STATE OF HAWAI‘I

Office of the Auditor

2013 ANNUAL REPORT

Jan K. Yamane

Acting State Auditor

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STATE OF HAWAIʻI
Office of the Auditor

Mission of the Office of the Auditor

Improving government through independent and objective analyses.

The Honorable Members of the Legislature
The Honorable Neil Abercrombie, Governor

March 14, 2014

Ladies and Gentlemen:

I am pleased to present this Annual Report, which highlights the efforts of the Office of the State Auditor in 2013. This report, and the audits and special studies it summarizes, address many of the major issues facing state government.

Last year, we came across many eye-catching numbers that jumped off the page, indicators of questionable spending that seemed to defy sound financial principles or sometimes even common sense. While those numbers make for a catchy newspaper headline, it's what's behind (or not behind) them that tell the real story, because they are the mechanisms that inform and drive decisionmaking. Our *2013 Annual Report* shows that we identfy and analyze the issues behind the numbers and offer sound recommendations to effectively address them.

Sincerely,

Jan K. Yamane

Jan K. Yamane
Acting State Auditor

Behind the Numbers

Jan K. Yamane, Acting State Auditor

It's a nice house, with a metal roof, a long, inviting porch, and plenty of parking out front. But worth $1 million?

In *Procurement Examination of the Department of Transportation*, Report No. 13-04, released last May, we found that the Department of Transportation (DOT)–Airports Division paid $973,586 for a field office at the Kahului Airport. The number jumps off the page, especially when you consider that the nearly seven-figure fee was for construction costs only (the land, of course, belonged to the State) and the original bid was for $820,419, which also jumps off the page.

Kahului's $1 million field office

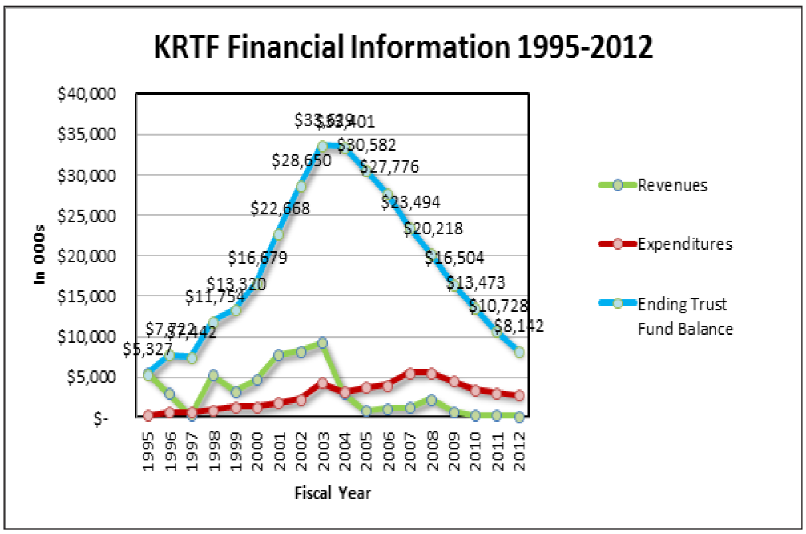
The department explained that they decided to purchase the 1,764 square-foot, three-bedroom kit home because the field office would be used by numerous contractors who would be working on multiple construction projects over a 20- to 30-year period. They said they had done a cost analysis and determined that building the home was more cost effective than buying or leasing a trailer for a field office, a common practice in the construction industry. However, the department couldn't provide any evidence that such a cost analysis was ever performed, and when we did one ourselves, we found the department could have paid $45,095 for a new 48' x 12' trailer or rented one for 20 years for $266,513. Those numbers jump off the page, too—but for an entirely different reason.

In 2013, we saw a lot of eye-catching numbers, indicators of questionable spending and decisionmaking that seemed to defy sound financial principles, or sometimes even common sense.

In *Management and Financial Audit of the Deposit Beverage Container Program*, Report No. 13-08, we found that over the past three fiscal years, the program paid out $28 million more in handling fees than it collected in container fees. In *Audit of the Kahoʻolawe Rehabilitation Trust Fund*, Report No. 13-06, we found that the trust fund administered by the Kahoʻolawe Island Reserve Commission (KIRC), which contained $33.6 million in FY2004, now has only $6.5 million. At the commission's current rate of spending, the fund will be depleted in two years. Finally, in *Audit of the Department of Hawaiian Home Lands' Homestead Services Division*, Report No. 13-02, we found that from FY2009 to FY2011, the total amount of the department's loans at least 30 days delinquent more than doubled, from $35.2 million to $72 million and rose by another $11.1 million in FY2012.

While those numbers make for catchy newspaper headlines, it's what's behind (or not behind) them that tells the real story. What are the agency's policies, procedures, plans, and processes? Did they follow them? Do they have any? To some, this may sound like a lot of bureaucratic red tape, but they are the mechanisms that inform and drive decisionmaking but, in the end, determine results.

For instance, the **Deposit Beverage Container Program's** $28 million deficit was likely the result of a process that relies on self-reported data from beverage distributors and redemption centers. Under the current system, there is little to prevent distributors from under-reporting the number of beverages sold, which lowers their payments to the State. Likewise, redemption centers can easily over-report the amount of recyclable material they receive, which increases the amount they are reimbursed by the State. In other words, the DBC Program is leaking money from both ends.



Kahoʻolawe, which the U.S. Navy used as a bombing range for nearly 50 years, underwent a decade-long, $400 million clean-up that cleared 75 percent of the island of explosives. At the conclusion of that effort in 2004, KIRC took possession of the island and a trust fund, which was to finance additional environmental restoration and other archaeological and educational activities on Kahoʻolawe. The commission's vision for the island is one where "forest and shrublands of native plants and other biota clothe its slopes and valleys"; however, we found that it does not have a clear, detailed, or comprehensive restoration plan to realize this vision. Without such a guiding document, which would provide things like goals and timelines, it's easy to see how spending spun out of control.

The **Department of Hawaiian Home Lands** administers about 200,000 acres of public lands set aside to be leased to native Hawaiians for residential, ranching, and farming purposes. Among many benefits, the department provides financial assistance through direct loans or loan guarantees for home construction and other uses.

We found that the department had outdated criteria for determining whether to issue a direct loan or not. For instance, it had not reassessed its loan interest rates since 1995 or updated its estimate for calculating household expenses in a decade. This estimate is an important tool for determining loan eligibility, so the department may have been underestimating applicants' cost of living and miscalculating their ability to pay off loans, which has likely contributed to the department's 32 percent loan delinquency rate, an unfortunate outcome for everyone involved.

These examples illustrate that eye-catching numbers and outdated or non-existent policies and procedures aren't just abstracts—they can have profound effects on people's lives.

Office of the Auditor Staff

Acting State Auditor
Jan K. Yamane

Deputy Auditor
Rachel Hibbard

Administrative Deputy Auditor
Ron Shiigi

General Counsel and Human Resources Manager
Kathleen Racuya-Markrich

Assistant Auditor
Ron Rawls

Associate General Counsel/ Analyst
Mark Morita

IT Coordinator
Russell Wong

Assistant IT Coordinator
Jan Kaya

Editor
David Choo

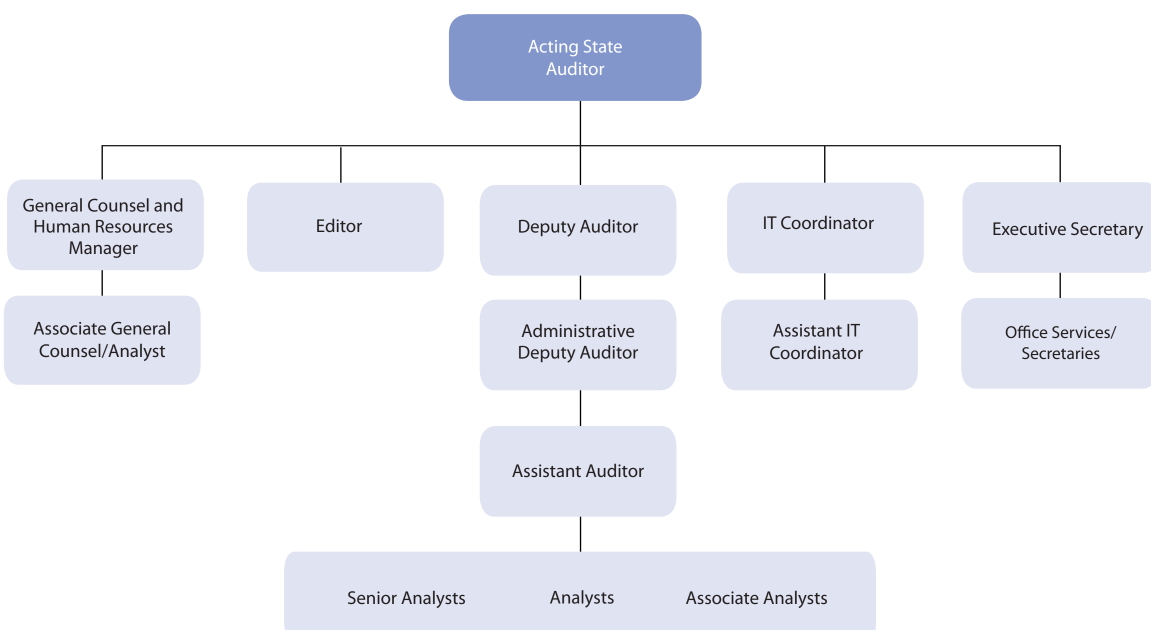
Senior Analysts
Adelyne Hayamoto
Lisa Toma
Jerry Wong

Analysts
Melissa Fuse
Sean Hao
Roy Kawamoto
Norman Lee
Jayna Oshiro
Greg Wiles
Steve Wilson
Stewart Yerton

Associate Analysts
Ryan Kanaka'ole
Greg Matsumoto
Trevor Tamashiro

Office Services
Debbie M.A. Higa
Pat Mukai
Leanda Santos

Organization of the Office of the Auditor



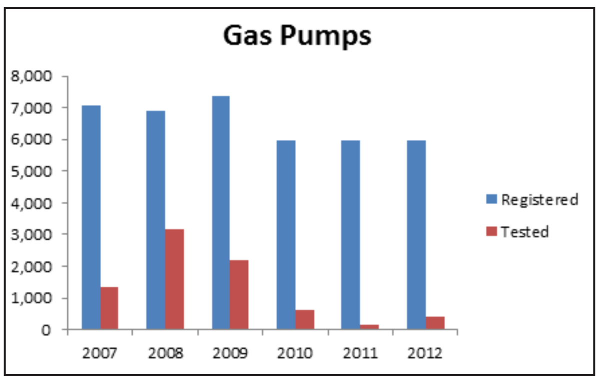
Summary of 2013 Reports

Management Audit of the Department of Agriculture's Measurement Standards Branch

Report No. 13-01, March 2013

The Measurement Standards Branch is responsible for programs that ensure transactions or processes involving measuring instruments, product standards, and packages of consumer commodities, are accurate and fair to all parties involved, including the inspection and testing of scales, petroleum pumps, and taxi meters.

