2003 Annual Report

State of Hawai´i
Office of the Auditor

Marion M. Higa
State Auditor

TABLE OF CONTENTS

STATE OF HAWAI'I
OFFICE OF THE AUDITOR

MISSION OF THE OFFICE OF THE AUDITOR

THROUGH POSTAUDITS 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.

The Honorable Members of the Legislature
The Honorable Linda Lingle, Governor

March 29, 2004

Ladies and Gentlemen:

This Annual Report highlights the work and activities of the Office of the Auditor in work year 2003. This report, as well as the audits and studies we issued last year, identifies some of the major issues facing state government.

Year 2003 was filled with many challenges for our office. As our audits and studies continue to tackle the tough issues and garner public attention, some agencies have become more reticent in allowing us to conduct our reviews. Legal challenges, delays in providing information, and misplaced caution have become commonplace. While we respect the agencies' efforts to defend themselves, we believe such actions are unnecessary and only seek to cloud the issues at hand.

The office looks forward to building positive working relationships as we move toward our common goal of sustaining an efficient government for our citizenry.

Sincerely,

Marion M. Higa
State Auditor

2003 – Meeting our Constitutional Mandate

2003 was a significant year for the Office of the Auditor. After many years of contemplation, intense legislative debate, and a veto-override, the Legislature passed Act 4, Special Session 2003, which established the Audit Revolving Fund. With this fund, the Auditor is now able to administer financial audits, including the federal single audit, for state departments that were previously administered by the Department of Accounting and General Services. With initial funding, we intend to conduct audits of the Department of Education, Department of Health, O´ahu Metropolitan Planning Organization, and most divisions within the Department of Human Services and Department of Transportation.

According to the State Constitution, "It shall be the duty of the auditor to conduct post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the State and its political subdivisions, to certify to the accuracy of all financial statements issued by the respective accounting officers and to report the auditor's findings and recommendations to the governor and to the legislature at such times as shall be provided by law." With the passage of Act 4, our office can carry out its constitutional responsibility and ensure audit independence for the State.

With our constitutional mandate in mind, the Office of the Auditor also issued several reports and studies covering a broad range of government agencies and topics. One particular report that generated a great deal of local interest, and national attention, was our audit of the Hawai´i Tourism Authority's contracts with the Hawai´i Visitors and Conventions Bureau (HVCB). Our findings, which included mismanagement of funds, poor contract oversight, and a qualified opinion on the bureau's financial statements, were widely reported in local media and national outlets such as MSNBC News, *Travel Weekly*, and the U.S. Society of Association Executives newsletter. To date, the HVCB has reimbursed the State over $22,000 as a result of our audit. Furthermore, the *Honolulu Advertiser* named the HVCB's reorganization and CEO resignation, in part because of our audit, as one of its top ten business stories of 2003.

Other reports we issued that garnered significant public, media, and legislative attention include the evaluation of the State's Integrated Special Education Database System, the follow-up audit of the Child Protective Services System, the audit of Kalaupapa Settlement operations and expenditures, and the audit of the Department of Health's Solid Waste Program and related land use policies.

For the second consecutive year, we provided technical support to the Joint Senate-House Investigative Committee to Investigate the State's Compliance with the *Felix* Consent Decree. In 2003, we accompanied the joint committee on neighbor island field visits to obtain first-hand input from those affected by the decree and the special education program.

The work of our office continues to gain recognition from our peers. We once again earned an Impact Award from the National Legislative Program Evaluation Society (NLPES), a staff section

FROM LEFT: *Martha Carter, Legislative Research Division, Nebraska; Jan Yamane, Office of the Auditor, Hawai´i; and Tim Osterstock, Office of the Legislative Auditor General, Utah, were the featured speakers at the 2003 NLPES Fall Training Conference session titled,* ***Access to and Handling Confidential Records****. This year's annual meeting, held in East Lansing, Michigan, was attended by over 200 participants from state and federal auditing offices throughout the country.*

of the National Conference of State Legislatures (NCSL). This award was for our management audit of the Department of Education's storeroom. Auditor Marion Higa also remained active at the upper staff levels of NCSL, serving as 2003 staff chair of the Standing Committees, which is the revamped forum structure for issues discussion and lobbying efforts with Congress and the federal administration. In addition, we have gained a seat on the Executive Committee of the NLPES after an absence of nine years. One of our assistant auditors serves on the committee along with 10 others from around the country. Another manager made a very successful presentation on the issue of auditors' access to information at the NLPES annual training conference in Michigan.

Ongoing staff development remains a vital component of our organization. In 2003, staff attended numerous training classes and seminars, some taught by national experts. Topics included performance auditing, making presentations, interviewing techniques, professional polish, ethics, and Office of Information Practices rules and regulations. In addition, several staff attended the NLPES Annual Meeting in East Lansing, Michigan where they gained information from other audit shops around the country and attended seminars covering national issues such as public education, environmental protection, and performance audits in state government. Through ongoing learning and training, our staff is able to build upon the diverse skills necessary to carry out our mission.

STAFF OF THE OFFICE OF THE AUDITOR

Marion M. Higa
State Auditor

Maria B.J. Chun
Deputy Auditor

Jan K. Yamane
In-House Counsel/Editor

Rumiko Okuma
Assistant Auditor

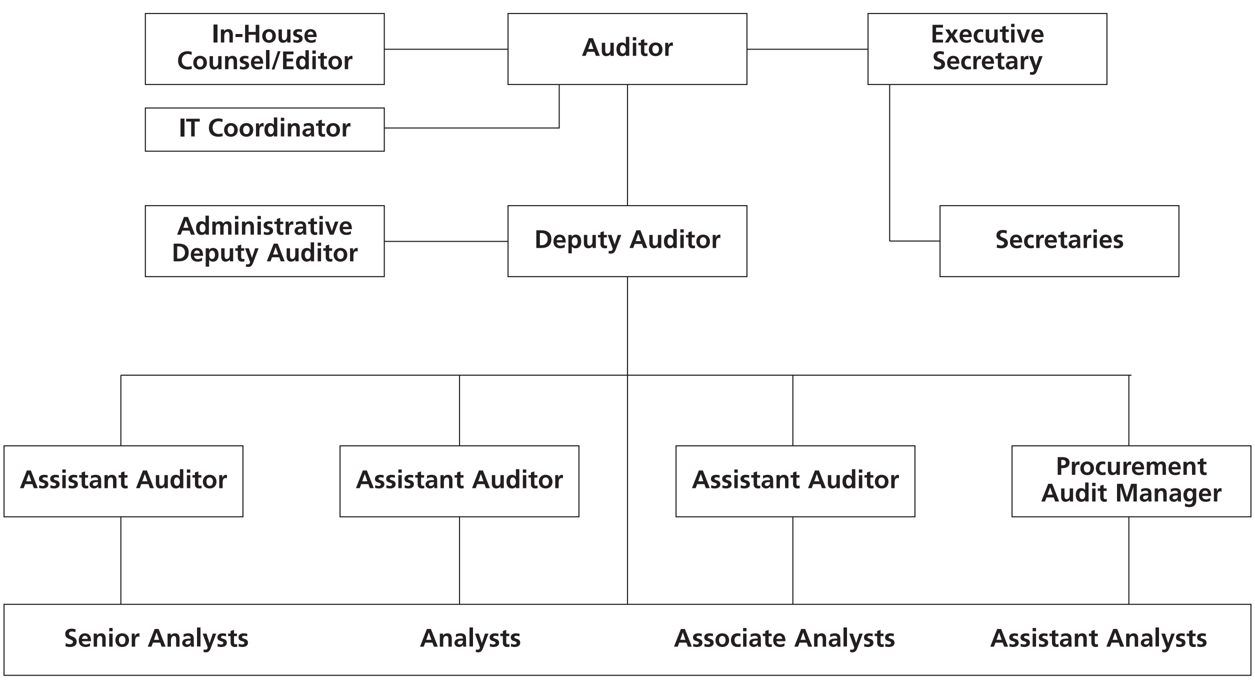
Sandra Y. Hoshida
Assistant Auditor

Russell Wong
IT Coordinator

Analysts
Urs C. Bauder
Patricia A. Card
Julia Chemotti
Jill K. Higuchi
Cory B. Hokama
Spencer M.W. Lum
William Kamana´o Mills
Troy Shimasaki
Kara Skinner
Tony Smalley
Maya K. Takeuchi
Janet M. Taylor
Michele Watanabe

Office Services
Rachel Ray
Debbie M.A. Higa
Pat Mukai

ORGANIZATION OF THE OFFICE OF THE AUDITOR



Themes of 2003 Reports

We published 15 full reports since our previous annual report. They include 11 performance audits and special studies, two financial audits, and two follow-up audits. We also produced 78 short reviews of proposed special and revolving funds for the 2003 legislative session. Our work this past year covered a wide range of topics and fell under several recurring themes.

FISCAL RESPONSIBILITY

Continued economic uncertainty makes fiscal responsibility a top priority. With community needs on the rise and resources on the decline, government agencies are not only tasked with doing more with less, but also to get maximum utilization out of the resources they already have. Our financial audits examine how responsible agencies and programs are managing our tax dollars.

Our financial audit of the John A. Burns School of Medicine of the University of Hawai´i found deficiencies in the internal control practices of the school, including management and administration of its health care organization contracts. The school's failure to complete final reconciliation of the amounts due from these health care organizations resulted in a negative impact on the school's cash flow and loss of potential interest income. We also found that the school did not comply with the university's policies and procedures regarding outside employment. As a result, the school was unable to identify any potential conflicts of interest that might interfere with an employee's obligation to the school.

A financial audit of the Department of Business, Economic Development and Tourism also revealed deficiencies in financial accounting and internal control practices. We found particular problems with the department's loan programs, including four revolving loan programs that were designed to stimulate our economy and assist small businesses. We also found that the Hawai´i Tourism Authority did not adequately manage its contracts, a finding we noted in other recent audits. Incomplete loan files, improper lapsing of encumbrances, and lax petty cash management were also identified.

EDUCATING OUR KEIKI

Arguably, educating our children is the single most valuable investment we can make with our public dollars. Among the competitors for these moneys are primary and secondary education, higher education, special education, and their attendant administrations. We conducted four audits in work year 2003 that examined how various educational programs spent their dollars and what we got in return.

In our *Fiscal Accountability Audit of the Department of Education: Do Measures of Effectiveness Impact Funding Decision*?, we found that the department failed to embrace the principles of planning, programming, and budgeting (PPB). The intent of PPB was to produce an objective analysis of the department's budgeting process and determine if objectives were met. The department's failure in this regard denied legislators and other stakeholders potentially valuable information and decision makers may have used flawed data as a basis for their funding decisions.

In June 2001, the Department of Education implemented the Integrated Special Education Database (ISPED) system to address the *Felix* consent decree requirement that the State develop a seamless system of care for children and adolescents requiring mental health services, which included a computerized information system. Our audit of ISPED revealed that the department continues to have significant infrastructure and web site deficiencies that need improvement. Statewide use of ISPED was inconsistent and the department's program administration was confused and lacked adequate controls. Additionally, contract management for the ISPED program was lax. As a result, a *Felix* consent decree benchmark—that ISPED contain current and complete information by November 2001—did not appear to be met.

The department's poor oversight and internal controls were not limited to the ISPED program. In our *Audit of the Department of Education's Special Education Equipment*, we found that the department's lax management resulted in its failure to account for over $2.2 million in special education equipment and funds. We could not identify procedures to hold departmental personnel accountable for the mismanagement of funds and equipment, which we believe extends to the department's fixed assets of $373 million.

Primary, secondary and special education were not the only educational programs that experienced management problems. We found that the University of Hawai´i system mismanaged six of its non-general fund accounts. The university misused its $57 million Endowment Fund, including funds endowed to the university to further academic pursuits. An example of such misuse was a dean's payment of personal entertainment expenses with endowment moneys. The lack of policies and procedures and the disregard for sound contracting practices may have contributed to the university's inability to provide adequate loans to qualified students and allowed contractors to provide services before contracts were fully and properly executed. Finally, we identified numerous questionable expenditures made by the University of Hawai´i Foundation, including various employee entertainment expenses and purchase of personal gifts.

A SAFETY NET WITH "PUKAS"

Safety net programs are designed to help those who cannot always help themselves. Any "holes" in the net could allow the most marginalized in our community to fall through and suffer potentially grave consequences. It is therefore critical that our safety net programs remain responsive and responsible in meeting the needs of our citizenry.

We conducted a follow-up audit to our 1996 audit of the Department of Human Services' QUEST demonstration project and found that QUEST continues to experience problems from inadequate planning and design that hamper the development and expansion of a managed care approach to health care. Most significantly, QUEST has not included the aged, blind, and disabled population. Additionally, we found that the department's Med-QUEST Division experienced management control and staffing problems that hamper operations, and that the department took nearly six years to implement a management information system.

We also initiated an audit of the Department of Human Services' Electronic Benefit Transfer (EBT) Program to assess the program's effectiveness and the department's ability to protect state assets. We found that the department continues to struggle with implementing proper controls that resulted in decreased payment accuracy, loss of enhanced federal funding, increased risk of unauthorized benefits, and limited effectiveness of the program. Ultimately, if the EBT program does not run effectively, the program will not meet its objectives to help those who need it the most.

In light of deficiencies contained in a 1999 audit, we issued the *Follow-up Audit of the Child Protective Service System*. We were disappointed to find that many of the problems identified in 1999 continue today. We found that the system remains unreliable, resulting in inaccurate, incomplete, and outdated case information for decision-makers. We also found that weak contract management practices may waste funds designated to serve children because service providers cannot ensure that clients receive the services as intended.

Finally, we conducted an operations and expenditure audit of the Kalaupapa settlement on the island of Moloka´i. In our audit of this community that supports Hansen's disease patients, we found that while the Department of Health has met the medical needs of patients, it has been remiss in addressing non-medical needs. We also found that the department failed to address patient complaints and did not ensure that the settlement's administrator complied with job requirements. Furthermore, we found that state employees gained undue benefit as a result of their employment in the settlement and the poor oversight of the administrator.

BEST INTENTIONS

Government programs are often established with the best of intentions. On paper, they propose to offer optimal efficiency and reduced costs. Such programs sometimes fail to live up to expectations due to mismanagement or misapplication. Such was the case in two audits we conducted during 2003.

In our *Management Audit of the University of Hawai´i Incentive Early Retirement Program (IER)*, we found that the IER was a unique university perk that failed to meet its goals and was poorly managed. The goal of the program was to save personnel costs, retain experienced staff, and create opportunities for junior staff. However, the program cost the State over $132,000 by overlapping the State's Early Retirement Incentive Program. In addition, the goal of saving personnel costs through early retirement was subverted by replacing retirees with more highly paid replacements. In many instances, the IER proved to be a disincentive when compared to other retirement options.

The Hawai´i Tourism Authority, established in 1998, is tasked with managing our State's visitor industry. To carry out its mission, the authority contracted with an organization with over 100 years of experience in marketing the State —the Hawai´i Visitors and Conventions Bureau (HVCB). In our *Management and Financial Audit of the Hawai´i Tourism Authority's Major Contracts* we found that inadequate oversight by the authority provided the HVCB with a blank check to spend state funds for self-serving purposes. The bureau used state funds to pay for exorbitant bonuses and severance packages and spent $191,000 for questionable or inappropriate expenses. A CPA firm declared a qualified opinion on the bureau's financial statements. Ultimately, we found that the authority's lax management and oversight left little assurance that state contract funds were effectively spent and we were unclear as to what the contract dollars bought.

