effect of its programs in converting visitors, or moving them closer to the decision to visit Hawaii. The restriction on testifying has been removed. DBEDT expects the upcoming contract with HVB to be on time.

(Note: Act 55, SLH 1994, requires contracts with HVB to require HVB to submit annual reports to the Legislature and DBEDT concerning its expenditures and effectiveness, and requires DBEDT to execute contracts as soon as possible following the start of the fiscal biennium. Act 252, the Supplemental Appropriations Act of 1994, contains a proviso requiring HVB to review and report on the operations of each regional office, the role of its Market Research Department, and their relationship to the neighbor island chapters as raised in our report. Senate Resolution No. 103, S.D. 1, concurred with our recommendations and requested DBEDT and HVB to jointly report on implementation of them.)



Study of Proposed Mandatory Health Insurance for Pap Tests, Report No. 93-26

Recommendations: None.



Study of Proposed Mandatory Health Insurance for Contraceptive Services, Report No. 93-27

Recommendations: None.



Recommendations: The Board of Trustees of the Office of Hawaiian Affairs (OHA) should make the following improvements:

1. develop a formal training and orientation program for trustees and staff that includes educational materials relating to trusts and the role of a fiduciary;
2. incorporate relevant provisions of Chapter 554A, HRS, the Uniform Trustees' Powers Act, and other appropriate trust related materials into OHA's bylaws, policies and procedures, and manual of guides;
3. develop and adopt a code of conduct based upon the obligations imposed on trustees of fiduciaries, the duties given to OHA trustees, and Chapter 10, HRS;
4. reorganize the standing committees to focus on important policy issues instead of operational issues. Each standing committee should have clear jurisdiction over a functional area; and
5. evaluate the feasibility of establishing a position within OHA's administration office to handle the routine administrative activities of the board.

OHA's administration should update the master and functional plans; consolidate and integrate its manuals into a single coherent working document that would be useful to staff; take steps to have OHA's funds properly classified as trust funds; and improve communications among staff and record and circulate minutes of staff meetings.

To strengthen its fiscal controls, OHA should take steps necessary to ensure that proper encumbrance practices are followed; complete its *Administrative and Financial Manual of Guides* and establish a policy on vacation leave and compensatory time off that conforms to state statutes; implement procedures to ensure that the inventory of interisland airline coupons is properly controlled and utilized; and take steps to ensure that fiscal policies stated in its *Administrative and Financial Manual of Guides* are being followed.

The Board of Trustees should continue to align its benefit plans with those for its employees.

The Legislature should recognize that OHA's funds are trust funds by changing the designation of the "Means of Financing" of OHA's trust funds from "special funds" to "trust funds" in all budget and fiscal related matters; amending Section 10-14.6, HRS, to delete the provision stating that the Legislature shall appropriate any matching special funds; and refraining from making appropriations from OHA's trust funds.

Actions Taken: The Board of Trustees reports that a workshop was held for all OHA trustees to ensure awareness and comprehension of fiduciary duties and a training program will be developed.

The board's in-house counsel is conducting a review of the Uniform Trustees' Powers Act to determine its applicability and appropriate means of incorporating relevant provisions into OHA's bylaws. Counsel is also studying development and adoption of a code of conduct. Modifications to the board's organizational structure will be considered. The board has proposed the establishment of a liaison position responsible for routine administrative activities.

OHA reports discussions in early 1994 on updating OHA's master and functional plans, but the discussions have been postponed. The board's manual is being consolidated.

OHA also reports that it submitted legislation during the 1994 session to properly classify its funds, but the bill did not pass. Upon approval of the current trustees, OHA intends to re-submit appropriate legislation. OHA says that it now holds staff meetings on a regular and consistent basis. Meeting notes are available for review and comment by all staff members.

OHA says it reviews all encumbrance activities to ensure that all divisions adhere to current regulations and practices. It is updating and completing its *Administrative and Financial Manual of Guides* which will include a policy on vacation leave and compensatory time. The Fiscal Department maintains a log of all interisland airline coupons purchased and disbursed. The log provides a detailed record, by division, of all relevant information. OHA says it reviews all the day-to-day operations of OHA to ensure fiscal policies are followed.