The 2012 Legislature asked our office to focus on the current state of the Measurement Standards Branch and make recommendations on the resources needed to fully implement its purpose and responsibilities. However, during the planning of our audit, we found that the branch had not fully deployed all resources appropriated by the 2012 Legislature. Therefore, we determined that a management audit of the program as requested by the Legislature was premature and could not be conducted. We limited our objectives to evaluating the current status of the branch to carry out its regulatory functions given the resources available and assessing management's planning efforts to improve its program.



Because of budget shortfalls since FY2010, the branch experienced a significant decline in the number of inspector positions. At the time of our audit, six of the branch's 11 positions were vacant, and the branch's two remaining inspectors could perform only eight of the branch's 15 key regulatory functions. In addition, inspections of measuring devices had fallen significantly. From FY2007 to FY2009, the branch inspected an average of 21 percent of small scales, 10 percent of medium scales, and 31 percent of gas pumps registered in the state. However, from FY2010 to FY2012, the branch inspected an average of only 2.6 percent of the small scales, less than 1 percent of medium scales, and 6.7 percent of the registered gas pumps. Moreover, enforcement functions on the neighbor islands and packaging and labeling inspections throughout the state had ceased as of 2009.

Recognizing these deficiencies, the 2012 Legislature appropriated $420,000 to restore a program manager and three new inspector positions. However, since the beginning of FY2013, the branch has been unable to fill these positions because the acting administrator has not addressed questions raised by the department's personnel office regarding the program manager position. As a result, the branch has been unable to resume its inspection duties or fulfill its statutory responsibilities.

When the branch is able to hire new inspectors and fully resume enforcement activities, it will need the assistance of private service agencies to carry out its inspection duties. Consequently, the branch will need to monitor these service agencies and their activities. However, we found that the branch had no plans, policies, or procedures for such oversight. In addition, the branch lacked a strategic plan for its measurement standards program. Without such a plan, management did not have a well-supported basis to determine priorities, guide decisions, or demonstrate the effectiveness and efficiency of its program. These planning deficiencies were exacerbated by the acting administrator's lack of time to devote to necessary administrative duties.

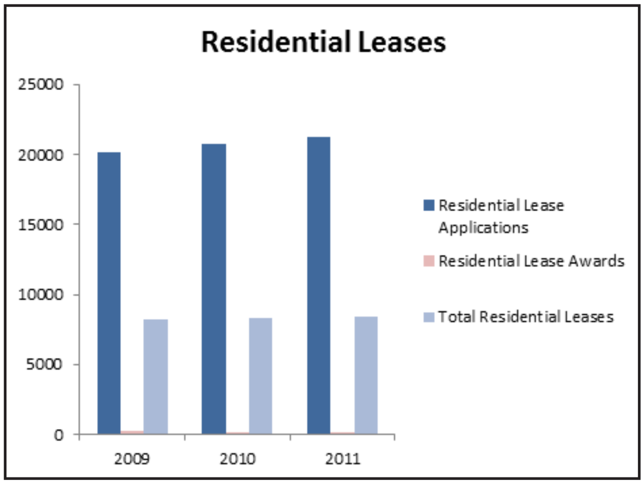
Audit of the Department of Hawaiian Home Lands' Homestead Services Division

Report No. 13-02, April 2013

The Department of Hawaiian Home Lands (DHHL) administers about 200,000 acres of public lands set aside for agricultural and pastoral use to be leased to native Hawaiians (those with at least 50 percent Hawaiian blood), upon which they may live, farm, ranch, and engage in commercial or other activities. The department, led by a nine-member commission, must provide financial and technical assistance to native Hawaiians, which enables them to enhance their economic self-sufficiency and promote community-based development. According to the Hawaiian Homes Commission Act of 1920, this will enable the traditions, culture, and quality of life of native Hawaiians to be self-sustaining.

We found that the commission's roles and responsibilities were not clearly defined and that it lacked the tools for prudent trust administration. For instance, the department did not provide sufficient monthly delinquent loan totals or other data to the commission and had not done any meaningful analysis of direct loan program profitability or other current and upcoming obligations. With little information on the department's more than $588 million in direct loans, loan guarantees, and insurance obligations, the commission was unaware of the potential impact of its loan award decisionmaking, making it difficult to meet its fiduciary duties.

We also found that the department had vague policies and few standards governing administration of its direct loan program. For example, the department and commission had not reassessed loan interest rates since 1995. In addition, an estimate used to calculate household expenses for determining loan eligibility had not been updated in a decade, meaning the department was underestimating the cost of living and miscalculating lessees' ability to pay off loans. As a result, the department may be making loans to borrowers who cannot afford to make their payments.



The department agreed that its higher risk portfolio requires active loan monitoring and collection policy enforcement to control delinquent loans. The department recognized our concern that lax management of lessee loans undermines its ability to serve all beneficiaries and said it would aggressively look at loan delinquency issues and take action against the most chronic delinquent borrowers. It will also review best practices to improve internal controls and provide adequate staffing for its loan program.

The department disagreed with our assertion that an external benchmark such as Hawai'i's subprime mortgage delinquency rates would help commissioners identify whether DHHL's delinquency trends diverge from the rest of the market. The department asserted it was unfair to judge DHHL's performance solely on standards established by commercial lenders.

Report on the Implementation of State Auditor's 2010 Recommendations

Report No. 13-03, April 2013

The 2008 Legislature amended the Auditor's governing statute to require follow-up reporting on recommendations made in various audit reports to ensure agencies adopt audit recommendations. The purpose of this change was to apprise the Legislature annually of recommendations not implemented by agencies, and to require such agencies to submit a written report not later than 30 days after issuance of our report explaining why the recommendation was not implemented and the estimated date of its implementation.

We issued 11 reports in 2010, including a study related to mandatory health insurance coverage; a review of revolving funds, trust funds, and trust accounts; and two sunrise analyses. Because the recommendations made in those reports relate to specific legislation rather than operations of agencies and departments, we excluded them from our follow-up process. Our review of the remaining seven reports focused on entities' implementation of audit recommendations made in calendar year 2010. This report detailed each recommendation, its status, and actions taken related to the recommendation.

Investigation of Specific Issues of the Department of Business, Economic Development and Tourism, Report No. 10-01

Our 2010 report found a variety of troubling actions by the department in its portrayal and use of federal reimbursement funds and ethical concerns stemming from actions related to a 2005 trade mission to China. Our follow-up found a change in department leadership has coincided with a greater emphasis on transparency and compliance among department personnel. Actios have also been taken to address our 2010 recommendations regarding the continued use of federal reimbursement funds.

The Aloha Tower Development Corporation's $7.7 million debt to the Department of Transportation is expected to take more than ten years to pay off.

Financial Examination of the Department of Budget and Finance, Report No. 10-03

Our 2010 report questioned the department's management of state funds and its decision to invest in auction-rate securities in violation of statutory and departmental policy. When the market failed, the department was left with more than $1 billion in securities with maturity dates as far off as the year 2045. Our follow-up found the State had reached an agreement that provides an opportunity to sell the securities and preserve its principal. In addition, the department had taken steps as recommended to revise its investment policy and increase oversight of its investment program to improve compliance.

Management Audit of the Aloha Tower Development Corporation, Report No. 10-04

Our 2010 report found a corporation mired in litigation for every development it had undertaken and headed by a board that knowingly operated with an outdated master plan and rules, which affected its ability to accomplish its mission. Our follow-up found the corporation was not abolished as recommended. Instead, it was moved to the Department of Transportation and its board membership reduced. Actions have been taken to address a $7 million debt owed by the corporation, and all litigation has been resolved. However, the board continues to knowingly move forward with an outdated master plan and has adopted a philosophy that surrenders its development responsibilities.

Program and Management Audit of the State's Purchasing Card Program, Report No. 10-05

Our 2010 report found the State Procurement Office (SPO) (1) took a hands-off approach to administering the pCard Program by delegating significant responsibilities to executive agencies and (2) failed to establish meaningful performance goals for the program. We concluded that this approach prevented the SPO from fully realizing the pCard Program's potential. Requests by our office to meet with the SPO to conduct our follow-up were not granted. As a result, we could not verify or clarify agency claims relating to implementation of our recommendations.

We found that of 72 recommendations made in 2010, 29 were closed (40 percent), 12 were open (17 percent), 21 were open but in progress (29 percent), three were open and likely not to be pursued (4 percent), five were considered not applicable (7 percent), and two were not assessed (3 percent).

Audit of the Department of Public Safety, Sheriff Division, Report No. 10-06

Our 2010 report found that a lack of proper guidance by management and inadequate training, coupled with expanded responsibilities, contributed to the division's struggles to uphold its law enforcement duties. Our follow-up found the division has taken steps to provide clearer guidance for law enforcement and identify actions necessary to achieve strategic goals and objectives. However, ongoing personnel issues and unresolved disputes with other agencies continued to hinder the division's ability to meet security needs at public venues such as courts and airports.

