STATE OF HAWAIʻI

Office of the Auditor

2015 ANNUAL REPORT

Jan K. Yamane

Acting State Auditor

TABLE OF CONTENTS 2015 ANNUAL REPORT

STATE OF HAWAI'I
Office of the Auditor

The Honorable Members of the Legislature
The Honorable David Ige, Governor

April 18, 2016

Ladies and Gentlemen:

Mission of the Office of the Auditor

Improving government through independent and objective analyses.

I am pleased to present this Annual Report, which highlights the efforts of the Office of the State Auditor in 2015. This report, and the audits and special studies it summarizes, address many of the major issues facing state government.

It was another busy year for our office—releasing 20 audits, analyses, and studies on everything from the Hawai'i Health Connector to charter schools to energy contracts. We also performed 44 quick reviews of proposed special and revolving funds, and administered 19 financial statement audits, including the State's Comprehensive Annual Financial Report.

Audit work is a meticulous and painstaking activity. Our audit teams do such things as determine legislative intent; review enabling statutes; and analyze budgets, policies, procedures, and administrative rules. That kind of work is little appreciated outside the audit world, but, performed well, yields objective, accurate and relevant audit findings and recommendations. The reports contained in this *2015 Annual Report* are good examples of audit work performed well.

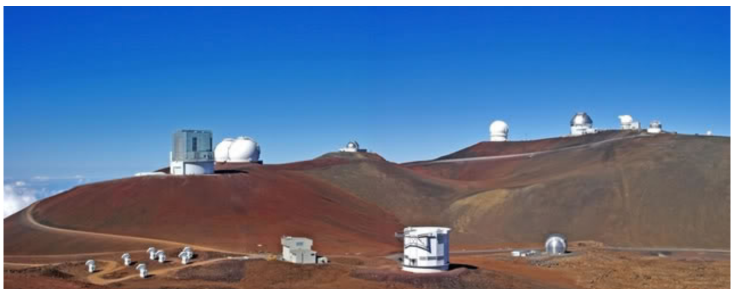
Respectfully submitted,

Jan K. Yamane
Acting State Auditor

Black and White and Read All Over

Jan K. Yamane, Acting State Auditor

Sometimes our audit reports become a part of the daily news cycle—everything from brief online summaries to television stories to the occasional weekend newspaper editorial. Oftentimes, our reports are greeted with underwhelming silence. Our August 2014 F*ollow-Up Audit of the Management of Mauna Kea and the Mauna Kea Science Reserve*, Report No. 14-07, was one of those reports. As far as we could tell, at the time it was released, it was picked up by a single blogger, who had cut and pasted our summary onto his site.



Observatories in Mauna Kea's summit region.

Source: Mauna Kea Observatories Support Services

Audit work is not a headline-grabbing activity: our audit teams determine legislative intent; review enabling statutes; and analyze budgets, policies, procedures, and administrative rules. After more than 3,000 hours on this painstaking work, our four-person audit team determined that the University of Hawai'i (UH) and the state Department of Land and Natural Resources (DLNR) had made progress on implementing many of the recommendations from our last audit of Mauna Kea's management in 1998; however, some issues still remained unresolved.

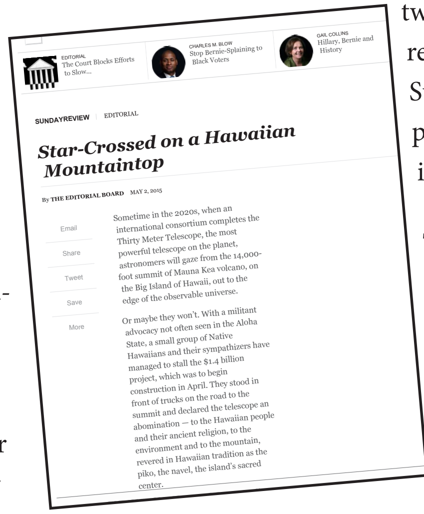
Artist's rendering of the Thirty Meter Telescope.

Source: Courtesy of the TMT Observatory Corporation

For instance, we found that UH had not adopted administrative rules to implement its legal authority for its Mauna Kea management responsibilities. In the absence of such rules, UH had relied on unauthorized permits and informal agreements to manage and assess fees on commercial tour activities, which totaled nearly $2 million between FY2009 and FY2013. We urged the university to redouble its efforts to adopt administrative rules. Doing so would enable UH to fully implement its plans to safeguard the mountain and its unique resources.

All was quiet for more than a month until October 7, 2014, when a small group of protestors interrupted the groundbreaking ceremony for the construction of the Thirty Meter Telescope (TMT), the largest and last observatory to be built on the mountain. The protestors opposed TMT's imminent construction as well as the 13 other exisiting observatories, which they believe desecrate sacred ground. The dispute soon became the catalyst for a statewide debate on Native Hawaiian rights and sovereignty issues, a controversy that was, and continues to be, discussed on news segments and in editorial pages throughout the nation and world.

Suddenly, our findings, conclusions, and recommendations became important reference material for both sides of the debate, helping to frame and clarify the important issues. A May 2, 2015, *New York Times* editorial cited our original 1998 audit and its conclusion that not enough had been done to protect the summit as it called for Governor David Ige to resolve the stalemate on Mauna Kea. Less than three weeks later, in a May 20, 2015, *Honolulu Star-Advertiser* editorial entitled "UH turned Mauna Kea into a poorly managed industrial park," philanthropist Abigail Kawananakoa, a descendent of Hawaiian royalty, referred to our office's "informed and objective analysis," which she said provided needed balance between "preservation and development."


EDITORIAL
The Court Blocks Efforts to Slow...
CHARLES M. BLOW
Stop Bernie-Splaining to Black Voters
GAIL COLLINS
Hillary, Bernie and History

SUNDAYREVIEW | EDITORIAL

Star-Crossed on a Hawaiian Mountaintop

By THE EDITORIAL BOARD MAY 2, 2015

Email
Share
Tweet
Save
More

Sometime in the 2020s, when an international consortium completes the Thirty Meter Telescope, the most powerful telescope on the planet, astronomers will gaze from the 14,000-foot summit of Mauna Kea volcano, on the Big Island of Hawaii, out to the edge of the observable universe.

Or maybe they won't. With a militant advocacy not often seen in the Aloha State, a small group of Native Hawaiians and their sympathizers have managed to stall the $1.4 billion project, which was to begin construction in April. They stood in front of trucks on the road to the summit and declared the telescope an abomination — to the Hawaiian people and their ancient religion, to the environment and to the mountain, revered in Hawaiian tradition as the piko, the navel, the island's sacred center.

May 2, 2015, *New York Times* editorial on the Thirty Meter Telescope protests.

Fifteen months after Report No. 14-07's publication, in a November 29, 2015, *Honolulu Star-Advertiser* editorial entitled "The untold story of improvements in UH stewardship of Maunakea," UH President David Lassner and UH-Hilo Chancellor Donald Straney used our very same reports to support their contention that UH had made great advancements in its stewardship of Mauna Kea. They described how UH management didn't dispute our 1998 audit findings but viewed them as a "wakeup call to drive the creation of a completely new approach to stewardship." Lassner and Straney also quoted one of our 2014 audit's findings that UH's framework for managing and protecting Mauna Kea "balances the competing interests of culture, conservation, scientific research, and recreation." They then cited various duties to protect the mountain that the university now carries out. Many of these policies and procedures were made in response to our recommendations.

However, the most gratifying reference to Report No. 14-07 occurred far from the glare of the media and well after its August 2014 publication.

However, the most gratifying reference to Report No. 14-07 occurred far from the glare of the media and well after its August 2014 publication. On March 3, 2016, one of our analysts, who had been a team member on the 2014 Mauna Kea audit, attended a panel discussion at the William S. Richardson School of Law entitled "Exploring the Next Steps to Malama Mauna Kea." The panel included the state attorney general, the dean of UH's Institute for Astronomy, as well as two attorneys for plaintiffs who had recently won a case before the Hawai'i Supreme Court that invalidated the permit for the TMT and officially halted its construction.

The discussion began with the attorneys providing brief updates on the continuing litigation, while the dean spoke of the role of Mauna Kea, past contributions to astronomy, and the potential for more contributions to science. During a question and answer period, the moderator brought up our 2014 audit report as a discussion point, and each side cited our findings as evidence to support its respective position. The State/UH referred to our finding that progress was being made toward bettering stewardship of the mountain and that the TMT lease benefits the State because of its lease payment requirements. The plaintiffs' attorneys used our findings to highlight the lack of progress made by UH/DLNR on decommissioning, commercial permitting, and access.