Our legislative recommendations were not implemented in 1994.

***Audit of the STD/AIDS Prevention Program
in the Department of Health,
Report No. 93-29***

Recommendations: The Department of Health (DOH) should make hiring a permanent chief of the STD/AIDS Prevention Branch a priority. The new chief should focus on developing a strategic plan, coordinating branch activities, ensuring that the branch is clearly and appropriately organized, and completing the policies and procedures manual.

The department should improve the administration of purchase of service contracts by ensuring that contracts are issued and payments made in a timely manner; giving priority to analyzing the reasons for its poor contract management and making the needed corrections; continuing its efforts to develop a monitoring and evaluation manual; developing standardized quarterly report forms for providers; and ensuring that quarterly reports are submitted by providers and secured at the branch.

Actions Taken: DOH reports hiring a permanent branch chief on February 7, 1994. The branch is writing the first part of a state AIDS plan (prevention) and will later write the second part (case management/care). Biweekly coordination meetings are being held, lines of authority clarified, key vacancies filled, and an administrative procedures manual is being developed.

(Note: Senate Resolution No. 101, S.D. 1, requested DOH to report on compliance with our recommendations.)



***A Review of the Educational Officer
Classification and Compensation Program,
Report No. 94-1***

Recommendations: The Classification/Compensation Appeals Board should take steps to ensure its independence from the Department of Education (DOE) and amend the administrative rules to make clear that it is an appeals body that will hear appeals only from educational officers or their exclusive collective bargaining agent.

The DOE should give priority to developing and maintaining its classification compensation plan for educational officers (EOs). In doing so, it should consider: (1) creating separate plans for EOs in 10-month positions who are directly engaged in instructional services and for EOs in 12-month positions who are engaged in administrative support type services; (2) making the DOE administrative support type positions comparable to similar classes in state government and at the University of Hawaii (UH); and (3) creating a separate managerial class comparable to executive and managerial classes in state government and at UH.

Actions Taken: The board reports it has asked DOE to submit a priority biennium budget request for one educational officer and one secretary to serve as independent staff to the board. The board will amend its rules to ensure that it hears appeals only from EOs or their exclusive bargaining agent.

DOE says it continues to give priority to developing and maintaining its classification compensation plan for educational officers and to analyze and implement concepts of substance and worth. For example, pending Board of Education approval, DOE will soon implement incentives for principals to remain in the principal ranks.



***Study of Family Preservation Services and the
Families Together Initiative, Report No. 94-2***

Recommendations: The Department of Human Services, Families Together Initiative (FTI) executive board, and FTI interagency coordination team should: (1) address the concerns of providers and referring case workers regarding the need for cultural sensitivity and flexibility; (2) evaluate the need, availability, and accessibility of wrap around services by island and community; and (3) plan for wrap around services in conjunction with FTI services. A balance needs to be struck between the duration of FTI services and the availability and accessibility of wrap around services.

The Legislature should mandate that federal reimbursements resulting from the Title IV-E funding mechanism (federal payments for foster care and adoption assistance) be immediately

refunded to the general fund. Until the \$4.8 million requested from the general fund for FY1993-94 is fully refunded, the Legislature should not expand FTI services, wrap around services, and support positions beyond their current levels.

Actions Taken: In our subsequent *Study of the Families Together Initiative, Final Report*, Report No. 95-6, we found that FTI has only partially implemented these recommendations. Workshops have been provided to enhance cultural sensitivity. However, FTI's model of delivery, including its duration of services, remains the same. No progress has been made toward evaluating wrap around services and planning for them in conjunction with FTI services.

Section 4, paragraph 59 of the Supplemental Appropriations Act of 1994 provides that federal fund reimbursements under Title IV-A and IV-E for child welfare services and child foster care services for FY1994-95 shall be returned to the general fund.