Management Audit of the Department of Public Safety's Contracting for Prison Beds and Services, Report No. 10-10

Our 2010 report found the department did not provide reliable financial data for policymakers to make knowledgeable decisions regarding the State's prison overcrowding problem. We also raised procurement issues about agreements for prison beds and services at mainland corrections facilities. Our follow-up found the department had improved the accuracy of its incarceration data through better methodology. However, while procurement compliance is considered a priority for the department director, we found a number of department staff still engaged in procurement activity without having received any procurement training as recommended.

Management and Financial Audit of the Department of Taxation Contracts, Report No. 10-11

Our 2010 report found several factors contributed to the department's inability to finalize a decade-long effort to replace its aging computer system. A lack of long-term planning, coupled with the department's reliance on contracted vendor CGI, raised concerns about the department's ability to perform enhancements to its information technology (IT) system beyond 2011, when the vendor's services expired. Our follow-up found new leadership had improved the work environment. The department had also followed our recommendation to develop a transition plan enabling it to adequately assume all technical functions and responsibilities previously performed by its IT vendor.

Procurement Examination of the Department of Transportation

Report No. 13-04, May 2013

We identified procurement issues throughout the Department of Transportation; however, because of the Airports Division's (Airports) disproportionate number of violations and the large amounts of goods and services it procures, we focused our reporting on the division's material weaknesses, as required by generally accepted government auditing standards. In fiscal years 2009 and 2010, Airports accounted for approximately 30 percent of the department's total procurements of $417 million and $467 million in goods and services, respectively.

In 2006, Airports hired Parsons Transportation Group, Inc., to manage its 12-year, $1.7 billion program to modernize the Honolulu International Airport. According to Airports, hiring a third-party program manager was necessary because the project size and scope were beyond the capabilities of Airports staff. However, we found that Airports not only outsourced its management functions, it also removed itself from parts of the decisionmaking process, surrendering key oversight and management responsibilities. This disengagement resulted in questionable allowances to the program manager, such as the provision of rent-free facilities and the reimbursement of $570,000 in office renovation expenses and $21,000 for "team-building" training.

Kahului's $1 million field office

Airports was also unwilling or unable to properly administer and manage contracts that it oversees directly. Again, we found a persistent overreliance on and accommodation of contractors, which often resulted in cost over-runs, time delays, and procurement violations. For instance, Airports did not procure a new security contract in a timely manner, allowing the original contract to be extended three times, exceeding the original contract term limit by 16 months and $37.7 million. In addition, Airports failed to do a cost analysis for the construction of field offices for projects at the Hilo, Lihu'e, and Kahului airports. The eventual amount paid for the construction of one field office was nearly $1 million, almost 30 times the amount we estimated it should have cost.

The department did not dispute any of our findings. According to the director, a new administration assumed a stronger leadership role and emphasized the importance of compliance with procurement laws and rules. The department now charges its consultants rent for use of state-owned facilities, the director said. The department has also begun auditing the labor multiplier of all consultants' contracts. One such audit resulted in lowering Parsons' multiplier from 2.88 to 2.36. In addition, the director said staff now must complete appropriate procurement training before Airports will grant procurement authority.

Feasibility Study of Removing Amateur Boxing From the Jurisdiction of the State Boxing Commission

Report No. 13-05, June 2013

In 1929, the Territorial Legislature enacted Act 216, which defined amateur boxing contests and contestants and authorized a state boxing commission to place such contests under the control and supervision of any recognized national amateur athletic association. As authorized by Section 440-30, HRS, the State Boxing Commission has delegated supervision to USA Boxing, which under federal law is also recognized by the U.S. Olympic Committee (USOC) as the national governing body for amateur boxing. All amateur boxing contests in the U.S. must be sanctioned by USA Boxing and conducted in accordance with USA Boxing rules and USOC requirements.

The main objective of amateur, or Olympic-style, boxing's rules and the actions and decisions of the referee is to ensure the safety and protection of boxers. As the sport has evolved, USA Boxing rule and equipment changes have improved boxer safety. Medical studies have shown that the overall risk of injury in amateur boxing is lower than other contact sports such as football, ice hockey, wrestling, and soccer.

Hawai'i's sunset law, Chapter 26H, HRS, provides that regulation is justified only if there is a need to protect the consumer. In the case of amateur boxing, regulation is primarily to protect the contestant rather than the public. Not only is there little evidence of harm in amateur boxing, but the abuses we found were negligible. Although the majority of stakeholders are in favor of continued state regulation and oversight, most also believed that USA Boxing rules provide the same protection against harm and abuse.

Medical studies have shown that the overall risk of injury in amateur boxing is lower than other contact sports such as football, ice hockey, wrestling, and soccer.

The commission has adopted administrative rules for amateur boxing; however, we found that the rules had not been updated since 1991, whereas USA Boxing rules are updated biennially. We noted significant differences between the two, and concluded that the commission's rules are outdated and obsolete. As noted by the executive director of USA Boxing, if USA Boxing rules are not followed, it may affect a boxer's eligibility to compete nationally, internationally, and in the Olympics. Accordingly, we recommend that the commission amend its administrative rules to delete provisions for amateur boxing and instead refer to USA Boxing's rules.

In addition, we noted that USA Boxing registration forms for both athletes and non-athletes contain a waiver and release section indemnifying USA Boxing, Inc., its clubs, and local boxing committee affiliates from lawsuits. The commission has not been in compliance with its own administrative rules, specifically Section 16-74-345, HAR, which requires each boxer to sign a waiver releasing the commission from all claims for damages arising from the boxer's participation in a boxing contest. We recommend the commission begin requiring the use of the Amateur Boxing Waiver form, which has been in existence since 2006.

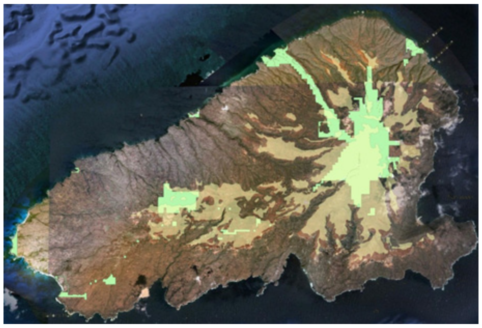
The Department of Commerce and Consumer Affairs agreed with our recommendation to remove amateur boxing from the jurisdiction of the State Boxing Commission. The department also agreed to implement our recommended changes to the administrative rules and procedural requirements if the Legislature decided to continue regulation.

Audit of the Kahoʻolawe Rehabilitation Trust Fund

Report No. 13-06, July 2013

Title X of the 1994 U.S. Department of Defense Appropriations Act conveyed Kaho'olawe and its surrounding waters back to the State of Hawai'i, ending military use of the island and authorizing $400 million for ordnance removal, of which 11 percent ($44 million) was made available to the State to carry out environmental restoration and other archaeological and educational activities on the Kaho'olawe Island Reserve. The $44 million became the Kaho'olawe Rehabilitation Trust Fund, and our audit focused on whether moneys in the fund were being used in compliance with applicable state laws and grant agreements and to effectuate the performance of duties and responsibilities of the Kaho'olawe Island Reserve Commission.

After 18 years and $51 million, the commission has partially restored approximately 13 percent of its planned restoration area, but is a long way from its vision of returning the island and surrounding waters to pristine conditions. We found that the commission had not established a comprehensive plan for its restoration effort, including forecasts regarding how much the project will cost and when it will likely be completed. As a result, spending has outpaced revenues and the trust fund, which contained as much as $33.6 million in FY2004, has been whittled down to $6.5 million. Despite the commission's efforts to curtail operations and fundraise, at its current rate of spending the trust fund will be depleted by 2016.



Map of Kaho'olawe showing 4,300 acres targeted for restoration

One of the commission's six major planning documents, *Hōʻola Hou I Ke Kino O Kanaloa, Kahoʻolawe Environmental Restoration Plan,* introduced the commission's comprehensive restoration strategies for the island and is intended to serve as a blueprint for the restoration process. The commission's strategic plan also defines its goal for the island's restoration as "to systematically restore the natural resources of the Reserve, including the island and its surrounding waters." However, we found that the resource management plan does not include meaningful performance measures to gauge whether objectives are being met, and lacks cost estimates for the actions the commission wants to pursue. Without a comprehensive restoration plan, it is nearly impossible to assess project feasibility as well as definitively measure progress towards goals, evaluate the areas still to be restored, or plan for spending and timing of execution. To avoid depletion of the fund and to provide Kahoʻolawe with proper stewardship well into the future, we recommended that the commission align its vision of the Kahoʻolawe of tomorrow with the fiscal realities of today, and plan accordingly.

The commission acknowledged that it faces serious financial challenges, including the impending total depletion of its trust fund; however, it did not specifically address how it plans to secure aditional funding, besides calling for state assistance. The commission also did not address our finding that it lacks a comprehensive and measurable restoration plan for the island, which includes estimated costs and timeframes for completion.

Audit of the Office of Hawaiian Affairs and Report on the Implementation of State Auditor's 2009 OHA Recommendations

Report No. 13-07, September 2013

As of February 2013, the Office of Hawaiian Affairs owned or leased 28,206 acres, making it Hawai'i's 13th largest landowner. While these numbers may be impressive, we found that the OHA's land management infrastructure is inadequate and unable to support the office's growing portfolio or any future land involvements. Without the policies, procedures, and staff to help guide and support the increased real estate activity, OHA's Board of Trustees cannot ensure that its acquisitions are based on a strong financial foundation.

Audit of the Office of Hawaiian Affairs

We found that OHA's real estate portfolio is unbalanced, with revenues generated from commercial properties unable to offset expenses from legacy and programmatic land holdings. In 2008, OHA trustees disregarded a consultant's proposal to expand its Land and Property Management division as well as proposals for a real estate business plan and investment policy. Instead, in 2010, the trustees adopted a one-page real estate investment policy.

