STATE OF HAWAIʻI

Office of the Auditor

2009 ANNUAL REPORT

MARION M. HIGA

State Auditor

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STATE OF HAWAIʻI
Office of the Auditor

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

Photo: Scott Kubo

May 14, 2010

Ladies and Gentlemen:

I am pleased to present this Annual Report, which highlights the efforts of the Office of the Auditor in work year 2009. The report, and the audits and special studies that it summarizes, address many important issues and challenges facing state government.

The global financial crisis and its aftermath continue to be felt throughout the Islands. While much has been written about the complex financial instruments that precipitated the crisis, the fundamental causes may be far simpler: monumental absences of accountability and responsibility.

In 2009, we saw reminders of where we have been and where need to go. In our work, we found organizational breakdowns in which accountability and transparency were surrendered in the name of expediency, disinterest, or worse. We interviewed department officials who spoke with open disdain about state rules and regulations that they believed were cumbersome. Other staff stated that they followed workaround practices because it was "the way it's always been done." Not surprisingly, in this atmosphere—free of organizational accountability and personal responsibility—we found instances of fraud, waste, and abuse.

As our work in 2009 makes clear, a dysfunctional corporate culture can have profound and detrimental impacts on employees' behavior and an organization's performance. However, the opposite is also true: properly training and supporting staff help establish accountability and responsibility. Doing so is a step toward good government and the beginnings of a true recovery, for government as well as for the community at large.

Sincerely,

Marion M. Higa
State Auditor

Mission of the Office of the Auditor

The Office strives to ensure government accountability for policies, programs, and use of public funds through postaudits of accounts, programs, and performance. This office reports its findings and recommendations to policy makers to provide timely, accurate, and objective information for decision making.

Grocery Shopping for a Better Hawai‘i

Marion M. Higa, State Auditor

Late last year came these interesting statistics: According to the research firm The Nielsen Company, 53 percent of U.S. consumers said that they enjoyed or liked grocery shopping and only 9 percent of the primary shoppers in U.S. households disliked or hated it. For many, these numbers came as a surprise, since the conventional wisdom has been that grocery shopping is a necessary chore, one that had to be completed in the least time possible.

I suppose the food retailing industry can take much of the credit for this change in attitude. Today's supermarkets are destinations in themselves, featuring amenities like cheese counters, nut and juice bars, and specialty food courts that rival those found in shopping malls. However, I'd like to think that we consumers have a lot to do with creating favorable shopping experiences. In general, we're a friendly and cooperative lot, following a set of unspoken rules that maintain a relative harmony. For instance, we generally obey the basic supermarket traffic laws: stay on the right, pass on the left; stop and look before proceeding into an aisle intersection; and if you are shopping with others, walk in single file when possible, or fan out throughout the store.

In addition, most people also know some express-lane regulations: A bag of six apples is considered one item, while six frozen pizzas are counted as six separate pizzas. And, of course, there are other things that just come down to a little common sense or common courtesy: If you change your mind about purchasing an item, give it to the clerk at the checkout or return it yourself. Everyone loses when someone leaves a tray of steaks in the paper goods aisle.

As we reflect on our work in 2009, one report in particular, *Procurement Audit of the Department of Education: Part I and Part II*, reminds me of grocery shopping, its unspoken rules, and mutual responsibility. During our investigation, our auditors interviewed an assistant superintendent, who has authority over a substantial portion of the DOE's procurement of goods and services. He expressed frustration towards state and departmental procurement rules and requirements, which he believed were hampering his staff's ability to do their job. "If everybody followed the rules, the world would stop," he told us.

The quote raised eyebrows in our office. Not only does this argument contradict the basic management tenets of just about any organization in the private or public sectors, but it would probably elicit funny looks and a few chuckles in my granddaughter's first-grade class as well. Can you imagine the chaos that this type of logic would unleash on an unsuspecting world? Just think of being stuck at a traffic intersection or standing in the supermarket express lane behind this DOE official or one of his staff.

Unfortunately, the chaos that resulted at the DOE from this flawed logic wasn't difficult to imagine. Our auditors found that the contracts and agreements expedited without review by office staff were subsequently held up at another department branch, which monitored procurements and contracts. So, the world did indeed stop briefly at the DOE, but it was precisely because the rules *weren't* followed.

So what did the assistant superintendent do to alleviate this backlog? He requested and received a temporary exemption from the oversight of the monitoring branch, and, as a result, his office was granted full procurement authority and responsibility over construction contracts of up to $1 million. In the course of our investigation, we found evidence of violations of the procurement code, including falsifying supporting documentation, overriding internal controls, ignoring rules and policies, and committing potential fraud. The violations were so numerous and egregious that we had to release our report in two parts, under separate covers.

What was startling about these violations was that many directors, managers, and staff within the office knowingly executed improper procurement decisions and actions when they believed (rightly or not) that it was in the best interest of the department to do so. When we pointed out the violations, the assistant superintendent acknowledged the wrong doings but insisted that it was the procurement rules and regulations that were to blame, not his well-meaning employees. Not surprisingly, some staff expressed the view that the rules were too cumbersome, hampering the timely completion of work. Others stated that they followed the workaround practices because it was "the way it's always been done."

"So, while accountability is about minimizing misgovernment, responsibility is about maximizing good government."

In both the public and private sectors, the words accountability and responsibility are used frequently, many times interchangeably. While there are no universal definitions for these terms, accountability is generally understood as being answerable for performance or the process of holding someone answerable for performance. Accountability is compliance with authority, including its rules, regulations, and processes. Responsibility—accountability's very close sibling—is the duty to do what is right, based on prevailing standards and an individual's sense of moral and ethical obligation. Responsibility is more personal, independent, the individual response to the answerable duties an organization asks of its employees. So, while accountability is about minimizing misgovernment, responsibility is about maximizing good government.

When the DOE assistant superintendent spoke with open disdain about his department's procurement rules and regulations, or when he encouraged workarounds, ignored potential violations, and eventually requested and was granted an exemption from external oversight, he was exempting his organization from accountability. The subsequent erosion of personal responsibility was inevitable because without an accountability structure, those who were doing their jobs with the department's best interest at heart had no specific standards on which to base their decision making. For those with bad intensions, it was open season.

The ultimate irony of this story is that while the assistant superintendent was claiming that rules and regulations would stop his departmental world from moving forward, the wider world was grinding to a halt, the result of the global financial crisis and the monumental and catastrophic absence of accountability and responsibility. Regulators, journalists, politicians, and historians are still sorting through the economic wreckage, and we hope that the solutions they findwill be less complicated than the financial instruments that got us into this mess in the first place.

A review of our work in 2009 makes clear that we see this kind of organizational breakdown frequently—on a much smaller scale, of course. But, that doesn't make it any easier for us to do our job of identifying problems and recommending solutions. However, I can assure you that we will continue to do our very best to minimize misgovernment and maximize good government. To stay focused on these important responsibilities, we'll carefully review the relevant laws, rules, and regulations and do our fieldwork diligently. To stay grounded and not lose sight of the bigger picture, we might consult with a first grader from time to time and, of course, we can always go grocery shopping.

Staff of the Office of the Auditor

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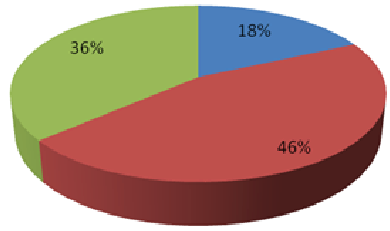
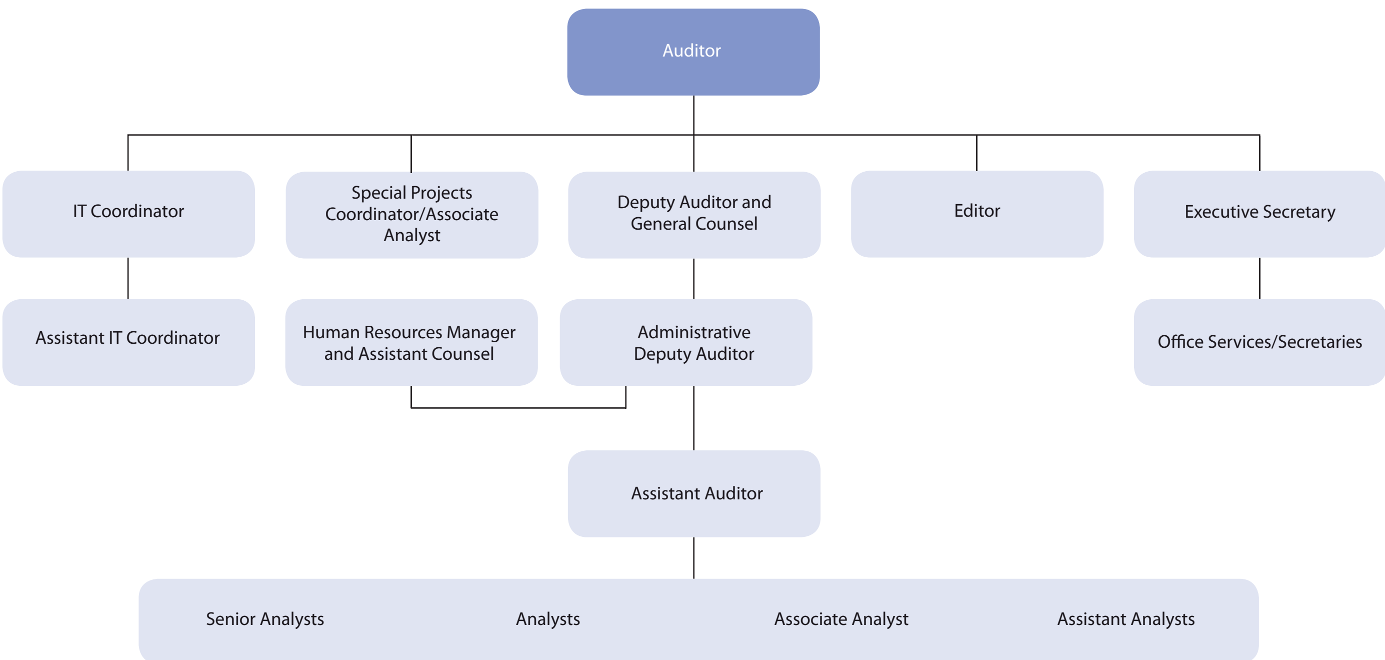
Debbie M.A. Higa
Pat Mukai

Types of Reports



Financial Audits (2) 18%
Performance Audits (5) 45%
Special Studies (4) 36%

Organization of the Office of the Auditor



2009 Summary of Reports

Review of Revolving Funds, Trust Funds, and Trust Accounts for the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources

Report No. 09-01, January 2009

Section 23-12, Hawai'i Revised Statutes, requires the State Auditor to review all existing revolving and trust funds every five years. The review is to include a five-year financial summary for each fund or account, an evaluation of the original intent and purpose of each fund or account, and a determination of the degree to which each fund or account achieves its stated and claimed purpose. The reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This is our fourth review of the revolving and trust funds, and trust accounts of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources.

Revolving funds are often 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. A pension fund is an example of a trust fund. Trust accounts are typically separate holding or clearing accounts for state agencies. A trust account is often used as an accounting device to credit or charge agencies or projects for payroll or other costs.

Of the 88 funds and accounts we reviewed this year, 20 were revolving funds, 18 were trust funds, and 50 were trust accounts. 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 continue to serve the purpose for which they were created and not require continuing general fund appropriations. In addition, 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 also meet the statutory definition of a trust fund. 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.

We transmitted a draft of this review to the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources. The Departments of Accounting and General Services, Agriculture, and Land and Natural Resources agreed with our review of its funds.

