

# 2 0 0 6   A N N U A L   R E P O R T



STATE OF HAWAI‘I  
Office of the Auditor

MARION M. HIGA ■ STATE AUDITOR





STATE OF HAWAII  
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 14, 2007

Ladies and Gentlemen:

I am pleased to present this Annual Report, which highlights the work of the Office of the Auditor in work year 2006. This report, and the audits and special studies themselves, spotlight some of the major issues facing State government.

This year's projects involved much focus on vital topics that relate to our state's future—among them conservation of natural and cultural resources, effective business management in our education systems and planning for the year 2050—and the actions needed to move wisely ahead.

The year also brought reminiscences of our past. In this report, we pay tribute to first State Auditor Clinton T. Tanimura and Hawaiian statesman, Mataio Kekuanao'a. We reflect on the lives and achievements of those "who have gone before us" in our aspirations for improved government.

Sincerely,

Marion M. Higa  
State Auditor

## TABLE OF CONTENTS

<p><i>Auditor’s Message</i>.....1</p> <p><i>Commentary: On the Shoulders of Those Who Have Gone Before</i>.....3</p> <p><i>Summary of Reports</i>.....7</p> <p>01. Management Audit of the Division of Conservation and Resources Enforcement.....7</p> <p>02. Audit of the Department of Human Services’ Temporary Assistance for Needy Families Program.....8</p> <p>03. Management Audit of the Hawai’i Youth Correctional Facility .....9</p> <p>04. Financial Audit of the Department of Land and Natural Resources ..... 10</p> <p>05. Financial Audit of the Department of Public Safety..... 11</p> <p>06. Management Audit of Kailua High School ..... 12</p> <p>07. Sunrise Analysis: Genetic Counselors ..... 13</p> <p>08. Review of Revolving Funds, Trust Funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai’i State Public Library System, and Office of Hawaiian Affairs..... 14</p> <p>09. Sunrise Analysis: Athlete Agents..... 15</p> <p><i>Updates on Special Projects</i>..... 16</p>	<p><i>Actions Taken on Previous Recommendations as Reported by Auditees</i>..... 18 (Report Nos. 05-02 to 05-15)</p> <p>Financial Audit of the Department of Agriculture ..... 18</p> <p>Audit of the Office of Hawaiian Affairs.....24</p> <p>Financial Audit of the Department of the Attorney General.....27</p> <p>Audit of Selected State Agencies’ Procurement of Professional Services Contracts .....28</p> <p>Audit of Wai’alae Elementary Public Charter School .....32</p> <p>Follow-Up Audit of the Foster Board Payment Program .....33</p> <p>Audit of the Deposit Beverage Container Program.....35</p> <p>Audit of Selected Hiring Policies and Practices of the Executive Branch of Government .....38</p> <p>Follow-Up Audit of the Management of Mauna Kea and the Mauna Kea Science Reserve.....40</p> <p>Systemwide Financial Audit of the University of Hawai’i System: Phase 1 ..... 43</p> <p><i>Office of the Auditor Appropriations and Expenditures on a Budgetary Basis for the Fiscal Year Ended June 30, 2006</i>.....48</p>
---	--

## COMMENTARY: ON THE SHOULDERS OF THOSE WHO HAVE GONE BEFORE

### *Not An Ordinary “State Government Employee”*

Marion M. Higa, State Auditor

The obituary simply read, “Clinton T. Tanimura, 77, of Honolulu, a retired state government employee, died.”

But this was no ordinary “state government employee.”

This was Hawai‘i’s first State Auditor, also called Legislative Auditor, who made real the intent of the 1950 State Constitution—that there be an auditor to assist the legislative branch in holding the other two branches accountable for their spending and their performance.

This was Hawai‘i’s first State Auditor, who, in his 23½ years in office, set high standards for professional work and personal conduct that those of us who have worked here have strived to meet.

And yet, near the end of his life, Clint (that’s how he signed his memos) planned for his services humbly, privately, and meticulously, as always. According to his family, he wrote his own obituary—that spare newspaper announcement that took us aback in its modesty.

So it’s left to the rest of us to tell a few “Clint stories.”

Clint interviewed me himself, in December 1970. I was terrified, sitting opposite him at a huge desk in the Capitol, especially when he said nothing after we both said “Good morning.” I decided, however, it was his turf and the correct thing to do was to let him speak first. When he finally did, he asked, “Why do you want to work for us?” I learned after I was hired that he was a very private person, almost shy, and left to his managers the day-to-day contact with assistant analysts like me.

But I also learned that he was tough on work quality. There were stories of unsatisfactory report drafts being tossed into trash cans—in the presence of their authors. For years, he resisted signing on to the audit standards promulgated by the federal General Accounting Office (now called the Government Accountability Office), maintaining that our work standards were higher than GAO’s.

Under Clint, Hawai‘i was one of the first states to embark on performance or program auditing. He was a charter member of a legislative fiscal officers’ association that continues to meet to this day. He was recognized in books authored by early leaders in what was then a new kind of audit endeavor. He, along with his late deputy auditor, Yukio Naito, was instrumental in professionalizing performance auditing with conceptual frameworks that they skillfully imported from other disciplines.

Clint stood up to auditees and others who objected to our findings and conclusions. In a 1969 newspaper interview, four years after the office’s establishment, he admitted to long hours and hard work simply to justify the existence of his constitutional position. Once over that hurdle, he expanded staff and audit topics. Our office newspaper file is rife with clippings not much different from current ones—and even their subjects are often repeats: loan funds, tourism marketing, personnel management, to name a few. But here and there, the news clips also report on improvements in government as a result of the audits, or at least the adoption of audit recommendations.

In writing his own obituary, Clint instructed his family to hold a very small funeral, but allowed his 49<sup>th</sup> day Buddhist service to be a celebration of his life attended

by friends and acquaintances. That would be a happier time, he said, for he would be joining his beloved Millie at the next stage of existence. Clint's was a life of pioneering public service carried on his stocky frame. But to the end, he remained modest. He even chose a 10:00 A.M. time for the Jodo Mission service so that

fewer people would feel obligated to attend. On December 13, we in government auditing said to Clint, "okage sama de," which in his case roughly translates to "we stand on the shoulders of those who've gone before." What other words would do for a man who was no ordinary "state government employee."

---

### *The Move to the Kekuanao'a Building*

In 1978, under the direction of Clint Tanimura, the Office of the Auditor moved from cramped quarters at the State Capitol to a larger space. The airy and spacious new office space was in the renovated Kekuanao'a Building. Originally built in 1926 as the Territorial Office Building, the building was renamed after Mataio Kekuanao'a, another government official on whose shoulders we stand.



*Kekuanao'a Building, Punchbowl and King Streets, Honolulu.*

---

### *Mataio Kekuanao'a, The Royal Father*

Though his name is not as familiar as that of the ruling Kamehamehas, Mataio Kekuanao'a was

an important figure during the Hawaiian monarchy. A multi-talented man, he served his monarchs (who

were also his relatives) as well as his government. He served as *kuhina-nui* (co-regent) with his son, Kamehameha V, and presided over the Legislative Assembly in his final years.

From birth, he was trained to be a warrior chief and servant under Kamehameha I and successive leaders. He was a *punahele* (close companion) to Kamehameha II. In time, he would manage the treasury funds, command the military, govern Oahu, direct the Board of Education, and serve as judge. He also had a strong command of both Hawaiian and English.

Mark Twain wrote that Kekuanao‘a was a man of noble presence, remarking that he was “a high-minded, elegant gentleman... a man practiced in holding the reins of an enlightened government, and well versed in the politics of his country and in general, practical information.”

As governor of Oahu, he displayed his penchant for order and effectiveness. On June 7, 1855, he wrote, “I have received your petition complaining of the laziness of the road-overseer, Mr. Moffita, due to his failure in cleaning the roads during the last three years gone by; therefore, I am informing you to elect a new road-overseer. And, that Mr. Moffita is being discharged and you are to elect a new road-overseer, because if that is the way that former overseer is going to do, the government would be at a real loss.”

Kekuanao‘a contended that leaders should take in new and foreign ideas that would result in improved government. Speaking before the legislative assembly on the issue of steamship subsidization in the Hawaiian Islands, he said, “Gentlemen, where are we, for going ahead? For looking back? Our race has more than once declared for progress, for foreign improvements. I am for steam.”

And as the father of Kamehameha IV, Princess Ruth Ke‘elikolani, and Princess Victoria Kamamalu, as well as Kamehameha V, Kekuanao‘a extended his influence through succeeding generations.

By a happy coincidence, the Office of the Auditor has occupied space in the building named for a government leader who demanded accountability, even from a road overseer.



*Hawaiian chief, Mataio Kekuanao‘a was born in 1794 and died in 1868. He was the father of several monarchs and was affectionately called the “Royal Father” by the Hawaiian people.*

Photograph courtesy of Hawai‘i State Archives.