During FY2012, OHA awarded more than $14 million in grants and sponsorships, with the largest going to education and housing programs and services. We found that OHA's grant administration has been remiss in developing procedures and guidelines that comply with all applicable statutes and board of trustees policies. This has led to inadequate and inconsistent grant monitoring, which fails to ensure that grants are achieving their intended results.

For example, files for the 30 grants we examined contained incomplete documentation of monitoring activities, which made it difficult to determine whether such activities were performed and reviewed by management or to determine the nature and extent of the reviews. In addition, ten of the 30 files contained no evidence that grant monitors fulfilled responsibilities to address inadequate progress by grantees and/or non-compliance with reporting requirements. Finally, the office could not provide the grantee reports or other records for a $228,000 grant awarded to the Department of Land and Natural Resources in FY2012.

The board chair responded that OHA appreciated our recommendations and intended to further develop land policies to integrate cultural and commercial values that best support its lāhui (people). Regarding our finding about OHA's lack of land policies, the chair said trustees waited until the Kaka'ako Makai land settlement was approved by the State before approving additional positions to manage OHA's land holdings.

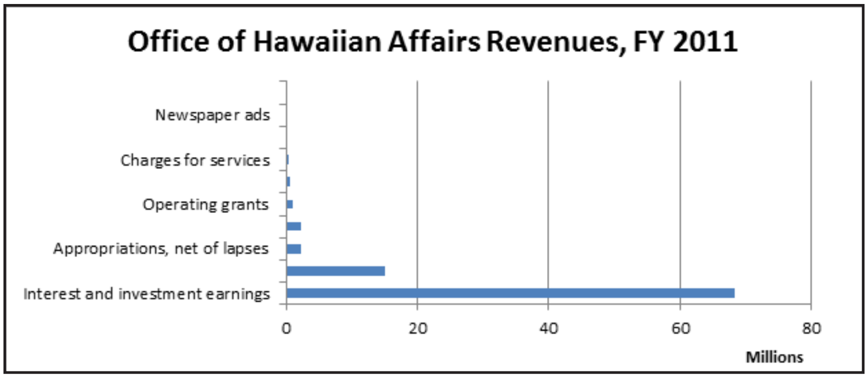
Regarding the significant stewardship costs of OHA-acquired lands, the chair said OHA will at times acquire land with the primary purpose of preservation and protection of "our 'āina and rights," and that the goal of financial return and sustainability must not compromise that purpose. We maintain that OHA is not following best practices for a conservation land trust or its own stated strategy to ensure financial sustainability.

Regarding our grant-related findings and recommendations, the chair said OHA sincerely appreciates the intent of the audit and views our recommendations as an opportunity to improve its grants program—a process the chair says has been underway since July 2012. The chair disagreed with our finding that trustees' vote in favor of the Gentry acquisition violated OHA investment policy, and pointed to a State Ethics Commission letter closing its probe into a possible violation of the State Ethics Code. We maintain that the trustees' action was contrary to OHA's Native Hawaiian Trust Fund investment policy.

Audit of the Office of Hawaiian Affairs and Report on the Implementation of State Auditor's 2009 OHA Recommendations
(cont.)

Report on the Implementation of State Auditor's 2009 OHA Recommendations

To ensure agency accountability over audit recommendations, the 2008 Legislature amended the Auditor's governing statute to require follow-up reporting on our audit recommendations. The purpose of this change was to inform the Legislature of unimplemented recommendations and require agencies to submit a written report not later than 30 days after issuance of our follow-up report explaining why the recommendation was not implemented and the estimated date of its implementation. This follow-up covered 19 recommendations made in 2009, 13 of which are closed (68 percent), two open but in progress (11 percent), and four open and not likely to be pursued (21 percent).



Management Audit of Information Technology Within the Office of Hawaiian Affairs, Report No. 09-08

Our 2009 report found OHA had not fully recognized the need for information systems to be managed at a strategic level and was not applying a strategic approach to updating its information systems. We also found that major information technology (IT) components were dispersed throughout OHA without oversight and coordination. Our follow-up found that OHA has taken steps to improve management of information technology. The office has designated CIO responsibilities to its chief financial officer and created an Information Technology Framework. OHA also uses work plans to carry out its high level goals for IT systems.

Investment Portfolio Review of the Office of Hawaiian Affairs, Report No. 09-10

Our 2009 report found that OHA must improve its investment framework and process to ensure it meets its fiduciary duties to beneficiaries and that the board as a whole lacked adequate investment or financial knowledge to properly oversee its trust investments. Our follow-up found oversight of investment management has progressed, but some concerns remain. OHA now assesses its investment advisors' performance annually through year-end evaluations presented to the board. Although trustees are required to abide by an ethics policy in OHA's Investment Policy Statement, they are not required to certify that they abide by the policy. OHA also has no whistleblower policy.

Management and Financial Audit of the Deposit Beverage Container Program, June 30, 2012

Report No. 13-08, November 2013

This is our fourth audit of the Deposit Beverage Container (DBC) Program. As in our previous audits, we found that the program relies on self-reported data from distributors who may be fraudulently or erroneously under-reporting beverage containers sold or distributed, and certified redemption centers that may be fraudulently or erroneously over-reporting beverage containers redeemed. This flaw, coupled with an absence of a detailed audit function, exposes the program to abuse and risk of fraud, which threaten the program's financial sustainability.

From FY2010 through FY2012, the DBC Program paid $6.2 million in deposit refunds for almost 7.5 million pounds of materials that cannot be accounted for. As a result of these and other inefficiencies, over the past three fiscal years, the program has paid out $28 million more in handling fees than it has collected in container fees, contributing to a steady increase in fund expenditures.

The Department of Health, which administers the DBC Program, has been aware of these systemic weaknesses for some time. As early as 2006, it proposed switching to a "back-end" payment system, which would address many of these issues. Paying redemption centers on the back-end means reimbursing them for the number of containers shipped to end-user recyclers instead of the number that the renters claim to receive from customers. Implementing such a change would require amending the program's administrative rules. We found that the program's deputy attorney general prepared draft amendments in June 2012; but according to department officials, as of June 2013, moving to a back-end payment system is still under consideration.

The DBC Program lacked adequate management to effectively and efficiently guide its enforcement functions and payment process. For instance, management has not addressed inappropriate position descriptions for program inspectors, in place since the program's inception more than a decade ago. This misalignment of qualifications with actual job duties led to a high turnover rate of program inspectors, who, between FY2008 and FY2012, had an average length of employment of only 16 months.

At the time of our audit, all four of the program's inspector positions were vacant, with one filled by an 89-day hire on an interim basis. In addition, management relied on a single person to issue and approve more than $54 million in payments to redemption centers statewide. The program manager recognized the risks associated with this assignment of duties but had only recently begun to approve requests for additional accounting support. When we asked why he did not perform various management functions, the program manager stated that he lacked the time to do so. He said that he served as a "firefighter" for the program and spends his time fixing problems.

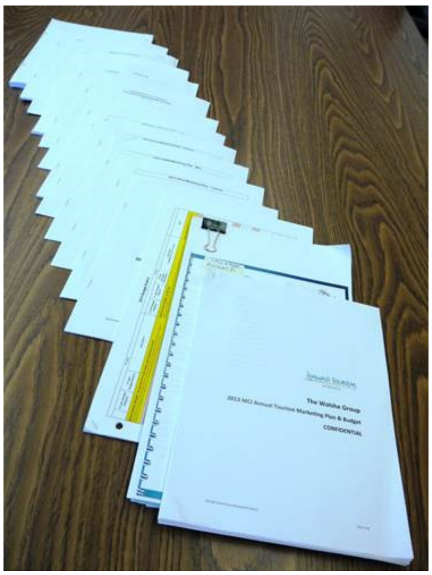
In its response to our draft report, the department objected to our finding that "Inattention to basic management functions exacerbates program's inability to prevent fraud and abuse." However, the department did not provide any additional information to dispute this or any other findings. The department did provide specific comments on the 13 recommendations we made in the draft report. Judging by the recent actions undertaken by management as described in its response, the department appeared to be in general agreement with our conclusions.

Audit of Major Contracts and Agreements of the Hawai'i Tourism Authority

Report No. 13-09, December 2013

The Hawai'i Tourism Authority (HTA) is responsible for creating a vision and developing a long-range strategic plan for tourism in Hawai'i, and promoting, marketing, and developing the tourism industry. The authority may, among other things, execute contracts and set and collect rent or other payments for the lease and use of the Hawai'i Convention Center.

This was our third audit of the HTA conducted pursuant to Section 23-13, Hawai'i Revised Statutes (HRS), which requires the Auditor at least every five years to conduct a management and financial audit of all contracts or agreements valued in excess of $15 million awarded by the authority. Section 23-13 requires these audits to include, among other things, a review of the propriety of expenditures and compliance by all major contractors with relevant laws and rules; in addition, the audits may include any additional audit issues the Auditor deems appropriate.



HTA's nearly 600-page strategic plan

Our *Management and Financial Audit of Hawai'i Tourism Authority's Major Contracts*, Report No. 09-02, released in January 2009, found the HTA lacked strategic planning and performance benchmarks for itself and its contractors. During this audit, we found the authority has taken steps to address those deficiencies by adopting a Brand Sustainability and Execution Plan, strategic plan, and measures of effectiveness. These efforts provide a framework for 11 annual plans developed by destination marketers. Authority leadership contended that these documents, combined with the authority's budget worksheets and key performance indicators, constitute a tourism marketing plan as required and defined by statute. However, we conclude that this fragmented marketiing plan does not satisfy statutory requirements. Further, we found that the authority's measures of effectiveness do not align with strategic goals, and instead track contractor and industry performance. The HTA was also missing targets, gauged performance against dated benchmarks, and lacked analysis of progress toward achieving its strategic goals.