"The fact that both sides of the debate and the moderator cited our report for their own respective purposes reflects the objective nature of our report," wrote the analyst in a summary of the event. "Moreover, it brought home (to me) the importance of the work coming out of this office."

I can't think of a better validation of our work.

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
Sean Hao

Editor
David Choo

IT Coordinator
Jon Hashimoto

Assistant IT Coordinator
Jan Kaya

Associate General Counsel/Analyst
Ryan Kanaka'ole

Senior Analyst
Melissa Loy

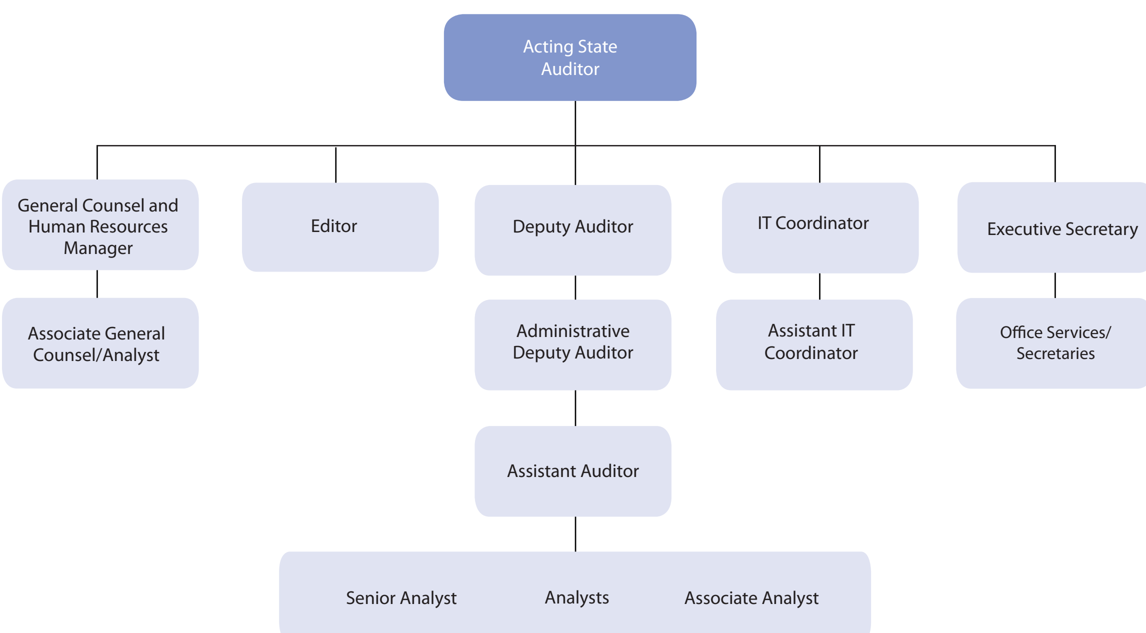
Analysts
Kristina Andrade
Melissa Fuse
Roy Kawamoto
Norman Lee
Greg Matsumoto
Jayna Oshiro
Robert Rodrock
Lauren Tamanaha
Edward Wada
Greg Wiles
Stewart Yerton

Associate Analyst
Kelli Makino

Executive Secretary
Debbie M.A. Higa

Office Services/ Secretaries
Pat Mukai
Leanda Santos

Organization of the Office of the Auditor



Summary of 2015 Reports

Audit of the Hawai'i Health Connector: Inadequate Planning and Improper Procurement Led to an Unsustainable Health Connector

Report No. 15-01, January 2015

Our audit focused on the Hawai'i Health Connector's efforts to develop and operate the State's health insurance exchange as mandated by the federal Affordable Care Act and state law. We reviewed the Connector's use of grant funds from its inception in July 2011 to the end of the first open enrollment period on March 31, 2014.

We found that the Hawai'i Health Connector Board of Directors and management could not agree on what Hawai'i's health insurance exchange could or should be. The Connector board never made that fundamental decision but continued its work without a finalized strategic plan. As a result, the Connector was unsustainable due to its high operating costs and Hawai'i's unique market of uninsured—only 8 percent of the population, about 100,000 residents. The interim executive director concluded that even with substantial reductions to the estimated $15 million annual operating budget, the Connector would not be sustainable. It would have to dramatically increase fees on participating exchange plans or the State would need to assess a fee across the market to preserve services.

In addition, the Connector did not have IT staff to manage the project development or monitor contracts, relying on vendors to self-report their progress. In addition, the board's ability to monitor its massive IT system's development progress was impaired by an uncooperative executive director who withheld information. Throughout the website development process, the board was largely unaware of the Connector's myriad problems.

The Connector received $204.4 million in federal grants to support the planning and establishment of Hawai'i's state-based health insurance exchange. We found the Connector did not properly procure or administer its contracts and circumvented its own procurement policies and procedures when hiring consultants. Contracts were awarded without following proper procedures to ensure competitive pricing, and procurement documentation was disorganized or missing from most contract files. Many of the Connector's IT consultant contracts were amended numerous times and costs ballooned as the Connector continued to rely on their services.

Hawai'i enrolled only 14.8 percent of its expected 58,000 individuals between October 1, 2013, and April 19, 2014, ranking it 46th in the nation.

The Connector received almost all of its funds from grants awarded by the federal government. Strict federal regulations govern the use of these moneys. We noted numerous questionable travel and entertainment costs as well as unsupported severance pay. We concluded that questionable costs might be disallowed by the funding agency, and noncompliance with federal regulations might result in repayment of amounts or suspension and termination of a federal grant.

The Connector generally agreed with our findings and recommendations. ■

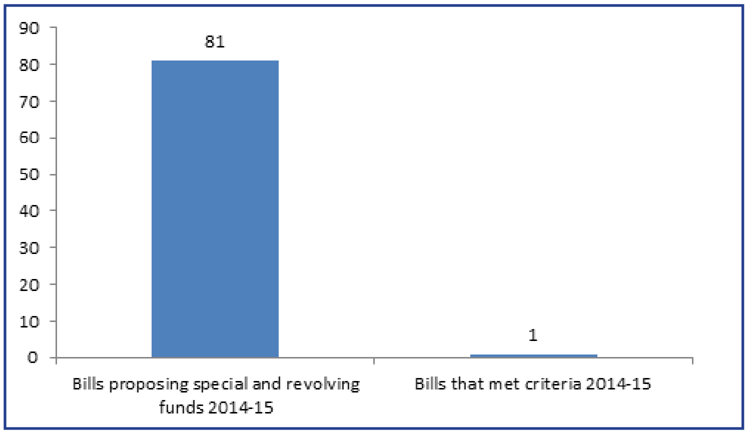
A Mixed Bag: Study of Proposed Special and Revolving Funds (2015)

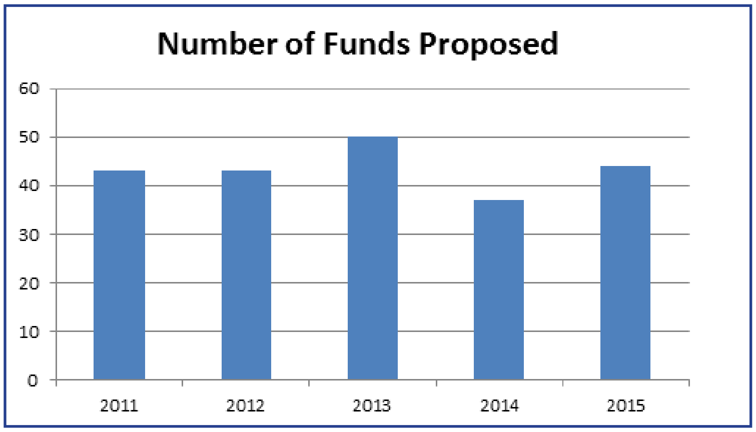
2015 Legislative Session, March 2015

Legislation adopted to promote the efficient allocation of public funds between general fund and special, and revolving funds seems to be having an impact. Only one of 44 new special and revolving funds proposed during the 2015 legislative session met amended statutory criteria for establishing such funds. In 2014, none of the 37 funds proposed met the criteria.