## STAFF OF THE OFFICE OF THE AUDITOR

*State Auditor*  
Marion M. Higa

*Deputy Auditor/  
In-House Counsel*  
Jan K. Yamane

*Assistant Auditors*  
Calvin Hangai  
Sterling Yee

*IT Coordinator*  
Russell Wong

*Senior Analysts*  
Urs C. Bauder  
Jerry P.G. Wong

*Analysts*  
Joan James  
Linden Joesting  
Wayne T. Kanemasu  
Spencer M.W. Lum  
Ria Munoz Bright  
Tricia Oftana

*Associate Analysts*  
Greg M. Matsumoto  
Albert Vargas

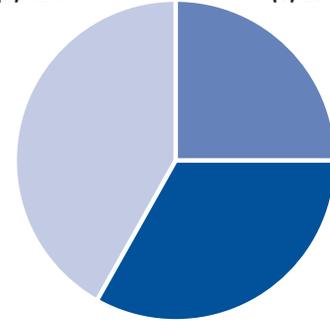
*Special Projects  
Coordinator*  
Jayna Muraki

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

## TYPES OF REPORTS

Special Studies  
(5) 42%

Financial Audits  
(3) 25%

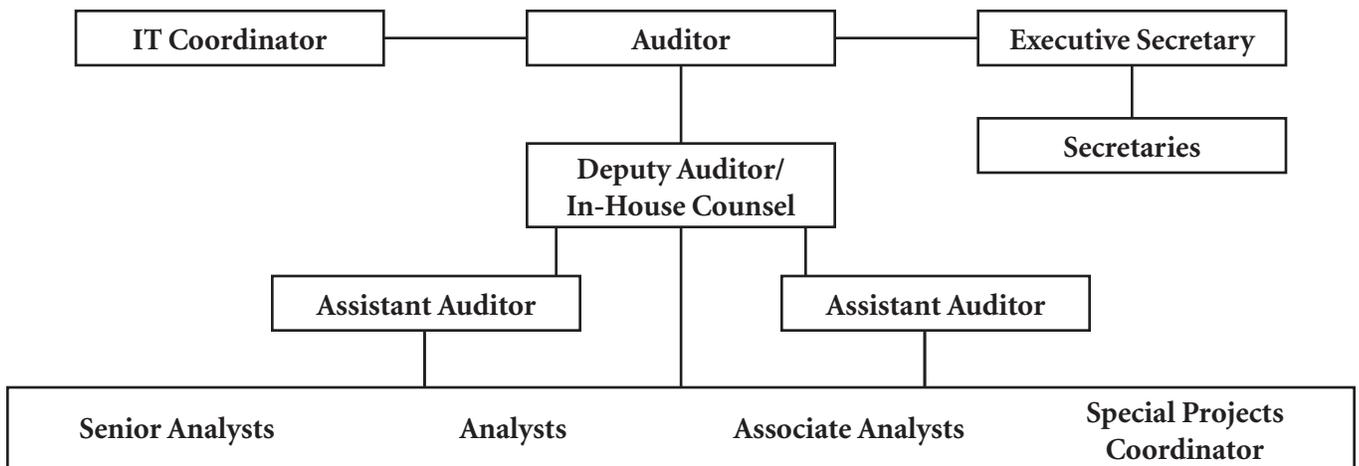


Performance Audits  
(4) 33%

The office also performed 57 quick reviews  
of proposed special and revolving funds.

6

## ORGANIZATION OF THE OFFICE OF THE AUDITOR



## SUMMARY OF REPORTS 2006

### *Management Audit of the Division of Conservation and Resources Enforcement*

Report No. 06-01, January 2006

We conducted this management audit of the Division of Conservation and Resources Enforcement (DOCARE) in response to a request by the 2005 Legislature through House Concurrent Resolution No. 200.

We found that Hawai'i's natural and cultural resources have worsened through overuse or abuse and from such factors as agriculture, grazing, and urban and residential developments.

While there are laws and rules to protect Hawai'i's resources and the public's safety, both the Department of Land and Natural Resources and DOCARE have not been able to provide the needed leadership to achieve full and effective enforcement. The DOCARE enforcement division has struggled with a workload that has grown by as much as 50 percent over the past decade. The division's mission has shifted from protecting natural and cultural resources to deterring

illegal and criminal activity, which has forced its enforcement workforce to be spread even thinner.

The division does not effectively manage the enforcement staff it does have. Enforcement officers rarely patrol the State's waterways in available boats, many of which are stored in a parking lot several miles from the ocean. Officers go on unsupervised patrols and do not have to account for their whereabouts. They are also sent on cruise ship duty, working 11 or 12 hours a day at overtime rates in the effort to provide passenger safety—all of which is only loosely connected to the DOCARE mission.

Further, while many officers are extremely productive, about a quarter of the officers accomplish far less enforcement actions than their peers. For example, the Kaua'i branch's production per work year is significantly lower than each of the other three branches on Hawai'i, Maui, and Oahu.

7



*State law prohibits the use of motor vehicles off the main road at Ka'ena Point State Park. Despite this prohibition, the park continues to be a favored spot for off-road driving.*

Photograph courtesy of the Department of Land and Natural Resources.

## *Audit of the Department of Human Services’ Temporary Assistance for Needy Families Program*

Report No. 06-02, January 2006

8

This audit was conducted in response to House Concurrent Resolution No. 58 of the 2005 legislative session, which resulted from concerns expressed by legislators and community members alike about the Department of Human Service’s management of its Temporary Assistance for Needy Families (TANF) program.

We found that departmental spending, on one hand, comports with federal guidelines which allow state flexibility in TANF program design aimed at meeting unique needs. But on the other hand, departmental leadership has not developed a cohesive, forward-looking picture of TANF program goals, reasons for the selected priorities, or intended results of its actions. Adequate performance measures as well as a process for public involvement in setting policies and priorities are also lacking.

We also determined that the department’s contracts do not consistently adhere to its established program development process and procurement best practices. Vaguely worded contracts do not reveal the nature of the services to be rendered. Further, the contracts lacked documentation to prove that the department followed a deliberate process to ensure taxpayer resources were applied where they would have the greatest impact.

Overall, we found that the Department of Human Service’s management practices for TANF lack the transparency and accountability that exists in other states and that the Legislature was justified in placing limits on the department’s expansion of TANF fund expenditures.

## *Management Audit of the Hawai'i Youth Correctional Facility*

Report No. 06-03, May 2006

Recent reports and lawsuits by the American Civil Liberties Union of Hawai'i and the U.S. Department of Justice have highlighted problems at the Hawai'i Youth Correctional Facility. The Hawai'i Legislature conducted hearings on this situation and with the enactment of Act 1, Session Laws of Hawai'i 2006, requested that we perform an audit to assess whether the facility is organized and managed to carry out its mission.

We found that the Office of Youth Services, which is responsible for overseeing the Hawai'i Youth Correctional Facility, has not provided the facility with adequate guidance.

The office has not clearly communicated whether the facility's mission is primarily rehabilitation or secure incarceration. It also fails to follow strategic

plan objectives such as developing more aggressive alternatives to incarceration or strengthening transition programs. Unclear statutory direction has also offered minimal guidance to both the office and the facility. This ambiguity has caused considerable confusion among facility staff.

We also found that the facility needs to use productive management tools. Critical positions are vacant or temporarily filled. For example, facility staff members have been temporarily and intermittently assigned to the Corrections Supervisor I position since August 2003—even though this position is instrumental in serving the facility's youth and maintaining facility security. We also found that less than 17 percent of facility staff received annual performance appraisals for 2004 and 2005.

## *Financial Audit of the Department of Land and Natural Resources*

Report No. 06-04, June 2006

10

The Office of the Auditor and the certified public accounting firm of KMH LLP conducted a financial audit of the Hawai'i Department of Land and Natural Resources for the fiscal year July 1, 2004 to June 30, 2005.

This audit involved the analyses of departmental financial records and transactions; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

In the firm's opinion, the financial statements, excepting the \$8.3 million liability due the state general fund, fairly present the department's financial position and changes in this position for the fiscal year. They also conform to generally accepted accounting principles. The audit did find weaknesses in the department's internal controls over financial reporting and operations.

One material weakness is the department's lack of a comprehensive federal grant program management system. Because of this, the audit was unable to assess the \$8,302,509 liability owed to the state general fund as of June 30, 2005. A second material weakness relates to an inadequate accounting and financial reporting process, which led to misstatements and the omission of required disclosures in its June 30, 2005 financial statements.

The audit additionally found serious safety hazards at small boat harbors managed by the division. Internal controls over boating permits and the handling of cash are insufficient; at one small boat harbor, the combination lock for the safe was not in use and the key was left hanging nearby. The small boat harbors' fee structure also has not changed since 1995, making it difficult to attain self-sufficiency and cover increasing operating costs.

## *Financial Audit of the Department of Public Safety*

Report No. 06-05, August 2006

The Office of the Auditor and the certified public accounting firm of KPMG LLP conducted a financial audit of the Hawai'i Department of Public Safety for the fiscal year July 1, 2004 to June 30, 2005.

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.

In the opinion of the firm, the financial statements present fairly, in all material respects, the department's financial position and changes in this position for the fiscal year, and all conform to generally accepted accounting principles. There were, however, several deficiencies in the internal controls over financial reporting and operations.

The department has difficulty reconciling and transferring inmate trust account balances accurately and

timely. For example, the total gross unreconciled difference between the Inmate Trust Accounting system and bank balances for all correctional facilities and community correctional centers was \$129,779 as of June 30, 2005. Thus, the department is not fulfilling its fiduciary responsibility to the inmates.

Significant overtime remains unchecked, and the department is ineffective at limiting associated costs. Existing policies and procedures, for instance, allowed an employee to be paid two years after the work was performed. Uninhibited sick leave usage continues to increase overtime costs. There are also uncollected balances in salary overpayments.

We also determined that its capital assets inventory listing was inaccurate. This resulted in a restatement of the department's beginning net assets in the basic financial statements totaling approximately \$4.3 million, net of related accumulated depreciation.

## *Management Audit of Kailua High School*

Report No. 06-06, September 2006

12

This audit of Kailua High School is the first regular public school audit performed by our office. The school was selected in part because of reported questions about its athletic program and fundraising efforts.

Our analyses found that the school's efforts to bring reform into its classrooms have not resulted in any meaningful change in student outcomes over a ten-year span. This is largely because leadership focuses on education improvement and as a result, school management and administrative oversight are short changed.

Leaders rely almost exclusively on clerical business office staff to manage its \$10 million operations and \$2 million inventory. Nearly half of the school's \$2 million inventory may be fictitious as school staff members do not have clear responsibility assignments,

support, and oversight over its assets. For example, we could not locate \$500,000 worth of equipment in our sample and also found items not on the official inventory.

In the school's athletic program, a number of questionable personnel and fiscal practices raise concern such as the fact that coaches have been hired and re-hired and some have even finished their seasons before background checks were completed or done at all.

Funds raised for athletics co-mingled with personal funds, thousands of dollars collected for student activities not deposited in a bank for days, recording of monetary donations in unrestricted accounts instead of trust accounts—these were some of the many harmful practices we found that may have implications for the entire public school system.

## *Sunrise Analysis: Genetic Counselors*

Report No. 06-07, October 2006

The 2006 Legislature requested that the Auditor conduct a sunrise analysis of proposed genetic counselors regulation. A sunrise analysis requires the Auditor to assess whether new or expanded regulation should be enacted in order to protect the health, safety, and welfare of consumers as well as to examine the probable effects of proposed regulation and assess alternative forms of regulation.