In addition, a lack of policies, procedures, and formal training has resulted in inconsistent and deficient oversight of $42.5 million in marketing contracts and $16.4 million in other contract agreements for 2012. These findings were similar to our 2002 audit (Report No. 02-04), which found that HTA's lack of writen policies and procedures resulted in inadequate contract monitoring. The visitor industry generates $14.4 billion in economic activity and represents 20 percent of Hawai'i's economy. The State dedicates tens of millions of dollars every year to support this important industry; however, the authority's continued deficiencies in planning, reporting, and contract oversight showed poor stewardship of public moneys.

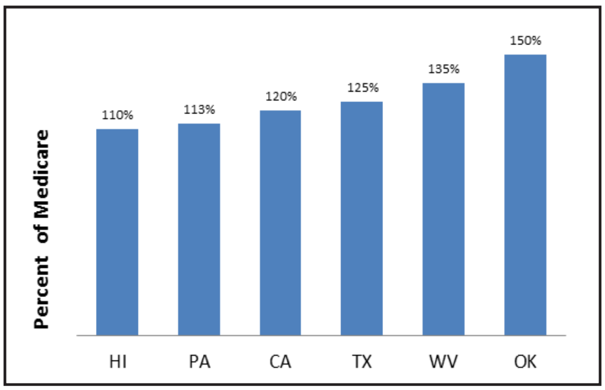
A Report on Methodology for the Department of Labor and Industrial Relations' Workers' Compensation Medical Fee Schedule

Report No. 13-10, December 2013

Act 97, Session Laws of Hawai'i 2013, requires the State Auditor to assist the director of labor in administratively adjusting the workers' compensation medical fee schedule. In this report, we recommended a formalized process for the mandatory periodic review of Hawai'i's Workers' Compensation Medical Fee Schedule.

State law requires employers to compensate an employee who is injured by accident or disease while on the job. Employers are also bound to furnish medical care, services, and supplies to employees as the nature of the injuries require. Liability of an employer for medical care, services, and supplies is limited to charges up to 110 percent of the federal Medicare fee schedule applicable to Hawai'i. The director uses the Medicare fee schedule to determine the charges for medical care and services in workers compensation cases. Hawai'i law requires the director to update the fee schedules at least once every three years.

After working closely with the Department of Labor and Industrial Relations, we determined that the use of better data could enhance the existing fee schedule review process. Specifically, we recommend collecting and analyzing transacted current procedural terminology (CPT) code data. Not only will such data capture paid physician and other health care professional services and procedures, it also represents the universe of medical services actively being delivered by health care providers in workers' compensation cases. We also propose establishing a second maximum allowable fee ceiling for Evaluation and Management (E/M) medical services. E/M services are the entry point for medical treatment in workers' compensation cases.



Comparison of States With Fee Rates Based on Medicare Plus a Percentage

The second fee ceiling will apply only to E/M services that have been identified by stakeholders as applicable to workers' compensation cases.

Our methodology requires department personnel to annually collect, correlate, and analyze transacted CPT code data from five different sources. This differs from the department's current process, which involves a comprehensive review of a fixed number of codes every three years. Moreover, an annual review process must continue to determine the impact on small business, and adopt administrative rules. The fee schedule resides in administrative rules. We project the department will need additional personnel resources both to continuously review and analyze CPT code data and determine small-business impact and to assist with rule adoption.

The 2013 Legislature funded 14 positions for the department beginning in January 2014; however, these positions will only partially restore the division's staffing to its pre-2009 levels. Although one of the restored positions is a research statistician in the Research and Statistics Office, this position will assume duties currently performed by the existing research statistician. For the office to effectively implement an annual fee schedule review, an additional research statistician position should be added.

Summary of 2012 Financial Audits

Summary of 2012 Financial Audits

To attest to the fairness of the financial statements of agencies, the Office of the Auditor examines the adequacy of the financial records and accounting and internal controls, and determines the legality and propriety of expenditures. We also analyze proposed special, revolving, and trust funds to determine whether such funds meet legislative and financial criteria. In 2013, we performed 72 quick reviews of proposed special and revolving funds, and administered 20 financial statement audits, including the State's Comprehensive Annual Financial Report.

Department of the Attorney General—June 30, 2012, Financial Statements and Single Audit Report

The department reported total revenues of $75 million and total expenses of $74 million. The department received an unmodified opinion on its financial statements. The auditors from Akamine, Oyadomari & Kosaki, CPAs, Inc., reported one noncompliance finding that was deemed material to the financial statements and two findings that were considered significant deficiencies in internal controls over major federal programs.

Department of Education—June 30, 2012, Financial Statements and Single Audit Report

The department reported total revenues of $1.961 billion and total expenditures of $2.328 billion, resulting in a deficiency of approximately $367 million. This deficiency was offset by net transfers-in of approximately $400 million. The department received an unmodified opinion on its financial statements. The auditors from KPMG LLP reported no material weaknesses in internal control over financial reporting and found no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Department of Hawaiian Home Lands—June 30, 2012, Financial Statements and Single Audit Report

The department's total expenditures exceeded total revenues (before transfers) by $16.7 million. The department received an unmodified opinion on its financial statements. The auditors from Accuity LLP reported no material weaknesses in internal control over financial reporting and found no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Department of Health—June 30, 2012, Financial Statements and Single Audit Report

The department reported total revenues of approximately $728 million and total expenses of $657 million, resulting in excess revenues of $71 million before transfers. The department received an unmodified opinion on its financial statements. The auditors from Accuity LLP reported no material weaknesses over financial reporting; however, they found two significant deficiencies. For instance, the Deposit Beverage Container Special Fund is highly susceptible to fraud because of an overreliance on self-reporting. For internal control over compliance, the auditors identified one material weakness and one significant deficiency.

Department of Human Services—June 30, 2012, Financial Statements and Single Audit Report

The department reported total revenues and total expenses of approximately $2.5 billion. The department received an unmodified opinion on its financial statements. The auditors from N&K CPAs, Inc., reported five material weaknesses and four significant deficiencies over compliance and internal controls over major federal programs. For instance, the Medicaid drug rebate program is not monitored; and utilization,

Summary of 2012 Financial Audits (cont.)

fraud, and accuracy of Medicaid claims are inadequately controlled.

Department of Human Services Hawai'i Public Housing Authority—June 30, 2012, Financial Statements and Single Audit Report
The authority reported total revenues of $100.1 million and total expenditures of $123.5 million, resulting in a deficiency of $23.4 million. This deficiency was partially offset by $8.2 million in capital contributions and transfers. The authority received an unmodified opinion on its financial statements. The auditors from KMH LLP identified 11 material weaknesses in internal control and one significant deficiency in compliance controls.

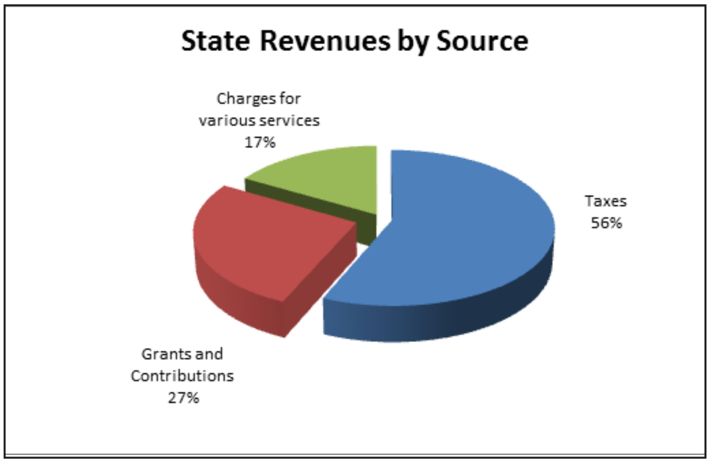
Department of Transportation, Administration Division—June 30, 2012, Financial Statements and Single Audit Report
The division reported total revenues of approximately $27.7 million and total expenses of $24.6 million, resulting in excess revenues of $3.1 million. The division received an unmodified opinion on its financial statements. The auditors from CW Associates, a Hawai'i CPA Corporation, reported no material weaknesses in internal control over financial reporting and found no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Department of Transportation, Airports Division—June 30, 2012, Financial Statements and Single Audit Report
The division reported total revenues of approximately $351 million and total expenses of approximately $355 million, resulting in a loss of $4 million. The division received an unmodified opinion on its financial statements. The auditors from KPMG LLP reported no material weaknesses in internal control over financial

State of Hawai'i Comprehensive Annual Financial Report and Single Audit Report – June 30, 2012

For the fiscal year ended June 30, 2012, total revenues were $9.5 billion and total expenses were $9.9 billion, resulting in a decrease in net assets of $366 million. Approximately 56 percent of the State's total revenues came from taxes ($5.4 billion), 26.9 percent from grants and contributions ($2.5 billion), and 17 percent from charges for various goods and services ($1.6 billion). The largest expenses were for higher and lower education at 33 percent ($3.3 billion), welfare at 25 percent ($2.5 billion), health at 8 percent ($800 million), and general government at 6 percent ($600 million).

The auditors from Deloitte & Touche LLP reported two material weaknesses and four significant deficiencies in internal control over financial reporting. They also reported five material weaknesses and 63 significant deficiencies in compliance and internal control over major federal programs.



reporting and found no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Department of Transportation, Harbors Division—June 30, 2012, Financial Statements and Single Audit Report

The division reported revenues of $104 million and expenses of $85 million. The division received an unmodified opinion on its financial statements. The auditors from Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs LLC reported no material weaknesses in internal control over financial reporting. However, they found three significant deficiencies in internal controls over compliance.