The Department of Budget and Finance generally concurred with our review of its funds and provided some clarifications. The department disagreed with our recommendation to combine the Hawai'i Employer-Union Health Benefits Trust Fund and Hawai'i EUTF Clearing Account, but added that this could be considered at a later time.

Management and Financial Audit of Hawai‘i Tourism Authority's Major Contracts

Report No. 09-02, January 2009

This was the second audit of the Hawai‘i Tourism Authority (HTA) and its major contractors, which we conduct every five years as required by Section 23-13, Hawai‘i Revised Statutes. The audit focused on three multi-year contracts, each exceeding $15 million over the life of the contract, awarded by the HTA to the Hawai‘i Visitors and Convention Bureau (HVCB), Hawai‘i Tourism Japan (HTJ), and SMG, the marketer and operator of the Hawai‘i Convention Center. We reviewed the authority's processes and controls that guide contractor performance and ensure compliance with applicable laws. We also contracted with a consultant to perform an agreed-upon procedures audit of the HVCB.

We found that the authority's year-to-year approach to planning and program implementation hinders its ability to strategically manage the long-term growth of Hawai‘i's visitor industry. We also found that the authority no longer has a functional strategic plan of its own, and its annual budget, the only plan it has, provides no long-term strategies to fulfill the goals of the Hawai‘i Tourism Strategic Plan: 2005 - 2015, the State's overall tourism road map. By choosing to map out their strategy and appropriate funds on a year-to-year basis, HTA officials have returned to the approach to tourism promotion that the authority was created to replace.

In previous reports, we raised the issue of the need for HTA to develop measures that could demonstrate the effectiveness of its activities and programs. Industry experts attest to the complexity and difficulty in assessing the effectiveness of tourism development efforts such as promoting brand awareness. But absent objectively determined results, the effectiveness of taxpayer funds spent on promoting Hawai‘i's most important industry cannot be demonstrated.

In the opinion of N&K CPAs, Inc., with whom we contracted for an agreed-upon procedures audit, the HVCB's management has taken a stronger role in enforcing current policies and procedures. However, despite better oversight by HTA to reduce risk in contract management, weaknesses and opportunities for improvement remain, primarily in the administration of the contracts with HTJ and SMG. Informal deviation from contractual terms, including the waiver of independent audits, serious errors in contractual documents, and contractor's failure to adhere to expenditure procedures are some of the issues we identified during our audit.

We recommended that HTA's board of directors exercise the leadership necessary for the development of an action plan that gives a clear picture of the authority's long-term direction and expected outcomes from its activities in terms that can be objectively measured. We also recommend that objectively measureable outcomes be incorporated in the contractual agreements, annual plans, evaluations, and renewal deliberations relating to HTA's major contractors.

The Hawai‘i Tourism Authority replied that it was in the process of developing an operational plan to address the audit's findings and recommendations and intended to "also explore the need to develop a longer range plan of its own which would also be aligned with the [Hawai‘i Tourism Strategic Plan]." The authority provided information to clarify a number of points raised in our audit, which neither contradicts nor changes our findings and recommendations. However, the authority's response and clarifications do not appear to fully embrace one of the report's important points—that HTA's plans lack quantifiable, objective benchmarks linking the activities and resources spent to pre-determined outcomes in a format that does not rely on or require industry expertise.

Procurement Audit of the Department of Education: Part 1

Report No. 09-03, February 2009

Our audit, conducted for the fiscal year July 1, 2006 to June 30, 2007, revealed a lack of proper leadership and controls over the department's procurement process and a resulting indifference toward procurement compliance among department personnel. Although the department inherited a flawed procurement system from other state agencies pursuant to the State's Reinventing Education Act of 2004, the department had pushed for the act's passage on the belief that the existing procurement process was dysfunctional and obsolete. In short, the department undertook the responsibility of its own accord.

Upon assuming that responsibility, procurement authority for the department was hastily delegated to the branch and school levels in an attempt to meet the demands of the 250-plus schools statewide. However, many of the delegated procurement officers lacked sufficient knowledge and experience to effectively carry out those duties. This shortfall was compounded by the department's failure to establish an adequate system to standardize and monitor its procurement activities. More than three years later, there was still no formal internal control system over procurement in place. Further, the department lacked corrective or disciplinary procedures for procurement violations, and the Board of Education had not maintained a sufficiently involved role in oversight of procurement.

The result was much confusion among employees and dissent within the department over proper procurement policies and procedures. We discovered numerous occurrences of non-compliance with procurement laws and regulations for each of the various procurement methods utilized by the department. Many of the infringements appeared to be inadvertent. For example, we found 20 purchases made in fiscal year 2007 using purchasing cards (or P-cards) that exceeded the $2,500 limit without proper approval. Those 20 purchases were also for prohibited items, including computers and travel coupons.

Other findings, particularly those that occurred in the Office of School Facilities and Support Services, appeared to have been done in an attempt to circumvent proper procurement practices. The office's many large-dollar capital projects were commonly procured with minimal planning and oversight. For example, for seven of 21 professional service contracts we reviewed, ranging from $848,000 to $7,350,000, the budget was based on the vendors' proposed amounts. Significant budget overruns were also common—of 36 repair and maintenance staff purchase order contracts, ten were at least 10 percent and $5,000 over budget; four of those were more than 100 percent and $50,000 over budget. In addition, contractors were routinely permitted to start work before contracts were executed, which office personnel admitted was a regular practice but believed was warranted due to the lengthy contract process.

We made several recommendations regarding the department's leadership and oversight over its procurement process. Among them, we recommended that the Board of Education adopt a code of ethics and a conflicts-of-interest policy and institute a formal fraud risk management program. We recommended that the department establish an effective internal control system over procurement and implement standardized procurement policies and procedures.

The department acknowledged independent audits as key components of accountability and public transparency, and generally welcomed our findings and recommendations. In addition, the department described steps already taken to address some of our findings and expressed its commitment to implementing recommendations and adopting best practices to improve the procurement process throughout the department.

Procurement Audit of the Department of Education: Part 2

Report No. 09-04, February 2009

Given the high volume of violations and the identification of several risk factors and fraud indicators in the initial phase of our procurement audit of the Department of Educaiton, we were compelled to expand the scope of our investigation. As part of our expanded work, we reviewed department emails and detailed project files to better understand the decisions made and actions taken with respect to select contracts. We also interviewed numerous department employees to gain further insight into the specific facts and circumstances surrounding each contract. The subsequent findings and the results of the additional work are presented in a separate report, Report No. 0904, Procurement Audit of the Department of Education: Part 2.

The second phase of our audit revealed an organizational culture of disregard for procurement rules in the Office of School Facilities and Support Services (formerly known as the Office of Business Services and referred to herein as the "Office of School Facilities"). That culture had allowed office directors, managers, and staff to believe they had the discretion to unilaterally determine whether compliance with procurement laws and rules was in the best interest of the department.

We encountered numerous instances in which department personnel manipulated the professional services selection process and awarded contracts to predetermined consultants. For instance, for a $300,000 construction management project selection, the Project Control Section head bypassed established procedures by handpicking the selection committee members and recommending a specific firm. The public works administrator then led the committee as its chair, documented the results selecting the recommended firm, addressed the results to himself as public works administrator, and approved the results on behalf of the branch.

We discovered several other alarming practices within the Office of School Facilities that appeared to be fraudulent and unethical. In one example, a high-ranking department official instructed a consultant to hire a specific sub-consultant in exchange for additional contract funding, thereby evading the competitive procurement process. The sub-consultant, who has close ties with the department, performed work under a department program that was unrelated to the contract's scope. Another inappropriate action involved selection committee members agreeing via email to change a prior selection decision to award the project to a vendor who was previously unranked, but had been improperly allowed to begin work on the project. The committee then falsified the selection documents to reflect the modified decision as the original selection.

The Office of School Facilities' regular outsourcing of large-dollar program and construction management contracts appeared to be inefficient and wasteful. A key example is the most recent phase of the department's Whole School Classroom Renovation Program, which was appropriated $160 million in 2006 to renovate 96 schools. The department has executed four management contracts totaling $20,964,000 to oversee and manage the $160 million. The management contracts outsource basic management functions that should be performed in-house, including responsibility for overseeing, evaluating, and negotiating with other vendors. On top of the inherent conflicts of interest, the poorly planned and structured contracts also lacked competition and had the potential for abuse. For example, a project management consultant assisted the department in procuring these significant management contracts while simultaneously competing for some of the work, and ultimately was awarded a related $2.4 million program management contract.

The inappropriate procurement practices and culture of disregard in the Office of School Facilities are the indirect result of the lax tone from department leadership and the resulting weak environment, discussed in detail in the first report. In addition, the assistant superintendent of the Office of School Facilities perpetuates the culture by demonstrating to his staff that compliance with procurement rules is secondary to getting the job done.

In addition to the recommendations to improve the department's leadership and oversight of its procurement process, we recommended that the department conduct detailed investigations into the specific procurement violations, and the outsourcing of program and construction management services, cited in this report and take appropriate and visible action.

The department generally welcomed our recommendations, described steps already taken to address some of our findings, and expressed its commitment to adopting procurement best practices.

Study on the Appropriate Accountability Structure of the Hawai‘i Teacher Standards Board

Report No. 09-05, February 2009

The 1995 Legislature established the Hawai'i Teacher Standards Board for the purpose of transferring the responsibility for setting licensure and credentialing standards for public school teachers from the Department of Education (DOE) to a more independent body. The Legislature intended that the standards board provide "more public accountability" with standards to "ensure a higher level of professionalism and excellence."

Our study found that the Hawai‘i Teacher Standards Board is in a state of confusion, unable to develop, administer, and deliver an effective teacher licensing program. The board's failure jeopardizes federal funding for the DOE, which is struggling to meet the requirements of the federal No Child Left Behind Act of 2001 (NCLB). The board has not applied new standards to teachers seeking an initial license. Moreover, the executive director assumed the board's authority to approve new or initial licenses, which clouds the validity of approximately 3, 800 licenses issued since 2003. Further, the board has no rules and procedures for appeals.

Seven years after assuming the licensing function, the board has neither an effective initial or renewal licensing program in place. The board exceeded its authority in extending licenses beyond the original authorization. It has been granting license extensions rather than renewing licenses beyond the two years set by the 2001 Legislature.

Without the statutory basis to extend licenses beyond 2003, the administrative rules extending licenses expiring in 2005, 2006, and 2007 are invalid. Furthermore, the board's amended rules omit licenses expiring in 2004 and, thus, those could not receive an extension, have expired, and are rendered invalid. Because state laws require DOE teachers to be licensed, any teachers holding invalid licenses would be considered emergency hires and not highly qualified according to NCLB requirements.

A lack of oversight and poor management of two sole source contracts to develop an online application system have resulted in a waste of more than $1 million in teacher licensing fees. The board's system contractor still has not delivered the online system and has, in fact, usurped the board's access to its licensing database.

The board's designation as an administratively attached agency has contributed to the lack of accountability and oversight. The executive director and the DOE each believed the other was responsible and accountable for certain financial and administrative responsibilities. Without a clear delineation of authority, the board has operated as an autonomous entity, void of any oversight by either the Board of Education or the DOE.

Finally, we found that placement of the board within the Department of Commerce and Consumer Affairs is contrary to regulatory policies set forth in the Hawai‘i Regulatory Licensing Reform Act, Chapter 26H, HRS. The teacher licensure program departs from state regulatory policies as it was purposefully "designed to enhance the profession of teaching" and promote teacher quality rather than to protect the consumer from harm. The standards board's licensure program applies to and penalizes the public employer, the Board of Education, for employees of the DOE. Unlike other professions that are required to obtain a license to practice, not all teachers in Hawai‘i are required to obtain a license from the board to practice their occupation. The DCCA director wrote that placement of the standards board within the DCCA would be "[a] poor fit . . . particularly in light of what appear to be important differences in approach toward implementing licensing regulation. . ."