Genetic counselors are health professionals who specialize in medical genetics and counseling. They work as part of health care teams that provide information and support to families and individuals who have genetic diseases or who may otherwise be at risk.

Hawai'i currently has ten to 12 genetic counselors who mostly work for health care facilities or for the state Department of Health. Almost all have been certified or are working toward certification.

The bill establishing a licensing program in Hawai'i, Senate Bill No. 3231, Senate Draft 2, is largely a title protection measure. It authorizes licensees to use the title licensed genetic counselor or genetic counselor but does not prohibit practice by non-licensed practitioners if they do not represent themselves as licensed genetic counselors.

We found that the regulation of genetic counselors is not necessary. There is no evidence of harm to consumers that would warrant licensing. The proposed licensing program would not prevent unqualified persons from doing genetic counseling. Though genetic counselors may work fairly autonomously, they are supervised by medical geneticists or physicians. Further, the bill creates a certification program, not a true licensing program.

*Review of Revolving Funds, Trust Funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs*

Report No. 06-08, November 2006

14

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 and trust funds and trust accounts of the Office of the Governor, Department of Education, and Office of Hawaiian Affairs. This is our second review of the funds and accounts administered by the Office of the Lieutenant Governor and Hawai'i State Public Library System.

Revolving funds are established with an appropriation of seed money from the general fund. Revolving funds must demonstrate the capacity to be self-sustaining. Activities financed by revolving funds include loan programs that are initially established by general fund seed moneys and then replenished through the repayment of loans.

Trust funds invoke a fiduciary responsibility of state government to care for and use the assets held for the benefit of those with a vested interest in the assets. Trust accounts are typically separate holding or clearing accounts for state agencies, and are used as

an accounting device to credit or charge agencies or projects for costs.

We used criteria developed by the Legislature as well as criteria developed by our office from a review of public finance and accounting literature. These funds must serve the purpose for which they were created and not require continuing general fund appropriations. A revolving fund must reflect a linkage between benefits sought and charges made upon users and also be an appropriate financial mechanism for the program or operation. A trust fund must meet the statutory definition of a trust fund.

Of the 33 funds and accounts we reviewed this year, ten were revolving funds, 15 were trust funds, and eight were trust accounts. For each fund, we presented a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued.

## *Sunrise Analysis: Athlete Agents*

Report No. 06-09, December 2006

In House Concurrent Resolution No. 112, Senate Draft 1, of the 2006 Regular Session, the Legislature requested that the Auditor conduct a sunrise analysis of a proposal to regulate athlete agents in Hawai'i.

An athlete agent, also known as a sports agent, is someone who facilitates playing and endorsements contracts for professional athletes in return for commissions. Athlete agents also make contracts with student-athletes to negotiate or solicit professional sports or endorsement agreements on their behalf.

Currently, athlete agents are regulated in 35 states. The nature of the regulation—whether it be registration, certification, or licensure, terms of initial and renewal regulation, costs for initial and subsequent applications—vary widely among those 35 states. Numbers of active, regulated athlete agents also have wide variance, from zero to approximately 230. Agents are also regulated by such national players' associations as the National Football League Players Association, National Basketball Association Players Association, and the Major League Baseball Players Association.

House Bill No. 2440, House Draft 2, Senate Draft 2, proposes to regulate athlete agents in Hawai'i by requiring they register with the Department of Commerce and Consumer Affairs. To register with the State, the applicant must disclose such information as relevant formal training, practical experience, criminal convictions, sanctions or disciplinary actions. The bill has additional stipulations that serve to protect the student-athlete and the educational institution involved, including penalties and recourse.

We conclude that Hawai'i regulation of athlete agents is unnecessary. There is no evidence of abuses by the three agents in Hawai'i. Agents do not pose a significant risk to the health, safety, or welfare of the state's student-athletes. The pool of potential professional athletes is considered small. National players' associations certify agents, making state intervention redundant. There are federal and state laws providing grounds for relief for those who suffer damage by athlete agents. And, finally, the proposed measure contains several ambiguities that would make its implementation difficult for administrators.

## UPDATES ON SPECIAL PROJECTS

### *Hawai'i 2050 Sustainability Plan, Identity Theft Task Force, School Impact Fee Study*

16

#### **Hawai'i 2050 Sustainability Plan**

With the enactment of Act 8, Special Sessions Laws of Hawai'i 2005, the Legislature established the Hawai'i 2050 Sustainability Task Force to review the Hawai'i State Plan and the State's comprehensive planning system. It also required the Office of the Auditor to prepare the Hawai'i 2050 Sustainability Plan.

During 2005, the Hawai'i 2050 Sustainability Task Force held meetings to outline the planning approach and criteria for the creation of the Sustainability Plan. The Task Force has addressed the critical needs of the state for the long-term future. Some pressing issues were population growth, lack of affordable housing, the state's vulnerability in a global energy market, and the reliance upon low-wage tourism jobs.

In this report, the Task Force recognized that current methods of policy planning and resource management at all levels of state government need review and amendment. The group also recommended that the concept of sustainability become an "institutionalized" part of government decision-making.

The Task Force determined that the plan should focus on the sustainability of four essential areas: the environment, economy, communities, and quality of individual and family life. The group emphasized the need for carrying out baseline research, as well as econometric modeling for the future. The group further advised the development of measurable outcomes, benchmarks, incentives, and methods for carrying out the goals of the plan.

Given the project's magnitude, the Task Force recommended that the deadline for completion of the Sustainability Plan be moved to 2008 and requested additional funding from the Legislature.

#### **Identity Theft Task Force**

Created by the 2005 Legislature, the Identity Theft Task Force continued work begun by the Anti-Phishing Task Force. Act 140, Session Laws 2006, changed the name of the Anti-Phishing Task Force to the Identity Theft Task Force and gave it new responsibilities and a larger working body.

The Identity Theft Task Force focused its work on identifying and reviewing best and current practices in protecting personal identifying information that is collected by government agencies. The group will provide recommended solutions for protecting Social Security numbers of Hawai'i's citizens in government operation.

During fiscal year 2006–07, the Identity Theft Task Force outlined the scope of the identity theft problem. The group formed investigative teams to research possible legislation to assist law enforcement and to study public information efforts that could combat identity theft. The group also initiated a survey and research study that will include its findings and be presented to the Legislature in 2008.

#### **School Impact Fee Study**

Act 246, Session Laws 2005, created the School Impact Fee Working Group to analyze predictable impact fees to impose on developers for new school construction.

With the help of a consultant, the School Impact Fee Working Group developed uniform approaches in the calculation of fees related to the impact of school development in a given area. The working group determined that while impact fees cannot be justified on a state-wide or district-wide basis, they can be justified for individual school impact districts.

Analyses included impact fee calculations for “greenfield” and “non-greenfield” school impact districts. Greenfield districts consist of large tracts of former agricultural land being developed primarily for residential use. Non-greenfield districts are areas with substantial existing development where new residential development is occurring in a scattered pattern.

# ACTIONS TAKEN ON PREVIOUS RECOMMENDATIONS AS REPORTED BY AUDITEES

(REPORT NOS. 05-02 THROUGH 05-15)

**REPORT TITLE: Financial Audit of the Department of Agriculture**  
Report No. 05-02

## RECOMMENDATIONS

- 18
1. We recommend that the department establish formal policies and procedures for all functions. The board should review and approve the policies and procedures and set a timeframe for required updates. Policies and procedures should clearly define the roles, responsibilities, and limitations of all personnel and should be centrally located and accessible.
  2. We recommend that the department:
    - Be more diligent in obtaining required loan documents and ensure that the required documents are reviewed and signed off by appropriate personnel. In cases where unsuccessful requests have been made to obtain documents from borrowers, all correspondence should be retained in the respective loan files;
    - Prepare monthly delinquent loan status memos on a timely basis. Also, to assist in the timely preparation of these memos, monthly delinquent loan reports should be distributed to the loan officers within the first ten working days of each month;
    - Revise the policies and procedures manual to incorporate minimum collection procedures on delinquent loans;
    - Retain adequate documentation to provide evidence that collection attempts have been

## ACTIONS TAKEN

Work is proceeding on modifying, deleting and adding new policies and procedures within each of the operating divisions. However, we do not believe that the review and approval of departmental policies and procedures is a constructive use of Board members' time and does not reflect the Board's priorities. Instead, the review and approval of departmental policies and procedures will be conducted by the Deputy Director.

Loan document checklists are now required to be signed by the Division Secretary and the appropriate Business Loan Officer. Written correspondence is kept in either the field folder or master files. Efforts to obtain required documents are also noted in the Loan Servicing Reports.

A computerized Delinquent Aging Report was developed and is currently distributed to the Business Loan Officers along with the monthly delinquent loan status memos within the first ten (10) working days of each month.

Minimum collection procedures on delinquent loans have been incorporated in the policies and procedures manual.

Collection efforts are noted in monthly reports to the Division Administrator. A format to

made on delinquent loans. These may include collection letters, email and telephone memos, checklists, and other documents deemed necessary. A collection attempt history form may be developed to standardize the documentation of collection attempts. Also, the department should revise its policies and procedures manual to incorporate requirements for sufficient documentation regarding collection attempts;

- Perform initial and subsequent on-farm visits as required by division policy. Documentation should be made on division loan servicing reports. A tickler system, used by many as a reminder for critical upcoming dates, may be devised to track dates for subsequent on-farm visits;
- Obtain supervisory review when new loan account information is entered into the loan master file. Evidence of this review should be documented on the loan document checklist, with a separate sign-off for this particular item. Also, the department should revise the policies and procedures manual to incorporate supervisory review requirements;
- Obtain reviews for transaction journals that provide support for bank deposit slips. Additionally, journals should be initialed for evidence of reviews. At minimum, monthly, reconciled cash receipt journals should be obtained from the department's fiscal office and reconciled to monthly division transaction journals;
- Delegate approvals for changes to loan account information to someone other than the person making the changes to loan master files. Revise policies and procedures manual to include duties and responsibilities for positions within the division;
- Update the APPX system manual to incorporate the following:

document collection attempts was developed for use by Business Loan Officers and is kept in each loan folder. Procedures were revised to incorporate requirements for sufficient documentation regarding collection attempts.