Department of Transportation, Highways Division—June 30, 2012, Financial Statements and Single Audit Report

The division reported total revenues of approximately $425 million and total expenses of $503 million, resulting in a deficiency of $78 million. The division received an unmodified opinion on its financial statements. The auditors from KMH LLP reported no material weaknesses in internal controls over financial reporting and found no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Department of Transportation, O‘ahu Metropolitan Planning Organization—June 30, 2012, Financial Statements and Single Audit Report

The division reported total revenues of $2.36 million and total expenses of $2.34 million. The division received an unmodified opinion on its financial statements. The auditors from Gilford Sato & Associates, CPAs, Inc. reported no material weaknesses in internal control over financial reporting and found no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Hawai‘i Community Development Authority—June 30, 2012, Financial Statements

The authority's total expenditures exceeded total revenues by $1 million. Total revenues were $10 million, and expenses totaled $11 million. Revenues consisted of leasing and management of $5 million, community redevelopment of $3 million, and State appropriations net of lapses of $2 million. The authority received an unmodified opinion on its financial statements. The auditors from Ohata Chun Yuen LLP reported no material weaknesses in internal control over financial reporting and found no instances of noncompliance or other matters required to be reported under *Government Auditing Standards.*

Hawai‘i Convention Center—June 30, 2012, Financial Statements

The center reported total revenues of approximately $9 million and total expenses of $17.2 million, resulting in a loss before contributions and remittance of $8.2 million. The Hawai‘i Tourism Authority contributed $17 million to the center, less $9.5 million the center remitted to the authority for completed events. The center received an unmodified opinion on its financial statements. The auditors from KPMG LLP reported no material weaknesses in internal control over financial reporting and found no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Hawai‘i Housing Finance and Development Corporation—June 30, 2012, Financial Statements and Single Audit Report

The corporation reported total revenues of $103 million and total expenses of $58 million. The corporation received an unmodified opinion on its financial statements. The auditors from Accuity LLP reported no material weaknesses in internal control over financial reporting and found no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Summary of 2012 Financial Audits (cont.)

Hawai'i Employer-Union Health Benefits Trust Fund—June 30, 2012, Financial Statements and Single Audit Report

The trust fund has two types of funds: an enterprise fund and an agency fund. The enterprise fund is used to account for the assets, liabilities, revenues, expenses, and net assets for active employee healthcare benefits. The agency fund is used to account for the assets and liabilities for retiree healthcare benefits. For the enterprise fund, operating revenues totaled $161 million with operating expenses at $157.2 million, resulting in operating income of $3.8 million. The agency fund held $378 million in assets. The trust fund received an unmodified opinion on its financial statements. The auditors from Macias, Gini & O'Connell LLP reported no material weaknesses in internal control over financial reporting, but reported one significant deficiency.

Hawai'i Tourism Authority—June 30, 2012, Financial Statements

The authority reported total revenues of approximately $115 million and total expenses of approximately $109 million, resulting in excess revenues of $6 million before transfers. Transfers in the amount of $1 million were made to other state departments. Revenues consisted of $104.6 million from transient accommodations tax, $9.6 million from services, and $0.4 million in interest income and other sources. The authority received an unmodified opinion on its financial statements. The auditors from KPMG, LLP reported no material weaknesses in internal control over financial reporting and found no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Stadium Authority—June 30, 2012, Financial Statements

The authority reported total operating revenues of $6.7 million and total operating expenses of $13.9 million, resulting in an operating loss of $7.2 million. The authority received an unmodified opinion on its financial statements. The auditors from Kobayashi, Kanetoku, Doi, Lum, & Yasuda CPAs LLC reported no material weaknesses in internal control over financial reporting and found no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

State Motor Pool Revolving Fund—June 30, 2012, Financial Statements

The fund reported total operating revenues of $2.5 million and total operating expenses of $2.3 million. The fund received an unmodified opinion on its financial statements. The auditors from Egami & Ichikawa CPAs, Inc., reported no material weaknesses in internal control over financial reporting and found no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

State Parking Revolving Fund—June 30, 2012, Financial Statements

The fund reported total operating revenues of $3.7 million and total operating expenses of $4.8 million. The fund received an unmodified opinion on its financial statements. The auditors from Egami Ichikawa CPAs, Inc., reported no material weaknesses in internal control over financial reporting and found no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Affected Agency Responses to Previous Recommendations

Investigation of the Stadium Authority's Swap Meet Operations

Report No.12-02

Recommendation	Affected Agency's Response
1. The Stadium Authority Board should: a. Seek instruction and guidance from the U.S. Department of the Interior, National Park Service, Federal Land to Parks Program coordinator, to properly apply use restrictions to events on stadium land;	**Stadium Authority Board:** The authority board and magement continue to be mindful of the Department of the Interior's limitations on acceptable use for deeded land at Aloha Stadium. To further support this position, the stadium manager initiated and pursued contact with DOI/NPS point of contact Mr. David Siegenthaler, Program Coordinator, Pacific West Region (see below) to validate its understanding of acceptable use. • August 28, 2012—Letter sent to NPS's Mr. Siegenthaler requesting, among other issues, validation that the biennial reporting requirement had been met. • September 12, 2012—Face-to-face meeting held at Aloha Stadium with Mr. Siegenthaler and other involved parties. This meeting was followed by a walk-through of the Aloha Stadium Swap Meet and Marketplace (ASSMM), at which time Mr. Siegenthaler validated that the ASSMM and other authority board approved events are acceptable activities under the NPS guidelines. • January 30, 2013—Follow-up letter to NPS reiterating stadium management's understanding of points validated and clarified during the September 12, 2012, site visit. • April 5, 2013—Stadium manager received NPS' written response to its request for validation of land use.
b. Direct the stadium manager to communicate with the Department of the Interior to request an evaluation	The stadium manager sought and received documentation from Mr. David Siegenthaler, Federal Lands to Parks Program Coordinator,

Recommendations	Affected Agency's Response
of the Aloha Stadium Swap Meet Marketplace activities for compliance purposes;	approving the ASSMM activity. In his April 5, 2013, letter, Mr. Siegenthaler states, in part, the following: • On March 22, 1977, and reaffirmed on May 1, 1987, the swap meet concession was approved for use of the parking area, provided it did not conflict with normal stadium activities. • The general rule is that concessions may be used to support the public recreational use of the site, and reasonable fees may be charged to support that use. • Referencing other approved activities, in addition to the ASSMM, the letter further states: "Given the nature of the stadium facility and the revenues needed to support it, they could be seen as helping to make maximum use of the facility so that it can be appropriately maintained."
c. Establish policies and procedures related to contract administration to ensure consistency of oversight, including the requirement for systematic and formal evaluation of contractors. Ensure the stadium manager uses the policies and procedures and the State Procurement Office guidelines to effectively monitor, evaluate, and document contractor performance to ensure that the State is receiving best value for its money; and	The authority board, in conjunction with stadium management, is working on drafting policies and procedures to address the Auditor's recommendation. Finalization of policies and procedures will be subject to input and comment by the six new authority board members. In the interim, the stadium deputy manager continues to reference SPO guidelines in weekly meetings with the contractor to ensure the requirements of the contract are being met. In addition, the stadium deputy manager monitors inefficiencies and communicates concerns to the contractor and provides guidance when addressing concerns within the swap meet contract administration. The stadium manager is briefed on all aspects of the swap meet contract administration and reports pertinent information to the authority board at monthly meetings. The authority board uses the monthly meetings as their opportunity to ask questions regarding contract administration.

Recommendation	Affected Agency's Response
d. Evaluate the stadium manager as contract administrator in administering the contract to market, coordinate, and manage the Aloha Stadium Swap Meet and Marketplace and hold him responsible for the contractor's performance. Include the manager's adherence to the board's contract administration policies and procedures in his evaluation. The board should establish a 12-month timeline for the stadium manager to show improvements in his contract administration skills.	Upon finalization and implementation of the policies and procedures approved by the authority board, the stadium deputy manager will ensure that stadium personnel and contractors follow these policies and procedures and, as needed, integrate the policies and procedures into the weekly meetings with the contractor. A 12-month timeline will be included at the approval and implementation of the policies and procedures. The Authority Board and Stadium Manager recognize the importance of appropriate contract administration over all contracts. The responsibility of the swap meet contract administration rests with the stadium deputy manager as the designated contract administrator. The stadium deputy manager's performance, which includes contract administration skills, is evaluated annually by the stadium manager. The Authority Board evaluates the stadium manager's performance annually.
2. The stadium manager should:	**Stadium manager:**
a. Complete State Procurement Office (SPO) procurement training workshops related to contract administration and procurement;	The stadium manager and deputy stadium manager have completed all mandatory training classes required by the State Procurement Office, including those relating to contract administration and procurement. A list of classes taken by both managers is available upon request.
b. Develop and implement procedures to independently evaluate, monitor, and document the swap meet contractor's performance rather than relying on contractor's self-reported numbers. Prepare specific performance indicators to judge the contractor's performance and document a performance evaluation to be used as a factor in deciding future awards;	The stadium has an independent CPA firm annually audit gross swap meet receipts, commissions, and net swap meet proceeds. The independent CPA firm also conducts agreed-upon procedures to determine whether the correct fees are assessed and whether internal controls over collection of cash are properly accounted for, recorded, and deposited. Both the audit report and agreed-upon procedures are to ensure the reliability of the figures provided by the contractor and to ensure the stadium is paid its fair share according to the swap meet

Recommendation	Affected Agency's Response
	contract. As listed in 3.01 Contractor Responsibilities (pages 5-9) of the current Contract (2009), specific performance indicators have been prepared. The stadium deputy manager uses weekly meetings to monitor and evaluate these efforts, which will be used in evaluation of future awards, along with the Minimum Requirements/Performance Standards, as listed in Section 2.02 (page 4).
c. Effectively perform the role of contract administrator using SPO guidelines and the board's policies and procedures to ensure that the State is receiving best value for its money;	Per SPO guidelines, a committee was formed to develop RFP specifications for the swap met solicitation. This process was intended to secure services from a company that had the experience and expertise to market, coordinate, and manage the swap meet effectively. This process would help ensure the State would receive proposals from prospective bidders based on best value. The DAGS comptroller delegated the procurement authority to the stadium manager for the swap meet solicitation, which, per SPO guidelines, prevented the stadium manager from serving as contract administrator. Therefore, the stadium manager delegated the stadium deputy manager to be the contract administrator for the solicitation. The stadium deputy manager handles the daily oversight of the contract and holds weekly meetings with the contractor to provide guidance, assure the requirements are being met, and communicate any inefficiencies and/or concerns that should be addressed. The stadium deputy manager briefs the stadium manager on all aspects of the contract administration. The Authority Board is apprised of performance benchmarks via the stadium manager's report and/or the contractor's report at the monthly board meetings.
d. Implement an appeals process that allows vendors to appeal complaints to the stadium manager and Stadium Authority board;	The stadium deputy manager met with the contractor to re-evaluate the complaints process in May 2012. The parties agreed to the following procedures: 1) The contractor continues to handle complaints, but informs the stadium deputy manager of any unresolved complaints; 2) The stadium deputy manager then sched-