We recommended that the laws governing the standards board be repealed, in part, and modified, in part, to transfer responsibility for administering a teacher licensure program from the Hawai'i Teacher Standards Board to the Board of Education. The department and Board of Education opted not to provide responses. The standards board provided extensive comments and also provided information to clarify a number of points, which neither contradicted nor changed our findings and recommendations. While the standards board noted that there is a need to improve, it did not agree with our recommendations. The board's responses did not address one of the report's key findings—that the board has failed to develop, administer, and deliver on its core mission, an effective teacher licensing program.

Audit of the State of Hawai‘i's Information Technology: Who's in Charge?

Report No. 09-06, March 2009

Information Technology (IT) is an essential component of today's work environment. Computer systems, networks, and electronic records are integral components of nearly every state program. We procured the services of Accuity LLP to assist us in reviewing the IT governance structure of the state executive branch, excluding the University of Hawai'i, for fiscal years 1995-96 through 2006-07. We focused on eight large departments.

Using criteria developed by the IT Governance Institute, we found that the State's IT leaders provide weak and ineffective management and as a result, the State no longer has a lead agency for information technology. While strategic leadership had admittedly been lacking in previous administrations, this administration has not initiated or implemented meaningful resolution even as the need for effective "IT governance" has become more critical. In 2004, the appointment of a state chief information officer (CIO) and the subsequent appointment of IT governing bodies and officials appeared to be an acknowledgment by the executive branch of the importance of IT and the necessity of its effective, coordinated management. But, we found that both the CIO position and the IT governing bodies that were formed were established without clearly defined roles, duties, and responsibilities. In addition, the job of CIO is a part-time position and participation in the IT governing process is voluntary. Moreover, the decisions that result from the IT Executive Committee's deliberations are non-binding. As a result, meetings are poorly attended and policy decisions are rare.

When the CIO accepted his new position in 2004, he was already the State's comptroller, a position with numerous duties and responsibilities. As comptroller, his primary responsibility is to oversee the Department of Accounting and General Services, which consists of ten divisions, three district offices, and seven administratively attached agencies. We found these duties take priority over those of the CIO, whose role and responsibilities have never been clearly defined. The majority of the roles and responsibilities expected of a CIO are not performed by the Hawai‘i CIO and the few that are performed are done only partially. Several state leaders, including departmental IT managers, have described the CIO's focus as "operational" rather than "strategic." This approach thus leaves out the critical IT governance duties such as IT strategic planning or setting statewide IT policies.

The Information and Communication Services Division (ICSD), the State's official lead agency for IT, was transferred from the Department of Budget and Finance to the Department of Accounting and General Services in 1997. After this transfer, ICSD concentrated on the maintenance of the State's data center and computer networking, leaving departments without guidance and direction. We found that ICSD has not maintained up to date technology standards, no longer enforces or monitors compliance with this requirement, and does not provide necessary guidance to departments for critical processes such as disaster recovery. During interviews, several department IT managers indicated that ICSD does not offer the relevant services and support to effectively assist them in carrying out their missions. Department managers have lost confidence in ICSD's ability to provide specific support for their applications.

Without an effective CIO and effective governing bodies, the State cannot ensure that its IT investments are cost effective, optimally utilized, adequately planned for future growth, or have the operational flexibility to easily adapt to changing requirements. If the State's IT management does not improve, the State will eventually be compelled to outsource or co-source its IT functions, a complicated and expensive undertaking.

We recommended that the governor formally assign responsibility for the development and execution of the IT strategic plan to the state CIO. We also made several recommendations to the Legislature to explicate the responsibilities of the various IT governance entities.

The department responded that the current CIO position does not have the authority to utilize the financial or personnel resources of the executive branch departments and that ICSD's budget has been reduced over the past years and initiatives have not been funded. The department also provided two alternative recommendations that entail a return to the centralized control model of the 1960s and 1970s. The department's position misunderstood an important point: A major objective of IT governance in the distributed environment of today's model is to advocate the needs of the various departments and provide value and support in the departments' continued IT efforts. Had IT strategic planning been completed, for example, the need for recovery plans and an alternate data center in case of system-wide failure might have been better understood in the competition for scarce resources.

Investigation of the Procurement and Expenditure Practices of the Department of Business, Economic Development & Tourism and Selected Attached Agencies

Report No. 09-07, April 2009

Our investigation of the Department of Business, Economic Development & Tourism and selected attached agencies revealed a culture unconcerned with the directives of the Legislature and unconvinced of the importance of the Hawai'i Public Procurement Code. Department leadership was lacking. The "tone at the top" placed emphasis on expediency of job completion over the accountability necessary in state government. Moreover, there were no assurances that appropriate policies and procedures were in place, which contributed to an environment filled with internal control deficiencies. All of this resulted in transactions that are questionable and violations of the Hawai'i Public Procurement Code.

We found that the department made use of appropriation transfer authority to fund projects denied by the Legislature. In FY2007 and FY2008, we noted two contracts in particular that had terms that mirrored bills that died during their respective legislative sessions. The department was able to locate "payroll savings" and redirect money in order to fund these projects. Because these contracts were entered into outside of the normal budgeting process, goals, objectives and measures of effectiveness for the particular projects were not reported to the Legislature. Moreover, with no mechanism in place to either determine the impact of or reconcile the changes in funding levels, transparency was lost.

We also noted violations of procurement procedures, poor procurement practices, and inadequate training. Failure to comply with the procurement code is a violation of state law and could lead to the termination of awarded contracts and individuals can be held liable for moneys paid in connection with the violation. The department director is responsible for the agency's compliance with the law. But individual public employees are also responsible to act in good faith to ensure the fair and equitable treatment of all who deal with government procurement in order to foster public confidence in the integrity of the procurement process, and to ensure the appropriate application of purchasing ethics.

Our findings raised questions about the department's awareness of, compliance with, and commitment to the requirements of the Hawai'i Public Procurement Code. Many of the exceptions and procedural errors resulted from a lack of understanding of the procurement laws, rules, and internal policies and procedures. The department's deficiencies in implementing the procurement code and its own procurement policies and procedures are the direct result of its lack of training, poor management oversight, and a weak control climate.

We recommended that the department work to ensure greater transparency and accountability within its governance structure by developing clearly documented policies and procedures within the procurement process, maintenance of financial records, and in monitoring staff and contractor performance. The department director must set the ethical tone for the department by stressing the importance of training and adherence to rules and regulations to ensure that both staff and management understand that fraud, waste, and abuse will not be tolerated.

The department responded to a draft of the report, disagreeing with both our findings. The department noted no findings in the report of non-compliance with the Hawai'i Public Procurement Code, completely missing the point on the numerous errors identified. Further, while the department complied with appropriation transfer requirements, it did so after the Legislature made clear that the specific programs discussed (International Affairs and the Creativity Academies) were not a priority. While the department disagreed with our findings, it accepted the recommendations made and identified both future actions and actions already taken in accordance with those recommendations.

Management Audit of Information Technology Within the Office of Hawaiian Affairs

Report No. 09-08, June 2009

While this was our sixth audit of the Office of Hawaiian Affairs (OHA), it is the first to focus exclusively on OHA's information technology (IT). We engaged Secure Technology Hawai'i, Inc., as our consultant to help us review the management of OHA's information systems. As evaluation criteria, we used material developed by the IT Governance Institute, a widely accepted standards-setting organization for managing information technology.

In 2005, our previous audit determined that OHA was grappling with the effects of poorly planned and ill-defined reorganization efforts. However, in this latest audit we found a much more stable and functional organization that was focused on its strategic mission. Our interviews with trustees found that the working atmosphere at the agency had improved dramatically, particularly at the board level. Along with this improved atmosphere, the board had improved its governance structures and processes. Board members have been removed from the operational aspects of management and no longer micromanage the efforts of the staff. However, we found that these improvements were not consistently reflected in the management of OHA's information systems. While improvements have been made in that area, critical elements of sound information technology governance were still missing.

The Office of Hawaiian Affairs does not fully recognize the need for information systems to be managed at a strategic level. Although the agency was in the process of updating its strategic plan, OHA has not applied the same strategic approach to its information systems. We discovered that while OHA recognizes the value of information systems to its day-to-day operations, its focus is primarily on solving immediate needs with insufficient consideration for long range strategic issues such as coordination of IT systems throughout the organization and IT risk management.

We attributed OHA's day-to-day focus to the prevailing belief among the trustees and the administrator that IT is a "tactical" operational issue to be administered by the agency's staff. Hence, although OHA's administrator saw the value of information systems and had supported the use of technology throughout the organization, he did not fully recognize that the complex nature, critical importance, and increasing risk associated with IT requires the dedicated attention of a Chief Information Officer (CIO) to provide strategic direction for information systems at OHA.

Our audit found major IT components dispersed throughout OHA without focused oversight and coordination. We found nine major information systems and assets that were managed by nine separate stakeholders. Such a diverse and widespread use of information systems reinforces the need for a strong centralized IT authority to provide focused leadership. Without such guidance, OHA faces an increased risk of wasted time and resources as well as the inability to react quickly and effectively to information requirements posed by the changing needs of the organization.

We recommended that OHA create the position of a CIO to assume the overall governance duties of its information systems. We also recommended that the agency form an IT steering committee to support the CIO in formulating an IT strategic plan. Finally, our report recommended that the agency implement an IT strategic plan as part of the overall strategic planning process.

OHA responded that the trustees were generally satisfied with the report findings and supported our recommendations. The agency had identified recent improvements to resolve some of our findings. We commended OHA management for taking this initiative. Other issues highlighted underscore OHA's need for a CIO. As OHA worked towards completing its new strategic plan, it anticipated implementing our three recommendations.

Study of the Social and Financial Impacts of Mandatory Health Insurance Coverage for the Diagnosis and Treatment of Autism Spectrum Disorders

Report No. 09-09, July 2009

The federal Individuals with Disabilities Education Act *(IDEA), defines autism as a "developmental disability significantly affecting verbal and nonverbal communication and social interaction, generally evident before age three, that adversely affects a child's educational performance." The IDEA assures a free and appropriate public education for children with diagnosed learning deficits attributable to developmental disorders, including autism. In Hawai'i, the Departments of Health (DOH) and Education (DOE) share responsibility for administering the IDEA through the DOH Early Intervention Services, DOE Special Education Program, and the DOE Private School Participation Project.*

Currently, there are 1,308 children with autism in public school, one of 20 enrolled in a private school, and an estimated 132 children from birth to age three in the DOH Early Intervention Services program, receiving treatments and utilizing health care services through federal- and state-funded programs under the IDEA.

The Hawai'i population of children between the ages of zero to 21 diagnosed with ASD is estimated to be 1,460. A majority of this population is receiving treatment and utilizing health care services available under the DOH and DOE programs. The level of public demand for treatment coincides with the population utilizing services available through the DOH and DOE and not the public at large. According to the four health care insurers who responded to our survey, the level of public demand for individual or group insurance coverage for ASD from its membership base is low. The level of interest of collective bargaining organizations in negotiating privately for coverage seems low based on a survey from the state Employer-Union Trust Fund.

Applied behavior analysis (ABA) is one of the more common treatments used not only for increasing useful behaviors but also for reducing behaviors that may be harmful or interfere with learning. While shown to improve social and educational outcomes in ASD children, ABA is not a covered family health benefit for insurance purposes in Hawai'i, but mandated under SB 2532, SD 1. Both the DOH and DOE report that ABA, in addition to other treatment and services, is available to children under their care. None of the four health care insurers surveyed offered coverage for ABA. Of the 11 states that had enacted legislation to require health insurance coverage for ASD, five mandated coverage for ABA.