Currently, loan service reports are being completed to document that an initial on-site farm visit was performed within three (3) months of loan disbursement. A tickler system was developed and is being monitored by Business Loan Officers.

Business Loan Officers currently review initial loan account information and sign-off on the loan document checklist. Procedures have been revised to incorporate supervisory review requirement.

Account Clerk initials and dates all transaction journals for deposits after reviewing documents. Since cash receipt journals are reconciled to FAMIS, monthly division transaction journals are currently being reconciled on a monthly basis to FAMIS.

Procedures were revised for account information changes to reflect review and approval by the Business Loan Officers.

Update of the APPX system manual is still in progress.

- Program documentation, with data file layouts clearly differentiating applications changes;
  - Operations documentation, describing the job stream flow, error messages, operator actions, data control procedures, and any special end of month or end of year procedures; and
  - User documentation, supplementing application menus with narrative as required;
- Reconcile division records to FAMIS reports on a monthly basis. Journal vouchers should be prepared to balance FAMIS and division reports; and
  - Update the policies and procedures manual to include procedures on determining whether private lenders are in compliance with applicable laws regarding participation loans. Steps taken to determine compliance should be adequately documented within the loan files.

3. We recommend the following measures regarding the allowance for loan losses:

- Expand the division's policies and procedures manual to incorporate a methodology to determine a reasonable and adequate allowance in accordance with generally accepted accounting principles;
- Calculate and review the allowance with competent and well-trained personnel;
- Document the calculation, including a detailed analysis, considering all internal and external factors and based on current and reliable data;
- Implement a comprehensive loan monitoring process, complete with monthly analysis and a loan "watch" list. A loan watch list is a listing of loans of particular interest to the department. This could be based on

Division records are currently reconciled to FAMIS report on a monthly basis and journal vouchers prepared as necessary.

Policies and procedures manual was updated to require Business Loan Officers to maintain a loan document checklist in order to ensure that private lenders are in compliance with applicable laws and to document compliance attempts.

A methodology to determine a reasonable and adequate allowance for loan losses was developed.

The Division Administrator calculates and reviews the allowance based on various loan data.

The calculation is supported by detailed documentation.

The Division's portfolio is relatively small in comparison to the private lenders. Therefore, we are able to provide adequate monitoring of all loan accounts without establishing a loan "watch list." Critical loans in the portfolio

quantitative (large outstanding balance) as well as qualitative (delinquency status, borrowers with more than one outstanding loan) factors. This list should include the borrower's name, outstanding loan balance, collateral value, financial information summary, loss exposure, and any other comments as to performance forecast. This will give the loan administrator and the board a snapshot of the health of the loan portfolio and any possible future issues;

- Require the Board of Agriculture to be more involved with the loan program by reviewing delinquency reports and watch lists, establishing and updating policies and procedures, and issuing recommendations to the division when necessary; and
- Discontinue the accrual of interest on loans with interest greater than 90 days delinquent in the Financial Assistance for Agriculture Fund.

4. We recommend that the Animal Quarantine Station:

- Consider discontinuing the use of promissory notes, as credit cards are accepted;
- Revise policies and procedures to include account write-offs and determining adequate allowances;
- Strengthen management oversight over delinquent accounts;
- Refer delinquent accounts to a collection agency, the Board of Agriculture, and the

are analyzed based on a variety of factors and provided appropriate attention.

Again, we firmly believe that while the Board has clear oversight responsibility, it must stay clear of review and decision making on matters best handled at the division and branch level lest it lose its objectivity and focus on the larger issues affecting Hawai'i agriculture.

A spreadsheet was developed to separately track accrual of interest on loans with interest greater than 90 days. The Division is contemplating modifications to its accounting software to incorporate this change.

Promissory notes are still needed for owners who do not have credit adequate to pay in full or collateral to secure payment by other means.

The program currently has policies and procedures for write-offs of uncollectible accounts and determining adequate allowances.

The program continues to be challenged with inadequate staffing. The program has trained temporary Clerk Typists to perform some of the accounting clerical duties and secured the services of the previous Account Clerk III one day a week. We are hopeful that planned computer modifications will increase efficiency and management of delinquent accounts.

In September 2006, 247 delinquent accounts were referred to the Department of the Attorney

Department of the Attorney General for timely disposition;

- Strengthen efforts to return money due to customers and document efforts taken within customer files. Provide better training to new employees regarding the posting of customer payments; and
  
- Document collection and refund efforts using a standard form to include customer name, contacts, nature, relevant dates, and a history of efforts. This form should be maintained within customer files.

22

5. We recommend that the Agricultural Resource Management Division:

- Adhere to collection practices outlined in the policies and procedures;
- Document efforts within customer files using a standard form;
- Revise policies and procedures to include determining adequate allowances; and
- Refer delinquent accounts to a collection agency, the Board of Agriculture, and the Department of the Attorney General for timely disposition.

6. We recommend the department utilize resources to assist in detecting improprieties in its reported financial data. These may include the use of financial statement disclosure checklists and reference to various *Government Accounting Standards Board* pronouncements. Further, the department should ensure that adequate supporting documentation is maintained to support the propriety of all capital assets.

7. We recommend that the department:

General for write-off. Staff is working on another set of accounts to refer to the Attorney General however, the absence of the Account Clerk III has limited our progress.

Planned computer modifications should assist in reporting and processing refunds. Complete and adequate training is being provided to new employees responsible for posting customer payments. Timely processing of refunds is dependent upon retaining a full time Account Clerk III.

A new form to capture and document all relevant information has been developed and will be maintained in the customer files.

The Division is complying with the collection practices and procedures.

A standard checklist form is being developed to document collection efforts.

Policies and procedures were established to determine adequate allowances.

Currently, delinquent accounts are being referred on a timely basis to the Board of Agriculture, the Department of the Attorney General, and collection agency, if deemed appropriate.

The department utilizes the governmental disclosure checklist to assist in reviewing its reported financial statements for deficiencies. The department's inventory reporting and disposal policies and guidelines require supporting documentation to be maintained for capital assets.

- Perform and adequately document reconciliations between department inventory records and those of the Department of Accounting and General Services. Also, cash reconciliations should be reviewed and documented. The department should also have an employee other than the petty cash custodian and an employee other than the employee preparing treasury deposits receipts perform cash reconciliations;
- Ensure that all required professional services contracts are posted on the State Procurement Office's website and that all exempt purchases are documented with a reason for exemption. Controls should be put in place to properly detect instances where adherence to these procurement code sections is required. Such controls may include the development of policies and procedures, training on new laws and regulations, and improved oversight, including small scale internal audits performed by management;
- Establish formal policies and procedures for its contract management process that clearly define the roles, responsibilities, and limitations of all personnel involved. These should include standards for monitoring contractor activity, identifying progress and possible issues, performing desk reviews, developing progress reports, adherence to key dates, documentation requirements, and compliance with federal and state requirements, including the Hawai'i Public Procurement Code; and
- Establish and enforce formal written procedures that delineate responsibilities and deadlines for completing and submitting required federal reports.

The department's inventory reporting and disposal policies and guidelines were revised. A different person is now overseeing the reconciliation of validated treasury deposit receipts and disbursements and review is being documented by the reviewer's initials and date. A position other than the petty cash custodian is performing the petty cash reconciliation function and the person reviewing the reconciliation between petty cash and bank balances is initialing and dating the worksheet.

Programs have been reminded of the requirement to electronically post professional services contracts within 7 days of award. Programs are now required to print copy of posting, submit to Fiscal Office a copy of the posting with contract documents when encumbering funds, and file copy of the posting in contract file. The Fiscal Office currently detects instances of non-compliance with the procurement code.

The department has been updating its accounting manual and has included policies and procedures for its contract management process. It is currently a mandatory requirement that programs submit the checklist for contract certification and encumbrances when submitting contracts for encumbrance.

Staff has been reminded to submit federal financial reports on a timely basis. A list of all federal funds grant agreements and due dates for financial reports has been updated and is monitored for compliance by the Fiscal Office.

## RECOMMENDATIONS

1. The Board of Trustees of the Office of Hawaiian Affairs should resurrect efforts to develop a comprehensive master plan and provide administrative support for this effort, either internally or through the Hui 'Imi Advisory Council, or both.
2. The Office of Hawaiian Affairs should:
  - a. Develop the appropriate management tools to guide implementation of its strategic plan, including but not limited to policies and procedures on action planning and budgeting and organizational charts consistent with its functional statements;
  - b. Revise its Administrative and Financial Manual of Guides to clarify the purpose of expenditures made from petty cash, protocol allocations, and trustee allowances, to require appropriate support for all such expenditures, and to convert payment of trustee expenses to a reimbursement arrangement; and
  - c. Provide tighter oversight of loans made from the Native Hawaiian Revolving Loan Fund to prevent the financial deterioration of loan recipients, such oversight to include but not be limited to the provision of training and technical assistance to loan recipients,

## ACTIONS TAKEN

While we understand this recommendation was based on HRS section 10-6, we inform the Auditor that Act 2, SLH 2005 amended HRS section 10-6 to delete the reference to a comprehensive master plan and in its stead requires OHA to develop and maintain a strategic plan.

The Board of Trustees recently approved a Board of Trustees' Executive Policy Manual, revised OHA Bylaws, and is currently in the process of reviewing and approving an Operations Manual for OHA.

Administrators are also developing policies and procedures to implement and integrate the recently approved executive policies, applicable state and federal statutes, and existing administrative policies and procedures with the objective of placing them under one cover.

The current year's budget as realigned conforms budget, expenditure plans, organizational charts, and budget request justifications with departmental and organizational functional statements, as does the recently adopted FB 2007–2009 Biennium budget.

OHA is in the process of re-formalizing its written fiscal operations procedures and policies with implementation anticipated by the end of the fiscal year.