Recommendation	Affected Agency's Response
	ules a meeting with the contractor and the complainant together to discuss and assist in resolving the concerns of both parties; 3) The stadium deputy manager briefs the stadium manager on all complaints that require a meeting with the contractor and complainant. If further action is required, the Authority Board allows vendors and the contractor time during monthly Authority Board meetings.
e. Require swap meet contractors to continue to verify vendors' general excise tax licenses to ensure that swap meet vendors comply with Hawai'i's general excise tax law; and	The stadium deputy manager required the swap meet contractor to partner with the Department of Taxation (DoTAX) Special Enforcement Section (SES) to inform vendors of the tax laws. DoTAX SES drafted printed material about the tax laws which the contractor distributed to vendors in August 2012. In addition to verifying vendor GET licenses when renting stalls, the stadium deputy manager required the contractor to enforce the rules requiring vendors to display their GET license. During the contractor's implementation and communication with DoTAX SES, the contractor discovered that some of the GET licenses being displayed were not the same as the GET license being used to report sales to DoTAX. At the request of DoTAX SES, the contractor informed swap meet vendors that the GET license being displayed should be the license being used to report sales to DoTAX. This action satisfied the request from DoTAX SES on the part of the contractor. Although the contractor is required to monitor proper posting of GET licenses, DoTAX SES stated the contractor was not responsible for ensuring that the vendor GET license posted complied with sales reported to DoTAX.
f. Require swap meet contractors to consistently enforce its swap meet rules and regulations.	The stadium deputy manager reviewed the swap meet rules and regulations and required the swap meet contractor to document a log of all warnings and citations. The swap meet rules and regulations are implemented via a three-strike procedure. The three-strike procedure is printed on the same document as the swap

Recommendation	Affected Agency's Response
	meet rules and regulations that all vendors must sign acknowledging that they understand and will abide by all the stated rules and regulations in order to participate in the swap meet. The log indicates: the date and time of the violation, the person who issued the violation, the violation code, the description of the rule violated, any additional notes, the location of the violation, make/model/color/license plate of the vehicle in violation, the name to whom the vehicle is registered, the vendor badge number, the name of the violator, and what the infraction resulted in (warning/first strike/second strike/etc.). The stadium deputy manager monitors these logs to ensure consistency. Vendor dispute procedures have been implemented and noted above.

Management Audit of the Natural Energy Laboratory of Hawai‘i Authority

Report No. 12-03

Recommendation	Affected Agency's Response
1. The chair of the Natural Energy Laboratory of Hawai‘i Authority's (NELHA) board of directors should:	**Chair of the NELHA board of directors:**
a. Ensure new board members are given orientation and training in relation to NELHA's statute; its roles, responsibilities and mission; and the board's roles and responsibilities as outlined in the authority's policies and procedures manual;	Completed. One new member has joined the Board of Directors since 2012 and an orientation was provided.
b. Ensure that all board members are trained in the requirements of Hawai‘i's Sunshine Law, Chapter 92, HRS;	Completed. A presentation was made to the board on May 15, 2012.
c. Ensure that tenant representatives are trained in when and how to recuse themselves from voting in relation to setting rates, as is required by Section 227D-2(b), HRS. The chair should take responsibility for ensuring that all board members are made aware of the interpretation and extent of restrictions on tenant representatives' voting rights, and how recusals are to be effectuated. This should be done through a training session and establishment of a policy and formalized as an administrative rule. The chair and note taker should also be aware of the implications that recusals have on individual votes; and	Completed. Deputy AG has briefed tenant representatives. Recusals are now being recorded as part of the minutes.
d. Recognizing that the board continues to struggle with Sunshine requirements, request that the deputy attorney general assigned to the board provide stronger guidance on and control of board meetings in relation to Sunshine issues.	Completed. Chair has instructed deputy AG to provide stronger guidance.

Recommendation	Affected Agency's Response
2. The board and executive director should:	**NELHA executive director and board of directors:**
a. To facilitate transparency, create a compilation of all board-approved policies. Where they are ongoing or broad, these policies should be formalized as administrative rules. The attorney general assigned to the board should provide stronger guidance on and control of board meetings in relation to Sunshine issues;	In progress. NELHA is preparing this compilation in association with new administrative rules.
b. To facilitate transparency, establish a uniform land rent rate structure based on a Dilmore curve, and base future leases on this structure. This should be codified as a board policy and compiled appropriately;	Completed. The board adopted new rent policy on November 20, 2012. The policy is based on a Dilmore curve.
c. Seek needed legislative clarification regarding to whom the authority may wheel (sell electricity);	No action.
d. As a matter of priority, follow through with plans to solicit capital improvement project funding from the Legislature to construct a new frontage road to the Queen Ka‘ahumanu Highway; and	Completed. Funding of $9.69 million is included in Act 134, SLH 2013. Funds released by Governor Abercrombie in September 2013.
e. As a matter of priority, follow through with published plans to rectify the authority's fresh water allocation to ensure that current and future tenants can be assured of continued access to fresh water.	In progress. Budget request for $3.65 million for exploratory phase of new potable water well completed and approved in November 2013, by Governor Abercrombie for inclusion in the 2014 Executive Budget Request to the Legislature.
3. Tenant representatives to the board should, if in doubt whether a discussion item constitutes setting a rate, ensure they recuse themselves from voting to avoid any perception of improper voting, which can jeopardize the validity of such a vote.	Completed. Tenant representatives are recusing themselves to avoid any perception of improper voting.

Recommendation	Affected Agency's Response
4. The executive director should:	**Executive director:**
a. Ensure that pursuant to the State Procurement Office (SPO)'s advice, all staff participating in procurement activities are provided detailed plan of action to prevent recurrence of previous SPO violations. Individuals participating in procurement activities comply with Procurement Delegation No. 2010-01 and Amendment 1, and Procurement Circular No. 2010-05, Statewide Procurement Training, as appropriate;	Completed.
b. Follow through with published plans to create strategic business and financial plan;	In progress.
c. Follow through with published plans to adopt administrative rules for the authority;	In progress.
d. Update the authority's 1995 policies and procedures manual to ensure it is current, complete, and ultimately aligned with administrative rules;	In progress.
e. Update the Project Initiation Packet (PIP) as appropriate to ensure that this information, which is available on the authority's website, remains current, so as not to mislead potential tenants and other stakeholders;	Completed.
f. Ensure that staff responsible for taking minutes of board meetings are aware of the need for, and effectuate, a more consistent style of nomenclature in the minutes, particularly in regard to identifying which interests are represented by which attendees; whether members are merely absent or are, in fact, excused; and the appellation of investigatory or other transient committees or task forces;	Completed.
g. Ensure that staff responsible for	Completed.

Recommendations	Affected Agency's Response
taking minutes of board meetings are trained in, and effectuate, the requirements of Hawai‘i's Sunshine Law, Chapter 92, HRS, particularly in relation to:	
i. Taking and storing minutes of both open board meetings and executive sessions;	Completed.
ii. Recording votes of individual members where the vote is not unanimous;	Completed.
iii. Ensuring minutes are publicly available within 30 days of a board meeting; and	Completed.
iv. Documenting the reason and statutory reference for entering into any executive session. Minutes should be able to stand alone and not need to be read in conjunction with agendas to satisfy this requirement;	Completed.
h. Ensure the authority adopts and reports on meaningful key performance indicators in its annual report;	In progress.
i. Follow through with published plans to have the authority's 2001 economic impact analysis updated;	Completed.
j. Follow through with published plans to update the authority's website. The updated website should include up-to-date and complete information so that potential tenants and other stakeholders have easy access to the authority's mission, services, rates, and performance data;	Completed.
k. Follow through with plans to establish a Dilmore curve based lease rent policy, and ensure the policy is available to relevant stakeholders;	Completed.
l. Establish and implement inter-	In progress.

Recommendation	Affected Agency's Response
nal controls for the calculation of seawater rates. If the current Excel spreadsheet continues to be used, one or more staff members should be assigned to review monthly calculations for mathematical and cut-and-paste errors. Ideally, the current spreadsheet should be converted to a database to avoid errors inherent in manual calculations;	
m. Ensure the authority makes its seawater pumping rates publicly available and that this information is kept up to date. There is no need to display the entire calculation of the rate; a narrative followed by the current numerical rate would suffice;	Completed.
n. Reconcile the authority's financial information as reported in QuickBooks and FAMIS;	Completed.
o. Continue implementing state plans to market and promote NELHA to prospective tenants;	Completed.
p. Pursue the recommendation in the master plan to locate future cellular telephone tower concessions on acreage away from the authority's administration building, and then enter into leases as appropriate to increase the authority's revenues; and	Completed.
q. Revisit the request to the Department of Land and Natural Resources for a license to remove gravel from NELHA property, and pursue the sale of such gravel to interested vendors.	No action.

Study of the Transfer of Non-General Funds to General Funds

Report No. 12-04

Recommendation	Affected Agency's Response
1. The Department of the Attorney General should employ a more robust and methodical process of analyzing special and revolving funds for transfer of excess moneys to the general fund, such as using a checklist similar to one that we developed. The checklist can be found in Appendix F, Non-general Fund Legal Checklist.	**Department of the Attorney General:** The Department of the Attorney General has developed a checklist similar to the one developed by the Legislative Auditor to help deputies determine the propriety of transfers from a non-general fund to the general fund using the criteria specified in *Hawai'i Insurers Council v. Lingle*, 120 Haw. 51, 201 P .3d 564 (2008). This checklist is posted on the department's intranet website as a reference available to all deputies. On February 27, 2013, the department conducted department-wide training for deputies whose clients administer a special fund to familiarize them with the Hawai'i Insurers Council decision and the application of the checklist. Continuing education on this matter will be provided as needed.