SB 2532, SD 1, amends Chapters 431 and 432, HRS, to require insurance coverage for the diagnosis and treatment of ASD with a maximum benefit of $75,000 per year and unlimited visits to providers. The bill was problematic in defining the standard of care broadly so long as the care is prescribed, provided, or ordered by a licensed physician, psychologist, or registered nurse and determined to be "medically necessary." Under medical necessity as defined in Chapter 432E, HRS, health care insurers have the discretion to decide whether or not a treatment qualifies as a covered benefit within its health plans even though the treatment is deemed medically indicated. As a result, health care insurers may continue to deny coverage for educational interventions such as ABA, based on the statutory definition under Chapter 432E, HRS.

We found that the social impacts to be minimal in Hawai'i, since both educational interventions and health services, including ABA, are generally available through the DOE and DOH programs. In addition health care insurers provide partial coverage for the diagnosis of and treatment for symptoms related to ASD through statutory mandates and provisions in health care insurance contracts. However, if the bill were enacted, an increase in demand for service providers and significant financial impacts to insurance carriers would result. Moreover, costs could potentially and unintentionally be passed on to health care insurers and ultimately consumers for treatments and services. We estimated that mandated insurance coverage could initially cost health insurers over $100 million per year to reimburse policy holders. Without inflation, payments for mandated services could exceed $1 billion up to the age of 21.

Enactment of Senate Bill No. 2532, Senate Draft 1, was not recommended. The DOE declined to comment on the provision of medical services and the Department of Commerce and Consumer Affairs opted not to respond. The DOH did not dispute our findings and conclusion, but opposed our recommendation based on its contention that the services available are not “comprehensive” and do not “meet all the needs of children with autism.” We continue to stand by our assessment based on criteria required under Section 23-52, HRS.

Investment Portfolio Review of the Office of Hawaiian Affairs

Report No. 09-10, September 2009

The Office of the Auditor and the investment consulting firm of Navigant Consulting, Inc. conducted an investment portfolio review of the Office of Hawaiian Affairs (OHA) for the period of July 1, 2003 to June 30, 2008. Our review examined OHA's management and oversight of investments in the Native Hawaiian Trust Fund and included inquiry, analysis of investment holdings and performance, and evaluation of relevant processes, policies, and procedures. The firm also assessed OHA's use of, and relationships with, external investment advisors and consultants. Our review considered information through December 31, 2008 where available and relevant to our objectives.

Overall, we found that OHA's investment framework and process must be improved to ensure its fiduciary obligations to beneficiaries are being met. As a government agency and an autonomous trust, OHA has been conferred a broad mandate—to provide all Hawaiians the opportunity for a better life and future. Efforts to realize this mandate are funded by the trust fund with assets totaled $400 million as of June 30, 2008. While the current Board of Trustees has demonstrated an increased awareness of this role, the board must take further action to ensure it is prudently monitoring the trust's investments.

Since February 2003, OHA has used a manager-of-managers structure in which two external investment advisors are each allocated and granted full investment discretion over approximately half of the trust's assets. To satisfy its fiduciary duties related to the trust, the board must therefore have established the necessary policies and procedures to maintain proper oversight of the advisors. We discovered, however, that the board as a whole does not possess an adequate level of general investment or financial knowledge to properly oversee the trust's investments. While limited investment expertise is expected given the varied backgrounds of trustees, the board should have a policy requiring trustees to attend investment training upon joining the board and on a periodic basis thereafter. We found that trustees are not even adequately oriented to their roles and responsibilities with respect to the trust.

Review of the trust's investment performance brought to light further inadequacies in OHA's investment process and monitoring procedures and their impact on the trust. We found that the trust's investments were underperforming for the majority of the review period, not only failing to meet its own target earnings goals in nearly half of the quarters, but also falling below average nationwide peer performance in 18 of the 20 quarters reviewed. During the review period, OHA did not properly monitor investment performance, as it failed to update its Investment Policy Statement as needed, ensure accurate and consistent reporting by advisors, and implement a proper risk management program.

Since the initial procurement of the investment advisors in February 2003, OHA has not evaluated whether its advisory fees—which averaged more than $3 million annually for FY2006-2007—are reasonable and competitive. OHA also has not implemented procedures crucial to effective oversight of the advisors' activities, such as procedures to monitor their investment compliance, valuation, account reconciliations, and proxy voting. Finally, OHA must do more to ensure its asset allocation is appropriate based on its own established goals, risks, and asset ranges, as well as optimally diversified in comparison to peers.

Many of the current findings were echoed in our 2005 OHA audit report, as well as in other audit reports. While we acknowledged the recent improvements OHA has made to strengthen its investment process and framework, most of them were implemented after our review was initiated—many years after initially recommended. For example, OHA did not implement a new investment policy until January 2009, despite our recommendation in 2005 to do so. We urged the board and OHA to continue their progress in order to ensure fiduciary responsibilities to the trust and its beneficiaries are met.

We made several recommendations regarding the board's structure and governance over investments. Among them, we recommended that the board adopt written policies and procedures regarding investment management and service provider oversight and formally evaluate its decision to retain the manager-of-managers approach. We recommended that the board implement regular mandatory training for trustees on topics such as fiduciary responsibilities and financial and investment matters. We made specific recommendations for the board to enhance and formalize its investment structure and governance policies. We also made a number of recommendations on improving the agency's monitoring of investment performance and of its investment advisors' activities.

In response to our draft report, the OHA Board of Trustees claimed that our report contained major factual errors and numerous inaccuracies. However, the board's arguments generally misconstrued the facts presented in our report. Further, although the board provided extensive comments that appeared to erode our findings, in most instances the board ultimately acknowledged the validity of the findings. Other comments by the board indicated its failure to comprehend the major points of our audit and the extent of the board's responsibilities with respect to the trust. Our final report contained a few editorial changes based on the board's response.

Review of Revolving Funds, Trust Funds, and Trust Accounts for the Departments of the Attorney General and Business, Economic Development & Tourism, and the University of Hawai'i

Report No. 09-11, December 2009

Of the 89 funds and accounts we reviewed last year, 54 were revolving funds, 18 were trust funds, and 17 were trust accounts. 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 continue to serve the purpose for which they were created and not require continuing general fund appropriations. In addition, 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 also meet the statutory definition of a trust fund. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued.

We transmitted a draft of this review to the Departments of the Attorney General and Business, Economic Development & Tourism, and the University of Hawai'i.

The Department of the Attorney General disagreed with our conclusion that the Antitrust Trust Fund does not meet the definition of a trust fund but does not provide a logical explanation for its position. Moneys in the fund are used to support antitrust law enforcement programs and are not held for any specific persons or classes of persons with a vested beneficial interest or equitable ownership, even though these programs may benefit the public at large. The department also disagreed with our conclusion that the Criminal Forfeiture Revolving Fund does not meet all four criteria of a revolving fund, as there is no direct linkage between the benefits sought and the charges made upon users of the program. The department stated the fund meets the linkage criteria as the program is funded by criminal forfeitures, which are really charges assessed on the criminals, who are "users" of the criminal justice system. However, criminals whose property is seized received no benefits from this program.

The Department of Business, Economic Development & Tourism disagreed with our conclusion that the Hawai'i Community-Based Economic Development (CBED) Revolving Fund is not self-sustaining and that the grant and technical assistance programs do not demonstrate a direct link between benefits sought and user charges as there are no user fees or charges. The department explained in detail why the fund is self-sufficient and that administrative fees can be charged on grants and loans. However, in a questionnaire completed as part of our review, the department stated "the CBED Revolving Fund is not financially self-sustaining. Administrative expenses and salaries are funded from General Funds." The department also disagreed with our conclusion and recommendation regarding the Brownfields Cleanup Revolving Loan Fund. This was perplexing as we drew no conclusions and made no recommendations regarding this fund due to the lack of financial activity during the five-year period under review, which ended June 30, 2009.

The department also disagreed with several findings related to funds administered by the Hawai'i Housing Finance and Development Corporation (HHFDC). For two funds, the department disputed our conclusions that the funds do not meet all the respective criteria as their programs at least meet legislative intent. However, in addition to meeting legislative intent, the funds must meet other criteria, including the fund-type definition. Revolving funds must have a clear link between benefits sought and charges made upon users, and trust funds must have a designated person or classes of persons with a vested beneficial interest. The failure of these funds to meet these criteria is unaddressed in the department's response.

The department further identified six additional funds administered by HHFDC that it stated should not have been included in our review as they are special funds, not revolving funds as reported by us. However, each of these funds is classified as a revolving fund within the State's general ledger system and was therefore included in our review. Additionally, even if these *administratively* established funds were truly special funds, our finding that they were improperly established still applies as state laws require that revolving funds *and* special funds can be established only by an act of the Legislature.

The University of Hawai'i did not disagree with any of our findings. The university submitted details of the corrective actions it planned to take which appeared to be appropriate.

Affected Agency Response to Previous Recommendations

Sunrise Analysis: Destination Clubs

Report No. 08-01

Recommendations	Affected Agency
We recommend that: 1. The Legislature not enact S.B. No. 697, 2007 Regular Session. 2. The Department of Commerce and Consumer Affairs close its investigation of Exclusive Resorts and issue a no action letter regarding its regulation under the Chapter 514E, HRS, the *Time Sharing Plans* law.	S.B. No. 697, 2007 Regular Session was not enacted.

Management Audit of the Department of Education's Hawaiian Studies Program

Report No. 08-02

Recommendations	Affected Agency
We recommend that: 1. The Board of Education should, in consultation with appropriate stakeholders, reevaluate the State's compliance effort with the constitutional mandate. Issues to consider in the reevaluation should include:	BOE
a. The role of all relevant programs within the public school system in the compliance effort, including immersion schools, and charter schools based on Hawaiian culture and language;	On January 22, 2009, the board approved proposed amendments to Board Policy 2104. With the recommendations of the Auditor in mind and the recommendation of its board committees, the board approved the following amendments to its Hawaiian Education Programs Policy: I. Board Policy 2104, "Hawai'i Studies and Language Policy," was renamed "Hawai'i Education

Programs Policy" to reflect consistency with the wording from Article X, Section 5, of the Hawai'i State Constitution, i.e., reference to "Hawaiian Education Program;"

II. Board Policy 2104 was broadened to include cultural personal resources and Hawaiian history was specified in the policy's purpose, alongside with Hawai'i culture and language, as an integral part of the standards; and

- The scope and role of the Hawaiian Studies Program were established though goals specified in the policy, as follows:
- Perpetuate the knowledge of the kūpuna (ancestors) as the guiding light that directs the learning and instruction of Hawaiian educations.
- Provide guidance in developing, securing, and utilizing materials that support the incorporation of Hawai'i content and perspectives in all content areas.
- Empower classroom teachers with a basic knowledge of and appreciation for the indigenous culture, history, and language of Hawai'i.
- Ensure that students in Hawai'i's public schools will graduate with a high level of understanding of and appreciation for indigenous culture, history, and language of Hawai'i.

b. The purpose, scope, role, and expected outcomes of the Hawaiian Studies Program's kūpuna component, and its effectiveness in achieving the purpose in its present form;

Assist Hawaiian Studies Cultural Personnel Resources (CPR), i.e., kūpuna, makua, kumu, and others involved in delivering Hawaiian studies content.

These program goals support the need for Hawaiian language proficiency standards that reflect the work of kūpuna as an essential Hawaiian language resource.