In 2006, the Economic Development hale restructured the Native Hawaiian Revolving Loan Fund ("NHRLF" or "the Fund") by creating a Business Plan providing a comprehensive strategic, financial, operational, and marketing agenda for the Fund.

both pre-loan application and post-loan disbursement.

3. The Office of Hawaiian Affairs should:

- a. Revise components of its investment policy statement as follows:
  - i. Delineate the legislative and procedural authority of OHA and the Board of Trustees to make and refine investment policy;
  - ii. More clearly define the benchmarks to be used by the investment advisors, ensuring accuracy and consistency;
  - iii. Set performance objectives and means of measurement for the trust fund as a whole, consistent with those applicable to each investment advisor;
  - iv. Evaluate the use of passive investments with those asset classes in the portfolio where it is practical and supported on a net of fee basis; and
  - v. Formally review the impact of ceded land revenue payments from the State of Hawai'i in terms of asset allocation and the need for additional real estate investment;
- b. Create a procedures manual, outlining the processes, controls, reporting requirements, and oversight of the investment process;

The business plan has a Business Assistance Strategy to identify possible or potential management problems of an applicant or borrower and the plan to provide applicants and borrowers with needed technical assistance.

A stand-alone *Operational Guidelines* provides a concise guide to operations, management, and oversight of the NHRLF from loan origination through collections and reporting. Estimated start date for the restructured NHRLF is February 2007.

The Board of Trustees will review and revise the Investment Policy in the first quarter of calendar year 2007.

The local investment consultant has already reviewed the benchmark indices and will present a recommendation to the OHA Chief Financial Officer (CFO) by December 15, 2006.

The local investment consultant will work with the OHA CFO to recommend performance objectives by December 15, 2006.

The local consultant will investigate the use of passive investments with the assistance of the two trust fund advisors and present a recommendation to the OHA CFO by December 31, 2006.

The local investment consultant with the assistance of OHA staff and the two trust fund advisors will conduct an asset allocation study and present it to the CFO and an ad hoc investment committee by January 31, 2007.

The Office of Hawaiian Affairs will produce a procedures manual which outlines processes, controls, reporting requirements, and oversight of the investment managers by June 30, 2007.

- c. Improve its oversight of the advisors. The improvements should include:
- i. Creating an independent function, either within or in conjunction with an external consultant, to aid in reporting and oversight;
  - ii. Improving the formal analysis and reporting associated with the activities and performance of the advisors;
  - iii. Creating a schedule and review process that includes visits to both investment advisors' place of business and more completely analyzes their processes and controls;
  - iv. Designing a consistent reporting package to be received from each investment advisor, containing a complete analysis of actions;
  - v. Improving reports on the trust fund as a whole;
  - vi. Developing processes to ensure that the advisors comply with investment guidelines included in the investment policy statement; and
  - vii. Standardizing the contracting process and contracts used to retain investment-related service providers;
- d. Improve the alternative asset investing process by considering the aggregation of funds to be invested in this asset class and the possible retention of a separate and independent advisor; and

OHA recently hired an external local consultant to review the investments in the portfolio. The OHA CFO will also establish and chair a small internal ad hoc investment committee to review the reports provided by the independent consultant and quarterly reports from the two advisors. The committee will be established by the end of 2006 and meet at least quarterly.

See 3.c.i.

The consultant's duties include an annual due diligence of the two advisors, including site visits, and work has already begun.

The consultant is designing portfolio parameters which each advisor will calculate the same way. The major items included in the monthly and quarterly reports will also be made consistent. The reporting format will go into effect during the first quarter of 2007.

The consultant will design improved reports from both the advisors and himself by the end of the first quarter of 2007.

The consultant will design a compliance checklist based on the Investment Policy Statement for December 31, 2006.

OHA TOS staff will standardize the contracting process by the end of the first quarter of 2007.

The local consultant will review the performance of the alternative assets managed by the two advisors and interview other potential advisors to fill this role by the end of the first quarter of 2007.

- e. Formally evaluate the use of trust fund assets to meet the organization’s duty to better the lives of native Hawaiians.

OHA will complete a report by June 30, 2007 to evaluate the use of trust fund assets, and it will be incorporated into a revised Investment Policy Statement.

**REPORT TITLE: Financial Audit of the Department of the Attorney General**  
Report No. 05-04

**RECOMMENDATIONS**

1. The department should maintain accurate and complete child support subsidiary records and ensure the balances reconcile to the CSEA bank accounts. Additionally, the department should ensure that the cash balances reported to DAGS are the department’s book balances rather than bank balances. Finally, the department should continue efforts to enhance the functionality of its child support enforcement system.
  
2. The department should comply with the Hawai‘i Public Procurement Code and applicable procurement rules as follows:
  - a. The department should provide appropriate training to ensure all personnel involved in the procurement process are knowledgeable about the procurement requirements.
  
  - b. The division heads should ensure that each division has a complete set of procurement rules, circulars, and directives and that changes to these documents are properly and timely disbursed to the appropriate personnel within their divisions.

**ACTIONS TAKEN**

Since June 2002, the agency has been able to work with a monthly subsidiary ledger that was extracted from the State child support enforcement system (KEIKI) with case-specific details to identify the amount owed to each recipient of the funds that are not yet disbursed (these subsidiary records were provided to the auditors for their review during this audit period).

We strongly believe that a problem created in 1987 (when CSEA was transferred from DHS to AG) should not be categorized as a “material weakness,” especially in light of the fact that since May 2000 CSEA has been reconciling the bank balances on a daily and monthly basis.

Training on procurement was provided to all personnel in the summer of 2005. In addition, staff members responsible for purchasing have undergone training, provided by the SPO in the summer and fall of 2006, and continue to undergo training.

The ASO put together a “Procurement Binder” with a complete set of the procurement rules, circulars, and directives. These Binders were distributed to each division. The ASO will ensure that all changes are distributed, and each division is to maintain an updated Binder.

- c. The required forms are completed and approved and proper quotations are solicited.
  - d. Proper documentation is retained in the contract files with the department's justification for selecting any single offeror for competitive sealed proposals.
  - e. All bids are time-stamped, or approval is obtained from the chief procurement officer to utilize another method.
  - f. The proper performance bonds are requested.
3. The department should develop procedures that ensure timely year-end financial reporting. The department should also establish and enforce formal written procedures to delineate responsibilities and deadlines for federal financial report completion and submission.

The need to complete and have approved all required forms as well as the need to solicit the proper quotations was reiterated during the mandatory training. Further, the divisions were instructed to maintain approved procurement forms.

The divisions were instructed to strictly maintain contract files, which must include the justification for selection of any single offeror for competitive sealed bids.

The divisions were instructed to strictly adhere to the department's requirement that all bids be date-stamped or date-recorded via another method approved by the chief procurement officer.

The absolute need for performance bonds, when required, was also reviewed and emphasized in the mandatory and other training classes.

Each division has developed a listing of reports required for submittal for year-end financial reporting as required for federal purposes. There is a lead person, in addition to the division supervisor, responsible for monitoring this activity.

**REPORT TITLE: Audit of Selected State Agencies' Procurement of Professional Services Contracts**  
Report No. 05-05

**RECOMMENDATIONS**

- 1. The State Procurement Office should:
  - a. Take a proactive role in ensuring that agencies process contracts more efficiently and post awards in a timely manner;

**ACTIONS TAKEN**

Procurement information and assistance has been continually provided to purchasing agencies and the interested public and businesses via direct assistance, website postings, and agency-requested training. In January 2006, Procurement Circular 2006-01 was issued to Executive departments to require the posting

- b. Comply with its statutory responsibility to develop and administer a statewide training program;
- c. Maintain and distribute a procurement manual; and
- d. Periodically review the procurement practices of all governmental bodies.

2. Agencies should:

- a. Develop, implement, and enforce clearly defined written policies and procedures that ensure consistent and systematic compliance with procurement statutes and rules;

of contract awards for goods, services, and construction on the Procurement Reporting System (PRS). Procurement award data may be viewed at <http://www.spo.hawaii.gov/>, click on Awards, select Contracts for Goods, Services, and Construction.

The State Procurement Office (SPO) has enhanced and supplemented training services statewide. Workshops were launched in August 2006 and offered to all State agencies, vendors, and other purchasing jurisdictions. On the SPO webpage, agencies are able to register for various procurement workshops.

Lack of resources delayed work to reissue an updated manual. Procurement training materials will therefore be posted on the SPO webpage, and will be organized by each source selection method. Our office will be able to update online materials, as needed.

The SPO does not have the resources for this tasking. Our office has continued to request additional resources to develop and implement a training and compliance program, but to date lacks the resources to implement a review/audit program.

**Department of Accounting and General Services:** The audit scope covered the Public Works and Audit Divisions. The Public Works Division does maintain a policy and procedure (P&P) No. C-23. During the initial request by the auditor for information, this P&P dated 12/1/99 was provided to the auditor. However, during the period of the audit, this P&P was updated to reflect current procurement codes and is dated 1/21/05. The Audit Division had in place clearly defined written polices and procedures prior to the audit.

**Department of Human Services:** DHS continues to use the detailed procedures outlined in HRS 103D-304 and the Hawai'i Administrative (HAR) rules as the Department's procedures.

- b. Require documentation to support the impartiality and independence of review and selection committee members, as well as individuals authorized to negotiate fees;

The HRS & HAR provide concise procedural requirements. In addition, the DHS continues to issue internal fiscal circulars and memoranda that update the HAR and provide any clarification or information necessary to properly apply the HAR or HRS.

**Department of Transportation:** The Department of Transportation (DOT) is attempting to establish a Departmental Procurement Officer/Specialist position. Since 1994, DOT has had promulgated procedures for the procurement of professional services. See the DOT Departmental Staff Manual, 07.Procurement, Chapter 17, Professional Services. We will continue to remind staff to follow these promulgated procedures.

**Department of Accounting and General Services:** The audit scope covered two divisions of DAGS: the Public Works and Audit Divisions. Both Divisions have developed forms to document the impartiality and independence of review and selection committee members and individuals authorized to negotiate fees.

**Department of Human Services:** DHS requires that a list of potential selection committee members and their qualifications be submitted to the Department Head for approval and kept in the procurement file. Generally, at least two members must have direct knowledge of the requirements of the services being solicited and one member must be from the private or public sector.