In an effort to address the high cost of medical insurance, lawmakers requested our office to conduct a study on medical savings accounts. Generally, medical savings accounts are funds held in trust for individuals insured under high-deductible health insurance policies. Accounts are owned by the insured and used for routine health care expenses; catastrophic medical expenses are covered by their high-deductible health insurance policy. Medical savings accounts are intended to encourage individuals to spend moneys prudently for health care expenses.

We found that despite the potential benefits of such a plan, legal issues remain unresolved that could impair the plan's effectiveness. Perhaps more importantly, we found that interest in medical savings accounts is low nationwide and would likely be low in our state. Because of projected low interest, medical savings accounts would have little or no impact on health care costs.

SAFEGUARDING THE ENVIRONMENT

Hawai´i is blessed with clean air, pristine water, and beautiful surroundings. Government programs have been established to preserve these resources and manage our waste output. Failure to safeguard our environment not only puts our health at risk, but also puts into question the availability of resources for future generations.

In our *Audit of the Department of Health's Administration of a Statewide Solid Waste Program and Assessment of Related Land Use Policies*, we found that the department did not carry out its solid waste management responsibilities for public health and environmental protection. Specifically, we noted that the department failed to issue notices of violation and was not ensuring that solid waste facilities submit required reports. We also found that the department does not have current and reliable estimates of remaining volume capacities and expected operating lives for landfills.

Essay: To Audit or Not To Audit…the Answer Is Clear

In recent years, our office has focused some of our audits on private contractors that do business with the State. Contracting with private companies and organizations has a long history in our State as government realized that it couldn't possibly provide every conceivable service to our communities. Oftentimes, the State seeks to tap into the private sector for its expertise, knowledge, and skill to provide services. Furthermore, privatization has become more popular as government seeks to work with entities that can provide quality goods and services, oftentimes at lower prices, that were traditionally provided by government workers. These trends indicate an increasing number of public dollars that are funneled to private sector companies. As a result, questions arise—"How are these private sector companies spending our tax dollars? What standards are they using? What are we getting for our money?"

According to Section 23-4, Hawai´i Revised Statutes, "The auditor shall conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions. The postaudits and all examinations to discover evidence of any unauthorized, illegal, irregular, improper, or unsafe handling or expenditure of state funds or other improper practice of financial administration…" We believe this provision in law requires us to examine all transactions of state funds and to scrutinize those agencies that expend those funds.

Despite our statutory mandate, our office continues to face resistance when we attempt to review how private companies, including non-profits, spend state dollars. We commonly hear, "But we're a private company—you cannot audit us" or "We are a non-profit organization—you have no jurisdiction." Responses such as these seem to indicate that private organizations are under the misguided belief that once they receive state contract dollars, those dollars become "private" and are subsequently subject only to strict contract compliance or personal discretion. We disagree. It is our belief that these organizations, although private and not subject to state procurement laws, collective bargaining agreements, or other government standards, should adhere to the spirit of judicious use of state funds and provide transparency in how funds are used and what the public gets in return.

The trend in government accounting indicates the need for better accountability by private agencies using public dollars. Governmental Accounting Standards Board (GASB) Statement 39, which goes into effect on June 30, 2004, adds criteria for legally separate, tax-exempt fund-raising organizations and clarifies how those organizations should be evaluated. Specifically, an organization that meets the following criteria will be subject to stricter financial accounting standards in terms of its relationship with government and the funds it receives:

1. Solely, or almost solely, serves primary government, its components, or constituents;
2. Primary government or its components is entitled to or able to access a majority of resources of the organization; and
3. Individual organization is significant to primary government.

Examples of organizations that might meet the new criteria are universities, school districts, hospitals, museums, libraries, parks, and zoos.

Another law affecting how non-profits operate is the Sarbanes-Oxley Act that was signed into law in 2002. The purpose of the act was to put safeguards and controls into place which would restore public trust in the integrity of the financial reporting and auditing process of publicly traded companies. However, with issues of corporate governance in the spotlight, all organizations, particularly those subject to scrutiny as recipients of government funds or beneficiaries of charitable giving, should understand the provisions and impact of the act. In fact, the U.S. General Accounting Office has strengthened auditor independence provisions that apply, among other things, to audits of state and federal grants received by non-profit entities.

During the past year, our office conducted a *Management and Financial Audit of the Hawai´i Tourism Authority Authority's Major Contracts, Report No. 03-10*. Our audit focused on the authority's largest contract with the Hawai´i Visitors & Convention Bureau (HVCB), a non-profit, 501(c)(6) organization. We found numerous accounting irregularities with the bureau in managing public dollars it received from contracts with the authority. Although a large portion of the shortcomings can be attributed to poorly constructed contracts and lax contract monitoring by the authority, the bureau's spending went virtually unchecked with no adherence to policies consistent with publicly funded organizations.

In an on-going audit of the University of Hawai´i Foundation's use of select special funds, we continue to face challenges against our access to documents and other important information. The foundation is under a multi-million dollar contract with the state-funded university system for its fundraising endeavors. The foundation consistently raises the issue of its status as a private, non-profit, 501(c)(3) organization as a shield against our access to information we need to evaluate how the foundation spent public funds and what the public got in return. Pending legislation before the 2004 Legislature seeks to strengthen our access to the foundation's information.

Out of necessity or convenience, government will always need to contract with the private sector for the provision of goods and services. Private sector organizations benefit, too, from potentially lucrative government contracts. However, these organizations need to realize that the public has a right to know how their tax dollars are spent and that they have a higher standard of accountability and care when using public dollars. We take our statutory responsibilities seriously and will continue our efforts to hold all agencies accountable for their actions—public, private, or otherwise.

Summary of Reports – 2003 Work Program

PERFORMANCE AUDITS AND STUDIES

- ***Review of Selected University of Hawai'i Non-General Funds and Accounts,*** Report No. 03-04
- ***Evaluation of the State's Integrated Special Education Database System,*** Report No. 03-05
- ***Management Audit of the University of Hawai'i Incentive Early Retirement Program (IER),*** Report No. 03-06
- ***Audit of the Department of Education's Special Education Equipment,*** Report No. 03-08
- ***Fiscal Accountability Audit of the Department of Education: Do Measures of Effectiveness Impact Funding Decisions?*** Report No. 03-09
- ***Management and Financial Audit of the Hawai'i Tourism Authority's Major Contracts,*** Report No. 03-10
- ***Audit of the Department of Human Services' Electronic Benefit Transfer (EBT) Program,*** Report No. 03-11
- ***Review of Revolving Funds, Trust Funds, and Trust Accounts of the Department of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources,*** Report No. 03-13
- ***Study of Medical Savings Accounts,*** Report No. 03-14
- ***Audit of Kalaupapa Settlement Operations and Expenditures,*** Report No. 03-15
- ***Audit of the Department of Health's Administration of A Statewide Solid Waste Program and Assessment of Related Land Use Policies,*** Report No. 04-01

FINANCIAL AUDITS

- ***Financial Audit of the John A. Burns School of Medicine of the University of Hawai'i,*** Report No. 03-02
- ***Financial Audit of the Department of Business, Economic Development and Tourism,*** Report No. 03-03

FOLLOW-UP AUDITS

- ***Follow-Up Audit of the Department of Human Services' QUEST Demonstration Project,*** Report No. 03-07
- ***Follow-Up Audit of the Child Protective Services System,*** Report No. 03-12

Financial Audit of the John A. Burns School of Medicine of the University of Hawai'i
Report No. 03-02, February 2003

The Office of the Auditor and the certified public accounting firm of Deloitte & Touche LLP conducted a financial audit of the John A. Burns School of Medicine of the University of Hawai'i for the fiscal year July 1, 2001 to June 30, 2002. The audit examined the financial records and transactions of the school; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

We found deficiencies in the internal control practices of the school. The school's administration and management of its contracts with health organizations that provide training and medical services are deficient. We also found that 28 contracts were signed and executed prior to the contract start date that resulted in the schools' incurring $2.3 million in expenses before the health care organization could be billed.

Additionally, we found that the school does not complete final reconciliation of the amounts due from the health care organizations in a timely manner. As a result, the school's cash flow was negatively impacted as funds remained outstanding and any potential interest income was lost.

Finally, we found that the school does not comply with, nor did school administrators enforce, University of Hawai'i policies and procedures regarding conflict of interest situations involving school faculty. Limits are placed on outside employment to ensure that such employment does not interfere with the faculty's primary obligation to the university. We found that a significant portion of disclosure and outside employment forms were either not completed or not submitted in a timely manner. Furthermore, by not enforcing the requirement for submitting disclosure and outside employment forms, potential conflict of interest situations that interfere with an employee's obligation to the school may not be identified or adequately resolved.

Financial Audit of the Department of Business, Economic Development and Tourism
Report No. 03-03, March 2003

The Office of the Auditor and the certified public accounting firm of KPMG LLP conducted a financial audit of the Department of Business, Economic Development and Tourism, State of Hawai'i, for the fiscal year July 1, 2001 to June 30, 2002. The audit examined the financial records and transactions of the department; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

We found deficiencies in the financial accounting and internal control practices of the department. We found that the department is deficient in the management of its loan programs, including the four revolving loan programs that were developed to stimulate Hawai'i's economy and be responsive and beneficial to small businesses unable to obtain financing through the private sector. We also found that the department does not actively monitor its delinquent loans or its delinquent participation loans.

Additionally, we found that the department's loan files are incomplete. Loan files selected for review were missing adequate documentation of on-site inspections of applicants' collateral or evidence that loan proceeds were spent for authorized purposes. We also found that 12 loan repayment checks, out of a sample of 15, were not deposited by the department in a timely manner.

We also found that the Hawai'i Tourism Authority does not adequately manage its contracts. We found that contractors performed services prior to the execution of legally binding contracts; contracts were renewed prior to the authority's evaluation of the quality of work provided; and, in one instance, final payment was remitted to the contractor prior to completion of all required tasks.

We found that the department does not properly lapse unnecessary encumbrances. Specifically, our testing found that funds remained encumbered for contracts or purchase orders that were canceled, inactive, and/or expired. The department's failure to identify and lapse invalid encumbrances had denied the State its opportunity to utilize these funds for other priorities.

Finally, petty cash functions are inadequately segregated, with the*cash custodians performing both custodial and reconciliatory functions. Also, the department's petty cash fund balance of $25,000 is excessive.

Review of Selected University of Hawai'i Non-General Funds and Accounts
Report No. 03-04, March 2003

Our review found numerous accounts of mismanagement by the University of Hawai'i for six of its non-general funds. We found that lax monitoring has led to the inappropriate use of funds in at least two non-general funds. We also found that the university misused its $57 million Endowment Fund, including funds endowed to the university to further marine and atmospheric research that were used by a dean to pay for personal entertainment expenses.

The university also lacks documented policies and procedures for the use and allocation of its Research and Training Revolving Fund and its Tuition and Fees Special Fund. The lack of policies and procedures for the Tuition and Fees Special Fund is especially concerning because the fund collected over $439 million and expended over $400 million since FY1997–98.

We also found that outdated procedures may contribute to the university's inability to provide adequate loans to qualified students from its State Higher Education Loan Fund. The fund maintains a 31 percent delinquency rate, compared to other universities we contacted that experience a delinquency rate between 2 and 15 percent.

The university also disregarded sound contracting practices by allowing contractors to render services before contracts were fully and properly executed. In addition, the university contracted with the University of Hawai´i Foundation to provide fundraising and stewardship services, but failed to adequately monitor those contracts. In fact, the current tuition-funded contract does not allow the university to adequately monitor the foundation's services.

Finally, we found numerous questionable foundation expenditures made under the guise of fundraising, including employee passes to football games, holiday luncheons, and community fundraisers. We also found that student tuition-funded contract funds were used to entertain foundation employees and that the university president used public contract funds to purchase a gift that he presented in his own name.

Evaluation of the State's Integrated Special Education Database System
Report No. 03-05, April 2003

We found that although the Department of Education's Integrated Special Education Database (ISPED) system was implemented in June 2001, it continues to have significant infrastructure and web site deficiencies that need improvement. ISPED was developed to address the *Felix* consent decree's requirement that the State develop a seamless system of care for children and adolescents requiring mental health services, which included a computerized information system. ISPED continues to experience slow response time, with modules taking four to ten hours to complete for each student.

We also found that statewide use of ISPED is also inconsistent. No formal ISPED training has been established, key ISPED functions are underutilized, and ISPED confidentiality concerns have arisen. A *Felix* consent decree benchmark —that ISPED contain accurate, current, and complete information by November 2001—does not appear to have been met.

We found that the department's administration of ISPED is also confused and lacks adequate controls. The department has not adequately incorporated management tools to hold employees accountable for their performance, such as clear roles, responsibilities, guidelines, and personnel evaluations. The confusion extends to other state and complex level staff where most complex area superintendents do not use ISPED reports or interact with the project team.

Additionally, we found that management lacks financial accountability in several areas. For example, department management has allowed unjustified contract costs to be paid, contract deficiencies to linger, questionable relations to exist, and flawed ISPED ownership agreements to be created. We also found that the ISPED project manager does not track, monitor, or scrutinize ISPED's budgets, appropriations, allotments, or expenditures. Finally, we found that the department failed to pursue approximately $14 million annually in potential Medicaid reimbursements for at least two years.

Management Audit of the University of Hawai´i Incentive Early Retirement Program (IER)
Report No. 03-06, May 2003

We found that the Incentive Early Retirement Program (IER) is a unique university perk that fails to meet its goals and is poorly managed. Specifically, the program, which was established at the University of Hawai´i in 1983 in order to save personnel costs while retaining experienced staff and creating opportunities for junior faculty, has resulted in $132,461 in unnecessary costs for the State by overlapping the State's Early Retirement Incentive Program. In addition, the goal of saving personnel costs through early retirement was subverted by replacing retirees with more highly paid replacements.

We also found that the IER may prove to be a disincentive when compared with other retirement options. For example, retirees are now eligible for the highest pay scale for lecturers, earning a potential $1,490 per credit hour taught, which is equivalent to some associate professors' per hour pay. In addition, Social Security regulations have made the incentive program less effective as a means to encourage retirement.

Another anticipated benefit of the program was shifting the university's staff's age profile from mature to balanced, as recommended by the American Association of University Professors. However, we found that for tenured faculty and

Administrative Technical Professional employees, the median age and years of service has not changed significantly since 1983.

Finally, we found that the program is poorly managed, leaving the university administration unaware of its overall impact. The policies governing the program are vague, which has led to subjective criteria and uneven implementation. System-wide cost data is not collected by the administration, leaving the university's administration unaccountable for the overall results of the program. Management is also lax in terms of the quality of the work performed under IER, with no sanctions imposed if the work is unsatisfactory.

Follow-Up Audit of the Department of Human Services' QUEST Demonstration Project
Report No. 03-07, May 2003

This audit follows up on the recommendations from our 1996 audit and several subsequent audits that examined various aspects of the QUEST Demonstration Project. We found that QUEST continues to experience problems from inadequate planning and design that hamper the development and expansion of a managed care approach to health care. After nine years, enrollment and participation in QUEST are basically unchanged and planning efforts to incorporate the aged, blind, and disabled population have ceased.