The board also approves the Hawai'i Aligned Portfolio Assessment (HAPA), which is an annual spring assessment that measures student progress on the Hawai‘i Content and Performance Standards II in the Hawaiian language. HAPA is given to grades three and four students who attend the Hawaiian Language Immersion Program at 15 immersion school sites. HAPA is currently a structured portfolio assessment consisting of reading, math, and science. The board-approved HAPA shows that Hawaiian language students are held to the same standards and rigor as other students for assessment and testing.

Inclusion of state policy statements that directly address the Hawaiian education needs of students in grades K-12 and across the content area assures the U.S. Department of Education and other agencies that the board and department are committed to improving Hawaiian education for all students.

c. Alternatives or modifications to the present kūpuna component needed to optimize achievement of its purpose;

In July 2009, a program desk review was conducted by the department on the Hawaiian Studies Program, to determine efficiency and effectiveness of a program. The program scored 12 out of 20 points, which fell within the third-priority range. This means that the program may be less likely to be recommended for an in-depth review in the future. It should be noted that the board has the discretion on the selection of a program for an in-depth review in the future. It should also be noted that the board has the discretion on the selection of a program for an in-depth evaluation regardless of its desk review score at any time.

d. The type of community resources required to achieve the purpose and measures needed to ensure adequate numbers of kūpuna or other community resources;

Board policies regarding Hawai‘i education programs and Hawaiian language immersion support efforts to seek and secure Hawaiian education funding.

e. The need for Hawaiian language proficiency standards reflecting the importance of language in the work of kupuna;

The board's two policies—Board Policy 2104, "Hawaiian Education Programs Policy," and Board Policy 2105, "Hawaiian Language Immersion Policy"—support and establish the role of relevant programs within the public school system to comply with the constitutional mandate relating to the establishment of a Hawaiian education program.

Board Policy 2104: Hawaiian Education Programs Policy, "establishes board support for the perpetuation of the Native Hawaiian culture, history, and language as an integral part of the education of all students to ensure that Hawai'i's indigenous culture, history, and language are preserved for future generations, and as an integral part of the Hawai'i content and performance standards;" and

Board Policy 2105, Hawaiian Language Immersion Program Policy, also supports the perpetuation of Native Hawaiian culture, history, and language. This policy states that the Hawaiian Language Immersion Program is an essential component to the revitalization and continuation of the Hawaiian language and culture, and sets forth the goals of the program.

f. Measures to ensure that all teachers, principals, and school officials are cognizant of and at least minimally knowledgeable in Hawaiian culture and practices; and

Professional development for kūpuna and building capacity for kūpuna in schools are ongoing challenges. Training and other resources are essential to provide for a sound Hawaiian education program in all schools.

Board Policy 2104 requires the department to establish organizational structures and allocate resources (e.g., personnel, fiscal, etc.) to create and coordinate appropriate curricula, develop performance assessment tools, and advise all divisions of the department regarding programs related to the student of Hawaiian culture, history, and language. The department is tasked to provide timelines and an action plan to the board on how the policy will be implemented. This is intended to optimize securing and allocating funds for Hawaiian education.

g. The role of School Community Councils in determining the extent and nature of each school's Hawaiian cultural program.

School Community Councils (SCCs) provide a means for parents, students, and community members to have an increased voice in the affairs of their schools. Part of an SCC's function is to review the academic and financial plans of their school. Through their academic and financial plans, SCCs have the authority and autonomy to support Hawaiian education. The development of an academic and financial plan is a school-level decision.

2. The Department of Education should:	DOE
a. Require the Hawaiian Studies Program administrator to develop action plans aligned with the department's strategic plan for the funds and activities under the administrator's control. Such plans should include objectively measurable goals and related measures that facilitate an assessment of accomplishments and account for the effective use of the Hawaiian Studies Program funds;	The strategic plan for the Hawaiian Studies Program has been developed. This plan was reviewed, updated and revised. The strategic plan addresses the HSP goals that ultimately support the Departments Strategic Plan. Each goal has a key performance indicator (KPI) attached to it that measures whether the goal has been achieved. The key performance indicators (KPI) are also included in the allocation notice and can be viewed in this school year's allocation notice for program id. 16807. The "Hawaiian Studies Program Five-Year Plan" is part of the Strategic Plan.
b. Enable and encourage the Hawaiian Studies Program administrator to hold schools accountable for proper use of Hawaiian Studies Program allocations, including withholdings funds from schools that divert funds for unauthorized purposes;	The Hawaiian Studies Program has been requiring schools/districts to complete and submit end-of-the-year reports since school year (SY) 2007– 2008. Beginning January 2010, mid-year reports will also be required annually. In addition, the HSP requests accounting reports (i.e. DAF447), quarterly, to review. Program Surveys will be distributed with the end-of-the-year HSP report, due in June 2010. Starting SY2009-10, program reports are required at the end of each semester. The HSP also works closely with the seven HSP Cultural Personnel Resources (CPR) District Coordinators to communicate program information and to acquire field input and feedback. This level of support provides HSP another line of accountability. To better control the submittal of reports and improve accountability, principals are notified that the funds may be withheld from schools for the next school year if a report is not submitted or if inappropriate use of funds has not been corrected.
c. Reevaluate its policies and procedures for carry forward funds for the Hawaiian Studies Program to ensure that funds are not diverted for purposed not related to achieving the objectives of the program; and	A system of tracking and monitoring expenditures and carry forward of funds already exists within the Department. However, the required program report as listed on the Hawaiian Studies Program allocation notice has enabled the Hawaiian Studies Program administrator to better monitor schools that use Hawaiian Studies Program funds. The report directly asks the school if the school will carry over funding. If the answer is "yes," the school must explain how the carry forward funds will be used. The report also assists in planning for the allocation of funds for the following school year.

d. Ensure that the Hawaiian Studies Program administrator has training in and access to financial databases to generate reports needed to conduct periodic reviews of summary and detailed expenditure data for Hawaiian Studies Program funds.	The administrator attended training for the Crystal Report in June 2005. The administrator also requests accounting reports (i.e. DAF447) on a quarterly basis. On the job experience has also added to the administrators knowledge of the budget process, including the allocation of funds and position allocations. The Department usually provides training sessions or memorandums with protocols when there are changes or updates to the process.
3. The department's Office of Curriculum Instruction and Student Support should:	DOE
a. Ensure that its list of recommended textbooks and instructional materials is kept updated for Hawaiian Studies materials suited to provide alternatives to those deemed culturally offensive; and	The Hawaiian Studies Program has had criteria for textbook/material review for Hawaiian studies since 2002. However, the 2002 criteria to evaluate textbooks for cultural appropriateness has been revised and will be used during the instructional materials review process scheduled for 2010-2011. A review panel will be formed for the Instructional Materials Review (IMR). In the past, the program has been involved in an Instructional Materials Review process in the Instructional Services Branch for Hawaiian Studies related curriculum material/resources through the Social Studies content area. The IMR process (which includes a "Request for Review" process) will be continued with materials received by the program for review and subsequent placement on the recommended instructional materials list.
4. The Hawaiian Studies Program administrator should:	Hawaiian Studies Program
a. Reassess the deployment of the Hawaiian Studies Program budget to optimize the effectiveness of the funds allocated. Consideration should be given to reassigning resources currently diverted and lapsed to increase resources at the state and district levels to improve oversight, in-service support, and promotion of kupuna services at the school level;	A plan for allocating funds and for the accountability of funds will take effect SY2010 – 2011 based on information from the Reports for SY2007– 08 and SY 2008 – 2009. The plan is to allocate 50 percent of the funds to each district in order to maintain the program at the school/district levels for the first half of the school year. The remaining 50 percent will be allocated via a request for proposals (RFP) process to better address the needs of individual schools in implementing

the HSP. The plan will be implemented in SY 2010 – 2011. Monitoring the expenditures of the funds will continue through school reports and accounting reports as well as through monitoring activities conducted by the seven Hawaiian Studies Program CPR district coordinators. See #3b-#3e regarding kūpuna.

b. Clarify fund allocation guidelines for schools to reflect a priority for funding to be used for kūpuna services or programs;

Ke Kulana Kūpuna (the orientation guide for the Kūpuna Component of the program) has been used in the past to provide key information to the CPR or kūpuna in the program. This orientation guide includes the guidelines and exhibits for the allocation of Hawaiian Studies Program funds. The allocation notice provides the rationale and guidelines for schools and districts to follow when expending program funds, which include: the use of A and B funds, "Selection of CPR," the use of B funds to support professional development for CPR (B funds may be used to support kūpuna in attending the Hawaiian Studies Summer Aha for professional development. Department memos supporting this activity were also sent out in May 2009 and February 2010). Allocation notices are shared with school level CPR by the district CPR coordinator and are also posted online. In the history of allocations to schools, the notices show that 87 percent to 90 percent of program total funds are allocated to directly support CPR (kūpuna/makua) via A1 funds (salary) and B funds to purchase supplies, materials and resources.

c. Implement oversight measures at the state or district level needed to ensure that allocation guidelines are being followed and resources applied towards achieving the desired outcomes;

As in 3a, above, school reports on the use of program funds are a main mechanism for improved oversight of Hawaiian Studies Program funds to ensure allocation guidelines are being followed and desired outcomes are achieved.

d. Improve oversight and revise controls and guidelines over Hawaiian Studies Program funds allocated and carried forward to ensure that funds are not diverted from kupuna services unless justified by providing an equivalent program or an approval by the administrator. Such oversight should include periodic reviews of expenditure data for Hawaiian Studies Program funds spent by recipient schools;

See item 3a, above. Reports received are used in monitoring/revising "controls and guidelines." The Guidelines for Implementation of Hawaiian Studies Program funds in the program allocation notice clarifies the use of A1 and B funds. An item that principals and district administrators must answer on the end-of-the-year report, if "yes" is the response to carryover funds, then a response on how the carry over funds will be used, must follow. If an unsatisfactory response is submitted, the program manager will follow up with a call to the school or district office for further explanation or the program manager may request the school to reimburse the funds to the program at the school or district level. Requests by schools regarding the use of Hawaiian Studies Program funds is also monitored by DOE Budget Office which will ask for an approval from the program manager of the school's request to use the funds for purposes that may be outside of the allocation guidelines. The school must get approval from the program manager if requesting a transfer or change of use of HSP funds.

e. Identify expected outcomes and related performance measures for the services of kūpuna to provide the means for measuring accomplishment and as a basis for assessing equivalency for school programs that do not use kūpuna;

Ke Kulana Kūpuna (the pre-service orientation for Cultural Personal Resource or CPR) provides expectations for the roles and responsibilities at all levels (state, district, school). Program surveys must be submitted with the end-of-the-year Hawaiian Studies Program/Financial Report for 2009–2010. Outcomes are stated clearly in memos and announcements for Hawaiian Studies Program state office training sessions and services for all CPR. Evaluations are required and collected from all participants who attend state Hawaiian Studies Program in-service training sessions. District CPR coordinators are required to do the same for their evaluations. A summary report of the evaluations is prepared for documentation and for identifying the level of effectiveness in achieving the goals of the in-service training session. District program CPR Coordinators also require evaluations for their district kūpuna meetings, workshops, in-service training sessions, etc.) Key performance indicators (KPI) are included in the allocation notices. These KPI's are used as measurable goals to be achieved with the support of program funds (see item# 4b, above). The implementation plan for the amended BOE Policy 2104 includes the development of a statewide assessment tool for HSP.

f. Require schools receiving Hawaiian Studies Program funds but not using kūpuna services to demonstrate that alternative uses of funds are designed to achieve equivalent outcomes;