**Department of Transportation:** DOT recognizes the importance of having impartial and independent selection committee members. The Project Manager is the chairperson of the selection committee. For projects with Federal funds, we are required to follow the applicable Federal guidelines to select professionals. These Federal guidelines require the establishment of an evaluation board, consisting of an appropriate number of staff members having wide experiences in procurement of consultant services. In all other cases, the evaluation board shall consist of the Project Manager and a minimum

- c. Increase training for employees who procure professional services to ensure compliance with Section 103D, HRS and Title 3, Chapters 120-132, HAR; and
  
- d. Request that the State Procurement Office provide formal training to agency staff who are directly involved with procurement. This training should provide practical and easy-to-understand guidance for implementation of procurement statutes and rules.

of two (2) other staff members as assigned by the Division Chief.

All members of the selection committee are required to sign Affidavits, disclosing any personal or financial conflicts they may have as a selection committee member.

Finally, we will review internal procedures to expedite the posting of the contract, as required by Section 103D-304(i), HRS.

**Department of Accounting and General Services:** In 2006, the SPO offered workshops on the procurement of professional services and 28 DAGS employees attended these.

**Department of Human Services:** The SPO implemented a series of training for various procurements under Chapters 103D and 103F that is available to all State employees. DHS ensures that such training is available to applicable staff.

**Department of Transportation:** Employees involved in the procurement process are and will continue to be strongly encouraged to attend and participate in whatever training is available.

**Department of Accounting and General Services:** The SPO in 2006 offered formal workshops on exemptions, sole source, professional services, small purchases, emergency procurements, and competitive sealed proposals and bids.

**Department of Human Services:** The SPO implemented a series of training sessions. Training information is available on the SPO website.

**Department of Transportation:** Employees involved in the procurement process have attended and participated in training provided by the SPO. To the extent possible, we have encouraged our employees to attend all of these SPO sponsored training classes.

3. The Department of Human Services, Med-QUEST Division, should review and make appropriate changes to the status of the medical director and consultants of the Medical Standards Branch.

During its own internal review, DHS had already discovered the same concerns with the medical consultant contracts that the auditor identified in her report. The Department then entered into a contract with a vendor to provide medical, dental, and psychiatric consultant services. The contract was effective April 1, 2005 and was competitively procured under HRS Section 103D-303, competitive sealed proposals. The contract eliminates any direct contractual relationship between the Department and the consultants.

**REPORT TITLE: Audit of Wai‘alae Elementary Public Charter School**  
Report No. 05-06

**RECOMMENDATIONS**

1. Wai‘alae School should:
  - a. Adopt and include in its accountability measures indicators that supplement the available standards-based scores to give policy-makers the information needed to assess the quality of the school’s programs. Such measures may include benchmarks, surveys of parents and former students, or scientific support for the efficacy of the programs used at the school;
  - b. Revise its by-laws to:
    - i. Constitute its board based on ability to contribute skills and expertise needed to advance the school to higher levels, enable it to identify and recruit desirable individuals, and appoint its membership;
    - ii. Include provisions for conflict of interest, quorum for decision-making, and rules of order. The board should also consider adding provisions governing removal of members and term limits for members; and

**ACTIONS TAKEN**

Wai‘alae School is working toward improving our multiple accountability measures. In addition, the school improvement plan has set a three-year timetable to align school curriculum and develop measures that more accurately assess teacher effectiveness and student progress. Additional accountability measures include student portfolios, parent and student surveys, and 3x/year school-wide reading, writing and math assessments.

By-Laws were revised and adopted by the board to include make up of board for specific areas of expertise. Revised by-laws and policies adopted in 11/05 are available for review.

Provisions for conflict of interest, quorum for decision making, and rules of order are completed.

- iii. Establish clear responsibility assignments for the board, its members, committees, and the school's management.
- c. Adopt comprehensive policies and procedures for all major functions, including accounting, personnel, purchasing, and administrative and operating functions;
- d. Develop long-term strategies and a plan for the school's future, including objective, measurable goals; and
- e. Develop a plan for implementing effective and efficient financial reporting capabilities that meet the school's needs. If such capabilities cannot be accommodated through the Department of Education's financial management system, the school should work with the Charter School Administrative Office to develop a solution.

Roles and responsibilities of board members have been established and adopted.

This recommendation has not been addressed. We are reviewing current policies and procedures.

Wai'alaie School Board has begun the strategic planning process with the assistance of an external consultant. We anticipate that a five-year strategic plan will be in effect as of July 2007.

Wai'alaie School has contracted for an independent financial audit. This report should be available by the end of 2006, and will make recommendations that will allow for more effective and efficient financial reporting capabilities.

**REPORT TITLE: Follow-Up Audit of the Foster Board Payment Program**  
Report No. 05-07

**RECOMMENDATIONS**

1. The Child Welfare Services Branch administrators should ensure that:
  - a. Social workers maintain all case records in a timely manner and Child Protective Services System (CPSS) updates are performed on a timely basis;
  - b. Supervisory reviews are regularly conducted to ensure the accuracy, completeness, and

**ACTIONS TAKEN**

In July 2006, the Department of Human Services (DHS) completed a federally approved Program Improvement Plan (PIP) which implemented aggressive systemic changes to increase positive outcomes for children in the areas of safety, permanency, and well being. Many PIP initiatives have had a positive impact on the issues noted in the Follow-Up Audit.

The new supervisory review process (mentioned below) works to ensure the timeliness and accuracy of data entered into the CPSS.

DHS developed a new supervisory review tool and new procedures for case reviews and

timeliness of the information maintained by the branch;

- c. Social workers document children's foster care placement and removal in their case files and update the Child Protective Services System with placement information on a timely basis; and
- d. Social workers routinely contact foster children to ensure that payments do not continue to families after a child has left a foster home.

2. The Child Welfare Services Branch should also work with the Child Support Enforcement Agency to coordinate and monitor child support collections. It should also request reports from the Child Support Enforcement Agency on those children for whom child support is collectible.

3. The Department of Human Services should establish policies and procedures to ensure that all amounts due to the Foster Board Payment Program are properly monitored and recovered and that private fund accounts for child support collections are maintained.

implemented a supervisory case review process statewide in 2005. It also developed and implemented a comprehensive quality case review process.

CPSS has been modified to facilitate documentation of child's placement and worker visits with family, child, and caregiver.

PIP required frequent worker visits with parents, children in foster care, and foster parents. The increased contact with children and foster parents has ensured that documentation of placement changes is more timely and accurate.

**Department of Human Services:** We more closely monitor collections by requiring that remittances from CSEA include information that identifies the specific child for whom the payment is being made.

**Department of the Attorney General:** This audit was in follow-up to the Management and Financial Audit of the Foster Board Payment Program that was done in 1994, and the coordination between DHS and CSEA that was recommended by the Office of the Auditor in both audit reports has been ongoing throughout the years.

DHS has established and implemented the following policies and procedures:

- Monthly worker visits with children and caregivers help to ensure that placements are monitored and proper payments are made.
- When the CWS units receive reimbursements for overpayments, the unit inputs this information into CPSS.
- When the Fiscal Management Office receives reimbursements for overpayments, a report is generated that provides information for CWS regarding the payee and the claim that will allow reconciliation.
- Hawai'i Revised Statutes (HRS), Chapters 40-32 and 40-33 require that revenues and

4. The Department of Human Services should also continue its efforts to maximize federal fund reimbursements.

collections be deposited into the State treasury. Child support collections are deposited into the State treasury in accordance with these sections.

DHS has continued efforts in this area. Title IV-E saturation rates remained among highest in the nation:

- Averages for the foster care population of 71% in both SFY 2004–05 and SFY 2005–06;
- Averages for the adoption population of 78% in SFY 2004–05 and 77% in SFY 2005–06.

**REPORT TITLE: Audit of the Deposit Beverage Container Program**  
Report No. 05-09

35

## RECOMMENDATIONS

1. The governor should assist in the Department of Health's implementation of the Deposit Beverage Container Program according to Chapter 342G, Part VIII, HRS.

## ACTIONS TAKEN

**Office of the Governor:** The Governor has assisted the Department of Health in the following ways:

- We have drafted and testified in favor of legislative changes to the Deposit Beverage Container statutes that would improve program administration and facilitate public participation in the program.
- We have worked with the Department in developing a public outreach and education program, including print and television public service announcements.
- We have helped the Department prepare responses to issues raised by the public, including locations of recycling centers and counting of containers.
- We have helped in the preparation of annual reports to the Legislature on the status of the program.

**Department of Health:** During the 2006 legislative session, the Governor requested and the Legislature approved four additional Deposit Beverage Container (DBC) positions and the conversion of six temporary DBC positions to permanent.

2. The Department of Health should:

- a. fill the Solid Waste Coordinator position;
- b. reevaluate the program's organization, staffing, and position descriptions;
- c. provide staff members sufficient time and resources to perform inspection and enforcement responsibilities, including conducting random audits;
- d. set and enforce standard levels of service for and encourage competition in the operation of redemption and recycling centers;
- e. establish a graduated fine system to enforce certification permits and standard levels of service;
- f. educate the public on the environmental benefits of recycling, as well as program changes and improvements;
- g. evaluate whether handling fees paid to redemption centers are sufficient to sustain acceptable levels of service;

This position has been filled since January 2006.

The DBC program reevaluated its needs, organization, staffing, and position descriptions, and added four permanent positions to strengthen and improve the program's planning and outreach, inspection, and accounting areas.

When filled, the new staff positions will allow for additional time and resources to perform increased inspections, enforcement, and audits of program-regulated facilities.

The DBC program sets and enforces standard levels of service for redemption and recycling centers. Redemption and recycling centers must comply with set laws, rules, and certification/solid waste permit conditions. The program routes customer complaints to redemption and recycling companies so they can communicate with their customers and, if appropriate, improve customer service. The program also encourages competition by providing training as well as opportunities for improving customer service.

Although the program currently utilizes the Solid Waste Administrative and Civil Penalty Policy, the program has prepared drafts of a DBC enforcement policy and DBC program administrative and civil penalty policy with attached penalty/fine matrix. These drafts are being reviewed before submittal for approval. The program is also preparing an administrative rule amendment to provide field citation authority and ability.