We also found that despite the department's ability to control costs and stay within federal budget limits, QUEST's ability to continue to contain costs without reducing levels of service is questionable. In addition, QUEST has not included the aged, blind, and disabled population to date, and is therefore unable to demonstrate whether the managed care approach is viable for the larger range of patients.

Additionally, we found that while the department's Med-QUEST Division has overcome some operational weaknesses, other management control and staffing problems still hamper QUEST's operations. For example, the department continues to experience problems with the eligibility review process, with case file records that lack proper documentation that eligibility has been reviewed, and are incomplete and inconsistent. Some management control problems appear associated with the staffing concerns identified in our 1996 audit. We also found that the Med-QUEST Division still lacks a standard procedures manual to guide its operations.

Finally, we found that, although it has taken six years, a management information system has been implemented. In 1999, Hawai´i entered into a development partnership with the Arizona Health Care Cost Containment System Administration to jointly develop the Hawai´i Arizona Prepaid Medicaid Management Information System (HAPA).

Audit of the Department of Education's Special Education Equipment
Report No. 03-08, May 2003

We found that the department's lax management has resulted in its failure to account for over $2.2 million in special education equipment and funds. The Department of Education is required to provide specially designed instruction to meet the unique needs of special education students. To meet these needs, the department may purchase a variety of special education equipment, including computers. Despite its failure to account for special education equipment, the superintendent of education has submitted reports to the State Procurement Officer attesting to the department's accountability over its fixed assets.

The department's lack of adequate internal controls over special education equipment and funds means that the public is not assured that these assets are adequately safeguarded and that errors and fraud are promptly detected and prevented. There are no procedures to hold departmental personnel accountable, and special education equipment has been lost due to negligence. We also found that some schools reduced their chances of recovering missing or stolen equipment because they failed to promptly report incidents of theft or loss. In addition, we found that special education equipment and funds have been inappropriately used for regular education and that the process to redistribute laptop computers for the Integrated Special Education (ISPED) information system was time-consuming and inefficient.

Finally, we found that the department's lax management may not be limited to special education equipment—it may also extend to the department's fixed assets. Without adequate monitoring and enforcement of inventory management procedures, the department cannot ensure the effective stewardship of $373 million in fixed assets.

Fiscal Accountability Audit of the Department of Education: Do Measures of Effectiveness Impact Funding Decisions?
Report No. 03-09, June 2003

We found that the Department of Education has neglected to embrace the principles of planning, programming, and budgeting (PPB) and has only minimally complied with statutory requirements. Specifically, the department has not oriented its program managers' focus from reporting requirements to program objectives as intended by PPB. Program managers also lack adequate training and the department has yet to develop a comprehensive program analysis and evaluation system.

In addition, we found that the department's measures of effectiveness in the executive budget are irrelevant, inaccurate, and ambiguous. Measures are unrelated to program objectives and are based on assumptions, estimates, and unverified data. As a result, legislators are denied potentially valuable information and some may be basing their fiscal decisions on flawed data. The Department of Budget and Finance has contributed to this problem because it has not fulfilled its responsibility of providing systematic analysis and assisting departments.

We also found that the Department of Education has implemented a patchwork of ad hoc projects to address accountability and evaluate its programs' resources. However, these efforts are not linked to the State's PPB system and some of these efforts perform functions similar to those that should be part of PPB. Such duplication results in wasted effort and resources. In addition, new objectives and key performance indicators do not follow the existing budget program structure.

Our findings confirm the conclusions of 1998 performance budgeting committee that PPB did not provide satisfactory information, existed in form only, and required substantial improvements to render it useful and meaningful. To clarify the utility and realize the potential of Hawai´i's PPB system, studying best practices in performance budgeting and legislative and executive involvement and leadership will be needed.

Management and Financial Audit of the Hawai´i Tourism Authority's Major Contracts
Report No. 03-10, June 2003

We found that inadequate oversight by the authority provided the Hawai´i Visitors & Convention Bureau (HVCB) with a blank check to spend state funds for self-serving purposes. The bureau increased the compensation of its state-funded employees by 42 percent over a period of three years, despite state funding for the same period remaining relatively unchanged. The bureau also used state contract funds to pay for exorbitant bonuses and unnecessary severance packages for its employees who were already highly compensated. Additionally, although it was not obligated to do so, HVCB paid and accrued severance pay using state contract funds.

The bureau also expended $191,000 in state contract funds for other inappropriate or questionable expenditures, many of which violated HVCB's own travel and entertainment policy. We also found an unusual arrangement whereby the state-funded salary of an HVCB vice president is supplemented by an airline. Furthermore, we question the propriety of HVCB using its consultant law firm, paid with state funds, to perform legal services that sought to undermine the authority and the State.

We also found that the bureau exercised poor management and oversight over its state-funded contractors. In addition, the bureau did not execute contracts in a timely manner, procured services that were beyond the scope of its state contracts, and maintained contract files that were incomplete and disorganized. We also found questionable arrangements between the former governor's office and HVCB that raise questions about whether the former governor's office used HVCB to circumvent the State Procurement Code.

Our consultant CPA firm declared a qualified opinion on HVCB's financial statements for the year ending December 31, 2002. The consultant found that HVCB committed funds in one year to pay for future goods and services of another year—a direct violation of generally accepted accounting principles. By doing so, HVCB was able to spend exactly up to its state contract limit and circumvent the potential return of unexpended funds to the authority.

In addition, we found that the authority's lax monitoring and enforcement of its contracts with HVCB left little assurance that state contract funds were effectively spent. Specifically, we found that poorly constructed contracts and inadequate contract monitoring and enforcement by the authority did not adequately protect the State's interests.

Finally, we found that the authority has taken steps to address some of the management deficiencies identified in a prior audit. However, the authority continues to allow HVCB to provide services without a signed contract.

Audit of the Department of Human Services' Electronic Benefit Transfer (EBT) Program
Report No. 03-11, August 2003

We initiated this audit to assess the Department of Human Services' effectiveness in administering its Electronic Benefit Transfer (EBT) program and ensuring the adequate protection of state assets from loss and abuse. In addition, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 required all states to implement statewide EBT systems to distribute food stamp benefits by October 1, 2002.

Our current audit found that the department continues to struggle with implementing proper controls resulting in decreased payment accuracy ratings, loss of enhanced federal funding, increased risk of unauthorized benefits, and limits to the effectiveness of the EBT program. Previous audits found deficiencies in the department's management controls over its food stamp and financial assistance programs resulting in overpayments and inaccurate computerized data.

We also found that the department ineffectively uses its quality assurance programs, which consists of management evaluation and quality control reviews. The department's quality control review for federal fiscal year (FFY) 2001–02 showed several units with high error rates, which ultimately affects the department's eligibility to receive a share of millions in federal enhanced funding.

We found that the department failed to hold managers accountable for not conducting case reviews as recommended by management evaluation reviews; maintained ineffective case management tools or tools that were ineffectively used; and lacked control over the EBT card inventory leaving the system vulnerable to potential fraud, waste, and abuse.

Finally, the department inadequately monitors the EBT contractor. The department did not regularly receive and review a list of authorized users and verify user access to the EBT system.

Follow-up Audit of the Child Protective Service System
Report No. 03-12, August 2003

We found that many of the deficiencies revealed in our 1999 audit continue today, particularly the lack or disregard of department management controls. We found that supervisory oversight and review is inadequate and results in inconsistent enforcement of intake and investigation procedures, poor communication with Family Court and the Honolulu Police Department, and untimely permanency planning. In addition, the department did not always use or properly review its risk assessment matrices, which are tools that promote systematic and consistent decision-making. Errors and discrepancies in matrix use may result from a lack of in-depth matrix training.

We found that the Child Protective Services System remains unreliable, resulting in inaccurate, incomplete, and outdated case information for decision-makers. Moreover, the department does not consistently inform Family Court of pending expirations of voluntary foster custody agreements. We also found that the department failed to comply with Hawai'i's mandated reporting law.

Finally, we found that weak contract management practices may waste funds designated for services to children because service providers cannot ensure that clients receive the services billed for. Inadequate contract monitoring resulted in numerous overpayments to service providers. We also found that welfare families continue to receive assistance benefits after children are placed in foster custody. We also found that foster families were paid for foster care services without adequate proof of the child being present in the home.

Review of Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources
Report No. 03-13, October 2003

Section 23-12, Hawai´i Revised Statutes, requires the State Auditor to review all existing revolving and trust funds every five years. This is our third review of the revolving funds, trust funds, and trust accounts of the departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources.

We reviewed a total of 74 funds and accounts: 22 revolving funds, 23 trust funds, and 29 trust accounts. We used criteria established by the Legislature and developed by our office from a review of public finance literature. The revolving funds, trust funds, and trust accounts must continue to serve the purpose for which they were originally created and not require continuing general fund appropriations. In addition, revolving funds must reflect a clear link between the benefit sought and charges made upon the users or beneficiaries of the program, and be an appropriate financing mechanism for the program or operation. A trust fund must also provide benefits or services for its intended beneficiaries and meet the statutory definition of a trust fund.

For each fund or account reviewed, we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not include any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We did not audit the agencies' financial data.

Study of Medical Savings Accounts
Report No. 03-14, October 2003

We examined the feasibility of medical savings accounts as proposed in various legislative measures regarding workers' compensation, health care insurance, and the Hawai´i Employer-Union Health Benefits Trust Fund. Concerned with potential legal, social, and financial impacts of these legislative measures, the 2003 Legislature requested this examination in House Concurrent Resolution No. 93. The report presents our findings on the legal, social, and financial impacts of medical savings accounts.

We found that the legal issues related to medical savings accounts are unresolved and subject to interpretation. We concluded that legislation authorizing the establishment of medical savings accounts will very likely not impair the exemption from ERISA preemption that the Hawai´i Prepaid Health Care Act now has. However, the legislation itself may be preempted under ERISA, depending on the nature of legislation. The Legislature must determine which legal opinion it will rely on when making decisions regarding medical savings accounts.

We also found that some legal uncertainty surrounds medical savings account legislation. This situation arises from the differing readings each legislative measure may have, and can very likely hinder the pace of medical savings account implementation. If passed, enabling legislation only begins the process by which medical savings account health care packages become a reality. These packages require scrutiny by and approval from the insurance commissioner and the Department of Labor and Industrial Relations, including review by the Prepaid Health Care Advisory Council. Largely discretionary, the approval process may raise even more uncertainties.

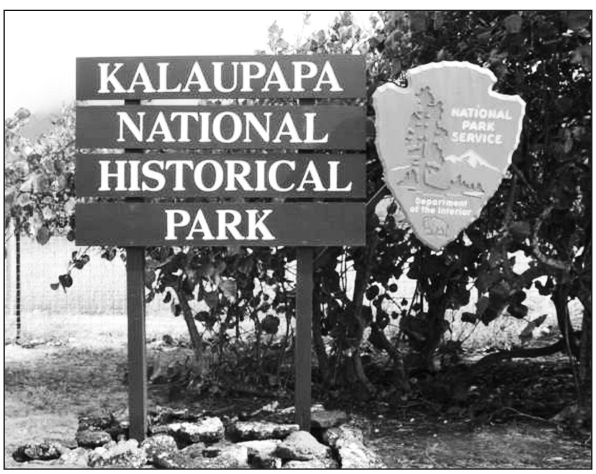
Finally, we found that, given the limited interest in medical savings accounts nationwide, and very likely in Hawai´i, the potential for any negative social and financial impacts of medical savings accounts in Hawai´i appears to be minimal. If medical savings accounts are established in Hawai´i, the experience of other states may well be repeated here—in which case, medical savings accounts should have little or no impact on health care costs or practices because of relatively low usage.

Audit of Kalaupapa Settlement Operations and Expenditures
Report No. 03-15, December 2003

We found that while the department has met the medical needs of patients, it has been remiss in addressing non-medical needs and has exercised poor oversight of the settlement's operations. Formal rulemaking has been limited and development of policies and procedures for non-medical needs were ignored, contributing to perceptions of abuse and unfair treatment in several administrative practices.

We also found that patients' concerns were not taken seriously by the department or Kalaupapa administration, resulting in patient frustration. The primary source of patients' frustration has been the Kalaupapa administrator, whom patients characterize as abusive, rude, and lacking in compassion. Additionally, we found that the department did not ensure the competency of the administrator or compliance with his job requirements. The department also failed to provide the administrator with appropriate training.

We found that the department did not ensure that the administrator established adequate safeguards over state property. Specifically, we found that settlement employees were not affixing state identification tags to state property, making them subject to potential theft and loss. Moreover, federal employees were placed in charge of state property.



Kalaupapa National Historical Park was established in 1980 through Public Law 96-565. We found that the Department of Health failed to address patients' non-medical needs and was remiss in safeguarding state resources.

Additionally, we found that the administrator authorized excess compensation to settlement staff. Our review of employee trail pay disbursements and air travel reimbursements revealed that eight employees received excessive travel compensation in excess of $6,500. Furthermore, we found that the department could not justify other employee benefit programs including the food credit program and state-funded household goods.

Finally, we found that the department's poor oversight extends to its inability to distinguish between patient and non-patient costs, making it difficult to identify cost center deficiencies.

Audit of the Department of Health's Administration of a Statewide Solid Waste Program and Assessment of Related Land Use Policies
Report No. 04-01, January 2004

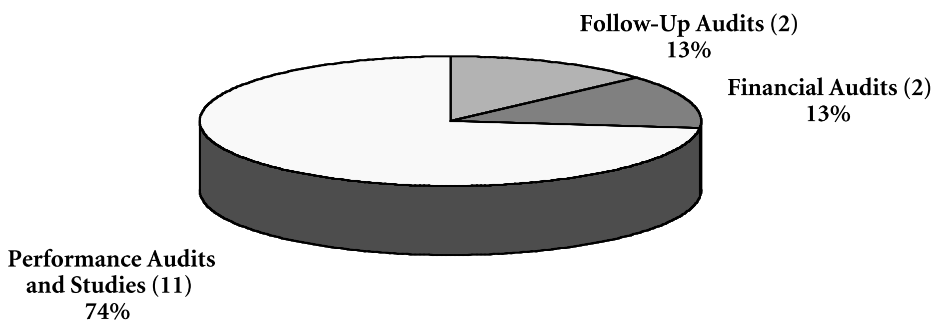
Responding to the concern that present land use planning issues do not adequately address all concerns in siting new landfills, the Legislature, through Senate Concurrent Resolution No. 153, concluded that the State must reassess its solid waste management and landfill policies.

We found that the Department of Health is not carrying out its solid waste management responsibilities for public health and environment protection. Prior audits pointed out management problems that continue to exist, including improper monitoring, inspecting, or enforcing solid waste regulations, particularly for landfills.

In addition to the department taking an unreasonable amount of time to review some permit applications, we found numerous examples of lax oversight, including the department's failure to issue notices of violation for offenses and not ensuring that solid waste facilities submit required reports. The department's failure to issue notices of violation resulted in non-collection of a minimum of $100,000 in fines. Additionally, the department failed to ensure compliance with statutory planning requirements.

Finally, we found that the department does not have current and reliable estimates of remaining volume capacities and expected operating lives for landfills. In addition to our audit findings, we provided information on landfill siting and other related issues and information on fees.

TYPES OF REPORTS - 2003



The office also performed 78 quick reviews of proposed special and revolving funds.