In 2013, the Legislature amended Section 23-11, HRS, after the Auditor recommended changes to stem a trend in the proliferation of special and revolving funds over the past 30 years. General funds, which made up about two-thirds of state operating budget outlays in the late 1980s, have dwindled to about half of outlays today. Much of the trend was caused by an increase in special funds, which are funds set aside by law for a specified object or purpose. By 2011, special funds amounted to $2.48 billion or 24.3 percent of the State's $10.2 billion operating budget. Also ballooning were revolving funds, which are funds used to pay for goods and services; these funds are replenished through charges made for the goods and services or through transfers from other accounts or funds. By 2011, revolving funds made up $384.2 million or 3.8 percent of the State's operating budget.

Few proposed funds have met criteria under Act 130, Session Laws 2013





Source: Office of the Auditor

Only one of 44 new special and revolving funds proposed during the 2015 legislative session met amended statutory criteria for establishing such funds. In 2014, none of the 37 funds proposed met the criteria. And special funds persist: since FY2005, the general fund has comprised approximately 50 percent of the State operating budget, with special funds comprising 19 percent to 25 percent. ■

Financial and Program Audit of the Deposit Beverage Container Program, June 30, 2014

Report No. 15-02, April 2015

This was our fifth audit of the Deposit Beverage Container (DBC) Program. As in our previous audits, we found that the program relied on self-reported data from distributors that 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 systemic flaw, coupled with the absence of a detailed audit function, has exposed the program to abuse and risk of fraud since the program's inception.

From FY2013 through FY2014, the DBC Program paid $2.6 million in deposit refunds for approximately 3.5 million pounds of recycled materials that cannot be accounted for. The Department of Health, which administers the program, has been aware of this flawed payment system since 2006 but has done little to address it, either with changes to the program or through enforcement of inspections. As a result, the program continues to be exposed to fraud, which may result in higher program costs and an unreliable reported redemption rate.

Distributors are required by law to report the number of deposit beverage containers sold/distributed and pay beverage container deposit and container fees to the program on a monthly basis. The program, however, continues to rely on unsupported amounts reported by distributors because it lacks a systematic verification or inspection process. We reviewed distributor receipts and found that one distributor—Whole Foods Market, Inc.—underpaid beverage container deposits and fees for more than six years, which went undetected by the program. For the six years it had been operating in Hawai'i, Whole Foods was paying the DBC fund 6¢ per case instead of 6¢ per container. Whole Foods reported that the underpayment was approximately $34,000 for FY2012 through FY2014. The DBC Program consulted with the Department of the Attorney General on whether the program would be able to collect the full amount of the six-year underpayment. The attorney general advised that the program could collect the last two years', but likely not the prior four. These errors highlighted the need for the program to closely monitor amounts reported and paid by distributors.

For the six years it has been operating in Hawai'i, Whole Foods was paying the DBC fund 6¢ per case instead of 6¢ per container. Whole Foods reported that the underpayment was approximatley $34,000 for FY2012 through FY2014.

The department concurred with many of our findings. However, it felt that two statements represented "incomplete findings," namely, that the program does not pay a shrinkage rate above 2.5 percent and the program reimburses no more than 5¢ per container, but redemption centers may choose to reimburse consumers more than that. The department also expressed concern with the layout of our report, claiming that certain formatting effects could be misleading and create confusion. We made edits for clarity and style but we stood by our findings and conclusions and did not change our report layout. ■

Program in Place: Follow-Up on Recommendations Made in Report No. 12-04, *Study of the Transfer of Non-general Funds to the General Fund*

Report No. 15-03, April 2015

To ensure accountability over audit recommendations, the 2008 Legislature amended the Auditor's governing statute to require follow-up reporting on recommendations made in various audit reports. The purpose of this change was to apprise the Legislature of recommendations not implemented by audited agencies. Section 23-7.5, Hawai'i Revised Statutes, now requires the Auditor to report to the Legislature on each audit recommendation more than one year old that has not been implemented by an audited agency.

Report 12-04, *Study of the Transfer of Non-general Funds to the General Fund*, was released in July 2012. The study was prompted by the 2011 Legislature, which requested through House Concurrent Resolution No. 166 the Auditor to look at the appropriateness of transferring non-general funds, including special and revolving funds, to the general fund, and to determine the source of the moneys and whether they are used for a public purpose. The resolution noted that while some non-general funds are easily defined and legally transferable to the general fund as a way of providing financial relief to the State, many are difficult to define, thus making transfers problematic.

In FY2011, non-general funds accounted for more than half of the State's $10.2 billion operating budget, up from one-third in 1992.

The Legislature has a variety of ways to obtain money from non-general funds. Over the past decade, the Legislature has authorized the transfer of $412 million from non-general funds to the general fund in order to address billions of dollars in projected budget shortfalls.

In Report No. 12-04, we found that the Deparment of the Attorney General plays a key role in the Legislature's fund transfer process by conducting legal reviews of proposed fund transfers. A legal review of special and revolving funds is triggered when the Legislature has sought to transfer moneys from such funds. However, in 2012 we found that the legal review process conducted by the attorney general was not as robust or complete as necessary, resulting in transfers that may have violated federal and state laws.

We recommended that the Department of the Attorney General employ a more methodical process of analyzing special and revolving funds for transfer.

In our 2015 follow-up, we found that the department had developed a non-general fund checklist to help determine the propriety of transfers from a non-general fund to the general fund. The checklist is posted on the department's intranet website, available as a reference to deputy attorneys general. The department also conducted training for 41 deputy attorneys general whose clients administer non-general funds to familiarize them with the checklist. The department reported that no legislative bills transferring moneys from non-general funds to the general fund were introduced during the 2014 legislative session, so it did not conduct a training session that year. We determined that the Department of the Attorney General has fully implemented our recommendation and deemed it closed. ■

Progress, But Transparency Issues Persist: Follow-Up on Recommendations Made in Report No. 12-03, *Management Audit of the Natural Energy Laboratory of Hawai'i*

Report No. 15-04, May 2015

Our review focused on NELHA's implementation of 28 audit recommendations made in Report No. 12-03, Management Audit of the Natural Energy Laboratory of Hawai'i. *This report detailed each recommendation, its status, and actions that were taken in relation to the recommendation. We deemed 17 recommendations closed, five open, three open but in progress, and two no longer applicable. One recommendation was made to the Legislature and was therefore not assessed.*

In Report No. 12-03, we found that after nearly 40 years of existence, NELHA had yet to live up to its creators' vision. The many shifts in its purpose and focus had left the agency struggling to clearly articulate its mission and objectives. The authority was lacking in mission-critical plans and policies such as a master plan, financial plan, and administrative rules; and its policies and procedures manual was seriously out of date. We also found that the authority's board suffered from high turnover and a lack of training. In addition, tenant representatives' voting on items related to rate setting appeared questionable.

Architect's rendering of NELHA's Incubator Building.
Source: NELHA

We also found the authority continued to struggle with the Sunshine Law. Timely access to minutes was not consistent, and there were problems with both the use and documentation of executive sessions. In addition, we found a number of operational issues. The authority's performance reporting was inadequate; its website was outdated and incomplete; lease rent rates were not uniform; the transparency of seawater pumping rates had improved, but controls on calculations were lacking; and internal fiscal controls were needed.

In our 2015 follow-up, we found that NELHA had adopted a master plan, revised its strategic plan, and updated its distributed energy resources strategy. These plans were guiding the authority towards developing the Hawai'i Ocean Science Technology Park's infrastructure for clean energy technology business and investment. We also noted that NELHA had achieved its fourth consecutive year of operational self-sustainability, and the authority's contribution to Hawai'i's economy increased by 40 percent, from $87.7 million in 2010 to $122.8 million in 2013. The authority also updated its Project Initiation Packet for prospective tenants, and implemented a leasing policy as well as a seawater rate analysis methodology. Finally, the board meeting minutes we reviewed indicated the authority has made significant improvement in its compliance with Sunshine Law requirements.

However, some issues raised in our 2012 audit remained. NELHA had yet to adopt administrative rules, which are necessary for the authority to lawfully implement and enforce its policies and programs. The authority had not updated its 1998 policies and procedures manual. In addition, the two tenant representatives on the board have continued to vote on items affecting lease rents and water rates, which may be in violation of statute and the State Ethics Code. NELHA's executive director told us he intended to work on these documents and issues. ■

Pushing Boundries: Follow-Up on Recommendations Made in Report No. 12-02, *Investigation of the Stadium Authority's Swap Meet Operations*

Report No. 15-05, May 2015

Our review focused on the Stadium Authority's implementation of ten audit recommendations made in our 2012 Report No. 12-02, Investigation of the Stadium Authority's Swap Meet Operations. *This report detailed each recommendation, its status, and actions taken related to the recommendation. We deemed seven recommendations closed and three open but in progress.*

In Report No. 12-02, we found that portions of the swap meet operate on lands that are subject to federal restrictions that they be used for public park or public recreational purposes. Commercial activities are prohibited unless prior approval is obtained from the federal government. However, the Stadium Authority Board neglected to notify and seek federal approval of changes to swap meet operations over the years, an obligation the City and County of Honolulu agreed to when it purchased the stadium lands in 1967. We found this violation could result in the federal government reclaiming its property, an action that could shut down swap meet operations. Furthermore, the Stadium Authority Board and stadium manager did not adequately oversee the swap meet contractor, who in turn did not consistently enforce swap meet rules and regulations.