The "Selection of Cultural Personnel Resources" is clearly stated in the allocation notice guidelines for program id. 16807. Hawaiian Studies Program principals of schools contracting alternative services must submit their program plans in writing, if CPR/kūpuna were not hired at the school. The selection criteria for CPR is also mentioned in Ke Kulana Kūpuna, "schools may choose to contract community people to provide services related to Hawaiian culture, history, and language." Ke Kulana Kūpuna includes a list of priorities (or criteria) for the principal and program manager to use when someone or a group other than the kūpuna is hired. Furthermore, Hawaiian Studies Program funds are categorical funds with specific objectives that must be met. The objectives are listed within the purpose of the allocation notice. Written communication (may be via email) regarding the alternative use must be sent to the program manager to review and approve. The objectives are the same for the kūpuna component.

g. Consider paying kūpuna to attend mandatory training and making attendance of some training offered by district coordinators compulsory;

Most districts compensate the CPR for attending district meetings/training sessions. The seven Hawaiian Studies Program district coordinators hold monthly meetings. Training sessions are part of the agenda. Although the administrator may not be able to require CPR to attend meetings by the state or district offices, the administrator can strongly encourage the district to have the CPR attend the monthly meetings/training sessions. CPR or kūpuna are currently considered part-time teachers at the top of that pay rate scale. Therefore, a challenge will be to work through the current economic crisis to find funding to support "mandatory" trainings. Also, there is a cap of 17 hours per week that must be included in the formula.

h. Consider establishing a pro-active process for identifying and addressing the sue of culturally inappropriate instructions and materials; and

The Hawaiian Studies Program has provided in-service training sessions in the past on identifying culturally appropriate and relevant material for classroom teachers and for CPR. For the past three years, program resource teachers led literacy/place-based training sessions called Mookalaleo Palapala in which culturally appropriate selected texts/materials were presented and copies provided for each DOE kūpuna participant to take back with them for use at their schools. "Ohina Waiwai" was a primary source project developed especially for the secondary level teacher. A Hawaiian studies conference was held on March 04, 2008 for classroom teachers who teach Hawaiian culture and history (grades 4, 7 and 9) featuring culturally appropriate and standards-based material. This year's Hawaiian studies conference was held on January 14, 2010. The state office will continue to provide resource lists and materials/resources for Hawaiian studies/history teachers at the schools level. The Hawaiian Studies Program revised the 2002 criteria to evaluate textbooks for cultural appropriateness and will use this criteria during the Instructional Materials Review process scheduled for 2010-2011. A review panel will be formed for the Instructional Materials Review (IMR). The Kamehameha Schools Press' criteria were also used as a reference in developing or identifying the IMR criteria.

i. Pursue the planned revision of existing curriculum guides for the Hawaiian Studies Program, consistent with the vision stated in the 2000 implementation plan for the program.

The Hawaiian Studies Program educational specialist completed the review and revision of the Hawaiian Studies Program Guide (2005) in September 2009. The program guide is currently being reviewed by the Hawaiian Education Programs Section administrator. The final draft is to be completed by June 2010 to be submitted for the publication review process.

The Hawaiian Studies Program is in the planning stages for the updating, revising, and aligning the program curriculum guides (1984) to the Hawai'i Content and Performance Standards III (HCPS III). The National Core Standards federal initiative and the streamlining of HCPS III project by the Curriculum, Research and Development Group (CRDG) of the University of Hawai'i at Mānoa will have to be considered in the development process. The program's challenge is to infuse and integrate Hawaiian cultural perspectives throughout the curricula and content areas into the national core standards and CRDG's streamlined standards (HCPS III) once they are implemented by the department. The curriculum guide will be consistent with the vision statement in the 2000 implementation plan. A prototype for the curriculum guide is planned for June 2010.

Financial and Management Audit of the Moloka'i Irrigation System

Report No. 08-03

Recommendations	Affected Agency
1. Relating to management efficiency, the department should:	
a. Create a strategic plan specific to the MIS with measurable goals and timeline for implementation.	Strategic plan began in late 2008 with HDOA identification of the need to reduce irrigation system operating expenses through pursuit of energy savings. A mini-hydro for the Moloka'i Irrigation System (MIS) was proposed as part of the administration's legislative package in the 2009 legislative session as previous studies indicated that as much as 25-35 percent of energy costs could be saved annually. Unfortunately, the Legislature decided not to fund the request. In 2009, the MISWUAB agreed that an action plan focusing on identifying needed improvements to the MIS and additional water sources was a more productive use of time than developing a strategic plan. Improvements have been identified and information gathering on potential water sources has commenced and is on-going. The action plan will be completed in 2010.
b. Create policies and procedures related to the operations and maintenance of the MIS. Include detailed maintenance tasks and frequency to ensure optimal delivery of water through the system;	An operations and maintenance manual is still being drafted. A completed draft is expected by June 2010. Staff and budget reductions have hampered timely completion of this task. However, HDOA has implemented daily checklists tracking reservoir levels, rainfall, MPL inputs and outputs to maintain a record of overall operations of the irrigation system.
c. Make a full inventory of the MIS. Any future modifications should be filed in a central library within the Agricultural Resource Management Division; and	Completed March 11, 2008 and continues on an annual basis.
d. Develop a state readiness plan to address various emergency situations, that includes, at a minimum, a mode of communication, equipment needs, evacuation, and emergency water sources.	Emergency plan developed and equipment acquired.

2. Relating to operations and maintenance, the department should:

   a. Review previous professional studies performed on the system and identify and prioritize critical system needs to bring the MIS to proper working condition, then present its rationale to the Legislature; and

   Review completed. Priorities include:
   - Construction of a mini-hydro electric plant; (not funded)
   - Completion of SCADA (funded)
   - Replacement of concrete flume with pipe (not funded)
   - Removal of trees from reservoir (not funded)
   - Reduction of transevaporation loss (not funded)

   b. Assess the needs, materials, supplies, and equipment of the MIS. Obtain and install flowmeters to accurately measure water movement. Obtain equipment to measure water losses and system efficiency for future planning. Update current system for meter reading and billings;

   Emergency equipment, including personal protective equipment (PPE) acquired; staff wish list items including small hand tools, materials and pumps have been acquired and are in stock. An additional vehicle has been added to the MIS fleet. FY2010 executive budget included a request for $3.5 million to construct and install a SCADA/Telemetry System to provide data of system losses and typical flows to determine efficiency of operation and for future planning. This budget item was recently approved by the Legislature and funds were recently released by the governor.

   c. Train staff at all levels to ensure that the MIS has the opportunity to be exposed to new and better irrigation techniques; and

   Staff has been trained on dam safety and inspection techniques. Division will provide additional training for irrigation techniques as it becomes available.

   d. Review the current flow of information on the MIS in order to keep upper management abreast of the situation. The reporting structure needs to ensure that important information is not left at the operational level.

   Deputy currently receives monthly A/R and water consumption reports, revenue and expense reports, status reports provided as requested on repair and maintenance, personnel and other issues. Deputy provides the director with monthly updates on the MIS.

3. Relating to the MIS Water Users Advisory Board, the department should:

   a. Document the rationale behind the advisory board membership recommendations and procedural rules for the sake of transparency;

   Completed April 1, 2008. Comprised of legislative history of the advisory board and boards and commissions selection process was provided in writing to the MISWUAB.

   b. Consider adding additional homestead farmer seat(s) and develop procedural guidelines on how seats are filled; and

   Survey was sent out to 130 MIS water users to solicit their views on expansion of the MISWUAB and attitude towards receivables collections. The results:

	35 percent response; 75 percent homesteaders and 25 percent non-homesteaders. Findings about board expansion were incorporated into HB 1010 and SB 828. HB1010 and SB 828 were administration bills introduced in the 2009 legislative session to expand and modify the Moloka'i Irrigation system Water Users Advisory Board to include seats for a kūpuna homestead farmer user and the district supervisor of the Moloka'i District Office of the Department of Hawaiian Homes Lands voting as an ex-officio member. Both bills were held in committee and carried over to the 2010 session where they were not scheduled for hearing.
c. Define "homestead farmer" as it relates to the advisory board to remove any appearance of impropriety; and work with the advisory board to create a unified mission statement.	"Homestead farmer user" means an individual who meets the requirements set forth in the Department of Hawaiian Home Lands' rules, specifically sections 10-3-2 and 10-3-24, and who is farming on lands that are owned by the Department of Hawaiian Homes Lands and served by the Molokai irrigation system. This definition was included in HB 1010 and SB 828 and approved by the MISWUAB. Four versions of a mission statement have been developed by HDOA and have been presented to the MISWUAB for discussion and adoption.
4. Relating to community relations, the department should:	
a. Ensure the correct information is disseminated to the Moloka'i community; and	On-going. HDOA website is the primary vehicle to disseminate information along with the MISWUAB meetings in which sharing of financial and operational information is part of the regular agenda. HDOA has also reached out to the heads of the organizations represented on the MISWUAB, i.e. DHHL, Moloka'i Farm Bureau, Moloka'i-Lāna'i Soil & Water Conservation district, Hikiola Cooperative and offered to share information about the MIS with their organizations directly.
b. Address questions related to the MPL agreement and the action plan necessitated by the opinion of the attorney general.	HDOA is in regular contact with the Department of the Attorney General and has periodic meetings with other parties involved in reaching a resolution to the MPL agreement and the environmental

assessment requirement. HDOA continues to remind MPL I writing of their obligation to complete the EA and to provide a timeline for completion. HDOA also is tracking MPL's application to the PUC for a rate increase for its utilities companies and its legal battles with the Department of Health, all of which have an impact on the execution of any future pipeline agreement.

5. Relating to fiscal management, the department should:

   a. Work with the Legislature to identify the best means to fund the operation of the State's irrigation system, if the annual appropriation for the Irrigation System Revolving Fund is necessary;

For the immediate future, the annual legislative appropriation is critically important to the solvency of the Irrigation System Revolving Fund. During these difficult economic times and periods of drought, water fees alone cannot sustain the fund. Without the MPL rental income, the MIS, along with all other irrigation systems, would operate at a deficit. From FY06-FY09, the legislative subsidy amounted to $425,000 per year. In FY10, because of the economic downturn, the subsidy was reduced to $361,250. The alternative to the subsidy is to raise fees or increase water usage. However, raising fees would create a real hardship on farmers who are already struggling with shrinking margins and increasing water usage on most irrigation systems is not possible because of the drought and finite quantities of available water. As times improve, raising fees through administrative rules changes combines with legislatively funded system improvements that decrease water loss and improve water use management through technology are the best ways to move towards solvency. Legislative investment in mini-hydro and other alternative energy production will help to hold down operating costs.

   b. Consider adding staff to the fiscal office that is proficient in the creation of GAAP financial statements. If this is not feasible, ensure that CPA firms contracted to compile financial statements are independent of any further work (that is, audit services);

Completed. Different firms compile and audit HDOA financial information.

   c. Develop the ability to segregate financial information on a system by system basis, for use as a planning tool; and

Completed and currently being done.

d. Review receivables collection process, and if necessary consider employing more aggressive tactics.

In the previously mentioned survey (Recommendation 3b), HDOA asked "What action(s) do you suggest to increase the amount of collections which will be available to improve the MIS? We received various responses ranging from "shut the water off immediately" to "forgive the account." Most suggested some form of payment plan with extended terms.

In March 2009, HDOA held a community meeting to present the receivables problem pointed out by the auditor and solicit input as well as present the survey findings. Primary objections to collections by attendees was the issue of perceived fairness, i.e. previously, the Bankruptcy Court had forgiven 25 percent and 40 percent respectively of receivables owed to the MIS by two non-homestead companies. Homesteaders felt that they should receive similar "forgiveness."