Audit of the Hazardous Waste Management Program of the Department of Health, Report No. 94-3

Recommendations: The governor and the director of health should support the federal Resource Conservation and Recovery Act (RCRA) programs by: (1) giving high priority to achieving authorized status from the Environmental Protection Agency (EPA) for Hawaii's Subtitle C, hazardous waste; Subtitle I, underground storage tanks; and approval for Subtitle D, solid waste and (2) developing and submitting a budget that will ensure continuity of funding for the program. Any decision to support the programs through special funds should be carefully planned and analyzed.

DOH should: (1) fill vacant positions with technically qualified staff and give technical staff the opportunity to participate in free training programs sponsored by the Environmental Protection Agency; (2) request the Legislature to restore positions that have been deleted; (3) continue to work with the Department of Human Resources Development

(DHRD) to streamline the classification process for positions authorized by the Legislature; and (4) develop policy and procedure manuals for the hazardous waste and solid waste programs so that compliance and enforcement actions can be tracked and monitored.

Pending the receipt of state authorization from the Environmental Protection Agency (EPA), DOH should improve enforcement of its hazardous waste program by: (1) conducting timely follow-up inspections of facilities found to be in violation; (2) making on-site inspections of all facilities found to be in violation before reporting to the EPA that these facilities have returned to compliance; and (3) planning how it will assume responsibility for enforcement once the State becomes authorized.

DOH should inform the Legislature of what is being achieved in solid waste reduction under current conditions. It should also develop strategies for meeting the 25 percent reduction goal and notify the Legislature of the resources needed to achieve the goal.

DOH should develop and submit to the Legislature an action plan that would give DOH a meaningful field presence for monitoring and enforcing regulation of underground storage tanks. The plan should include the resources needed, including staff, and a time frame for accomplishing goals.

The underground storage tank special account in the Department of Business, Economic Development, and Tourism's Capital Loan Revolving Fund should be permitted to sunset as scheduled on January 1, 1994, with the balance lapsing to the general fund.

DOH should amend its administrative rules for infectious waste to include a threshold for reporting infectious waste spills and a requirement that the counties and other responding agencies report all such spills to the department's Hazard Evaluation and Emergency Response Office.

Actions Taken: DOH reports that EPA will decide whether to grant Subtitle C authorization in June 1995, and would like to complete the Subtitle I authorization by September 1995. DOH has developed Subtitle C and Subtitle I rules. Public hearings are planned. The EPA approved Subtitle D in June 1994.

Due to recent B&F budget restrictions, says DOH, RCRA programs lost funding for four positions. DOH is trying to make up for this by shifting federal funds and seeking new funding sources.

DOH describes a continuing shortage of applicants specifically qualified with RCRA experience. New technical staff usually require six months to a year of training before they can perform standard duties. Federal funds have been utilized to provide as much training as possible for staff. DOH also reports past delays in getting applicants hired, but says the Department of Human Resources Development (DHRD) is expanding its Direct Hire Program, which will help the RCRA program. DOH is hopeful that the general funded positions will be restored. Work is underway with DHRD concerning job classifications. DOH says the Hazardous Waste Management program, with EPA assistance, is developing a comprehensive enforcement program. However, DOH says that because of a lack of resources, the Solid Waste Management program's policy and procedure manuals are still developmental.

DOH reports it has made significant strides in reviewing contaminated sites and conducting over 100 inspections. But the loss of two underground storage tank inspector positions results in a 67 percent reduction in field presence. Recent budget restrictions and delays in hiring will severely constrain program improvements in the future.

DOH says it has informed the Legislature of its progress in solid waste reduction at the Legislative Summit on Energy and the Environment. Although strategies were developed and a bill for the Recycling Business Assistance program passed, no funding was appropriated for the program.

DOH says it will focus on the regulatory issues of proper management rather than monitoring infectious waste "spills." It says that significant "spills" are very rare and may be handled using existing protocols by the Hazard Evaluation and Emergency Response program.

Review of Trust and Revolving Funds of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources, Report No. 94-4

Recommendations: None.



Financial Audit of the Department of Human Services, Report No. 94-5

Recommendations: The governor should charge the director of human services, the comptroller, and the director of finance with the responsibility for ensuring that the Department of Human Services (DHS) adheres to state budgeting and accounting requirements on allotments, charging of appropriations, lapsing, and encumbrances.