Swap meet vendors selling t-shirts.

Source: Office of the Auditor

Since 2012, the stadium manager has communicated and met with the federal National Park Service representative seeking guidance on use restrictions of stadium land, as we recommended. The representative did not confirm or disagree that the current swap meet configuration and use is compliant with its permitted use requirement; rather, he said the stadium is a facility that inherently "pushes the boundaries" of a public recreational facility, and urged the State to consider other ways the facility could be used more extensively for public outdoor recreation. The representative also encouraged the State to continue exploring land exchange options to remove this restriction.

The Stadium's management has also strengthened monitoring of the swap meet contractor, as we recommended. The stadium manager has completed all mandatory State Procurement Office training. The authority uses agreed-upon procedures to independently evaluate and monitor vendor and buyer admission fees from swap meet operations, and holds regular meetings with the swap meet contractor to discuss various swap meet topics. The authority and swap meet contractor have an informal agreement whereby the authority's deputy stadium manager meets with the swap meet manger and complainants to discuss and assist in resolving complaints. The swap meet contractor assisted the Department of Taxation in educating swap meet vendors on state tax laws. The contractor also cross checks vendors' general excise tax licenses twice a year to ensure that licenses are active. Lastly, the deputy stadium manager reviews the swap meet contractor's log of warnings and citations four times a year for consistency of enforcement actions. ■

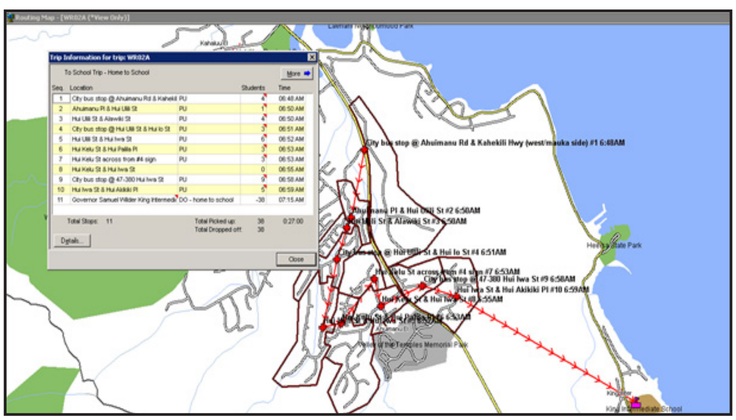
Getting on Board: Follow-Up on Recommendations Made in Report No. 12-07, *Management Audit of the Department of Education's School Bus Transportation Services*

Report No. 15-06, May 2014

Our review focused on the DOE's implementation of 20 audit recommendations made in Report No. 12-07, Management Audit of the Department of Education's School Bus Transportation Services. *This report detailed each recommendation, its status, and actions taken related to the recommendation. We deemed eight recommendations closed, nine open but in progress, one open and not likely to be pursued, and two were not assessed.*

Report No. 12-07, released in August 2012, described a sprawling, $72.4 million operation that was in substantial disarray. The department had no system for evaluating bus routes for efficiency. Complete contract files did not exist. Contract monitoring was sparse, and transportation officers were ill-equipped to perform their duties. Lax procurement policies had allowed program costs to the State to nearly triple since 2006: despite soaring prices and little competition among bus companies bidding for contracts, department procurement personnel repeatedly determined that prices were reasonable—but provided no written rationale for these determinations. The assistant superintendent overseeing the program later had said the pervasive pattern of single bids for contracts could have been the result of collusion among bidders, but the department had no guidance on how employees should deal with suspected anticompetitive practices. In brief, the department had lost control of the program.

In our follow-up, we found that although the department has taken significant steps to transform its school bus program from an antiquated program with feeble management controls into a modern, well-governed transportation system, the reforms were a work in progress. The department had developed standard operating procedures and was implementing a computerized route planning system designed to ensure route efficiency. A new contract monitoring system anchored improved procedures for administering contracts. Transportation officers received substantive training. And improved procurement procedures, including personnel changes, led to increased competition among bus route bidders.



Route map from the department's new route planning system.

Source: Department of Education

Nonetheless, reforms had not been rolled out statewide and require continued work to implement and maintain. Also, the department had not created policies and procedures to deal with single competitive proposals and suspected anticompetitive practices. ■

Audit of the Research Corporation of the University of Hawai'i: RCUH's Weak Plans Limit Role, Reduce Accountability for Hiring and Procurement Exemptions

Report No. 15-07, June 2015

This audit of the Research Corporation of the University of Hawai'i was conducted pursuant to Article VII, Section 10 of the Hawai'i State Constitution and Section 23-4, Hawai'i Revised Statutes, which requires the Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offi ces, and agencies of the State and its political subdivisions.

We found, however, that RCUH acts primarily as a provider of services to the University of Hawai'i, which constituted $9 out of every $10 in RCUH business in FY2014. The RCUH board recognized a need to expand UH services and pursue more non-UH projects in 2004. However, plans to do so were not implemented or updated because the RCUH Board of Directors lacked initiative, training, policies, and metrics needed to drive proper planning. This planning failure undermines RCUH's accountability for services provided and for achievement of the purpose for which the corporation was founded. We also found that RCUH's executive director and board took a cautious business approach that ignored plans to pursue more non-UH projects. According to the RCUH board chair, from about 2002 through 2011, UH's research enterprise was growing rapidly, which provided the corporation with all the work it could handle. As a result, there was no pressing need to grow RCUH's non-UH business.

RCUH's broad purpose allows projects remotely associated with research or training to qualify for exemptions from state procurement and civil service laws. As such, strong management controls should be in place to ensure that projects qualify for RCUH's exemptions. During FY2014, the corporation had about 3,000 employees earning $113.5 million in salary. We found that RCUH allows state agencies to circumvent contract requirements, secure services without proof of governor approvals, and forgo required evaluations of $4.3 million in projects. We also found that the corporation lacks clear policies and procedures for the review and acceptance of direct projects, and the department in charge of administering those projects lacks staff to ensure adequate project vetting and monitoring. We further found that written policies and procedures could improve RCUH's oversight of intramural and revolving account projects. A lack of accountability for the flexibility afforded to RCUH raises the risk that RCUH's employment and procurement exemptions are inappropriately used, which in turn may expose the corporation to criticism and undermine the public's trust.

"A research organization has got to be willing to take some risks, too."

—RCUH board chair

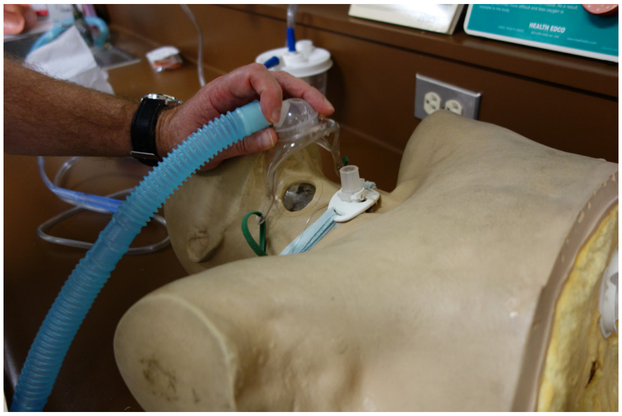
Neither the board chair nor the executive director disputed our findings. The chair said the board would review the corporation's mission and make changes as needed, but that the current mission was appropriate. He also said the board will work with the executive director to ensure policies and procedures are reviewed and updated. The chair agreed that RCUH needs strategic and long-range goals, objectives, and performance measures. However, the RCUH executive director disagreed with our recommendation that the Legislature amend Chapter 304A, HRS, to require RCUH to develop and provide annual reports with goals and objectives. ■

Sunset Evaluation—Respiratory Therapists: Regulation of Respiratory Therapists Benefits Consumers But Program Could Be Improved

Report No. 15-08, June 2015

The Hawai'i Regulatory Licensing Reform Act*, Chapter 26H, Hawai'i Revised Statutes (HRS), establishes policies for regulating certain professions and vocations and schedules the repeal of newly enacted occupational regulatory programs. It also requires the Auditor to evaluate each board, commission, and regulatory program prior to its repeal date. We evaluated the regulation of respiratory therapists under Chapter 466D, HRS, which is scheduled for repeal on June 30, 2016.*

We found that continued state regulation of respiratory therapists is warranted because key statutory criteria have been fulfilled. Regulation of respiratory therapists is reasonably necessary to protect the health and safety of consumers. Licensure, the strictest form of state regulation, is consistent with other health-related occupations (such as doctors, nurses, and others) and is warranted because consumers' health and safety may be jeopardized by the nature of services offered by respiratory therapists—some of which are invasive and potentially hazardous. Furthermore, the cost of respiratory therapy services to consumers has not been increased by the regulation of respiratory therapists; regulation has not unreasonably restricted entry into the profession by qualified persons; and fees appear to be covering the cost of the regulatory program. We conclude that regulation of respiratory therapists has benefits to consumers and should continue. In addition, every state except Alaska regulates respiratory therapists.