The MIS receives regular reports on status of delinquent accounts from HDOA. Discussions have been held with OHA and DHHL about working together to resolve the collections problem. In light of high unemployment on Moloka‘i and stress on the farmers, HDOA announced to the MISWUAB that until HDOA, OHA and DHHL can work out a coordinated collections plan, the HDOA will hold off on aggressively trying to collect the receivables. In the meantime, we continue to emphasize to board members the importance of the receivables to the operation of the MIS and try to put delinquent account holders on voluntary payment plans.

Sunrise Analysis: Debt-Management Service Providers

Report No. 08-04

Recommendations	Affected Agency
1. We recommend that debt-management service providers be regulated in Hawai'i. However, we recommend that the amendments to the UDMSA issued as a result of the November 2007 UCCUSL meeting be taken into account before enacting House Bill No. 184. Language is provided in Appendix A. 2. We recommend that for-profit entities be allowed to provide credit counseling and debt settlement services in Hawai'i. As such, only the changes to sections -4, -5, or -9 of H.B. No. 184 in the revised version of the UDMSA are needed. However, if the Legislature decides that for-profits should be prohibited from providing debt-settlement and credit-counseling services, then section -4, -5, and -9 of H.B. No. 184 should be amended. Language is provided in Appendix A.	House Bill No. 184 was not enacted.

Study of the Social and Financial Impacts of Mandatory Health Insurance Coverage for Use of Intelligent Medical Vigilance Services in Acute Care Hospitals

Report No. 08-05

Recommendations	Affected Agency
No recommendations.	

Sunset Evaluation: Mental Health Counselors

Report No. 08-06

Recommendations	Affected Agency
1. Amend Section 26H-4(b), HRS, to remove the repeal date of December 31, 2008 for the licensing of mental health counselors. Language is provided in Appendix B.	On June 27, 2008, Governor Linda Lingle signed Act 206, which repealed sunset provisions for Chapter 453D, Hawai'i Revised Statutes, relating to licensed mental health counselors. Act 206 added licensed mental health counselors to the list of mental health practitioners receiving covered benefits.
2. Consider amending Chapter 431M, HRS, on Mental Illness, Alcohol and Drug Treatment Insurance Benefits, to add licensed mental health counselors to the list of practitioners who can diagnose and treat these disorders. Language is provided in Appendix B.	Under Act 206 Chapter 431M, HRS, was amended to include licensed mental health counselors to the list of practitioners who can diagnose and treat alcohol dependence, drug dependence and mental illness.

Sunrise Report: Condominium Commission

Report No. 08-07

Recommendations	Affected Agency
We recommend that Senate Bill No. 1837, 2007 Regular Session not be enacted.	Senate Bill No. 1837, 2007 Regular Session was not enacted.

Financial Review of the Hawai'i Health Systems Corporation

Report No. 08-08

Recommendations	Affected Agency
We recommend to the corporation that it review, assess, and revise its internal procurement policies and practices to comply with the procurement code to ensure the prudent use of public monies.	The Hawai'i Health Systems Corporation's (HHSC) corporate procurement policies and procedures comply with the procurement code to ensure the prudent use of public moneys. On an ongoing basis, HHSC will conduct internal review and assessment of corporate procurement policies and may require revisions so as to maintain concurrence with state procurement laws as modified.
We further recommend that the corporation take the following actions with respect to capital assets:	
• Develop and implement a formal capital asset tracking policy. The policy should address the initial input of capital assets into the tracking system, ongoing physical tracking of existing capital assets, and procedures for the disposal and/or removal of capital assets. The policy should be uniformly and consistently followed at all facilities.	With the implementation of Act 290 and the adoption of regional policies and procedures, custodial control over capital assets have been granted to each region. Each region has implemented policies regarding the acquisition, disposal, and tracking of capital assets. HHSC has adopted corporate-wide policies regarding the acquisition, and disposal of capital assets in fiscal year 2009.
• Procure and implement an automated capital asset inventory system. The system should enable the corporation to input the assets upon receipt and automatically generate identification tags. The system should also enable the corporation to track the location of its assets at any given point in time, and enable the corporation to generate capital asset inventory reports by location to assist with the annual physical inventory process.	Certain facilities were already using an automated capital asset inventory system during the time of the last audit. As a system-wide automated capital asset inventory system has not been procured due to lack of available funds. Management agrees that a system-wide capital asset inventory system would be of benefit to the corporation; however, management must also be prudent in allocating scarce funds to those information system projects that are critical to delivering quality patient care to the communities HHSC serves.
• Consider involving the internal audit function with the ongoing monitoring of the existence of capital assets.	Internal controls over capital assets are considered in the risk assessment process that HHSC's internal audit function goes through every year. Given the scarcity of funds and the fact that HHSC has one internal auditor, the internal auditor works on projects that are identified as critical areas of risk.

The corporation should take the following actions:

- Ensure that adequate resources are devoted to more frequent reviews of user account access and terminated user access. User lists should be generated and distributed to department heads for review on a quarterly basis, and department heads should communicate changes and/or removals to the IT department for corrective action in a timely manner.

Recommended action was taken with existing resources and work assignments. Additional staff resources have not been added due to cost constraints and lack of approved budget increases.

User accounts are verified against the separated employees list generated by the human resources department on a monthly basis.

Specific to the McKesson Series hospital information system which runs on IBM AS/400, user accounts are automatically disabled after 30 days of no activity. A program runs nightly to verify account activity.

- Grant third party access to systems and applications only on an "as needed" basis.

Recommended action was already in place and continues. Third-party access is granted based on contractual agreements, and scope of work describing the need for access.

- Restrict third party access to those systems and/or functions within systems that they are working in to prevent possible inappropriate access or modification to sensitive data.

Recommended action was already in place and continues. Third parties are only granted access to the area/functions in which they need to work.

- Closely monitor the changes and activities of third party contractors during the service period through utilization of available automated system auditing tools.

Recommended action was taken. Procedures are in place and continue. There are controls in place to monitor when McKesson (third party vendor supporting the hospital information system) logs on the system, when they are logging on, any program changes made, and who approved the access every time they access the system.

- Immediately revoke third party access to systems upon completion of services.

Recommended action was taken. Third-party contract end-dates are tracked and are automatically disabled on that end-date. Recommended action was not taken to implement automated auditing and logging functions due to lack of funding. However, manual audits of logs are performed.

- Implement automated auditing and logging functions on its systems in order to monitor unauthorized activity. Instances of unauthorized access and/or activity should be investigated and resolved in a timely manner.

The FTEs assigned to HHSC's Information Technology Department, like other HHSC support departments, has not grown over the past seven years. This has been due primarily to budget constraints. However, the HHSC ITD has been consistent in its recommendations that the HHSC should increase the investment in information technology tools and related support resources. The HHSC continues to struggle to balance the competing requests for products and services.

The corporation should:

- Consider utilizing a billing system that allows third-party payor rates to be uploaded and automatically applied to patient accounts at the time services are rendered in order to improve the accuracy of financial reporting. In addition, the corporation should consider centralizing its billing and cash receipting functions to ensure accurate and timely submission of claims reimbursements to third-party payors and posting of cash receipts in a standard manner.

HHSC has considered software tools that allow third-party payor rates to be uploaded and automatically applied to patient accounts at the time services are rendered. Due to the cumbersome functionality of that particular software, it was not implemented. Currently, HHSC has developed and implemented a systematic automated tool to estimate the collectability of patient accounts receivable for financial reporting purposes. Centralized billing, cash posting, and collections follow-up is a good idea if all the revenue cycle processes that precede the billing function are also standardized utilizing one information system platform. This would include registration, coding, charge development and charge capture. With the passage of Act 290, each region is independently procuring its own revenue cycle processes to accommodate that system.

- Ensure that all claims for reimbursement are properly prepared and submitted to third-party payors in a timely manner. Emphasis on proper preparation of claims should reduce the number of rejections from third-party payors, improve the timeliness of cash collections, reduce credit losses, and alleviate time burdens on business office staff.

East Hawai‘i region uses McKesson's E-Premis to adjudicate claims. All other regions use McKesson's claims administrator. Both of these claims are checked against payor-specific edits to ensure that all required information is provided on the claim before it will pass the payor edits.

- Perform daily reconciliation of all payments received to payments posted to the billing system, which will ensure that all payments/contractual adjustments are recorded in the billing system in a timely manner.

Cash receipts are entered into a cash receipts journal daily. It is batched with a control amount and posted to the patient's account in McKesson Series (A/R system). The cash receipts journal is then reconciled to the McKesson Series daily cash journal to ensure completeness and accuracy of the posting. Bank reconciliation is performed monthly to reconcile cash receipts per the bank statement to the general ledger.

- Ensure that cash receipts are posted to the proper billing cycle. The nature and cause of credit balances in individual patient accounts should be

Batched cash receipts are reconciled to McKesson Series daily cash journal to verify the completeness and accuracy of the posting of insurance, billing investigated and resolved on a monthly basis.

cycle, account number, and amount. The daily cash journal will identify any credit balances due to the prior day's posting entries. This will alert the staff to research the reason for the credit balance(s) and take the proper corrective action to resolve the credit balance. Each region has developed a credit balance resolution plan which has been reviewed by the HHSC board of directors.

The corporation's lack of cooperation prevented the State Auditor and contract auditor from discharging their examination duties as granted under Section 23-4, HRS. In the future, the corporation should provide more cooperation in audits performed by or on behalf of the State Auditor.

The delays in the review and agreed-upon procedures were due to the following:

- Ineffective and inefficient communication amongst all parties (no face-to-face meeting, except on January 24, 2008).
- Lack of industry knowledge on the part of Accuity (as demonstrated by the inappropriate procurement findings and the comment regarding the recording of revenues and receivables).
- Unreasonable demands made by Accuity and the Office of the Auditor regarding the signing of the management representation letter.

Should audits be conducted in the future, HHSC requests that the audit process be more transparent and that the firms chosen for these audits have more experience in accounting and auditing hospitals and health care organizations.

We recommend that the corporation's management evaluate the impact of the error noted to the fair presentation of the corporation's consolidated financial statements as of and for the year ended June 30, 2006. We also recommend that fiscal management work with DAGS to ensure appropriate oversight over state appropriations so that such an error does not reoccur and that the corporation's MBP 430 reports include all appropriations that belong to the corporation.

Subsequent to the audit, the state comptroller issued Memorandum No. 2008-07, which clarified the reporting requirements for general and general obligation bond appropriations for component units, which applies to HHSC. HHSC is in compliance with the comptroller's memorandum and has recorded the appropriate entries as shown in HHSC's fiscal year 2008 financial statement audit report.

We recommend that the HHSC Corporate Board review the compensation packages of its executives. While not bound by state salary schedules, the board should evaluate the aptness of executives' compensation in comparison with other healthcare, insurance, and non-profit organizations, and/or other state agencies, as deemed appropriate. In evaluating executive compensation, the board should consider total compensation and benefits, including the amount or

There are no housing allowances or bonuses in current corporate executive packages. The retirement benefits are the same as for other employees of the State. The interim CEO and three other corporate office executives have agreements that provide for six months to a year's severance in the event there is a reorganization resulting in demotion or termination. There are no other severance benefits in effect at the corporate office.

necessity of housing allowances, bonuses, retirement benefits, and severance packages.

An executive compensation study was conducted by Mercer, a nationally recognized human resources consulting firm in January 2007. A more recent study has not been commissioned due to the lack of funds. According to the 2007 study, the compensation of the interim PCEO (who is also general counsel), the interim CFO (who is also the comptroller), interim CIO, interim COO, VP and director of human resources, and VP of communications and director of public affairs, all fall at or below the 25th percentile for similar-sized health care organizations across the country. To the best of our knowledge, these compensation packages are also substantially lower than their Hawai'i private hospital counterparts. Recruitment and retention of this expertise requires payment above typical State salaries. There are no state agency positions that compare to these positions which require substantial knowledge of the health care business.