DHS should cease immediately the mischarging of appropriations, lapse federal reimbursements to the State's general fund, make timely and accurate claims for federal reimbursements, reconcile and replenish bank accounts as required, and cease making questionable encumbrances. DHS should also perform timely reviews of subrecipients, present realistic budgets to the Legislature based on expected costs, develop better controls for its income maintenance programs and data processing, and improve its cost allocation process. It should maintain a schedule of the department's real property leases, work with other agencies to reduce vacancies in the department, and make better use of staff in its Evaluation Office.

The director of human services should appoint a task force to develop a plan to address deficiencies uncovered in this audit. The plan should set priorities for implementation of corrective measures and timetables for implementation.

The Legislature should require the director of human services to report on the status of its plan 30 days prior to the adjournment of the 1994 legislative session and to submit a status report 20 days prior to the convening of the 1995 regular session.

Actions Taken: The former governor reported that he appointed a task force comprised of the directors of DHS, DAGS, and B&F to address the pertinent

issues in the report. He said that our findings had been addressed or corrective actions are ongoing.

DHS reports it has implemented procedures to ensure compliance with proper accounting and fiscal procedures. The department says it has implemented uniform lapsing procedures and lapsed \$18.8 million of the \$34.5 million identified in the audit. The department questions the need to lapse the remaining \$15.7 million, believing it to be an erroneous estimate. It has formed a Management Recovery Team to present recommendations to the director regarding the overpayment recovery system and has developed a plan for the redesign of the Automated Recovery System (ARS). However, it says it lacks the resources to develop a new interface between the ARS and the Hawaii Automated Welfare Information system (HAWI). The Information Services Office (ISO) has committed to remedy the interface problems.

DHS says it has developed formal and uniform accounting procedures for federal fund monitoring, drawdowns, and reclassifications. It has pursued efforts to specifically identify budgeted federal funds on a grant by grant basis and has provided training on the account codes to program, branch, and fiscal staffs.

DHS also reports it is maintaining the reconciliation of all the welfare imprest bank accounts on a current basis. It issued budget execution policies on the proper review and authorization of encumbrances. Offices were also reminded of the procedural requirements regarding appropriate supporting documentation and approvals for purchase order encumbrances.

DHS says it completed more than 19 subrecipient reviews and has developed an interim subrecipient audit review action policy. Monitoring procedures for purchase of service contracts have been drafted. DHS has submitted a budget that reflects total anticipated program costs. The budget for fiscal biennium 1995-97, submitted to B&F for review, reflects the base budget and additional requests for the Medicaid and QUEST programs.

DHS says it does not concur with all the findings concerning better controls for income maintenance programs and has taken action on only one of the five deficiencies. It plans to upgrade additional personal computers and redistribute the accounting workload to increase clerical support to the accountants during the cost allocation periods.

DHS reports it will continue to maintain an updated list of office space leases, and with DAGS has reached a final determination on the amounts budgeted and to be paid by DAGS. DHS says it continues to work with DHRD in facilitating the filling of vacancies. DHS says it does not agree that the Evaluation Office is not fully utilized.

(Note: Section 4, paragraph 54 of the Supplemental Appropriations Act of 1994 requires DHS to conduct a study on its methodology for projections on payment programs and the reasons for large shortfalls.)

Office of the Auditor
Appropriations and Expenditures
for the Fiscal Year Ended June 30, 1994

APPROPRIATIONS

Act 1, SLH 1993 (operations)	\$ 1,854,000
Act 1, SLH 1993 (special studies)	150,000
	<u>2,004,000</u>

EXPENDITURES

Staff salaries	\$ 1,296,503
Contractual services	508,223
Other expenses	150,609
	<u>1,955,335</u>

Excess of appropriations over expenditures	<u>\$ 48,665</u>
--	------------------

EXCESS OF APPROPRIATIONS OVER EXPENDITURES

Act 1, SLH 1993 (operations)	\$ 17,713
Act 1, SLH 1993 (special studies)	30,952
	<u>\$ 48,665</u>