Actions Taken on Previous Recommendations
(Report Nos. 02-07 through 02-23)

Report Title: **Management Audit of the Disability Compensation Division and A Study of the Correlation Between Medical Access and Reimbursement Rates Under the Medical Fee Schedule**
Report No.: 02-07

RECOMMENDATIONS	ACTIONS TAKEN
1. The director of labor should implement written policies and procedures over the penalty waivers process. The policies should, at a minimum, include the following:	Written procedures have been implemented in the following areas and are currently being adhered to:
a. Clarify the administrator's authority with respect to granting penalty waivers;	The administrator's authority to grant penalty waivers has been removed. All penalty waivers and requests for penalty reductions are now required to go through the hearings decision process.
b. Require that all penalty waivers be reviewed by the director; and	All penalty waivers must be reviewed and granted by the director.
c. Ensure that policies over penalty waivers are followed.	The department will formalize this penalty waiver practice through the administrative rule making process during the first half of 2004. Upon approval of these rules, the division will conduct informational workshops for its branches and neighbor island offices to ensure everyone is aware of the penalty waiver procedures and related administrative rules.
2. The director of labor should complete the department's draft information systems strategic plan and ensure that future computer systems be reviewed by the executive steering committee.	The department's Information Systems Strategic Plan has been completed and is the roadmap to develop the department's automation systems. Plans for future computer systems and programs are now coordinated through the department's executive steering committee, the Information Technology (IT) Consolidation Group.
3. The director of labor should require the administrator to improve internal controls, information systems, and morale within the division. The director should exercise adequate oversight over the administrator by evaluating the administrator's compliance with the plan.	
a. To improve internal controls, the plan should require the administrator to:	
1) Implement written policies on how penalties are waived, including: who can initiate a waiver, time limits for when a waiver can be initiated and approved, what supporting materials are required, what amounts can be waived, and how waivers are evaluated and documented;	Guidelines for waiving penalties have been written and implemented. Adoption of related administrative rules referenced in the paragraph above should be completed in the first half of 2004.
2) Improve financial reporting of the Special Compensation Fund to ensure that all revenues, receivables, payments, and expenditures are comprehensively accounted for; and	Request for Bid specifications have been developed by a process action team comprised of various department staff. The project to improve Special Compensation Fund (SCF) financial reporting involves integrating the

continued on page 20

RECOMMENDATIONS	ACTIONS TAKEN
	new automated benefit payment system with the current DAGS' Information and Communication Services Division's (ICSD) ADABAS Natural and Lotus Notes-based Disability Compensation System to automatically capture payment information once decisions are made. The accounting system will also automatically generate payment transactions to upload to the DAGS' Financial Administration Management Information System (FAMIS) and automatically download FAMIS payment information to the new accounting system. The request for consultant services has been approved and the specifications for the RFP are under final review. The procurement process is expected to begin in late 2003.
3) Update position descriptions to ensure that authorities and responsibilities related to the Special Compensation Fund reflect current operations.	Revised position descriptions for four (4) job functions have been drafted and submitted to the department's Personnel Office: *DC Program Specialist II*, *DC Program Specialist I*, *DC Program Specialist I*, and *Auditor IV*. As a result of the proposed revisions for these positions, the department's Personnel Office and Administrative Services Office are conducting a feasibility review of restructuring the division's Program Office with the DCD management team. Revised position descriptions for the four functions noted above are anticipated to be approved and in-place by Dec. 31, 2003.
b. To improve information systems, the plan should require that the division:	
1) Integrate the use of its information system in the division's strategic plan to measure performance measures;	The division's information system is now tracking the more complex performance measures contained in the agency's strategic plan (rev. 2002).
2) Conduct a post-installation review of its information systems; and	The division has reviewed its current automated information systems and identified areas that require improvement to meet departmental strategic plans for consolidation of all automation systems and prepare for e-government services.
3) Comply with the department's information systems strategic plan in future developments or enhancements of computer systems.	Plans to enhance the division's automation system are being developed in accordance with the department's strategic plans for consolidation of departmental automation systems and for e-government services. Compliance with the department's plans is monitored and reinforced by the division's data processing systems analyst.
c. To improve morale, the plan should require that the administrator:	The department is reassessing division employees' views on morale and the leadership of the administrator through an employee survey that is currently in progress. Results of the survey should be compiled and available by December 1, 2003 and will provide the director's office with an updated indication of employee morale and perception of the administrator's leadership and management capabilities. The survey was built around the same questions as the original survey results labeled as Appendix A in the State Auditor's Report No. 02-07 in March 2002.

continued on page 21

RECOMMENDATIONS	ACTIONS TAKEN
	The director's office has also conducted skip-level meetings with DCD employees and will continue to do so until all DCD employees have had the opportunity to participate in these sessions. The meetings are intended to encourage and provide a venue for employees to share their concerns and suggestions for the division and establish a platform of open, and honest communication.
1) Establish a process action team staffed with appropriate personnel with explicit instructions and adequate guidance to make recommendations on improving morale;	To be determined pending employee re-survey in progress.
2) Implement the process action team recommendations; and	To be determined pending employee re-survey in progress.
3) Conduct a re-assessment of staff views after an appropriate time has lapsed.	To be determined pending employee re-survey in progress.
4. The director of labor and industrial relations should take the necessary steps to improve the amendment process for the workers' compensation medical fee schedule. Specifically, the director should take the following measures:	
a. Allocate sufficient resources to conduct research on workers' compensation issues and ensure that statistically valid surveys, as required by Section 386-21(c), HRS, are completed;	An additional research statistician, whose position is funded by the SCF, was hired in October 2002. The Disability Compensation Division (DCD) is also providing administrative support and funding to conduct the surveys.
b. Seek an exemption from the Small Business Regulatory Flexibility Act of 1998 for the fee adjustment process;	The division has been unable to seek an exemption from the Small Business Regulatory Flexibility Act as a result of Act 202 which repealed the sunset provisions of Act 168 and which binds the division to the flexibility act. The DLIR is therefore proposing legislation during the 2004 legislative session to exempt workers' compensation from the Small Business Regulatory Flexibility Act.
5. Implement mechanisms to mandate the provision of necessary information by health care providers to complete the statistically valid surveys required by Section 386-21(c); and	The R&S office regularly conducts surveys to determine the need to adjust the WC Medical Fee Schedule as required by Section 386-21c, HRS. Completion of the employer surveys is facilitated by the Office of Information Practices that opined that fee schedule information is confidential, thus eliminating the reluctance of health care providers to provide financially sensitive information.
6. Educate health care providers about their recourse to petition for adjustments to the medical fee schedule.	The division is currently developing information for health care providers that will provide guidelines on recourse steps they can take to petition for medical fee schedule adjustments. The information should be available by April 2004. Dissemination of the information will be done in several ways: distribution of an informational fact sheet to providers; posting of the fact sheet on the department's website; inclusion of information in speeches and external communications; and meetings and discussion with health care providers.

Report Title: **A Study on the Licensing of Private Trade, Vocational, and Technical Schools**
Report No.: 02-08

RECOMMENDATIONS	ACTIONS TAKEN
1. As current administrators of the licensing program, the Department of Education should improve its management of the licensing program. More specifically, the department must:	
a. Ensure that schools are properly licensed and regulated and meet minimum requirements for licensure;	The department is enforcing requirements by the following methods: • All documents received are checked for accuracy and completeness. • Follow-up calls are made to schools that neglect to submit all required documents. A log of calls is kept. • The existing monitoring checklist is used to ensure that all documentation is submitted.
b. Ensure that licenses are not backdated and are issued in accordance with the timeframe specified in the administrative rules;	Licenses are dated and issued upon approval within the timeframe specified in the administrative rules. Schools that do not fulfill all requirements are not issued a license until all conditions are met. Renewal packets are mailed to licensees three months prior to license expiration. A copy of the law is enclosed in each application packet.
c. Ensure that license fees are collected prior to issuing a school a license to operate;	License fees are required before the application is processed and a license is issued. A copy of the check is attached to the application as proof of payment prior to processing.
d. Ensure that license fees are deposited in a timely manner; and	License fees are deposited on a daily basis upon receipt of the application. When daily deposit is not possible, checks are restrictively endorsed for security purposes. A copy of the payment check is kept with the application.
e. Review its administrative rules for the licensing program so that recommended national standards for licensing proprietary schools and current surety bonds deficiencies are addressed.	A review of the administrative rules for the licensing program has been conducted. Areas for updating have been prioritized and include establishing a clear-cut timeline, instituting effective review and record keeping procedures, formalizing financial procedures and reports, and addressing disciplinary provisions for violators of the licensing law. The issue of the adequacy of surety bonds will be further investigated to determine appropriate procedures to increase the amount of the bond.

Report Title: **Follow-Up Study of the Hawai´i Health Systems Corporation**
Report No.: 02-09

RECOMMENDATIONS

1. Corporate management should improve its control of contract spending by the following:

   a. More effectively monitoring contract expenditures;

   b. Ensuring compliance with procurement and contracting policies. Those policies should include the process for selecting vendors and for establishing, administering, monitoring, and evaluating contracts; and

   c. Ensuring that there is an adequate audit trail for all purchases.

2. Corporate management should systematically address the concerns of information technology users and should require the Information Technology Steering Committee to prepare committee minutes that document its decisions.

3. Corporate management should continue its efforts to redevelop the corporation's personnel system and to take full advantage of recent legislation providing flexibility. The corporation should reexamine its practice of maintaining certain corporate executives as "independent contractors."

ACTIONS TAKEN

1a. HHSC is in the process of drafting a policy on monitoring contract expenditures, and is also seeking proposals for a contract monitoring program that can be easily maintained and interfaced with the current accounting system at little cost.

1b. HHSC semi-annual acquisition review team reviews regional compliance with procurement policies and procedures. Current procurement policies and procedures describe the process for selecting, administering and evaluating contracts.

1c. Regions follow HHSC procurement policies and procedures and the audit trail is inherent in those policies.

2. As has been stated repeatedly, HHSC has minutes of meetings beginning in October 1998. HHSC has and will continue to address concerns through regular meetings, forums, planning sessions and updates to the Information Technology Plan.

3. HHSC has implemented various provisions and initiatives under Act 253. The following generally lists the major accomplishments in improving and redeveloping our personnel system:

- Implemented new civil service rules to reflect Act 253 provisions;
- Streamlined the recruitment process, which reduced the time to fill vacancies;
- Streamlined the classification process;
- Implemented pre-employment drug testing;
- Established new civil service classes and in the process of converting exempt positions to new civil service classes;
- Negotiated various supplemental agreements with HGEA and UPW to improve operations; copies provided to the Auditor;
- Continue to work with unions to resolve personnel-related issues and develop/explore new concepts and pilot projects;
- Continue to address recruitment & shortage concerns for various healthcare positions; and
- Development of nurse graduate program, upward mobility and specialty training programs;

Assumed a more active role in negotiations and was assigned a leadership role (chief spokesperson) for BU 09 nurse negotiations.

Finally, HHSC does not have any corporate executives under independent contracts.

continued on page 24

RECOMMENDATIONS	ACTIONS TAKEN
4. Corporate management should improve financial management by developing, implementing, and enforcing the following: a. An internal audit function and a board audit committee; and	The HHSC Board of Directors has redefined and renamed the former Finance and Information Systems Committee to become the Finance, Information Systems, and Audit Committee, to encompass the functions that an audit committee would be required to perform in public companies. The members of this committee have been briefed and given guidelines on how to perform the audit committee function and on the recently passed Sarbanes-Oxley Act. While HHSC agrees that an internal audit function does add value to the corporation, given the scarce resources throughout HHSC, management believes that it is best to use its resources to fulfill its primary responsibility, and depend upon the Finance, Information Systems, and Audit Committee of the HHSC Board of Directors to oversee management actions related to the internal audit function. Management will evaluate the feasibility of establishing an internal audit function on an annual basis.
b. Policies and procedures that ensure adequate controls for major programs such as billing, collections, and payables.	Since its inception, HHSC has consistently made strides in improving its internal controls over billing, collections, and payables. In fiscal year 1997, the results of the financial statement audit for the corporation involved several material weaknesses and a qualified opinion on the financial statements. Since then, HHSC has not been notified of any material weaknesses in its internal control processes in each of the financial statement audits since then, and each year, HHSC has received an unqualified opinion on its financial statements. Through the development of working groups across all facilities such as the Patient Accounting Committee and the Accounting Staff Committee, internal control policies and procedures are developed, addressed, and clarified on a regular basis.
5. The corporation should obtain the State Ethics Commission's review and approval of the involvement of some key corporation executives as directors and officers of Ali´i Community Care, Inc. In the future, the corporation and its top officials should take greater care before becoming involved in arrangements that could put them in actual or perceived conflicts of interest.	This finding was not substantiated. All corporate executives have and will continue to take great care before becoming involved as a participant in Boards of companies outside of HHSC. No Ethics Commission determination was requested because management rightfully felt that serving on the Ali´i Community Care, Inc. Board was clearly part of the scope of their duties as HHSC employees. Nonetheless, because the State Auditor raised this issue in their 2002 audit, HHSC requested a letter from the State Ethics Commission regarding HHSC corporate executives serving as directors and officers of Ali´i Community Care. The State Ethics Commission did not find any conflict of interest in that situation.

Report Title: **Follow-Up Study of the Hawai´i Health Systems Corporation**
Report No.: 02-09

RECOMMENDATIONS

1. The Board of Directors of the Hawai´i Health Systems Corporation should make it a priority to establish procurement policies that are consistent with the goals of public accountability and public procurement practices.

ACTIONS TAKEN

HHSC has developed an extensive procurement policies and procedures manual. The board certainly believes that there are opportunities for improvement in the procurement area (as there is in any organization), and has tasked the Finance, Information Systems, and Audit Committee of the board to scrutinize the procurement of all contracts that come to the board for approval, and to have an understanding of management's current procurement policies and procedures.

Report Title: **Financial Audit of the Department of Public Safety**
Report No.: 02-10

RECOMMENDATIONS

We recommend that the Department of Public Safety consider the following:

1. Sick leave abuse

   a. Work with the bargaining units to implement a more stringent policy for determining unusual patterns of sick leave abuse subject to investigation. This could be accomplished by lowering the number of required occurrences of sick leave abuse indicators, terminating the policy of considering each type of pattern separately, and/or extending the review period for determining when an investigation into sick leave abuse is warranted.

   b. Institute a policy restricting ACOs from being called in for overtime if they called in sick within the prior seven days.

ACTIONS TAKEN

(1a) The Department of Public Safety (PSD) continues to implement the Patterns of Absence Due to Sickness Program in accordance with Section 37.17b. of the Bargaining Units 1 and 10 agreements. The department's proactive approach has improved the attendance of employees placed in the program. PSD has also met with the United Public Workers (UPW) in an effort to amend the program by changing, among other items, the current practice of identifying patterns of absences due to sickness. The proposed change would modify the current practice by considering multiple types of patterns, instead of considering each type of pattern separately.

Current changes in the UPW administration require that the department's discussions be held in abeyance until early 2004, when we believe the UPW situation will be settled.

The department has initiated investigations into concerns other than patterns of absence.