The corporate board is not involved in setting the compensation packages of the regional executives since the passage of Act 290 (2007).

Performance Audit on the State Administration's Actions Exempting Certain Harbor Improvements To Facilitate Large Capacity Ferry Vessels From the Requirements of the Hawai'i Environmental Impact Statements Law: Phase I

Report No. 08-09

Recommendations	Affected Agency
1. The Environmental Council should:	The Environmental Council did not provide an update on our recommendations.
a. Amend the EIS rules to require agencies to document and file records of their findings that address HAR 11-200-8(b) for actions that have been determined to be exempt and identify the kinds of documents the agencies must maintain for actions that have been determined to be exempt;	
b. Amend the EIS rules to require the director of the OEQC to consult with the Environmental Center of the University of Hawai'i before the director issues an opinion of whether an individual action is exempt;	
c. Amend the EIS rules to require that agencies should review, update, and submit their exemption lists every five years—or sooner if the Environmental Council determines that changes are required—to the Environmental Council for review and concurrence;	
d. Amend the EIS rules to require the agencies to contact the director of the OEQC as one of the required outside agencies or individuals to consult prior to reaching a decision regarding an exemption determination;	
e. Amend the EIS rules to require agencies to consult with outside agencies and individuals	

as the Environmental Council deems appropriate prior to reaching a decision of an exemption determination; and

f. Amend the EIS rules to ensure the OEQC provides training and assistance to agencies to ensure statutes and rules are complied with when they propose actions subject to the EIS law.

d. Amend the EIS rules to require the agencies to contact the director of the OEQC as one of the required outside agencies or individuals to consult prior to reaching a decision regarding an exemption determination;

2. The Office of Environmental Quality control should:

The OEQC did not provide an update on our recommendations.

a. Establish a process by which the environmental Council is notified when the director of the OEQC receives a request for an opinion or consultation from an agency if a proposed action is exempt and provide the Environmental Council a copy of the resulting opinion and any consultation records;

b. Establish a process by which the director of the OEQC consults with the Environmental Center of the University of Hawai'i before the director issues an opinion if a proposed action is exempt;

c. Ensure that documentation of such environmental exemption notices and opinions is maintained by the OEQC and is made available for public review; and

d. Establish guidelines including a checklist for use by agencies to ensure that all of the steps required by Section 11-200-8(b), HAR, to protect the environment have been properly addressed for a proposed action before reaching a decision of an exemption determination.

3. The Department of Transportation Harbors Division should:

DOT

a. Modify its record-keeping process to facilitate public review of exemption determinations.	The Harbors Division has modified its record keeping process to facilitate public review of the exemptions. In addition, to having the exemption filed in the associated project file, the division has initiated filing of exemptions in a central repository file. This file is located within the Harbors engineering branch.

Sunrise Analysis of the Industrial Hygiene, Safety, and Health Physics Professions

Report No. 08-10

Recommendations	Affected Agency
We recommend that Senate Bill No. 2075 not be enacted.	Senate Bill No. 2075 was not enacted.

Performance Audit on the State Administration's Actions Exempting Certain Harbor Improvements To Facilitate Large Capacity Ferry Vessels From the Requirements of the Hawai'i Environmental Impact Statements Law: Phase II

Report No. 08-11

Recommendations	Affected Agency
1. The Environmental Council should:	
a. Establish a process to provide guidance to agencies in determining whether an action is projected to have a significant environmental impact under Section 11-200-8(b), HAR, which would make an exemption inapplicable.	The OEQC did not provide an update on our recommendations.
b. Amend the EIS rules to ensure the OEQC provides training to state and county agencies to clarify their roles and obligations in the exemption determination process.	The Environmental Council did not provide an update on our recommendations.
c. Clarify the agency consultation process regarding proposed exempted actions in Section 11-200-8(b), HAR, to ensure that an outside agency's or individual's non-response to a consultation letter is not left open to interpretation by the requesting agency that it has met its responsibilities to consult with outside agencies before determining an action is exempt. Ensure that agencies make clear in their consultation letter that the purpose of the letters is to comply with the administrative rules and that a response is vital towards fulfilling these regulatory requirements and that should an outside agency believe it does not have jurisdiction or expertise as to the propriety of exemption as required in the rules, it should inform the requesting agency of this position.	

d. Establish clear definitions of cumulative and secondary impacts for water carrier operations and the scope of their coverage. The Environmental Council should work with all affected stakeholders to build consensus on these definitions and how they should be addressed to enable agencies to conduct an assessment that meets the requirements of the EIS laws and rules. A consensus should also be reached as to whether water carriers currently conducting business in Hawaiʻi will be subject to such a review or whether such changes will apply only prospectively.

2. The Department of Transportation Harbors Division should:

DOT

a. Investigate options for a new barge mooring and fender system for the pier in Kahului Harbor that can better withstand high surge and winter storms until a permanent facility is available or until Hawaiʻi Superferry Inc. retrofits its first ferry with an onboard ramp.

While Hawaiʻi Superferry (HSF) was in operation in the State of Hawaiʻi, DOT Harbors submitted a permit request to the Army Corps of Engineers to modify and improve the existing Kahului barge mooring system. Following the Hawaiʻi Supreme Court ruling on March 16, 2009, HSF ceased operations on March 29, 2009 and departed Hawaiʻi. HSF subsequently filed for bankruptcy and surrendered possession of M/V *Alakai* and M/V *Huakai* to the U.S. Maritime Administration (MARAD). M/V *Huakai* was built with an on-board ramp. M/V *Alakai* may be modified with an on-board ramp. With both M/V *Alakai* and M/V *Huakai* in the possession of MARAD and HSF in bankruptcy, DOT Harbors has repositioned the Kahului barge to Pier 1B where it enjoys more protection from the elements until such time as DOT Harbors can have the Kahului barge relocated to the protected waters of Honolulu Harbor. No further work on the mooring system at Kahului is warranted at this time.

b. Determine responsibility for barge maintenance and resolve financial liability issue with Hawaiʻi Superferry Inc. and Healy Tibbitts regarding barge damage and additional unplanned expenses such as tug services.

Subsequent to M/V *Alakai* departing the State of Hawaiʻi, HSF filed for bankruptcy and surrendered the possession of M/V *Alakai* and M/V *Huakai* to the U.S. Maritime Administration. All financial issues are currently within the jurisdiction of the U.S. Bankruptcy Court with the State of Hawaiʻi represented by counsel.

c. Establish an exit strategy for its interim barge-and-ramp system, which will likely be render obsolete soon.	With HSF in bankruptcy, the barges are currently out of service. DOT Harbors has been entertaining expressions of interest on the barges and has consulted with the State Procurement Office on disposition procedures. Given the current economic climate, there have been no serious offers for the barges, although DOT Harbors remains receptive.

Hawai'i Broadband Task Force Final Report

December 2008

Recommendations	Affected Agency
Enact legislation that enshrines in statute a forward-looking vision to guide policy and action: Hawai'i recognizes broadband as critical infrastructure for the 21st century. Public and private sectors shall strive together to enable every home and business in the State to access 100mbps upstream and downstream broadband service at prices comparable to those in leading economies of the world by 2012 with expandability to 1000mbps thereafter: Every home and business shall be capable of using this capability for educational, economic, social, cultural and medical advancement.	Legislature
Funding Approach: $0 required to establish the vision. Recommendation 2: Create a One-Step Broadband Advancement Authority Enact legislation that consolidates any and all State and County, wired and wireless, voice, data and video regulation, franchising and permitting functions into a one-step self-funded expert broadband advancement authority in the State Department of Commerce and Consumer Affairs that provides primary leadership for achieving Hawai'i's broadband vision through both short-term and long-term strategies. Headed	Legislature

by a Broadband Commissioner and guided by a statewide advisory group including County representation, this office would:

- Consolidate all broadband-related activities currently in the PUC (telephone) and DCCA (cable TV) along with applicable County functions to serve as a one-stop shop that expedites processing for all regulatory, franchising and permitting functions normally available to state and local governments,

- Create a level playing field for broadband providers by rationalizing fees and requirements to the extent permissible under federal law,

- Promote maximum sharing and equitable access to all elements of broadband infrastructure through permitting, regulation, building codes and other means permissible under federal law,

- Implement efficient, consistent and equitable policies on behalf of the state and all counties while remitting revenue for all leases and easements to the appropriate entities,

- Offer incentives that promote competitive broadband access at affordable costs,

- Provide advocacy at all levels of government on behalf of broadband service providers to help overcome unnecessary barriers to progress,

- Implement an ongoing program of data collection and mapping to enable Hawai‘i's policy-makers to monitor progress in achieving the committee's broadband vision, and

- Proactively develop new partnerships with the federal government to implement modern approaches to advancing broadband infrastructure and services throughout Hawai‘i, including in rural and underserved areas.

Funding Approach: The Authority would consolidate existing positions, resources and functions to increase efficiency and would use a self-funding model by reallocating existing applicable regulatory fees, e.g. at PUC

Legislature

and DCCA to support its activities. No new appropriations would be required or requested.

Recommendation 3: Welcome Trans-Pacific Submarine Fiber to Hawaiʻi

Reduce the barriers to landing new fiber in Hawaiʻi through a shared use, open-access, fiber-ready, international submarine cable landing station on Oʻahu that is made available to all projects on a fair and equitable basis. The station should be privately managed with users sharing the costs, and could be a new or existing physical facility. Government might provide land, permitting assurances and other assistance identified through an open RFI/RFP process to identify one or more private partners interested in building and/or operating a station that could welcome new fiber systems to Hawaiʻi. The task force recommends that the University of Hawaiʻi lead an RFI/RFP process to create this facility with State and County assistance and support.

Funding & Approach: Costs unknown until the RFI/RFP is issued.

Recommendation 4: Stimulate Demand for Broadband

All government agencies should actively develop and deploy public services that apply broadband capabilities in their areas of responsibility. In addition, a pilot program should be established to provide training and repurpose surplus computers from Hawaiʻi businesses and government departments for use in low-income homes, schools, libraries, parks and community centers. This could be done in partnership with the Department of Public Safety Corrections Division and education and social service agencies.

Funding & Approach: Initially focus on services where cost-savings and efficiency gains are greatest.

In January 2010, the Department of Commerce and Consumer Affairs announced that it was awarded a $1.9 million federal grant to help the State map broadband availability statewide. The online database, funded by the American Recovery and Reinvestment Act, is part of an initiative by the National Telecommunications and Information Administration of the U.S. Commerce Department.

Office of the Auditor Appropriations and Expenditures on a Budgetary Basis for the Fiscal Year Ended June 30, 2009

Appropriations

Act 1, SLH 2008 (operations)	2,692,572.00
Act 1, SLH 2008 (special studies)	150,000.00
Act 1, SLH 2008 (Audit Revolving Fund)	5,600,438.00
	$8,443,010.00

Expenditures

Staff salaries	1,922,461.00
Contractual services (operational)	378,574.00
Other expenses	174,361.00
Special studies	150,000.00
Contractual services (audit revolving fund)	5,600,438.00
	$8,275,834.00

Excess of Appropriation Over Expenditures

Act 1, SLH 2008 (operations)	385,289.00
Act 1, SLH 2008 (special studies)	–
	$385,289.00

The Office of the Auditor

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

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

1. **Financial audits** attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.

2. **Management audits**, which are also referred to as performance audits, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called program audits, when they focus on whether programs are attaining the objectives and results expected of them, and operations audits, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

3. **Sunset evaluations** evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.

4. **Sunrise analyses** are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.

5. **Health insurance analyses** examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.

6. **Analyses of proposed special, 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.

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