Advertisements, which include information on the benefits of recycling as well as guidance on DBC redemption, are now running or being published. Program staff members also provide in-person instruction and information to schools, organizations, and the public.

At this writing, the program has not received complaints on the inadequacy of current handling fees. Legislation would be needed to

- h. develop and enforce written information technology policies, procedures, and controls, including verification of data reported by distributors and redemption and recycling centers; and
  - i. develop and implement a system that allows for electronic filing of forms and data exchange from distributors and redemption and recycling centers to improve reliability and efficiency.
3. Regarding financial controls, the Department of Health should:
- a. provide fiscal guidance to and/or oversight of the program, including defining the Administrative Service Office's fiscal responsibilities and the applicability of financial accounting reports;
  - b. provide training for staff in the areas of procurement to ensure compliance with Section 103D, HRS, and governmental accounting and the governmental financial reporting process;
  - c. develop, implement, and enforce clearly defined written policies and procedures that ensure consistent and systematic processing of transactions in accordance with the law and governmental accounting principles;
  - d. develop, implement, and enforce clearly defined written policies and procedures for the review and maintenance of program accounting records;

expand the program's access to such profit and financial status information from redemption and recycling companies.

The program has established and continues to assess the efficacy of standard reporting, payment, and DBC refund value and fee claims procedures for distributors and redemption/recycling companies via appropriate forms and documents. Further, the program is considering making a major procedural change that will better assure that payment requests made by redemption centers (for DBC material redeemed/collected) is equivalent to the quantity of DBC material shipped to an end-user recycler.

The program has contracted Computer Training Academy (CTA) for the development of an electronic form and filing program that will improve data reliability and efficiency.

The program, in general, complies with the Department of Health's Administrative Services Office policies and procedures related to the processing, submittal, and approval of financial documents.

Select staff have received SPO-sponsored training, both in-person and via the SPO website.

The program's accounting policies and procedures have been developed, implemented, and are strictly adhered to, and are consistent with the law and governmental accounting principles.

Please see response to Recommendation 3.a. above. The program utilizes Quickbooks accounting software and reconciles to the State's FAMIS reports on a monthly basis.

- e. ensure that proper cut-off dates for transactions and adjustments are developed, implemented, and enforced; and
- f. ensure that QuickBooks accounting records are periodically reconciled with government financial reports.

Proper cut-off dates for transactions and adjustments have been established and enforced, consistent with the program’s written polices and procedures and, as applicable, those of DOH ASO.

Program Quickbooks accounting records are reconciled to FAMIS reports on a monthly basis.

**REPORT TITLE: Audit of Selected Hiring Policies and Practices of the Executive Branch of Government**  
Report No. 05-12

**RECOMMENDATIONS**

38

1. The Department of Budget and Finance should:
  - a. develop written criteria for use when reviewing requests to establish and fill exempt positions;
  - b. work with the Department of Human Resources Development to limit the length of special, research, and demonstration projects;
  - c. provide information regarding approvals to fill exempt positions to Department of Human Resources Development; and
  - d. direct agencies to request needed positions as a part of their budget requests to the

**ACTIONS TAKEN**

In our review of requests to establish new positions, there is no distinction between civil service and exempt positions. Such review focuses on alternatives to creating a new position and whether there are existing funds available. The determination as to whether a position should be exempted from civil service is made by the Department of Human Resources Development (DHRD) pursuant to Chapter 76, Hawai‘i Revised Statutes.

Finance Memorandum No. 06-04 (FY 07 Budget Execution Policies and Instructions) dated June 21, 2006 addresses this issue and requires the Governor’s approval to establish new positions.

DHRD’s memo to departments dated July 31, 2006 addresses this issue.

DHRD will continue to work with all agencies to ensure that their personnel inventory is regularly and accurately updated on DHRD’s Human Resources Management System. All data regarding exempt positions are maintained on this system.

Finance Memorandum No. 06-07 (Fiscal Bienium 2007–09 Executive Budget Request and the

Legislature and discourage the use of un-budgeted positions by the executive branch.

2. The Department of Human Resources Development should:

- a. develop written policies, procedures, and criteria to evaluate the appropriateness of special, research, and demonstration projects; and

- b. establish a roster of all exempt, deployed, and unauthorized positions by agency to better track data relating to these positions.

4. Executive branch agencies should:

Program and Financial Plan for the Period 2007–2013) dated August 3, 2006 addresses this issue.

DHRD continues to use the project questionnaire that was being utilized prior to the audit, rather than develop new written policies, procedures, and criteria. We believe the information required by the questionnaire is sufficient to determine whether the project in question is really a project.

In many cases, a new need arises, and it is necessary or desirable to proceed at a pace that normal civil service recruitment procedures will not allow. After the initial need for immediate action has been addressed, if the work continues, the issue becomes whether it has become an ongoing function of the program. Since the audit, DHRD has continued to concentrate on determining when projects have become ongoing functions of the program.

A memo to departments dated July 31, 2006 emphasized DHRD's commitment to closely scrutinize requests for project extensions and advised the departments that extension requests based on: (a) uncertainty of continued external funding; (b) a future budget request; or (c) a pending reorganization would be subject to increased scrutiny. The memo also directed departments to review projects in existence for five or more years to determine whether continuance is justified.

DHRD respectfully asserts that there is no need to establish a formal roster of exempt, deployed, and/or unauthorized positions.

Since the audit, additional fields have been added to the Human Resources Management System (HRMS) to capture additional data and to facilitate extraction of data regarding exempt positions.

- a. exercise more discretion in deploying positions to other agencies; and
  
- b. ensure that deployed employees are performing the work described in their position descriptions and benefit the agency funding the position.

In general, a concerted effort is made by Executive branch agencies to fully and appropriately utilize authorized personnel resources. Changing demands for services and limited resources, however, make it necessary from time to time to deploy positions to address emerging problems and issues that may arise during the course of budget execution. If ongoing in nature, appropriate adjustments are reflected in agency budget requests to the Legislature.

Generally speaking, when positions are established, the position descriptions should reflect duties and responsibilities that relate to the program. In the case of positions approved by DHRD, clarification is requested if the relationship to the program is not clear.

DHRD makes an effort to ensure that employees are functioning according to their official position descriptions, although we do not engage in active monitoring activity. Whenever DHRD learns that work being performed by an incumbent deviates substantially from the official position description, the relevant department is directed to update the applicable position description.

**REPORT TITLE: Follow-Up Audit of the Management of Mauna Kea and the Mauna Kea Science Reserve**  
 Report No. 05-13

**RECOMMENDATIONS**

- 1. The University of Hawai‘i should:
  - a. obtain the authority to promulgate administrative rules for the Mauna Kea Science Reserve to authorize the Office of Mauna Kea Management to protect cultural and natural resources;

**ACTIONS TAKEN**

The Auditor strongly recommended this action in both its original 1998 and 2005 follow-up reports. The 1998 report led to the development and adoption of the 2000 Master Plan as well as efforts to promulgate administrative rules. The University has made earnest attempts with the Hawai‘i State Legislature to obtain statutory authority to promulgate rules.

- b. revise and update planning documents, including the master plan and leases and subleases, that will clearly assign roles and responsibilities for managing Mauna Kea and reflect stewardship matters resolved with the Department of Land and Natural Resources;
  - c. develop, implement, and monitor a comprehensive management plan for natural, cultural, and historic resources of the summit and Hale Pohaku area; and
  - d. implement and enforce a permit and sublease monitoring system for astronomy precinct observatories to promote responsible stewardship and prevent damage to the environment.
2. The Department of Land and Natural Resources should:
- a. revise and update leases, subleases, and permits with the University of Hawai'i to resolve stewardship issues;
  - b. implement and enforce a permit monitoring system to prevent further damage to Mauna

The Mauna Kea Science Reserve Master Plan is a planning guide to help the University develop programs and policies to manage its Mauna Kea leased lands. Many of the recommendations described in the Master Plan provide the conceptual basis for developing more detailed, comprehensive programs and policies. How well the recommendations made in the Master Plan will work can only be determined by applying them to actual situations. After much discussion and with experience gained from the Outrigger Telescopes project, the Mauna Kea Management Board (MKMB) is currently developing and clarifying the sequence of steps for reviewing projects.

The Office of Mauna Kea Management (OMKM) and MKMB concluded that the information necessary to develop an effective management plan to protect the natural, cultural, and historic resources of Mauna Kea did not exist. Additional scientific studies had to be conducted. When the cultural and natural resources management plans are completed, the two will be merged into an overall strategic management plan for Mauna Kea.

OMKM has developed a reporting system by which the Mauna Kea Rangers can report on permit compliance.

OMKM is funding an environmental safety officer to help monitor summit facilities' environmental safety and compliance matters.

The lease or permit constitutes a "contract" between two parties. If terms and conditions have been fulfilled, it would be improper for government to try to revise or update the contract. We earlier asked that this recommendation be deleted from the report as it could create an irresolvable legal quandary for the state, lessees, and permit holders.

One example of how the DLNR has improved management of Mauna Kea is reflected in

Kea and hold accountable the University of Hawai'i and other responsible parties;

- c. increase communication between the divisions involved in the management of Mauna Kea by creating a mechanism for collaboration, especially for monitoring post-permit application activities;
- d. support the Office of Mauna Kea Management's completion of the historic management plan for Mauna Kea;
- e. complete a management plan for the protection of the Mauna Kea Ice Age Natural Area Reserve; and

special conditions imposed by the Board of Land and Natural Resources (BLNR) for the Keck Outrigger Telescope project. In addition to standard conditions, the BLNR imposed 17 special conditions to ensure the long-term protection of Mauna Kea's unique natural and cultural resources. OMKM must submit update reports to DLNR to comply with conditions imposed by the BLNR for the Keck Outrigger project.