Demonstration of tracheostomy care, one of the responsibilities of respiratory therapists.

Source: Office of the Auditor

The Department of Commerce and Consumer Affairs could make several improvements to the respiratory therapist program's operations. Specifically, it should determine whether the program is breaking even, better document its review of applicants' qualifications, amend the license application to remove an overly broad question and correct a technical statutory reference, adopt administrative rules for the program and consider adding program fees to existing administrative rules, improve the program's website, and amend the Regulated Industries Complaints Office form to include respiratory therapists.

The department agreed with most of our recommendations and supported the continued regulation of respiratory therapists. It disagreed with our recommendation to request information concerning only prior convictions related to respiratory care, stating it is in the interest of public protection to also consider convictions outside the profession. The department also disagreed with our recommendation to improve the program's website by adding a clear link to the program's fees, saying it believed applicants already have clear and direct access to application forms, which include fee information. ■

Procurement Examination of the Department of Health: Lack of Procurement Controls Exposes Health Department to Waste and Abuse

Report No. 15-09, July 2015

This procurement examination for fiscal years ended June 30, 2012, and June 30, 2013, was conducted by the Office of the Auditor and the independent certified public accounting firm KMH LLP, pursuant to Section 23-4, Hawai'i Revised Statutes, which requires the Auditor to conduct post audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions.

When a procurement issue arises, staff do not have clearly defined procedures for how they should obtain technical assistance. Some staff consult with the Administrative Service Office, while others go directly to the Department of the Attorney General or the State Procurement Office for advice. In addition, the department does not systemically review procurement activities to monitor and promote compliance to ensure that all staff adhere to key procurement requirements, particularly contract administration. This scarcity of oversight and support exposes the department to risks that purchases will not meet procurement requirements and jeopardizes the department's assurance that it is receiving what it has paid for.

Only one of the five divisions we reviewed has a procedures manual for evaluating and monitoring contracts. Consequently, monitoring practices among divisions were generally informal and vastly inconsistent. We also found there was no oversight of contract administrators or a periodic and systematic review to ensure that functions are being conducted appropriately. Of 55 contracts we reviewed, nine did not have completed monitoring reports. In two cases, staff incorrectly believed that monitoring was not required; for the remaining seven contracts, staff blamed the lack of contract monitoring on a shortage of staff resources. We also found that the department did not have documentation of when proposals were received for eight of 40 contracts we tested.

Department had agreed to nearly double the contract price, drastically extend the deadline for deliverables, and cut the deliverables by two-thirds.

In October 2008, the department sought a contractor to audit six certified redemption centers in the Deposit Beverage Container (DBC) Program. The contract was solicited and awarded via a request for proposals (RFP), which is designed to solicit multiple bidders. However, only one bid was received, and the contract was renegotiated with the sole bidder from $76,400 to $340,000, an increase of 345 percent. Over the next three years, the contract was amended three times, increasing the total award to $543,374 (611 percent above the original bid), extending the contract by one year, and reducing the number of redemption centers to be audited from six to two. The department eventually accepted the first redemption center audit report but rejected the contractor's draft of the second. However, since the contract's procurement was fundamentally and significantly flawed, we question the value of either audit effort.

The department did not dispute our findings or recommendations. In order to better clarify roles, responsibilities, and procurement procedures, it said it will form an internal procurement working group to further assess its current decentralized system. While it acknowledged that its contract with Grant Thornton LLP/PKF Pacific Hawai'i LLP had problems, it did not believe its procurement and monitoring of the contract accurately reflects the department's procurement practices as a whole. ■

Audit of the Hawaii Health Connector's Mansha Contracts: Connector Board and Management Wasted and Abused Millions in Public Funds

Report No. 15-10, September 2015

This audit was conducted pursuant to Section 435H-2(d), Hawai'i Revised Statutes (HRS), which requires the Auditor to undertake annual audits of the Connector and submit the results to the Connector and the insurance commissioner. Section 23-9, HRS, also requires that the Auditor submit all reports to the Legislature and governor.

Facing a tight federal deadline, the Hawai'i Health Connector first engaged Mansha Consulting LLC in March 2013 through an emergency sole-source procurement for $56,000 for IT system design review services. A month later, anticipating the federally required October 1, 2013, exchange go-live date, the Connector procured a second emergency sole-source contract with Mansha, for $12.4 million. We found that instead of taking steps to ensure it selected the most qualified vendor at the best price, the Connector awarded Mansha a multi-million dollar contract based on personal recommendations. In total, the Connector awarded $21.6 million in IT contracts to Mansha. The Connector also failed to sufficiently analyze Mansha's proposed fees to ensure contract amounts were reasonable, as required by federal procurement standards. Thus, the Connector could neither justify its selection of Mansha nor the fixed fees awarded for each of the two Mansha contracts. Furthermore, the Connector executed vague, poorly written contracts with flawed terms and conditions that prevented it from effectively monitoring and evaluating Mansha's performance.

The Connector expected Mansha to be a "Swiss Army knife" solution for the health exchange.

We found that the Connector's board and management paid little attention to contract administration and the Connector's organization lacked a contract administration function. By neglecting to establish a functional area dedicated to managing the Connector's numerous contracts, the board prevented staff from effectively administering any of its numerous contracts worth $176.7 million. Furthermore, the Connector was unable to demonstrate that the $15.3 million paid to Mansha was used as intended. The Connector did not approve its contract administration procedures until more than a year after the Mansha contracts were executed, and the former executive director did not ensure the administrator for the Mansha contracts was qualified.

The Connector also had no procedures for amending contracts. The former executive director executed a $168,000 contract amendment without the board's knowledge or approval. In addition, contracts were not amended to reflect changes in scope of work; and amendments that were made were not done timely. This led to higher contractual costs, further wasting public moneys, and could have resulted in federal enforcement action. Such practices constituted abuse of public funds, which involves behavior that is deficient or improper compared to what a prudent person would consider reasonable and necessary business practice in the circumstances.

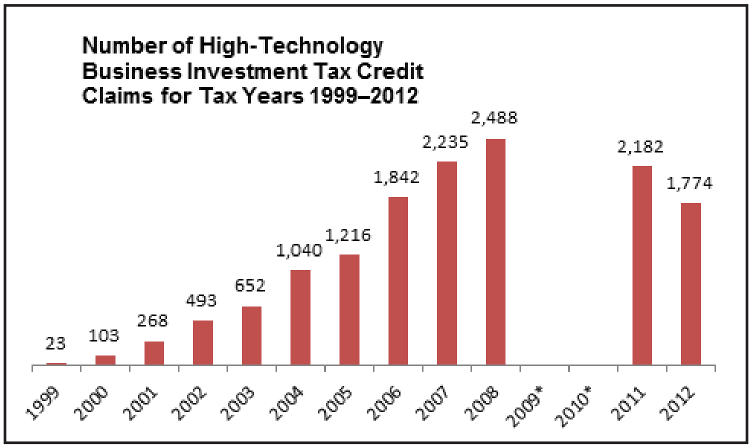
The Hawai'i Health Connector ended operations on December 4, 2015. It was replaced by the federal health exchange, healthcare.gov. ■

Credits Continue to Tax the State: Follow-Up on Recommendations Made in Report No. 12-05, *Audit of the Department of Taxation's Administrative Oversight of High-Technology Business Investment and Research Activities Tax Credits*

Report No. 15-11, September 2015

The 2008 Legislature amended the Auditor's governing statute to require follow-up reporting on recommendations made in various audit reports to ensure agency accountability over audit recommendations. The purpose of this change was to apprise the Legislature of recommendations not implemented by audited agencies, and to require agencies to submit a written report within 30 days explaining why any recommendation was not implemented and the estimated date of its implementation.