Audit of the Department of Taxation's Administrative Oversight of High-Technology Business Investment and Research Activities Tax Credits

Report No. 12-05

Recommendation	Affected Agency's Response
1. The Department of Taxation should: a. At a minimum, report on the 2010 tax year Form N-317, Statement by a Qualified High Technology Business (QHTB), data. Further, reporting should continue for the subsequent four years to capture the high-technology business investment tax credit's maximum allowable credit up to $2 million; b. Report on the tax credits claimed in tax years 2006, 2007, 2008, and 2009, as mandated by law; c. Strengthen and formalize in writing internal controls over department processes, including audit identification and selection, to provide reasonable assurance that the following objectives are being achieved: i. Effectiveness and efficiency of operations; ii. Reliability of financial reporting; and iii. Compliance with applicable laws and regulations; and d. Design a regular, rigorous, and comprehensive evaluation process for tax incentives. Consider the following criteria when designing the process: i. Inform policy choices choices—build evaluation of incentives into policy and budget delibera-	**Department of Taxation:** The department did not respond to our request for an update.

Recommendation	Affected Agency's Response
tions to ensure lawmakers use the results; ii. Include all major tax incentives—establish a strategic and ongoing schedule to review all tax incentives for economic development; iii. Measure economic impact—ask and answer the right questions using good data and analysis; and iv. Draw clear conclusions—determine whether tax incentives are achieving the State's goals.	

Management Audit of the Department of Education's School Bus Transportation Services

Report No. 12-07

Recommendation	Affected Agency's Response
1. The Student Transportation Services Branch (STSB) manager should:	**Department of Education:**
a. Properly plan for school bus services statewide by:	
i. Establishing short- and long-range plans for ensuring the safety and efficiency of bus routes and services;	Implementation of Transfinder [bus routing software] completed on February 1, 2013. Oʻahu stop data completed on October 31, 2013. Neighbor island stop data in progress.
ii. Creating guidelines, policies, and procedures governing school bus routes and stops;	Standard operating procedures for routes and stops using national standards completed on September 1, 2013.
iii. Ensuring that the department has up-to-date and accurate route descriptions, ridership numbers, and route mileage statistics;	*Route descriptions*: Short-range plan to collect accurate route data from vendors was completed on October 1, 2013. Long-range plan to implement routing software was initiated on July 1, 2013, in pilot area, scheduled to expand to all Oʻahu on March 1, 2014, and neighbor islands on March 1, 2015. *Ridership numbers*: Short-range plan, which is to create online respository for uniform reporting of ridership data, was completed on August 1, 2013. Long-range plan, which is to explore use of technology, is underway with pilot projects using ZPass technology. *Route mileage*: Short/long-range plans—deploy GPS technology to track route mileage, which was launched in pilot area on August 1, 2013, to expand to all of Oʻahu on July 1, 2014, and neighbor islands on July 1, 2015.
iv. Acquiring and implementing bus route planning software;	Bus route planning software was acquired in 2008, licenses were renewed on

Recommendations	Affected Agency's Response
	March 1, 2013, and implemented on July 1, 2013 in pilot project area. The software is scheduled for implementation for all of O'ahu on July 1, 2014, and the neighbor islands on July, 1, 2015.
v. Establishing and implementing a system for analyzing route efficiency, and creating an inventory of bus stops and evaluating them for safety;	Bus routing software acquired and implemented (see above). Building inventory of stops is underway. O'ahu completed on October 1, 2013. SOP for evaluating stops for safety completed on September 1, 2013.
vi. Reviewing contracts on a regular basis and revising them where necessary, including both routes and terms; and	Project control manager hired on February 1, 2013; funding for contracts specialist position secured; and in process of drafting position description for recruitment.
vii. Taking a proactive role in assisting the Procurement Contracts Branch (PCB) with securing bus service contracts by actively reviewing contract terms and conducting meaningful analyses regrading the fairness of single responsive offers.	Effort to exit from current contracts was implemented on February 1, 2013, to include pilot area (SY 2013–14), O'ahu all (SY 2014–15), statewide (SY2015–16); Development of reformed contract terms and conditions completed on June 30, 2013 offered in RFP that was posted in July 15, 2013 for SY2014–15 services and scheduled to continue on July 1, 2014, for SY2015–16.
b. Properly administer school bus service contracts by:	
i. Ensuring the branch maintains a complete contract file which includes, but is not limited to: 1. The executed contract; 2. All contract modifications; 3. Contractor contact information; 4. All correspondence with and regarding the contractor; 5. All complaints regarding the contractor, including disposition and resolution; and 6. All other relevant information regarding the contractor, including previous contracts	Short-range plan was to audit current content and develop SOP. Both were completed on September 1, 2013. Long-range plan is to recruit contracts specialist position to focus on this task. Position recruitment is in process (see above).

Recommendation	Affected Agency's Response
awarded to that contractor and any relevant bids from that contractor	
ii. Monitoring contractors' performance. This includes: 1. Ensuring contractors provide reports as required in their contracts, and that these are maintained withing the contract files: 2. Evaluating contractors' performance requirements and, where necessary, restructuring contracts to include specific performance requirements. Data to be collected should be sufficiant to allow reasonable analysis of the fairness of future bus service contract bids; 3. Implementing annual price adjustments for fuel costs as required by contract terms; 4. Conducting spot checks to ensure contractors are providing services and equipment as required; and 5. Verifying the accuracy of information provided by contractors such as vehicle inventories, vehicle ages, and driver background checks.	Short-range plan, to ramp up data collection, field inspections, and auditing of reports, was implemented on July 1, 2013. Long-range plan is to develop and implement comprehensive contract performance management program (CPMP) designed to monitor contractor performance and secure critical operating data. This includes robust spot checks and verification of contractor data. The long-range plan is in process, with implementation of pilot area completed on July 1, 2013, O'ahu implementation on July 1, 2014, and statewide implementation on July 15, 2015. Copy of CPMP available for inspection.
iii. Ensuring that all complaints are logged in a central repository, with disposition and resolutions noted.	
c. Develop a manual delineating district transportation officers' tasks and how to perfom them, and train the officers on the same. This may require reevaluating the officers' roles and responsibilites.	Consultant services procured on September 9, 2012. A majority of the standard operating procedures were completed on October 1, 2013. Reorganization of branch reviewed and approved by OHR on August 1, 2013. NAPT certification underway, with module 1 completed on September 1, 2013.

Recommendation	Affected Agency's Response
2. The Department of Education should:	
a. Develop and implement a policy concerning procurement training for all employees who have procurment responsibilities. The training should highlight indicators of potential anticompetitive practices and identify what staff are expected to do in response; and	Procurement training is now available online to all DOE users. The training does highlight indicators of potential anticompetitive practices. STSB management completed its second annual training on August 1, 2013.
b. Develop and implement procedures, including forms, for reporting suspected anticompetitive practices as envisioned by the Hawai'i Administrative Rules.	Procurement training module provides process for reproting such matters. STSB management completed its second annual training on August 1, 2013.
3. The Procurement and Contracts Branch (PCB) should:	
a. Ensure that the Student Transportation Services Branch (STSB) conducts an analysis determining the fairness of single responsive offers before accepting such offers. Analyses should be documented and retained within contract files; and	STSB completed its first attempt to procure services using improved procurement practices, which resulted in the DOE receiving six competitive offers for the first time ever.
b. Ensure that the department solicits bids for expiring contracts with sufficient time to attract competitive offers.	Efforts to ensure sufficient time to attract competitive bids were launched on December 1, 2012, with the recruitment of a qualified consultant to assist the DOE in developing best practices. STSB recently completed its first attempt to procure services in a timely manner. A request for proposal was posted on July 15, 2013, for services scheduled to begin on July 1, 2014, missing our desired mark by only 15 days. Contract awards are scheduled to be announced on November, 27, 2013, giving vendors more than seven months to expand/start up their business for a July 1, 2014 start up.

Recommendation	Affected Agency's Response
4. The Legislature should consider amending the General Excise Tax law (Chapter 237, HRS) to explicitly prohibit the State from paying or reimbursing contractors for general excise taxes.	H.B. No. 506, which prohibits the State from paying or reimbursing contractors for the general excise tax, was not enacted by the Legislature.

Office of the Auditor Appropriations and Expenditures on a Budgetary Basis for the Fiscal Year Ended June 30, 2013

Appropriations

Act 5, SLH 2012 (operations)	$2,513,849
Act 5, SLH 2012 (special studies)	150,000
Act 5, SLH 2012 (Audit Revolving Fund)	2,550,828
	$5,214,677

Expenditures

Staff salaries	$1,832,118
Contractual services (operational)	62,792
Other expenses	136,973
Special studies	-
Contractual services (Audit Revolving Fund)	2,550,828
	$4,582,711

Excess of Appropriation over Expenditures

Act 5, SLH 2012 (operations)	$481,966
Act 5, SLH 2012 (special studies)	150,000
Act 5, SLH 2012 (Audit Revolving Fund)	-
	$631,966

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 and revolving funds** determine if proposals to establish these funds meet legislative criteria.

7. **Analyses of existing special, revolving, and trust funds** determine if such funds meet legislative and financial criteria.

8. **Annual follow-up reports** validate claims made by departments regarding implemented audit recommendations and inform the Legislature of those recommendations that have not been implemented.

9. **Procurement reports** include studies and audits relating to the State's procurement of goods, services, and construction.

10. **Special studies** respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

THE AUDITOR STATE OF HAWAI'I

Kekuanao'a Building
465 S. King St., Room 500
Honolulu, Hawai'i 96813

Phone: (808)587-0800
Fax: (808)587-0830

E-mail: auditors2@auditor.state.hi.us
Website: http:auditor.hawaii.gov/