(1b) Any policy restricting Adult Corrections Officers (ACOs) from working overtime (e.g., for calling in sick within the prior seven days) will require negotiation with UPW. Further, the Auditor's recommendation is not new. The department has previously considered such option, but determined it to be operationally not feasible.

continued on page 26

RECOMMENDATIONS	ACTIONS TAKEN
	The department continues to search for meaningful ways to address employee absences.
2. Overtime	
a. Establish more specific criteria for determining when overtime is necessary.	Specific criteria for determining the necessity of overtime work have been determined. All "essential posts" must be filled, either by reassigning available personnel from "program posts" to the "essential posts," or on an overtime basis. Vacant "program posts" are filled only as required for the day's activities by the Warden or the Chief of Security. Such activities may include but are not limited to suicide watch, hospital duty, and unexpected transportation duty.
b. Focus efforts on preventing overtime costs by identifying watches consistently incurring unusual overtime costs and requiring that overtime for those watches be authorized by the chief of security or the warden prior to calling in ACOs to work overtime.	We are in the process of carrying out this recommendation. This task is targeted for completion by March 2004. The Chief of Security and/or Warden determines daily which non-essential post requires filling on an overtime basis.
c. Prepare exception reports identifying employees and watches with unusually high sick leave usage and overtime pay. Use this information to monitor and investigate sick leave abuse and minimize overtime costs.	This concept has been implemented. However, we note there is no direct relationship between sick leave usage and overtime payout. Rather, overtime pay is a direct result of unbudgeted posts (e.g., suicide watch, hospital duty), vacancies, absences other than sick leave (e.g., leave without pay, suspensions), and transportation and other special duties.
d. Monitor overtime costs by individual to ensure that overtime is allocated equitably based on the department's policies.	We do, and will continue to, enforce the agreement between the department and the UPW on the fair and equitable distribution of overtime. The equitable distribution of overtime is governed by the provision of opportunities to work overtime, and not by the overtime earnings per individual.
We recommend that the department:	
1. Perform required audits of salary overpayments in a timely manner and in compliance with laws and regulations.	The lack of staff precludes the full implementation of this program.
2. Reduce the backlog of pending audits by setting departmental goals as to the number of audits and hearings to be performed each month. (This number should be greater than the average number of salary overpayments occurring each month.)	The backlog of pending audits of salary overpayment cases relates to those overpayments that occurred prior to July 1, 2002. The limited staff and indeterminate amount of research required for each salary overpayment audit preclude the setting of goals based on the number of audits and hearings to be conducted per month. To reduce the backlog of pending audits, PSD continues to work with the applicable union and the employee in an effort to settle overpayment cases without the need for a formal hearing. For the period October 2002 through September 2003, eleven cases were settled without a hearing and one case was settled with a hearing, while only seven new cases were added to the list of outstanding salary overpayments. The passage of Act 253, SLH 2000 has helped to minimize an increasing backlog of salary overpayments occurring effective July 1, 2002.

continued on page 27

RECOMMENDATIONS	ACTIONS TAKEN
3. In preparation for the eventual responsibility of conducting hearings related to salary overpayments, the department should immediately develop plans to identify individuals who will conduct the hearings, determine the time and location for the hearings, development procedural rules, and contact the state Department of Accounting and General Services to review existing policies and procedures.	These recommendations were adopted in December 2002. PSD identified all excluded administrators who would serve as hearings officers, and completed training with the assistance of the Department of the Attorney General (AG).
4. Consider contracting out the salary collection process on a contingency basis in order to expedite the process and reduce the amount of uncollectible payments.	This recommendation applies only to delinquent former employees who have left state service. All such pending cases are referred to the AG's office, which has become more aggressive in its collection efforts in CY 2003. We will work with the AG's Office to determine whether certain inactive cases should be assigned to a collection agency.
We recommend that the department:	
1. Immediately reconcile inmate trust accounts to bank balances.	
a. Assign responsibility for developing policies and procedures on reconciling the inmate trust bank account to personnel able to perform bank reconciliations and who are knowledgeable about the ITA system.	The PSD Fiscal Officer has been assigned the task of developing policies and procedures for reconciling inmate trust accounts.
2. Identify inactive inmate accounts outstanding over 180 days and remit the balances to the Department of Budget and Finance.	Some of the facilities have identified inactive inmate accounts outstanding over 180 days and are escheating account balances to the Department of Budget and Finance.
3. Develop and implement a system whereby all court-ordered, victim restitution and child support are identified and remitted to the proper agencies on a quarterly or semi-annual basis.	A system is in place by which court-ordered child support payments are assessed against an inmate. Child support orders received by a facility are charged against an inmate account through the Inmate Trust Accounting (ITA) system, and then remitted as instructed. As of November 3, 2003, all facilities are directed to send victim restitution payments to the Crime Victims Compensation Commission (CVCC), instead of to the Judiciary. The Judiciary completed the transfer of PSD restitution cases to the CVCC for receipting and distribution of funds.
a. Obtain on a monthly or quarterly basis a list from the Judiciary and the CSEA of all inmates subject to court-ordered restitution and child support and update department records to ensure completeness and accuracy. For any inmates identified with court orders dating back to previous periods and whose wages have yet to be garnished for restitution and child support, the department should calculate and remit the amounts related to those previous periods to the appropriate agencies.	PSD will need the cooperation of the Judiciary and the Child Support Enforcement Agency (CSEA) in order to receive such information. The CSEA has refused to provide court-ordered child support data to PSD as PSD is not the inmate's employer. Effective November 3, 2003, the Judiciary completed the transfer of PSD restitution cases to the CVCC for receipting and distribution of funds.
b. Clarify with CSEA and the Department of the Attorney General whether child support orders can be sent directly to the department. If	PSD will attempt once again to clarify with CSEA and the AG's Office as to whether child support orders can be sent directly to PSD.

continued on page 28

RECOMMENDATIONS

possible, the department should obtain these orders upon imprisonment of the inmate and enter the information into its system.

We recommend that the department immediately obtain documentation to support the reported cost basis of all fixed assets, or if this information is not available, obtain other information to support the assets value, such as replacement cost estimates. The department should reconcile the Annual Inventory Report of Property to the financial statements.

ACTIONS TAKEN

As noted in the department's audited financial statements for FY 2001–2002, PSD's fixed assets are valued at cost where historical cost records are available, and at estimated historical cost where no records exist. Supporting documentation is maintained onsite when PSD is the expending agency.

With respect to the recommendation that the department reconcile the Annual Inventory Report of Property to financial statements prepared by the external auditor, we note that the fixed assets reported in the financial statements are in fact derived from the inventory report. For financial reporting purposes fixed assets, which meet or exceed minimum capitalization amounts, are mechanically extracted from the inventory report, with the objective of reporting only material fixed assets. The material fixed assets and accumulated depreciation form the bases for the external auditor's report on fixed assets in the financial statements. Therefore, we believe that reconciling a detailed inventory report to the financial statements would not serve any useful purpose.

Report Title: **Audit of the School-Based Behavioral Health Program**
Report No.: 02-11

RECOMMENDATIONS

1. The Department of Education must expedite its:

   a. development of minimum qualifications for staff and resolution of issues regarding probation and performance appraisals;

   b. integration of fragmented information systems by ensuring that ISPED is functional and accessible to all school-based behavioral health staff;

   c. revision of its procurement process to ensure that all relevant criteria are taken into consideration prior to issuance of an RFP and that only qualified providers who are willing to comply with the school-based behavioral health model are utilized;

   d. implementation of controls to curtail potential billing fraud;

ACTIONS TAKEN

Behavioral Health Specialist (BHS) positions have a single, uniform position description and minimum qualification requirements. The salary schedule for this position is now standardized throughout the State.

The ISPED system for data collection has been frequently upgraded and refreshed. Unfortunately, it is unable to collect all of the needed information for SBBH and additional required data is collected from BHS and others on a standardized data collection log form.

A new contract for private providers of SBBH services was implemented in July 2003 based on an updated RFP. The department meets with private contractors on a quarterly basis to clarify contract requirements and to discuss related concerns.

It is believed that new billing procedures and periodic billing audits have greatly reduced the potential

continued on page 29

RECOMMENDATIONS | **ACTIONS TAKEN**

for billing fraud. When discovered, billing fraud cases are referred to the Attorney General for disposition.

e. creation of a quality assurance system to track progress and assess appropriateness and effectiveness of services provided.

The Peer Review and quality assurance processes have been upgraded and standardized. Peer Review meetings are conducted frequently by schools and complex/complex areas and/or districts conduct quality assurance meetings at least monthly. Additionally a State Quality Assurance Team has been formed and meets monthly to respond to systems wide issues.

2. The Department of Education must clearly identify the infrastructure for the School-Based Behavioral Health Program and autism services, starting with the differentiation of responsibilities of school-based behavioral health staff and autism services staff.

The department has clearly defined a statewide SBBH infrastructure model. Additionally, districts have their own specific infrastructure, which supports SBBH services.

Report Title: **Audit of the Department of Education's Comprehensive Student Support System**
Report No.: 02-12

RECOMMENDATIONS | **ACTIONS TAKEN**

1. The Department of Education should reexamine the Student Support Services Branch to ensure that it can effectively and efficiently oversee and direct the implementation of the CSSS student support component.

The department recently placed the Student Support Section (SSS) and the Special Education Section (SES) under the Special Education Services Branch. This is currently a temporary move. No new action is anticipated in the near future to consolidate programs which heavily influence *enabling supports* for students within one branch. The SSS is the primary section overseeing the implementation of CSSS.

2. The department should ensure that program costs for all support services, including special education, are readily identifiable and available to the public and decision makers.

The Student Support Services Branch (SSSB) continues to work with the Office of Business Services. EDN 150 remains the funding mechanism for most student support programs. As stated in earlier responses, it is difficult to separate the costs of instructional supports and enabling supports to students since both should synergistically occur in order to enhance student achievement. A preliminary report should be forthcoming shortly.

3. The department should work to gain the support of school level staff in its implementation of CSSS. Specifically, the department should:

   a. Improve its CSSS training by moving beyond a systems overview to providing teachers with sufficient training and classroom strategies to ensure the successful implementation of CSSS;

In addition to the core subjects, the department has developed instructional guides for teachers and provided training in August 2003, to address the Hawai'i Content and Performance Standards II:

- Fine Arts
- Physical Education
- World Languages
- Career and Life Skills
- Health Education
- Technology

The department has also developed for distribution to schools in 2003:

continued on page 30

RECOMMENDATIONS | **ACTIONS TAKEN**

- Differentiated Instruction Guidebook
- Updated CSSS Operations Manual

Training in Differentiated Instruction for the Department's Complex Area teams began in April 2003, and continued in October 2003. A team of resource teachers and educational specialists from the Office of Curriculum, Instruction and Student Support attended an Association for Supervision and Curriculum Development conference on differentiated instruction in July 2003, and used the information to further develop a comprehensive instructional guide for the complex area teams to work with the schools.

The updated CSSS Operations Manual was distributed in October 2003 to certificated personnel at the State and complex areas, and to all teachers, administrators, SSCs, and counselors at the school level. CSSS RTs continue to train school level staff in implementing CSSS.

In 2003–04, CSSS RTs are to support the schools as they revisit their plans on "Transitions," especially between the elementary school and the intermediate/ middle school to ensure that students have a smooth entry into this new arena.

Eighty-six schools in fourteen complexes will be trained in Positive Behavior Support in 2003–04. The Department supports character education at schools by collaborating/ coordinating with various organizations.

The Superintendent's High School Leadership Conference, held in August and November 2003, supported school leaders in honing their skills in creating ownership for the redesign of secondary schools with a focus on 3 R's—Rigor, Relevance and Relationship.

b. Reconsider its referral process and ensure its feasibility in all schools;

A new CSSS website database, which was initiated in April 2003, contains the referral process, known as the Request for Assistance (RFA).

c. Develop a plan to address the facility space and equipment requirements for school-based behavioral health staff; and

The Facilities and Support Services Branch has included in the draft design specifications of new schools:
- 2000 square feet for conference/office space for a multi-service space to accommodate a number of outside service providers, e.g., Dept of Health, social workers, etc.
- 2000 square fee for CSSS personnel, e.g., SBBH Therapist, school psychologist
- 330 square feet. SSC/EA Office
- Additional conference areas for CSSS personnel.

d. Ensure all schools educate parents about CSSS and available support services.

According to the 2002–03 Progress Indicators, all schools have met the requirements of informing parents and the community about CSSS. All schools have in place an array of services, which are communicated to parents through brochures.

All schools are required to present evidence to the State office via the CSSS Progress Indicators that they have

continued on page 31

RECOMMENDATIONS	ACTIONS TAKEN
	informed the school community about CSSS and their available support services, through such means as brochures, parent workshops, PTA and SCBM meetings, and parent bulletins, by the end of each school year.
4. The department should improve its ability to assess the effectiveness of CSSS by: a. Establishing meaningful performance standards that correspond to CSSS' goals; and	The department has established that students should be provided with interventions and/or programs as services within 15-working days from the date of request. It has also been established that parents are to be informed of the core meeting and of the plan of action for the student. There should also be a transition plan for students as part of the plan of action. At the Student Support Meeting, parents are to be present as a participant in the plan of action for the student. In addition, to be in line with No Child Left Behind, supplemental programs are working to align their content to the Hawai´i Content and Performance Standards II.
b. Expediting its plans to integrate the CSSS and ISPED databases.	The department is currently working to link the various DOE databases to a data store system that will enable the State, districts and schools to retrieve student information required for evaluation and decision-making. The department is in the process of working with a consultant to roll out a new "eSIS" system. A presentation was made to various offices in September 2003.
5. The department should ensure all newly created positions are necessary and that staff filling these positions are qualified to perform their duties. Specifically, the department should:	
a. Review the student services coordinator position and establish reasonable job duties. The position description should be revised to remove the broad flexibility currently afforded school principals in determining the staff's roles;	The department has completed clarifying the role and responsibilities of the student services coordinator (SSC) position to add specificity to the position description. A memo that explains the clarification of the roles was distributed to the principals and SSCs in January 2003.
b. Finalize CSSS educational assistants' position descriptions and ensure that their classification is consistent with the nature of the work assigned to the position;	The department has reallocated the school-based services education assistant's position description to that of a clerk III position to be consistent with the nature of the work assigned to the position. The effective date of reallocation is July 1, 2003.
c. Review the roles and duties of all school support staff and establish standard position descriptions for these staff that eliminate duplication in staff roles; and	The department of education has completed standardizing the job classes for School-Based Services EA. This was fully completed by the time the positions were transferred to the department in June 2003.
d. Consult with the Department of Health and the Department of Human Resources Development to define the standardize qualification requirements for staff providing school-based behavioral health services.	The positions for School-Based Behavioral Health (SBBH) have been standardized and made uniform throughout the system. This includes the special positions of Behavioral Health Specialist and School Psychologist created for SBBH statewide.

Report Title: **Financial Audit of the Department of Hawaiian Home Lands**
Report No.: 02-13

RECOMMENDATIONS

The Department of Hawaiian Home Lands should obtain sufficient documentation for determining its allowance for doubtful accounts for loans. The department should also reevaluate the methodology for determining its allowance for doubtful accounts for loans and ensure the uncollectible loans estimate is properly calculated.

ACTIONS TAKEN

The Department of Hawaiian Home Lands (DHHL) has revised its methodology for determining allowance for doubtful loan accounts to ensure that account allowances are properly estimated. The methodology involves procedures relating to the gathering of evidence, random sampling, and statistical analysis. The department's methodology was accepted by an independent Certified Public Accounting (CPA) auditing firm that examined DHHL's fiscal year 2003 allowance for doubtful accounts for loans estimate.