In Report No. 12-05, released in July 2012, we reported that the Department of Taxation (DoTAX) performed only a high-level review of tax credit applications, not verifying self-reported numbers. Our 2015 follow-up found that oversight responsibilities of the high-technology tax credit, along with other high-dollar and high-volume tax credits, such as the renewable energy tax credit, are overshadowing DoTAX's core oversight functions. According to DoTAX's tax compliance administrator, department auditors were spending their time responding to taxpayer complaints and inquiries about refunds for high-dollar, high-volume tax credits, such as the high-technology business investment tax credit and renewable energy technologies tax credit. As a result, DoTAX staff were neither auditing tax credit applications nor tax filings as a whole. The compliance administrator told us that DoTAX's 20 auditors currently have a backlog of hundreds of tax returns targeted for audit.



Source: Department of Taxation

We also reported in 2012 that the State had issued and was responsible for reimbursing nearly $1 billion in tax credits; however, approximately three years later, we found that this obligation has nearly doubled, to almost $2 billion. Although the State stopped issuing them in 2010, high-technology tax credits do not have a sunset date; therefore, tax credit recipients can carry over unused credits indefinitely. These obligations impact taxpayers and government services statewide.

Our 2015 follow-up review also found that although DoTAX agrees that tax incentives should be scrutinized, it believes the task would be more efficiently undertaken by economists in the Department of Business, Economic Development and Tourism. DoTAX told us that its Tax Research and Planning Office lost its research statistician positions in the State's 2009 reduction-in-force and has therefore not been able to continue issuing formal reports on tax credits and tax statistics of Hawai'i's individuals and businesses. ■

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Commerce and Consumer Affairs

Report No. 15-12, November 2015

Our review of the 38 special funds, revolving funds, trust funds, and trust accounts of the Department of Commerce and Consumer Affairs (DCCA) found one trust fund did not meet the definition of a trust fund.

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds will be reviewed once every five years. This was our fifth review of the trust funds and trust accounts of DCCA. It was our first review of DCCA's special funds since enactment of Act 130, amended Section 23-12, HRS, to include reviews of all special funds statewide.

Special funds are used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes. Revolving funds, such as loan funds, are often established with an appropriation of seed money from the general fund, and must demonstrate the capacity to be self-sustaining. Trust funds, such as a pension fund, invoke the State's fiduciary responsibility to care for and use the assets held for the benefit of those with a vested interest in the assets. Trust accounts are typically separate holding or clearing accounts and are often used as accounting devices for crediting or charging state agencies or projects for payroll and other costs.

We used criteria developed by the Legislature as well as criteria developed by our office from a review of public finance and accounting literature. For each fund, we presented a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data, which were provided for informational purposes. We did not offer conclusions about the effectiveness of programs or their management, or whether programs should be continued.

We noted approximately $166 million were used in FY2012 from the Hawai'i Hurricane Relief Fund and did not serve the purpose for which the trust fund was originally established.

We noted approximately $166 million was used in FY2012 from the Hawai'i Hurricane Relief Fund and did not serve the purpose for which the trust fund was originally established. The purpose of the trust fund is to monitor the availability of property insurance in the state and make such insurance reasonably available to consumers in the state when necessary. Approximately $111 million was used to balance the State's budget for FY2011 and to maintain programs at levels determined to be essential for education, public health, and public welfare. The balance of $55 million was used to restore instructional days to meet the educational needs of Hawai'i's children.

We also noted inconsistent adherence by DCCA when filing statutorily required reports for nongeneral funds and for administratively created funds and accounts. Accurate and complete reporting, as well as timely closing of funds, would greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

DCCA agreed with our review for the most part and said it will take appropriate action to ensure compliance with reporting requirements. DCCA disagreed with our conclusion to reclassify the trust fund; however, we stand by our conclusion. ■

Study of State Departmental Engineering Sections That Manage Capital Improvement Projects: State Departmental Engineering Sections Vary Significantly in How They Manage CIPs

Report No. 15-13, November 2015

Act 177, Session Laws of Hawai'i 2015, required the Auditor to conduct a study that reviews the processes, efficiencies, and accountability of various departmental engineering sections that manage general fund capital improvement projects (CIPs). According to the act, the purpose of the study is to determine whether it serves the public interest to continue to operate duplicative engineering operations among various departments.

We surveyed 19 departments and agencies that manage their own capital improvement projects (CIPs). Of those, 14 said CIPs should not be handled centrally by the Department of Accounting and General Services (DAGS). Just one said centralizing CIPs could be beneficial. Supporting the position that centralizing CIP functions would be impracticable, departments and agencies cited issues related to managing federal funds, the specialized nature of many department-managed CIPs, and statutes granting certain departments authority to manage their own CIPs for efficiency. DAGS concurred that centralizing CIPs under its auspices would be impracticable.

Example of CIP: The University of Hawai'i–Hilo's Ka Haka 'Ula Ke'elikōlani College of Hawaiian Language building.

Source: University of Hawai'i

Although departments and agencies generally believe they should maintain control over their own CIPs, there is a lack of consistency in how they manage their projects relative to areas of legislative concern (namely, timelines, contract management, and end-user satisfaction). More than a third of the 19 entities we surveyed did not keep timelines as required by best practices; entities did not consistently track deliverables and payments according to State Procurement Office (SPO) advice; and almost half the entities did not measure or monitor stakeholder satisfaction in accordance with best practices.

We recommended that departments and agencies use timelines that include a comprehensive list of all activities required on a project, and not simply rely on contractor timelines, which may not reflect all project phases. We also recommended that departments and agencies follow SPO guidance for tracking payments and deliverables by using a contract administration worksheet that includes milestones or deliverables, which are marked as items are completed. Finally, we recommended departments and agencies identify and involve stakeholders throughout a project's execution and closing, including providing information about project costs, schedules, and performance.

The Department of Accounting and General Services chose not to submit a response to our draft report. ■

Study of Public Charter Schools' Governing Boards: Charter Schools' Accountability System Remains a Work in Progress

Report No. 15-14, December 2015

In March 2015, Hālau Lōkahi New Century Public Charter School became only the second school in Hawai'i to have its charter revoked. Using the case of Hālau Lōkahi as a guide, we found that the financial data schools must currently submit to the State Public Charter School Commission do provide indications of possible financial stress. However, human error and inexperience among commission staff contributed to their inability to recognize and interpret the information early enough to help avert Hālau Lōkahi's financial collapse.

We also examined four active charter schools whose financial data were similar to Hālau Lōkahi's. For instance, we found declining student enrollment at Kualapuʻu Public Conversion Charter School, an active line of credit at Ka Waihona o ka Naʻauao Public Charter School, and large, unpaid expenses at Hawaiʻi Technology Academy (HTA). Although these schools faced financial risks and challenges, we did not find anything to indicate they were in immediate financial peril. However, we recommended that commission staff continue to monitor those schools in particular.

We also found that the charter contract was unclear in a number of areas and required clarification in order to ensure schools fully understood what the commission and its staff expect of them. For instance, the language of the contract did not make clear that school personnel policies, such as licensed teachers, principal and teacher evaluation systems, and employee criminal history checks, must be posted on school websites. As a result, we found the majority of schools did not post these policies. In addition, commission staff relied on self-reporting to ensure schools complied with statutory requirements. They neither independently verified whether criminal history background checks on prospective school employees had been completed nor documented the results of those checks.

One of Hawaii Technology Academy's 13 learning center sites.
Source: Office of the Auditor

The commission generally agreed with our findings and recommendations. It also solicited responses from governing boards of the charter schools discussed in the report. Governing boards for Kualapuʻu Public Charter School, Myron B. Thompson Academy, and Ka Waihona o ka Naʻauao Public Charter School generally agreed with our findings and recommendations.

The governing board for HTA also generally agreed with our findings and recommendations but expressed reservations about how the report portrayed the school's financial status during the period HTA was managed by K12 Inc. We disagreed with this assertion, noting that the report did not make any conclusions about HTA's past or current financial status. ■

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Hawaiian Home Lands

Report No. 15-15, December 2015

Our review of special funds, revolving funds, and trust funds of the Department of Hawaiian Home Lands (DHHL) found two trust funds did not meet the definition of a trust fund.