For monitoring permits and violations within the Mauna Kea Ice Age Natural Area Reserve (MKIANAR), Natural Area Reserves (NARS) staff regularly provides copies of all approved NARS permits for MKIANAR to OMKM staff for distribution to the OMKM Rangers. When possible, NARS staff have accompanied permittees to ensure that permit guidelines were followed. NARS staff have also gone on-site with OMKM Rangers to familiarize them with NARS rules and policies. When illegal activity is observed, OMKM Rangers have generally approached the violator (and requested that the activity cease) and then reported the incident to NARS staff or have called in DOCARE for response and investigation (for more serious violations).

A weekly reporting system has been implemented and weekly meetings continue to be held that are attended by DLNR Administrators, the DLNR Director, and Deputy Director.

The DLNR supports the OMKM's efforts to complete a strategic management plan for the protection of Mauna Kea's cultural and natural resources.

Completing a management plan for this Natural Area Reserve (NAR) is one of DLNR's highest priorities. The Division of Forestry and Wildlife (DOFAW), NARS staff have initiated conversations with OMKM regarding their archaeological survey/monitoring protocol development for the Science Reserve to see how they can be incorporated into OMKM's on-going planning to ensure consistency of monitoring and management of archaeological resources across

- f. seek a written legal opinion from the Department of the Attorney General regarding the transfer of commercial permitting to the university.

the landscape. In addition, NARS staff has arranged to meet with the Kahu Ku Mauna Advisory Council for OMKM, as another resource for gathering input on cultural practices in the NAR.

A formal Attorney General’s opinion is unnecessary. It is clear that UH may issue, manage, and control commercial activities permits within the areas leased by UH.

**REPORT TITLE: Systemwide Financial Audit of the University of Hawai‘i System: Phase I**  
Report No. 05-15

**RECOMMENDATIONS**

1. The Chancellor of the University of Hawai‘i at Mānoa should ensure that:
  - a. A process that clearly links the strategic plan objectives to the budget is established and documented;
  - b. Budgetary requests and decisions are based on the campus and UH system strategic plans;

**ACTIONS TAKEN**

This recommendation was fully addressed in the FB 2007–09 budget process. The recommended biennium budget was founded on a comprehensive planning, stocktaking, and budget preparation process which linked System-wide Stocktaking Objectives, the System-wide Strategic Plan, the Mānoa Strategic Plan, and Mānoa Budget Objectives. This was a bottoms-up process with individual departments submitting the required documentation to their schools/colleges for review and prioritization. The Deans then presented their plans and budgetary requests to the Mānoa Vice Chancellors at formal budget hearings. The recommendations of the Chancellor were reviewed by the system-wide budget advisory committee for incorporation into a final biennium budget. Budget documents and processes can be viewed at <http://www.manoa.hawaii.edu/ovcafo/budget>.

As discussed in Recommendation 1.a. above, all budget requests and resulting budgetary decisions are now formally linked to the University’s strategic plans via our documented budgeting process.



2. The president of the University of Hawai'i should ensure that:
  - a. The financial reporting system is enhanced to provide well-designed, accurate, and timely data, allowing efficient monitoring, analysis, and decisionmaking;
  - b. Established policies and procedures are updated in a timely manner to reflect current operating practices;
  - c. Contract maintenance and administration procedures are developed to ensure that all contracts are well-organized and related contract information is readily available for increased efficiency; and

The Auditor's recommendation coincides with on-going efforts to provide a greater level of detail regarding actual expenditures. More specifically, the lump sum expenditure amounts included in prior Web-BLS reports have been replaced with a summary that reflects 47 separate and unique expenditure categories. These categories represent the consolidation of approximately 520 object of expenditure classifications. Another enhancement that is scheduled for production shortly is a consolidated variance report. This report will be prepared by means of financing at the campus level and display budget to actual variances and accompanying narrative explanations.

Since the audit, the Disbursing and Payroll Office has committed a significant amount of staff resources to updating procedures and is continuing to review and update where necessary, its Administrative Procedures Manual.

In response to the foregoing matter, the University performed a review of its current contract database system and determined that while this system was able to provide the central procurement office with basic contract information, additional details could be captured to provide more comprehensive details on contract history. Accordingly, the University has developed a multi-phase plan which would include expanding upon the current database system as an interim measure, and then designing and implementing an improved system which would capture more detailed information on formal actions taken, correlate encumbrance data to the University's financial information system to confirm accuracy and generate reports for management review, and include a tickler system for timely reminders of upcoming contract renewal dates. The first phase to expand upon the current database system was accomplished this summer. The final phases include actual design and implementation of an improved electronic system and

- d. Contracts and agreements are executed and monitored in accordance with university policies and procedures and the Hawai'i Public Procurement Code.

- 3. The University of Hawai'i's Office of Academic Planning and Policy and Budget Office should ensure that:
  - a. Principles are established for determining costs applicable to the actual cost per student calculation;
  - b. The methodology used is documented, including a detailed analysis, considering all variables factored into the formula, and the actual cost per student is calculated consistently from year to year; and

development of internal operating procedures.

The University currently has comprehensive policies and procedures in place which govern appropriate procurement practices for the purchase of goods, services, and construction. To insure compliance with its established procedures, the University conducts periodic audits of departmental records and any violations found are reviewed with pertinent fiscal personnel.

To further minimize potential non-compliance with its procedures, the University periodically reviews its administrative procedures and updates them when necessary. On another proactive level, the University conducts quarterly training sessions for new fiscal personnel covering general procurement policies and procedures. Additionally, the University conducts monthly meetings for fiscal personnel where audit findings or concerns, as well as any recent developments and issues in procurement practices, are discussed.

According to Board of Regents policy, the share of the cost of education that is covered by tuition is one factor to be considered in the development of the tuition schedule. Thus, the cost model is well established in practice and is run each time a new schedule is prepared. The model includes total instructional expenditures (supply side) and the distribution of semester hours taken by students (demand side). Other costs are pro-rated (such as institutional support) or excluded (such as research costs). These basic principles are common practice in higher education. Exact approaches to modeling cost vary by institution, but the University's approach is clear and has been consistent over time.

The methodology is documented in detail. In November 2005, the Office of Academic Planning and Policy presented to the Board of Regents for their information an overview of the full model as well as the actual cost per

- c. The Legislature is provided with the methodology and variables used to calculate the actual cost per student, as well as the rationale to interpret the results.
4. The University of Hawai‘i’s chief information officer should ensure that:
- a. An overall information technology business continuity plan is developed; and
  - b. The application controls for the student information and human resources systems are formalized and documented.

student by campus and educational level. The calculation is conducted consistently; it is not, however, conducted every year.

The cost of education model was described in all tuition hearings that were conducted prior to the setting of the 2006–2012 tuition schedule, including the presentations provided for members of the State House and Senate. The cost of education has been discussed in detail with members of the Legislature on more than one occasion.

The greatest risk to continuity of UH information technology (IT) systems and services is the inadequacy of the current IT facilities. The chief information officer is persistently attempting to obtain support from the State Administration and Legislature to address this most critical challenge. The University does have an existing information technology business continuity plan, also known as the IT disaster recovery plan. This plan is continually under review and improvement. In addition to implementing such improvements as ensuring that daily backups are stored in a secure off-site location, ITS is continuing its efforts to secure necessary funding and agreements to establish a new backup “cold site” and/or “warm site” to mitigate potential disaster situations affecting the University’s IT infrastructure and services. Funding requests for both a new primary IT facility and backup facilities are included in the UH Board of Regents Biennium Budget.

The primary and almost sole focus of the university’s student information system team over the past year has been to execute a major version upgrade that is absolutely essential to ensuring compliance with the new 2007 federal financial aid regulations. Work on formalizing and documenting the application controls for this system will become a high priority in early 2007.

**OFFICE OF THE AUDITOR**  
**APPROPRIATIONS AND EXPENDITURES ON A BUDGETARY BASIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

***Appropriations***

Act 1, SLH 2005 (operations)	2,513,352.00
Act 1, SLH 2005 (special studies)	150,000.00
Act 1, SLH 2005 (Audit Revolving Fund)	1,500,000.00
Act 225, SLH 2005 (salary increase and other cost adjustments)	61,035.00
Act 3, SSLH 2005 (technical assistance and briefings)	50,000.00
Act 8, SSLH 2005 (Hawai'i 2050 Task Force)	25,000.00
Act 8, SSLH 2005 (Hawai'i 2050 Sustainability Plan)	75,000.00
Act 246, SLH 2005 (School Impact Fee Working Group)	150,000.00
Act 1, SLH 2006 (Financial and Operational Audit of the Hawai'i Youth Correctional Facility)	100,000.00
	4,624,387.00

***Expenditures***

Staff salaries	1,457,386.00
Contractual services (operational)	602,185.00
Other expenses	125,172.00
Special studies	150,000.00
Contractual services (Audit Revolving Fund)	1,347,120.49
Technical assistance and briefings	50,000.00
Hawai'i 2050 Task Force	12,060.47
Hawai'i 2050 Sustainability Plan	75,000.00
School Impact Fee Working Group	145,994.29
Financial and Operational Audit of the Hawai'i Youth Correctional Facility	30,265.00
	3,995,183.25

***Excess of Appropriation Over Expenditures***

Act 1, SLH 2005 (operations) and Act 225, SLH 2005 (salary increase and other cost adjustments)	389,644.00
Act 1, SLH 2005 (special studies)	-
Act 1, SLH 2005 (Audit Revolving Fund)	152,879.51
Act 3, SSLH 2005 (technical assistance and briefings)	-
Act 8, SSLH 2005 (Hawai'i 2050 Task Force)	12,939.53
Act 8, SSLH 2005 (Hawai'i 2050 Sustainability Plan)	-
Act 246, SLH 2005 (School Impact Fee Working Group)	4,005.71
Act 1, SLH 2006 (Financial and Operational Audit of the Hawai'i Youth Correctional Facility)	69,735.00
	629,203.75

## THE HAWAI‘I 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* analyze 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, trust, and revolving funds* determine if proposals to establish these funds meet legislative criteria.
7. *Analyses of existing trust and revolving funds* determine if such funds meet legislative and financial criteria.
8. *Procurement reports* include studies and audits relating to the State’s procurement of goods, services, and construction.
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](mailto:auditors@auditor.state.hi.us)

Web site: [www.state.hi.us/auditor](http://www.state.hi.us/auditor)