RECOMMENDATIONS

The Department of Hawaiian Home Lands should review its internal control policies and procedures and ensure that all expenditures and liabilities are properly recorded.

1. The Department of Hawaiian Home Lands must review its loan collection policies and procedures for reasonableness and determine the necessary steps to enforce them. The following should also be considered.

   a. Monitor the loan delinquency rate and set benchmarks and time frames. This will provide the department with targeted goals and objectives for performance measurement.

   b. Reevaluate the credit approval process. A more stringent credit approval process may help reduce the delinquent loan level.

   c. Ensure the database for lessee information is current, reasonably accurate, and properly maintained.

   d. Obtain formal written agreements for advances on guaranteed loans and delinquent real property taxes.

   e. Provide the fiscal office with timely written documentation on repayment terms for advances on guaranteed loans and delinquent real property taxes.

   f. Cease accruing interest on loans related to cancelled leases considered uncollectible and modify the software program to ensure that this does not continue. Modify internal procedures to ensure the Loan Services Branch provides the fiscal office with the status of cancelled leases.

ACTIONS TAKEN

DHHL is currently reviewing and updating its loan policy and procedures manual. DHHL's target date to complete the loan policy and procedure revisions has been set at June 30, 2004. Actions to implement and enforce the new procedures will take place immediately upon approval. Revised policies and procedures will include benchmarks, time frames and reporting guidelines in all areas as listed in items a to f.

RECOMMENDATIONS

2. The department should consider purchasing a software program similar to those used by commercial

ACTIONS TAKEN

DHHL's mortgage loan receivable system resides on a WANG minicomputer system. DHHL is currently

continued on page 33

RECOMMENDATIONS	ACTIONS TAKEN
institutions. This would reduce loan officers' manual labor by automatically generating delinquency notification letters at set intervals and preparing reports to facilitate loan monitoring.	negotiating with a consultant to migrate all client service applications, such as the mortgage loan receivable system, to an automated system that supports Microsoft network server technology. This measure will provide DHHL flexibility to automate exception reporting, such as delinquency notification letters at set intervals, through a variety of personal computer software products. A DHHL ad hoc automation committee is currently examining short-term and mid-range automation solutions to effectively address the department's data processing needs.
3. The department should maintain current and accurate information on all guaranteed loans. Agencies that hold loans guaranteed by the department should provide it with quarterly reports identifying the number of loans guaranteed and the current principal balances outstanding. The Loan Services Branch should also inform the fiscal office of any new or cancelled guaranteed loans. The department should verify this information against the quarterly reports received from outside agencies to ensure accurate records.	DHHL is currently reviewing all memorandum of understandings and agreements where DHHL is involved in the guaranty of loans. DHHL will request that those agreements and memorandum be amended to require quarterly reporting on the number of loans guaranteed and their related current outstanding balances.
4. The department should properly maintain its financial accounting records, thereby enhancing its financial reporting practices and fostering the timely completion of required financial audits.	The timeliness of the Fiscal Year 2001 financial audit was an isolated incident. In Fiscal Years 2002 and 2003 financial audits, new procedures were set in place to monitor audit progress. Auditors were supplied with financial accounting records from our Oracle financial accounting system as well as DAGS accounting system. Meetings with auditors were scheduled before, during and after the audit to ensure timely completion of the financial audits.
5. The department should establish and implement written policies and procedures for the collection of lease and license receivables. Staff should receive proper training in the implementation of policies and procedures. The department should also set goals for reducing balances outstanding more than 60 days.	Our Land Management Division is in the process of developing a policies and procedures manual. DHHL's target date to complete the loan policy and procedure revisions has been set at June 30, 2004. Actions to train, implement, and enforce the new procedures will take place immediately upon approval. These policies and procedures will include aggressive steps on 60 and 120 days past due balances.
The Department of Hawaiian Home Lands needs to determine the amount of ancillary charges that should be recorded as additions to fixed assets and make the necessary adjustments to its accounting records. These adjustments are necessary for the preparation of financial statements in accordance with GAAP.	DHHL has taken corrective action in the proper reporting of fixed assets and infrastructure by training staff involved in procuring, expending, and recording, to properly report and classify costs relating to capital improvement projects. DHHL set in place a reporting system where its divisions are required to report ancillary charges, land acquisitions, and other capital improvement costs to assist in the proper recording and classification of project related costs in accordance with GASB Statement No. 34.
The Department of Hawaiian Home Lands should assume more responsibility for the proper recording of transactions under GAAP. External auditors have been heavily involved in preparing the necessary adjustments to conform the department's financial statements to	As reflected by unqualified or "clean" opinions received by DHHL from independent CPA's for fiscal years 2002 and 2003, DHHL assumes full responsibility for the proper recording of transactions under GAAP. DHHL has improved and developed accounting procedures

continued on page 34

RECOMMENDATIONS	ACTIONS TAKEN
GAAP. The department should not be so dependant on its auditors but should develop its own systems and procedures to ensure that financial statements are prepared in accordance with GAAP.	and methodologies that ensure that its financial statements are in conformance with GAAP.
The Department of Hawaiian Home Lands should expedite the implementation of its strategic plan. The plan should be reviewed and update periodically.	DHHL completed its five-year strategic plan that was approved by the Hawaiian Homes Commission on June 24, 2003. We are currently implementing the plan with different teams assigned to each goal. A status update review to the commission will be done twice a year, the first beginning January 2004.
The department should also update and maintain the data on its waiting lists to ensure they contain current and accurate information on all applicants.	DHHL recently updated the waiting list in April 2003 through a private mail service provider. In November 2003, DHHL ordered an update of the waiting list previously reported and new clients since April 2003. The private mail service provider responds within forty-eight hours. As we implement our strategic plan, we will further refine our list via a series of workshops that will provide direct one-on-one meetings with our beneficiaries on the list.

Report Title: **Contract and Personnel Management Audit of the Emergency Medical Services and Injury Prevention System Branch**
Report No.: 02-14

RECOMMENDATIONS	ACTIONS TAKEN
1. The director of health should ensure that:	
a. The Emergency Medical Services and Injury Prevention System Branch develop written policies and procedures regarding contracting;	The branch follows all pertinent departmental and State policies and procedures regarding contracting. In addition, contract files have been developed to monitor monthly the expenditures against contract budget with a listing of deliverables as specified in each contract. A timetable of events related to recurring contract execution is being developed and monitored by the Public Health Administrative Officer (PHAO) and Program Manager.
b. All branch contracts are appropriately procured under the State Procurement Code;	Chapters 103D and 103F, HRS, are used for all contracts to include contract budget forms and SPO contract format. ASO monitors to insure appropriate contract process and specifications are being used. Branch Chief, Secretary and EMS Specialist attended SPO procurement workshops and training.
c. Contracts for emergency medical services are executed in a timely manner;	A Vice PHAO position was filled on September 15, 2003 to assist in budget and personnel administration, as well as establishing contract and fiscal procedures to follow ASO and SPO contract processing contract monitoring requirements. Delays related to City & County of Honolulu contract continue due to failure to submit a budget. Repeated attempts to receive the budget have been made to the Chief of the EMS Division

continued on page 35

RECOMMENDATIONS	ACTIONS TAKEN
	of the Honolulu Emergency Services Department. The branch has limited ability to influence this county agency as no other ambulance provider with the personnel, vehicles, facilities and equipment to provide ambulance service to approximately 70,000 calls per year.
d. Contracts for emergency medical services are tied to deliverables and are monitored and enforced;	Contract files have been set-up to monitor expenditures and deliverables prior to processing payment for services. The PHAO is assigned to monitor contracts and expenditures with the assistance of Branch Chief and EMS Specialist.
e. The branch chief updates staff position descriptions, implements appropriate and adequate controls over leave, and conducts timely employee performance appraisals;	EMS office policies have been updated to reflect hours of work and lunch periods. Office staff policies and guidelines were also developed and were distributed and discussed with employees. Supervisors are responsible for monitoring compliance and have been told that failure to adequately monitor policies may result in disciplinary action. PAS have been completed for all employees with rating period November 2002 through November 2003. Staff position descriptions have not been completely updated but a schedule has been established to ensure that all are reviewed and revised as needed by March of 2004.
f. The departmental personnel officer conducts a thorough audit of branch employees' leave records to ensure their accuracy; and	The branch has revised all leave records based upon the internal audit conducted by the personnel office. Corrected leave records were given to the employees. Leave record maintenance is current.
g. The departmental personnel officer and staff from the Department of Human Resources Development investigate and address problems with office morale, potential leave abuse, and workplace violence.	All leave records have been reviewed and issues addressed related to leave abuse. However, issues related to employee morale continue to be problematic. The history of these issues is complex and involves several longstanding disputes between employees. It has been reported that some employees continue to feel fear of another employee but there is no credible evidence, from internal and external review, that a threat of any physical violence exists or did exist. There have been no threats or acts of violence reported. There is documentation that the actual events provoking fear are perceived by one employee but most others see bi-directional personality conflicts. These issues have been continually addressed by the program manager and personnel office. The DOH has communicated with the Department of Human Resource Development related to these personnel issues. The Matsunaga Institute for Peace was contracted to provide mediation services. Mediation commenced on May 22, 2002, where two mediators independently evaluated the situation and determined that there was not an immediate threat of violence to staff. They recommended that the workplace violence training be held in abeyance pending the completion of the mediation process. Mediation was discontinued when one member withdrew from the process. Anger management training was conducted for the entire staff on September 24, 2002. He too, did not believe that there was a risk for workplace violence.

continued on page 36

RECOMMENDATIONS	ACTIONS TAKEN
	Subsequently, workplace violence training was conducted on September 25, 2002, for the entire staff. The Department of Human Resources Development instructor was unaware that there were any specific problems at the EMSS but commented that the complaints from the employees focused on personnel matters unrelated to violence in the workplace. He did not feel that there was an immediate threat for workplace violence. On August 9, 2003, mediation with the federal mediator was held. Most of the EMSS clerical staff and the program manager participated. The EMSS continues to witness personnel challenges, and we believe that the branch administrator is appropriately addressing these challenges and seeking resolutions that will enhance operations and improve office morale.
2. The branch chief should implement a comprehensive system of controls over ambulance report forms that includes, but is not limited to: a. Requiring ambulance service providers to maintain a log of ambulance report forms sent to the branch;	Ambulance service providers are providing a report of the number of ambulance report forms (ARF) sent in by ambulance unit for each batch submitted to the branch. If discrepancies are noted the provider is notified. ARFs are then logged in to the EMS ARF Log to record the number of ARFs received, number of billable ARFs, cancelled calls, refused treatment, and dates of service.
b. Establishing and enforcing a policy that requires all ambulance report form batches received by the branch be date-stamped upon receipt;	All batches of ARF's received are time stamped upon receipt and given to the Custodian of Records who logs date received in the ARF Log.
c. Establishing and enforcing a policy that requires all forms be forwarded to the branch's billing section within seven days of receipt;	On November 15, 2002, a policy was established that all ARF's received by EMSIPS are logged and transmitted to the billing section within seven days following receipt from the provider. The log documents the time ARF's were submitted to the billing section.
d. Establishing and enforcing a policy that requires the billing section to maintain an appropriate log of the ambulance report forms sent to the billing contractor; and	A log was developed May 2003 that records the count and range of ARF numbers by ambulance unit to the contractor. The EMS count is verified weekly with the billing contractor.
e. Conducting routine verification and reconciliation of all ambulance report forms and deposits.	The PHAO verifies deposits against month-end billing reports and the number of ARF's submitted to the billing contractor. Periodic checks are made against the billing contractor log and the accounts receivable data base that accounts have been entered into the billing contractors accounts receivable system.

Report Title: **Audit of the Department of Education's Adult Education Program**
Report No.: 02-16

RECOMMENDATIONS	ACTIONS TAKEN
1. The Board of Education should hold the Department of Education responsible for:	
a. Ensuring that the Community Education Section distributes federal grant moneys in accordance with all state and federal requirements;	All funds have been distributed to the grant recipients according to state and federal requirements. A new RFP was advertised in March 2003 with changes to provide more direct and equitable access to interested parties. A new state plan for adult education is being developed, which will result in a new RFP process.
b. Implementing a single-count process for enrollment data;	The use of the LitPro data management system recognizes a single count of enrollees in academic courses and is in place at all community schools. All 11 community schools are provided technical assistance in implementing the single count process and generation of reports required by USDOE.
c. Developing clear guidelines on classifying courses appropriately and uniformly;	Definitions are being developed in a data dictionary to ensure clear and consistent categorization of courses. Targeted completion of the data dictionary is January 2004. The possible development of ACCNs for coursework is being discussed.
d. Ensuring that attendance records are accurately and routinely maintained;	The use of the LitPro data management system provides more accurate and routinely maintained records. Training has been provided in the use of the system. Quarterly uploads of data are required by the Community Education Section. Annual state monitoring reviews accuracy and current status of the records.
e. Ensuring that course fees are charged consistently;	Consistent fee schedules are established: For general interest courses, a fee of $2/hour plus materials is assessed. Academic courses have no fees. A fee of $12 for each book is assessed in the competency-based high school diploma program. The GED test fee is a standard charge of $55. Literacy Tutor Training assesses a $5 registration fee.
f. Evaluating the minimum enrollment levels for courses and enforcing those levels;	A minimum of 12 to 15 students generally offsets costs of an instructor. Exceptions for small classes apply when warranted by conditions such as the demographics of the area or geographic location of service. Promotion and marketing are options that are being implemented to increase enrollment. Alternative methods of instructional delivery, such as online and distance learning, are also being explored. On-line GED prep is currently available and provides increased accessibility to the information. The Adult Education Administrators' Manual is being updated to reflect current changes and state program directives and is scheduled for completion by June 2004.

continued on page 38

RECOMMENDATIONS / **ACTIONS TAKEN**

g. Reviewing the appropriateness of community school staff receiving part-time temporary teacher pay;

Only instructional staff receives part-time temporary teacher pay. Twelve-month employees, such as SASAs and registrars, are not hired for other duties. Changes have been validated by the Office of Human Resources.

h. Conducting formal on-site monitoring of community schools on a regular basis;

All 11 community schools were monitored from March–May 2003 on meeting State and USDOE expectations for adult education, and corrective action plans were submitted for schools scoring below 2.5 on any category. Annual monitoring is scheduled for February to May 2004 and will include monitoring of GED administration.

Community schools are also accredited by WASC on a regular schedule, and each school has an FOL action plan that includes the implementation of EFF standards, data collection, teacher quality improvement, and transitions to higher education and the workforce.

i. Conducting student evaluations and assessing student outcomes; and

The assessment of student outcomes is linked to accreditation reports and monitoring. Each student is given pre and post assessments using the CASAS instrument. The TOPSpro data system is used to list student competencies and progress/ deficiencies in individual reports. Performance measures demonstrating improvement in literacy skills in Adult Basic and Secondary Education, as well as in English Literacy, reflect the percentage of adults enrolled in those programs who have acquired the level of skills needed to complete the level of instruction in which they were initially enrolled. Because there has been no previous analysis of this data, there are currently no state performance indicators to determine targets for effective programming. This data will be disaggregated by schools for each CSA by February 2004 to identify performance goals and will provide clear indicators for targeted improvement as part of state monitoring. In addition, the data will be used to renegotiate new performance measures for a new grant that will follow the imminent reauthorization of the Workforce Investment Act. Outcomes point to closer monitoring of student progress, more staff development and increased teacher quality. Noting the importance of student input, every student in both academic and general interest classes currently does an evaluation for classes taken.

j. Clarifying and enforcing the roles of and lines of authority between the community school principals, district superintendents, and Community Education Section staff.