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds are reviewed once every five years. This was our fifth review of DHHL's trust funds. and our first review of its special funds since enactment of Act 130, Session Laws of Hawai'i 2013, amended Section 23-12, HRS, to include reviews of all special funds statewide.

Special funds are used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes. Revolving funds, such as loan funds, are often established with an appropriation of seed money from the general fund, and must demonstrate the capacity to be self-sustaining. Trust funds, such as a pension fund, invoke the State's fiduciary responsibility to care for and use the assets held for the benefit of those with a vested interest in the assets. Trust accounts are typically separate holding or clearing accounts and are often used as accounting devices for crediting or charging state agencies or projects for payroll and other costs.

We used criteria developed by the Legislature and by our office based on public finance and accounting literature. For each fund, we presented a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data, which was provided for informational purposes. We offered no conclusions about the effectiveness of programs or their management, or whether programs should be continued.

We noted that DHHL had FY2015 fund balances that were committed to several contract encumbrances made more than five years ago. We found 86 old contract encumbrances totaling almost $4.6 million at the end of FY2015. We also noted inconsistent adherence by DHHL when filing statutorily required reports for nongeneral funds and for administratively created funds and accounts. Accurate and complete reporting, as well as timely closing of funds, would greatly improve the Legislature's oversight and control of these funds.

We found 86 old contract encumberances totalling almost $4.6 million at the end of FY2015.

The department generally agreed with our findings. However, it had provided clarification on two trust funds and reported that it had closed 78 of 86 long-outstanding contracts, worth more than $3.8 million. It also disagreed with our conclusion that it did not report all funds to the Legislature as required by law. The department said it was still in the process of completing its reports and that since the reports are due November 27, 2015, it was not remiss in this reporting requirement. We reiterated that our review referred to FY2014 reporting requirements, which were due in November 2014. ■

Review of Special Funds, Revolving Funds, Trust Funds and Trust Accounts of the Judiciary

Report No. 15-16, December 2015

Our review of special funds, revolving funds, trust funds, and trust accounts of the Judiciary found one special fund and five trust funds did not meet criteria.

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds are reviewed once every five years. This was our fifth review of the Judiciary's revolving funds, trust funds and trust accounts and our first review of its special funds since enactment of Act 130, Session Laws of Hawai'i 2013, amended Section 23-12, HRS, to include reviews of all special funds statewide.

Special funds are used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes. Revolving funds, such as loan funds, are often established with an appropriation of seed money from the general fund, and must demonstrate the capacity to be self-sustaining. Trust funds, such as a pension fund, invoke the State's fiduciary responsibility to care for and use the assets held for the benefit of those with a vested interest in the assets. Trust accounts are typically separate holding or clearing accounts and are often used as accounting devices for crediting or charging state agencies or projects for payroll and other costs.

We used criteria developed by the Legislature and by our office based on public finance and accounting literature. For each fund, we presented a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data, which was provided for informational purposes. We offered no conclusions about the effectiveness of program or their management, or whether the programs should be continued.

We found that one special fund (Indigent Legal Assistance) and five trust funds (Court Security, Juvenile Detention Alternatives Initiative, Junvenile Detention Alternatives Insitiative II, Supreme Court Law Library Donation, and Volunteer Guardian Ad Litem Program XII) did not meet criteria. We also noted inconsistent adherence by the Judiciary when filing statutorily required reports for non-general funds and for administratively created funds and accounts. Accurate and complete reporting, as well as timely closing of funds, would greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

One special fund and five trust funds did not meet criteria.

The Judiciary generally agreed with our review and said it will take appropriate action to ensure compliance with reporting requirements. ■

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Health

Report No. 15-17, December 2015

Our review of special funds, revolving funds, trust funds, and trust accounts of the Department of Health (DOH) and its administratively attached agency, the Hawai'i Health Systems Corporation (HHSC), found 19 special funds and two trust funds did not meet criteria.

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds every five years. This was our fifth review of DOH and HHSC's revolving funds, trust funds and trust accounts, and our first review of their special funds since Act 130, Session Laws of Hawai'i 2013, amended Section 23-12, HRS, to include reviews of all special funds statewide.

Special funds are used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes. Revolving funds, such as loan funds, are often established with an appropriation of seed money from the general fund, and must demonstrate the capacity to be self-sustaining. Trust funds, such as a pension fund, invoke the State's fiduciary responsibility to care for and use the assets held for the benefit of those with a vested interest in the assets. Trust accounts are typically separate holding or clearing accounts and are often used as accounting devices for crediting or charging state agencies or projects for payroll and other costs.

Eight special funds and one trust fund with balances totaling more than $385,000 had no activity during our review period and should be closed.

For each fund, we presented a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data, which were provided for informational purposes only. We did notoffer conclusions about the effectiveness of programs or their management, or whether programs should be continued.

We found that eight special funds and one trust fund with balances totaling more than $385,000 as of June 30, 2015, had no activity during our review period. According to DOH, these funds should be closed.

Three DOH and HHSC hospital programs received general fund appropriations for programs supported by special funds. Although these funds met the criteria of self-sustainability, we could not conclude the programs needed general fund appropriations. To do so would require further inquiry into the individual funds' programs and activities, which was beyond the scope of our review.

We also found that DOH and HHSC inconsistently adhered to statutory reporting requirements for non-general funds and administratively created funds and accounts. DOH was also not reporting annual filings for the Mental Health and Substance Abuse Special Fund. Accurate and complete reporting, as well as timely closing of funds, would greatly improve the Legislature's oversight and control of these funds.

DOH generally agreed with our observations and said it will take appropriate action to ensure compliance with reporting requirements and closing inactive funds. DOH did not agree with our conclusion to repeal three funds; however, we stand by our conclusions. HHSC did not respond to our draft report. ■

Audit of the Department of Transportation's Energy Performance Contracts: Improved Oversight Is Needed to Ensure Savings

Report No. 15-18, December 2015

We conducted the audit pursuant to Act 119, Session Laws of Hawai'i 2015, which required the Auditor to conduct an audit of the energy performance contracts of the Department of Transportation, including an evaluation of the terms and conditions for monitoring utility consumption, a determination of utility cost savings to the State, and payments to the contractor.

The Department of Transportation-Airports Division's energy contract, executed in December 2013 with Johnson Controls, Inc., promised to address a host of current and future energy needs, and could serve as a model for other agencies to follow. However, we found flaws in the design and implementation of the project. Contrary to State Procurement Office guidance, the contract allows for automatic acceptance of the annual savings report, which is a key document for ensuring that savings match guaranteed levels. This provision weakens the division's ability to challenge or dispute any savings issues discovered after the 90-day review period expires. We also found flaws that could undermine the energy contract's $518 million savings guarantee. The department thought the energy contract covered a 20-year term, but the contract actually expires after 19 years. Consequently, $60 million in savings were scheduled to occur after the contract expires. The division was unaware of this flaw until we brought it to its attention.

Photovoltaic panels on Honolulu International Airport rooftop.

Source: Office of the Auditor

Johnson Controls' annual savings report was the division's foundation for assessing whether the project had achieved the savings that were guaranteed. Thus, it is imperative the division be able to thoroughly review the report in a timely fashion. We found the division lacked the procedures and expertise needed to evaluate these annual savings reports. The division's incomplete review of the first savings report left it unaware of significant reporting problems that undermined Johnson Controls' accountability for ensuring savings exceed costs, as required by law. The division was therefore unable to verify whether $13.7 million in guaranteed savings for the project's first two years were achieved, undermining the public's confidence in the department's ability to ensure the energy contract delivers promised benefits.

The Department of Transportation generally agreed with our findings and recommendations, and reported that it has begun implementing all our recommendations. Among other things, the department said it has amended the energy contract to correct flaws we identified. ■

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Human Services

Report No. 15-19, December 2015

Our review of special funds, revolving funds, trust funds, and trust accounts of the Department of Human Services and its administratively attached agency, the Hawai'i Public Housing Authority (HPHA), found 14 special funds, one revolving fund, three trust funds, and two trust accounts did not meet criteria.

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds every five years. This was our fifth review of the department's and HPHA's revolving funds, trust funds and trust accounts, and our first of their special funds since Act 130, Session Laws of Hawai'i 2013, amended Section 23-12, HRS, to include reviews of all special funds statewide.