A memo from the superintendent dated March 19, 2003 reiterated the authority for adult education programs by the Community Education Section and that Complex Area Superintendents are the line authority over CSA Principals.

Report Title: **Sunset Evaluation: Occupational Therapy Practice**
Report No.: 02-17

RECOMMENDATIONS

1. The Department of Commerce and Consumer Affairs should:

   a. Amend its initial application form to emphasize that registrants must notify the department of any change in employment within 30 days of the change.

   b. Amend its re-registration form by requiring registrants to identify their current business address.

ACTIONS TAKEN

a. The application form and instruction sheet have been amended accordingly.

b. The application form was amended for the December 31, 2002 re-registration.

Report Title: **Study of Printing Products and Services Utilized, Contracted, and Subcontracted by Hawai´i State Government**
Report No.: 02-18

RECOMMENDATIONS

All branches of state government should consider the use of cost-of-service techniques (cost-benefit analyses) to compare and evaluate alternatives when considering large volume printing, when changing technology, and in other similar situations.

ACTIONS TAKEN

DBEDT continues to utilize cost-benefit analysis to drive procurement decisions when considering large volume printing. In some instances we utilize the distribution of an electronic version of reports (on CD and through web access).

Report Title: **Management and Performance Audit of the Employees' Retirement System**
Report No.: 02-19

RECOMMENDATIONS

1. The Employees' Retirement System administration should:

   a. Better manage staff resources and reduce the time it takes to process a retiree's final pension benefits;

ACTIONS TAKEN

The ERS reviewed its staffing levels and assignments and also reviewed the processing of retirement estimates, initial retirement benefit payments, interim unused sick leave credit payment adjustments, and final pension benefit payments. Reassignments have been made to increase the productivity in many of the major activity areas.

The ERS has also developed an improved online worksheet (OAR) to help finalize the pension calculations. This worksheet provides increased efficiencies that decreases the time it takes a Retirement Claims Examiner to determine and process a final pension benefit payment.

continued on page 40

RECOMMENDATIONS | **ACTIONS TAKEN**

In addition, the hiring of five permanent Retirement Claims Examiners in 2003 will provide some of the required resources to implement our plans and eventually eliminate the number of retirees on estimated pension benefit payments.

The ERS also introduced and secured legislation (Act 134, SLH 2003), which enables the ERS to assess State and county agencies $10 per month (per request) if they do not provide information needed to finalize retirees' pension benefits on a timely basis. Informational meetings to discuss this new law and other retirement issues were held in September and October 2003 with over 250 State and county personnel and payroll officers.

Moreover, the ERS established an email address solely for personnel and payroll offices to use in responding to ERS inquiries for member information. This address will greatly increase efficiency for both the ERS and affected agencies by eliminating mail and/or distribution delays.

b. Terminate the new "closed" or partially finalized pension process for departments and counties that have failed to respond to the administration's inquiries in 30 days;

The ERS suspended the closing of partially finalized pensions (when member information is not received). However, this suspension increased the ERS' processing time to finalize these pension benefits. Certain agencies did not respond and the ERS had to continue to follow up with multiple requests.

Our solution was to introduce legislation that enables the ERS to assess departments that do not provide member information in a timely manner. Even though Act 134, SLH 2003, will not be effective until January 1, 2004, it has gotten the attention of many agencies and responses to our requests for member information are beginning to be received in a timelier manner.

Act 134 also requires the ERS to pay 4.5 percent interest if the member's pension is not finalized within six months after the month of retirement.

c. Complete the Data Purification Project and verify that active membership service credit information is accurate to allow for the expeditious processing of retirement applications;

The automation effort for the Data Purification Project has been completed. The ERS continues to receive questions on member service credits that may or may not impact a member's years of service. Such questions are being resolved by ERS staff. Currently, there are approximately 30 requests being researched by ERS staff.

In 2004, the ERS is planning to issue membership service credit statements to all members, excluding retirees. This will be one of the project phases in the design and implementation of a new retirement computer system.

d. Properly plan, assess, and monitor its resources to ensure that ERS members receive adequate retirement counseling and service;

The ERS secured legislation to extend the retirement filing period from 90 days to 150 days to provide more time to counsel members. As a result of certain reassignments and new legislation, one Retirement Claims Examiner will be dedicated to counseling members on a one-to-one basis for those who seek an appointment

continued on page 41

RECOMMENDATIONS / **ACTIONS TAKEN**

with the ERS. During peak periods, more Retirement Claims Examiners will ensure that ERS members receive adequate counseling and service. The examiners will also counsel members, who reside outside of the United States, over the phone.

In addition, the ERS recently rolled out two contributory plan benefit calculators on its website to enable contributory plan members to estimate their retirement benefits at a particular point in time. Moreover, account balance statements were issued to all contributory plan members to allow them to calculate a more accurate estimate of their future retirement pension benefit. The noncontributory plan benefit calculator previously implemented has been updated. These calculators assist members in determining their pension benefits under various scenarios.

The ERS plans to implement an Automated Information Services system by February 2004 that will allow incoming phone queries to be efficiently directed to the appropriate branch or section in the ERS.

e. Replace the obsolete Wang computer system and properly manage and implement a new computer system; and

Steps are under way to convert Wang applications to APPX software and run the converted programs on IBM hardware. This project started in June 2003 and is scheduled for completion by January 2004.

Also secured reauthorization of $11.6 million from the 2003 Legislature for the design and implementation of a new computer system. Request For Proposals for computer consultant and computer vendor services will be issued in FY 2004.

f. Seek an attorney general's opinion or statutory changes to Section 88-107, HRS to permit the payment of interest for any underpayment of a retiree's final pension benefits, using 90 days after the retiree's retirement date as the start date for computing the interest.

The ERS introduced and secured legislation to pay interest to those whose retirement benefits are not finalized within six months after the month of retirement. This new law (Act 134) requires the ERS to pay 4.5 percent interest on the amount of unpaid finalized pension benefits (difference between initial and final pension benefit payment).

As a result of the new legislation, an Attorney General opinion was not needed.

Report Title: **Management and Performance Audit of the Employees' Retirement System**
Report No.: 02-19

RECOMMENDATIONS / **ACTIONS TAKEN**

1. The Board of Trustees of the Employees' Retirement System should:

   a. Better define the duties, responsibilities, and structure of the chief investment officer (CIO);

The CIO is responsible for planning, organizing and administering the ERS investment program in accordance with approved investment policies and procedures, prudent investment standards, and legal requirements. The duties of the CIO are described in the CIO position

continued on page 42

RECOMMENDATIONS	ACTIONS TAKEN
	description as well as in the policy and procedures manual. The board has approved a change to require a direct report from the CIO to the board with an indirect reporting line to the ERS administrator.
b. Delegate more of the on-going monitoring and review of investment managers to the CIO;	A primary responsibility for the CIO is providing oversight of the investment portfolio and the investment managers. The CIO monitors the investment managers on a daily basis and provides updates to the board. Additionally the CIO consults on a daily basis with the investment consultant regarding the performance of the investment managers.
c. Publicly advertise for the selection of investment managers and require the investment consultant to document criteria for the exclusion of qualified candidates;	The search process ERS follows is documented and includes a full description of the exact criteria for the search, the decisions made and the rationale behind them. Each ERS search begins by establishing the specific criteria for the search, which are developed by the CIO and the investment consultant. All managers in the consultant's database are initially considered but are screened by the consultant against the search criteria. Reports are compiled on semifinalists and show comparative data on each investment firm. These reports state the criteria of the search and the reasons for the elimination of firms from consideration. The board will require our investment consultant to publicly advertise for the selection of investment managers prior to initiating a search.
d. Periodically reevaluate managers by asset class against other qualified managers providing similar services, through a formalized request for proposal process; and	The value added of a manager is actually re-bid against the competition every quarter and their fees are directly related to the performance (value added) of the funds they manage. Consistent with ERS investment policies and guidelines, managers are warned, placed on a watch list and terminated based on a continuous rebidding process in real time against peers in their asset class and against their style benchmark.
e. Better monitor and adhere to the watch list procedures described in the Investment Policy and Procedures Manual.	Watch list guidelines have been and will continue to be followed by ERS in accordance with the policy and procedures manual.

Report Title: **Audit of the State Historic Preservation Division of the Department of Land and Natural Resources**
Report No.: 02-20

RECOMMENDATIONS	ACTIONS TAKEN
1. The department chair and division administrator should improve the protection of historic properties by:	
a. Ensuring that all burial and archaeological reviews are conducted expeditiously. To facilitate these timely reviews, the division administrator	The acting administrator is required to work routinely at the division's main office in Kapolei, which significantly expedites processing of compliance reviews.

continued on page 43

RECOMMENDATIONS

should immediately forbid staff from engaging in outside employment during the division's hours of operations and use the funds received from the University of Hawai´i's Institute of Astronomy to hire additional staff to assist in eliminating the Hawai´i archaeological review backlog;

ACTIONS TAKEN

Under new administrative rules, an automatic approval provision takes effect if staff determinations or recommendations are not issued within the specified time periods (i.e. 30 or 45 days).

Staff job descriptions are being reviewed to identify specific tasks required to prepare the necessary reviews in a timely manner. The division's revised correspondence log will more effectively track timeliness.

Approximately 95 percent of the Hawaii Island and other island backlogs were eliminated by authorizing overtime for multiple qualified staff to complete the backlogged review tasks. No paid overtime was authorized as staff opted for compensatory time.

A policy requiring staff disclosure of outside employment is being developed. The policy will conform to state employment policies and collective bargaining requirements.

b. Developing clear guidelines and adequate oversight for archaeological reviews to ensure consistency and fairness in these reviews, and to avoid the establishment of a quid pro quo environment;

Administrative rules establishing standards for archaeological reports and plans (Chapters 13-300-276 to 280, 283) were adopted by the Board of Land and Natural Resources and took effect on December 11, 2003.

Staff plan to meet with the archaeological consultants in hopes of reaching a greater mutual understanding of what constitutes adequate compliance. Guidance documents will be generated based on the results of these meetings to set clearer standards for submitted documents and their component parts.

The acting administrator and acting branch chief do not substantively alter reviews prepared by professional staff without consulting staff.

c. Referring the possible bribery of a former division employee who accepted cash donations from one developer to the prosecutor's office for criminal investigation;

In December 2002, the department chair referred the appropriate issues raised by the State Auditor to the Department of the Attorney General for investigation. In February 2003, the department chair authorized the appointed investigatory team to conduct its investigation. Appropriate action will be determined on completion of the investigation.

d. Requiring division staff to inventory all historic artifacts in the division's custody in accordance with recommended curation guidelines. Containers storing human skeletal remains should be appropriately labeled to identify the contents and the specific geographical location from which the remains were disinterred;

Inventory lists of all human remains in the division's custody have been compiled as part of the process of preparing the division's reinterment plan. Information is added as it becomes available through background research. The reinterment plan outlines a process for systematically labeling all containers with information such as number of individuals, skeletal elements, geographical location, landowner, project name if applicable, date of acquisition or transfer, and staff verification.

Inventorying historic artifacts in the division's custody is not a current priority given the high compliance review loads and efforts to improve program operations.

continued on page 44

RECOMMENDATIONS	ACTIONS TAKEN
e. Developing a statewide inventory record of all native Hawaiian skeletal remains and associated funerary objects in its custody, as specified in the Native American Graves Protection and Repatriation Act. In order to facilitate the timely re-interment of human skeletal remains, inventory records should track the date remains were disinterred and identify specific geographical burial sites;	The reinterment plan includes provisions for establishing an inventory list of all remains in the division's custody and an inventory form to track remains and associated objects from acquisition to final disposition. Rules and policies established under the Native American Graves Protection and Repatriation Act will be considered in devising the form.
f. Developing curation policies that ensure human skeletal remains and historical artifacts are stored under acceptable conditions; and	Curation policies for human skeletal remains will be part of the reinterment plan currently being developed. Curation policies for historical artifacts will be developed jointly with the archaeological consulting firms that currently maintain the repositories for most historic materials collected in Hawai´i. Available staffing, funding, and facilities will limit full implementation of these polices given the division's current priorities.
g. Requiring the burial program director to improve and organize the division's burial files. Specifically, all burial cases should be filed using a single filing system. Duplicate case files should be streamlined so that all information can be found in one file. Furthermore, key decisions and pertinent information should be maintained in each burial file to ensure that cases are adequately tracked to facilitate their timely resolution.	All burial program files are being reorganized and consolidated in the division's Kapolei office. Case numbers are being assigned to individual burials or groups of burials and all files pertaining to their treatment are ordered by the Tax Map Key (TMK) number of the relevant property. Cases can be cross-referenced to the division's general correspondence log and files and to the archaeological reports which are all organized by TMK number or use TMK as a primary referent. For inadvertent discoveries, a checklist will be included in each file to track each case. All burial program correspondence is currently entered in the division's correspondence log and integrated in the division's reading files to ensure accessibility. All burial treatment plans will be consolidated on library shelving and arranged by TMK.
2. The department chair and division administrator should establish adequate management controls to protect historic preservation resources from misuse, abuse, and theft. Specifically, the chair and administrator should:	
a. Direct all division staff to use daily sign in/out sheets;	A daily sign in/out sheet has been established and all division staff have been directed to use the sheet in accordance with distributed procedures.
b. Direct the division's administrative assistant to routinely reconcile the daily sign in/out records with employees' official leave records. Staff who fail to report leave within five days of returning to work should be charged leave without pay;	The administrative assistant reconciles on a monthly basis the daily sign in/out sheet with official leave records. Staff are reminded to complete leave authorization forms after returning to work.
c. Establish procedures for investigating patterns of sick leave that indicate potential abuse. Staff suspected of abusing leave should be required to provide medical documentation of their illnesses;	Procedures to identify potential patterns of sick leave abuse have been adopted. Employee attendance will be assessed in six month periods to identify any suspect patterns (e.g., before and after holidays or weekends, pay day, specific days

continued on page 45

RECOMMENDATIONS	ACTIONS TAKEN
	of the week, frequent and short duration absences, maintenance of a low or near zero leave balance). Appropriate action, in accordance with collective bargaining agreements, will be taken if six incidents of a specific type of pattern(s) are identified.
d. Approve employees' overtime timesheets only when the overtime claimed is approved by the department chair;	The department policy established in September and October 2001 requiring the department chair to authorize any paid overtime prior to the performance or payment of overtime remains in effect. No staff received overtime payments in 2003.
e. Hire a fraud investigator to determine the extent of government leave and overtime records destroyed following the department's internal investigation of alleged employee fraudulent overtime claims and leave abuses. The fraud investigator should interview the division administrator and clerical staff as recommended by the department's internal auditor to assess whether fraudulent activities did in fact occur. Should the investigator confirm that criminal activities took place, appropriate disciplinary and follow-up action should be taken;	In December 2002, the department chair referred the appropriate issues raised by the State Auditor to the Department of the Attorney General for investigation. In February 2003, the department chair authorized the appointed investigatory team to conduct its investigation. Appropriate action will be determined upon completion of the investigation.
f. Direct the division's administrative assistant to update and maintain the division's inventory record of state property. The administrative assistant should immediately conduct a physical inventory of all state property and investigate discrepancies between property on-hand and property identified on the division's master inventory list;	The process of updating, maintaining, and reconciling any discrepancies in the division's state property inventory is on-going. The disposal process has been completed for all inoperable vehicles. Eight vehicles have been approved for disposal.
g. Require all staff using division vehicles to complete vehicle usage logs that identify the vehicle license number, driver, destination, purpose of travel, and odometer readings prior to and subsequent to completing the travel. The administrative assistant should reconcile gasoline invoices to vehicle usage logs to ensure that payment is made for gasoline purchased only for official state business;	The recommended vehicle log, with the specified categories, is in use for all division vehicles. The administrative assistant periodically will be reconciling gasoline invoices with vehicle usage. Action will be taken if significant discrepancies are noted between usage and the official business recorded in the log.
h. Develop preventive maintenance standards to extend the life of vehicles and enhance driver safety. The division should immediately obtain required safety checks and repair vehicles that require servicing. The division should also assess whether it is practical and cost-effective to maintain its current fleet of vehicles. Should the division choose to dispose of rather than repair vehicles, Hawai´i administrative rules that govern the disposal of state property should be followed; and	All vehicles in use have valid safety checks and are repaired and serviced when needed. An automobile maintenance schedule log is currently being used to track the repair history of each vehicle. The division believes that it is not cost-effective to maintain most of its current fleet. Budget requests were submitted and approved by the department for three surplus vehicles. On August 4, 2003, the division received approval to dispose eight vehicles. The disposal process has been completed for five vehicles.
i. Update position descriptions for all staff and discuss performance expectations prior to and following the completion of regularly scheduled review periods. All staff should be held accountable for their performance and behavior.	Position descriptions are being updated and brought into conformance with the actual tasks, duties performed, and division priorities.

continued on page 46

RECOMMENDATIONS

Appropriate disciplinary action should be taken against supervisors who fail to evaluate staff's performance.

3. The department chair should require the division administrator to proactively seek and secure program revenues by clearly stating that the administrator's continued employment is contingent upon the timely submittal of federal grant applications and the proper oversight of grant receipts.

ACTIONS TAKEN

Tables are being developed to list the primary and secondary responsibilities of each employee; the constituent groups each serves or contacts in performing these duties; and transactions that measure work load and productivity.

All supervisors have been reminded to complete their employees' performance appraisals on a timely basis. Full compliance is expected by the end of December.

Two new federal grants to improve and update the division's computerized historic sites inventory have been obtained from the National Park Service and National Resources Conservation Service.

Federal grant applications and program end of the year reports for 2002 and 2003 were filed on a timely basis.

Historic Preservation Fund grants have been distributed to the Maui and Kauai participants in the Certified Local Government program in a timely manner and receipts reconciled with the groups proposed and approved preservation initiatives.

In 2003, after years of noticed absence, the Hawai´i State Historic Preservation Officer joined the National Conference of State Historic Preservation Officers. This organization advocates for adequate funding of historic preservation offices nation-wide and aids offices in securing appropriate shares of federal funds.

Report Title: **Review of Privatization Contracts for Certain State and County Agencies**
Report No.: 02-21

RECOMMENDATIONS

1. The governor should:

   a. Designate an entity to implement Act 90, SLH 2001, and establish and enforce privatization guidelines.

   b. Ensure the establishment of comprehensive privatization guidelines that include:

      1) A clear definition of privatization;

      2) Clarification of privatization methods, including contract types, subject to Act 90;

ACTIONS TAKEN

The governor designated the department of human resources development to be in charge of all privatization efforts for the executive branch.

The department has drafted guidelines (procedures) for privatization. The department has done its best to address all recommendations included in the auditor's report. These procedures are in draft form and are being reviewed by the attorney general's office.

continued on page 47

3) Delineation of state and county agency privatization roles and responsibilities;

RECOMMENDATIONS

4) Review and approval controls to ensure state and county compliance;

5) An analysis framework process;

6) Managed competition process requirements;

7) In-house and contract cost comparison requirements;

8) Bid and contract requirements;

9) Monitoring and oversight requirements; and

10) Provisions for employees displaced as a result of privatization.

2. The governor and mayors should consider evaluating state and county agencies' privatization efforts after agencies have privatized services utilizing the privatization guidelines.

ACTIONS TAKEN

The administration will be evaluating the state agencies' privatization efforts on an on-going basis (i.e., before, during, and after the services have been privatized).

Note: The responses noted here were provided by the department of human resources development on behalf of the administration and all executive agencies contacted by our office.

Report Title: **Review of Privatization Contracts for Certain State and County Agencies**
Report No.: 02-21

RECOMMENDATIONS

1. The governor and mayors should consider evaluating state and county agencies' privatization efforts after agencies have privatized services utilizing the privatization guidelines.

ACTIONS TAKEN

The following points should be considered before privatization can truly begin under Act 90:

The "pricing model" could be improved. The sample price-model that was developed and given to government officials is too confusing.

Furthermore, any attempt to privatize under Act 90 would probably be met with challenges by public labor unions. Constitutional challenges by public unions have been successful in both state and federal courts.

Finally, Act 90 could be markedly improved. As it currently reads, government officials are told they have the authority to privatize services under their control, but there is no motivation or incentive for those officials to do so. Even requiring a small marginal percentage reduction in cost from privatization would be better than not having any target or objective for government officials to strive for, as is currently the case.

continued on page 48

RECOMMENDATIONS

2. The governor and mayors should consider evaluating state and county agencies' privatization efforts

ACTIONS TAKEN

The University of Hawai`i has not engaged in privatizing services under Act 90, SLH 2001.

Report Title: **Study To Determine the Appropriate State Agency To Oversee the Regulation of Adult Residential Care Homes and Adult Foster Homes**
Report No.: 02-22

RECOMMENDATIONS

1. The Departments of Health and Human Services should continue to regulate adult residential care homes and adult foster homes, respectively.

ACTIONS TAKEN

The Department of Health continues to regulate Adult Residential Care Homes (ARCH) as set forth by HRS 321-11, 321-15.6, 321-15.6(1) and 321-15.6(2). The Department has increased the number of Nurse Consultants from six to eight, and clerical personnel from two to three. The department also created a nurse trainer position that provides training to both staff and providers that ensure quality care is provided to residents.

With the enactment of Act 202, the department shall conduct unannounced visits to all ARCH/Expanded ARCHs and shall provide notice for annual inspections. Unannounced visits will have begun by January 2004, when all new staff are fully trained and able to carry out their required functions.

Chapter 100.1 proposed draft to the current ARCH regulations was heard at a public hearing on April 15, 2003; comments were incorporated into the draft. The department is currently awaiting final approval from the Department of the Attorney General before moving forward.

Report Title: **Study To Determine the Appropriate State Agency To Oversee the Regulation of Adult Residential Care Homes and Adult Foster Homes**
Report No.: 02-22

RECOMMENDATIONS

1. The Departments of Health and Human Services should continue to regulate adult residential care homes and adult foster homes, respectively.

2. The Department of Human Services should manage its regulatory functions more appropriately. Specifically, the director of the Department of

ACTIONS TAKEN

The Departments of Health and Human Services continue to regulate adult residential care homes and adult foster homes, respectively.

continued on page 49

Human Services should:

RECOMMENDATIONS

a. Ensure case management agencies are adequately monitored to ensure the protection of its clients; and

b. Reevaluate its use of case management agencies to certify adult foster homes.

ACTIONS TAKEN

In practice, monitoring visits and reports are completed yearly. This requirement will be included in the rules scheduled for amendment after the 2004 legislative session.

The department of human services is submitting an amendment to Act 273 directing the department, not case management agencies, to certify community care foster family homes.

Report Title: **Audit of the Family Court Complaints Process**
Report No.: 02-23

RECOMMENDATIONS

1. The Family Court should develop policies and procedures for handling complaints and train its staff in all complaint processes available to the public. The training should include what action or information constitutes giving "legal advice."

2. The Judiciary should be guided by Hawai´i's civil service reform law and establish a public complaints process. This process should include procedures for documenting and recording each complaint.

3. The Family Court should develop a brochure for the public detailing the different avenues for complaints. The brochure should describe appropriate subjects for a complaint, how to file a complaint, when to expect resolution of a complaint, and what additional steps can be taken if court customers are dissatisfied with the resolution. The brochure should also describe limitation faced by Family Court staff in giving advice. Similar to other states, the brochure could be made available on the Judiciary's website.

4. The Judiciary should revise its public opinion survey to include questions about users' in-court experiences and collect meaningful data. The Judiciary should then properly analyze all the data it collects, instead of only analyzing the overall rating.

5. The Judiciary should re-establish data measurement guidelines for its service center and re-evaluate the effectiveness of the service center in the Family Courts.

ACTIONS TAKEN

The Judiciary has established a Staff Education Committee to determine the training needs of line personnel. The committee is part of the Judiciary's significant progress toward achieving a standardized employee training program.

The Judiciary does and will continue to monitor public complaints about court services and court personnel. To increase awareness among Judiciary employees, employees have been and will continue to be encouraged to document and record each such complaint.

The Judiciary has substantially revised its current public opinion survey form, "We Value Your Opinion", to address concerns raised by the Auditor. The revised form is under review by court administrators in each judicial circuit. In the First Judicial Circuit (O´ahu), the review has been completed, and the revised form has already gone to the printshop.

The existing statistical procedures used by the Judiciary for analyzing the data obtained from the public opinion survey forms are consistent and practical, given the time and resources available.

The effectiveness of the Judiciary's service centers are continually reviewed with the goal of achieving consistent and effective operations. The employees of the service centers are invited to discuss methods for improvement with their supervisors.

Report Title: **Study of the Automated Child Support Enforcement System (KEIKI)**
Report No.: Unnumbered, January 2003

RECOMMENDATIONS	ACTIONS TAKEN
1.1 Establish an Agency Strategic Plan.	The Department of the Attorney General has established an advisory council to guide the actions of the Child Support Enforcement Agency (CSEA) and to assist the CSEA's executive committee in its leadership and strategic planning process. The advisory council includes representatives from the attorney general's office, Legislature, courts, the Department of Human Services, and the CSEA. The advisory council has met several times since it was created in July 2003, and has focused on the establishment of a comprehensive strategic plan. We project that a clearly defined strategic plan for the CSEA will be completed by the end of fiscal year 2003.
1.2 Establish an executive steering committee.	The CSEA has established an executive steering committee, which includes the senior staff of the agency. Each branch of the agency is represented including branch heads from the neighbor islands. The KEIKI steering committee, responsible for resolving issues related to the KEIKI system, was established in March 2000. The advisory council also established a customer services committee, a legislative committee, and a training committee consisting of members from the advisory council.
1.3 As part of the strategic plan and the customer service committee, proactively manage customer service.	The strategic planning process established by the advisory council includes customer services as one of its priorities and will solicit input from case participants as well as employees who are in direct contact with the agency's customers. The CSEA has already established additional positions from which telephone calls can be answered and has increased its call response rate.
1.4 Reorganize and establish cross-functional teams in operations.	The CSEA has submitted a divisional re-organizational plan, which calls for the establishment of three cross-functional teams. These teams are located in the O´ahu branch, which handles over 80 percent of the agency's cases. Each team will be represented by all classifications of caseworkers from the least to the most experienced, thus providing the customer with a wider range of expertise.
1.5 As part of agency's strategic plan, create self-assessment (quality control) procedures to monitor performance.	As part of the strategic plan, by-product reports will be periodically generated by the KEIKI system, which identify: correctness of data input, financial reconciliation of child support payments and disbursements, and timely enforcement activities. Quality control over customer response rates will be monitored by the new voice response unit system scheduled for implementation at the end of this calendar year. The advisory council will review these reports periodically.

continued on page 51

RECOMMENDATIONS	ACTIONS TAKEN
1.6 Identify a decision support system capable of supporting executive management in making informed decisions.	The CSEA is drafting the request for proposal to acquire a decision support system (DSS). To benefit from other states' best practices, the CSEA has also solicited assistance from the child support enforcement agency in the State of Vermont whose decision support system is highly recommended by the federal Office of Child Support Enforcement. The DSS will begin with a data mining capability allowing the DSS to extract data that need to be analyzed. Once extracted and analyzed, the DSS will be able to provide reports necessary for executive management decisions.
2.1 Replace the current Voice Response Unit (VRU) system.	The CSEA purchased and implemented a new VRU system in December 2003. The new VRU is interactive with the KEIKI system and will have the ability to provide more case information to the agency's customers.
2.2 Utilize Tasking IDs within KEIKI.	The Keiki Steering Committee is currently reviewing all system tasking IDs. The committee has found that many of these tasking IDs are unnecessary and time-consuming. As part of the system enhancement effort, the committee will identify those tasks that are necessary for casework to progress through the automate process.
2.3 Investigate greater use of the Internet.	In March 2003, the CSEA sent two of its technology staff to a customer service web seminar sponsored by the Federal Office of Child Support Enforcement. This training provided the CSEA staff with information to analyze, design, develop and implement a customer service web site. CSEA has also contacted and coordinated its web site layout with the State's ICSD public access group.
2.4 Increase system availability by upgrading system technology.	In October 2003, the CSEA migrated from the DHS mainframe to the State's mainframe. By doing so, the CSEA was able to increase its processing capacity and gained access to high-density tape drives. Initial results have been positive with nightly batch jobs taking three hours instead of eight hours to complete, reducing CSEA's downtime.
3.1 Develop a training organization and plan.	The CSEA's re-organizational plan, once approved, includes a qualified trainer position to develop and provide a more comprehensive training program. Training topics will include child support enforcement, KEIKI systems, and customer service delivery.
3.2 Centralize documentation.	The CSEA has completed drafting the scope of work and evaluation criteria for system documentation, which is included in the request for proposal. The RFP will provide the CSEA with data modeling, data dictionaries, system document software applications, a KEIKI version control system and programming.
3.3 Develop user groups for defined areas.	As part of the training program, user groups will be developed to provide the agency with input regarding customer services as well as casework feedback. The construction of teams at the branch level will provide the baseline for all customer service needs and enforcement activities.

continued on page x

OFFICE OF THE AUDITOR
APPROPRIATIONS AND EXPENDITURES ON A BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

APPROPRIATIONS

Act 1, SLH 2002 (operations)	$2,172,443
Act 1, SLH 2002 (special studies)	150,000
	$2,322,443

EXPENDITURES

Staff salaries	$1,416,425
Contractual services	364,190
Other expenses	123,252
Special studies	140,000
	$2,043,867
Excess of appropriations over expenditures	$ 278,576

EXCESS OF APPROPRIATIONS OVER EXPENDITURES

Act 1, SLH 2002 (operations)	$ 268,576
Act 1, SLH 2002 (special studies)	$ 10,000
	$ 278,576

THE OFFICE OF THE AUDITOR

Hawai´i'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 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 are existing funds meet legislative criteria.

7. *Procurement reports* include studies and audits relating to the State's procurement of goals, 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 HAWAI´I
Kekuanao´a Building
465 S. King Street, Room 500
Honolulu, Hawai´i 96813

Phone: (808) 587-0800 • Fax: (808) 587-0830
E-mail: auditors@auditor.state.hi.us
Web site: www.state.hi.us/auditor