Special funds are used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes. Revolving funds, such as loan funds, are often established with an appropriation of seed money from the general fund, and must demonstrate the capacity to be self-sustaining. Trust funds, such as a pension fund, invoke the State's fiduciary responsibility to care for and use the assets held for the benefit of those with a vested interest in the assets. Trust accounts are typically separate holding or clearing accounts and are often used as accounting devices for crediting or charging state agencies or projects for payroll and other costs.

For each fund, we presented a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data, which were provided for informational purposes only. We did not offer conclusions about the effectiveness of programs or their management, or whether programs should be continued.

The department and HPHA inconsistently adhered to statutory reporting requirements for non-general funds and administratively created funds and accounts.

In addition to finding that 14 special funds, one revolving fund, three trust funds, and two trust accounts did not meet criteria, the department and HPHA inconsistently adhered to statutory reporting requirements for non-general funds and administratively created funds and accounts. Accurate and complete reporting, as well as timely closing of funds, would greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

The department said it concurred with a majority of our recommendations and will implement them as soon as is practical. HPHA did not respond to us directly but wrote in an email to the department that it concurs with our findings. The department disagreed with our analysis of the Spouse and Child Abuse Special Account; however, we stand by our conclusion. ■

Audit of the Department of Human Services' KOLEA System: $155 Million KOLEA Project Does Not Achieve All ACA Goals

Report No. 15-20, December 2015

Section 131 of Act 119, Session Laws of Hawai'i 2015, required the Auditor to conduct a management and financial audit of the Department of Human Services' (DHS) Kauhale On-Line Eligibility Assistance (KOLEA) system. The act asked that the audit include an evaluation of the procurement of KOLEA and the proposed addition of other DHS program functions, all contract modifications, planning for ongoing maintenance and operations for KOLEA, effectiveness of staff training on and utilization of KOLEA, and an analysis of KOLEA's current capabilities.

We found that the department did not properly plan for or implement KOLEA. As a result, the department had been unable to achieve the ACA's goals of creating a simple, real-time eligibility and enrollment process that uses electronic data to ease the paperwork burden on applicants and state agencies while expediting an eligibility determination. In addition, the $155 million IT eligibility and enrollment system neither incorporated all ACA requirements nor met the Med-QUEST Division's business needs. For example, KOLEA did not perform electronic data matching to verify applicant's income, and staff reported that KOLEA was difficult to use and error-prone. Consequently, the State could have been paying benefits for people who were not eligible, or improperly denying coverage for those who were eligible.

A primary goal of the ACA is to create a simple, real-time eligibility process that uses electronic data to ease the paperwork burden on applicants and state agencies while expediting determination.

The ACA requires states to expand their Medicaid enrollment systems to integrate new programs, rules, and functionalities, and be able to apply streamlined verification and eligibility processes to other federal and state health and human services programs. We found the department had begun work on a new enterprise-wide system to allow integration of its other health and human services programs, such as SNAP and TANF. It therefore did not yet support the ACA's goals of facilitating individuals' enrollment in programs other than Medicaid.

The department, which requested this audit, appreciated most of our recommendations but disagreed with our two primary findings. Although it claimed our main findings were incorrect, we note that the department agreed with all but one of our recommendations.

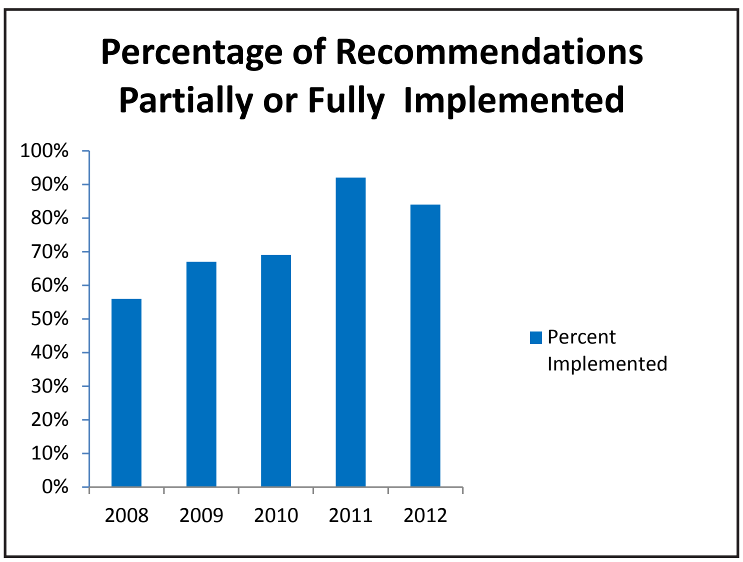
The department contended KOLEA had achieved the ACA's goals and met all of the requirements for a Medicaid eligibility determination system because, it said, KOLEA accepted online applications, was connected to the federal data hub to conduct online verifications, and determined eligibility in a timely and accurate manner as confirmed by CMS. However, we found that KOLEA could not access quarterly wage data from Hawai'i's Department of Labor and Industrial Relations, self-employment income, or unearned income. We also found that administrative efficiencies and reduced paperwork—primary goals of the ACA—had not been realized, according to eligibility workers, supervisors, and branch management. We therefore stood by our findings and conclusions. ■

Capstone: Follow-Up of Audit Recommendations for Reports Published from 2008 – 2012

Capstone: Follow-Up of Audit Recommendations for Reports Published from 2008–2012

To ensure agency accountability over audit recommendations, the 2008 Legislature amended the Auditor's governing statute to require follow-up reporting on recommendations made in various audit reports. The purpose of this change was to apprise the Legislature of recommendations not implemented by audited agencies. Section 23-7.5, Hawai'i Revised Statutes, now requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited agency.

Every year, we follow up on recommendations made in our audit reports, actively verifying if the affected agencies have implemented our recommendations. Our reviews include interviews with selected administrators, managers, and staff from the department. We examine the department's policies, procedures, records, and relevant documents to assess and evaluate whether its actions adequately fulfilled our recommendations. Our efforts are limited to the inquiry, testing, and reporting on implementation of recommendations made in the original report. We do not explore new issues or revisit old ones that did not relate to our original recommendations. Site visits and observations are conducted as needed to achieve our objectives. From 2008 to 2012, we made 320 actionable audit recommendation of which 216 were partially or fully implemented by the affected agencies.



Source: Office of the Auditor

We based our scope and methodology on General Accountability Office's guidelines in *How to Get Action on Audit Recommendations* (1991). According to GAO, saving tax dollars, improving programs and operations, and providing better service to the public represent audit work's "bottom line." Recommendations are the vehicles by which these objectives are sought. However, it is action on recommendations—not the recommendations themselves—that helps government work better at less cost. Effective follow-up is essential to realizing the full benefits of audit work.

Determining progress

The rate of progress of a recommendation's implementation depends on the type of recommendation. While some fall fully within the purview of an audited agency and can be addressed relatively quickly, others may deal with complex problems and involve multiple agencies, resulting in a long implementation period. Therefore, ample time should be afforded to agencies implementing recommendations in order for a follow-up system to be useful and relevant.

Capstone: Follow-Up of Audit Recommendations for Reports Published from 2008–2012

With those observations in mind, we have determined an active follow-up effort is most effective and relevant if conducted three years after publication of an initial audit report. Too short an interval between audit report and follow-up might not give agencies enough time to implement a complex recommendation; too long might allow agencies to lose valuable personnel and institutional knowledge needed to conduct an adequate follow-up.

Identifying key recommendations

The extent of work done to verify implementation depends on the significance of individual recommendations. For instance, GAO notes that while all audit recommendations should be aggressively pursued, some are so significant that added steps are needed to implement them. The significance of a recommendation depends on its subject matter and the specific situation to which it applies. Significance can be addressed in terms of dollars; however, dollars are only one measure, and not necessarily the most important one. For instance, recommendations to ensure safe operations often take precedence, since their implementation could prevent the loss of life, substantial bodily injury, or environmental contamination.

Closing recommendations

In accordance with GAO guidelines, we consider recommendations "closed" for the following reasons:

- The recommendation was effectively implemented;
- An alternative action was taken that achieved the intended results;
- Circumstances have so changed that the recommendation is no longer valid; or
- The recommendation was not implemented despite the use of all feasible strategies. ■

The following tables provide breakdowns of recommendations implemented each year.

2011 Follow-Up on Audit Recommendations Made in Reports Published in 2008

Report No.	Title	No. of Recs.	No. of Recs. Partially or Fully Implemented	% Implemented	Dept.
08-02	*Management Audit of the Department of Education's Hawaiian Studies Program*	23	18	78%	DOE
08-03	*Financial and Management Audit of the Moloka'i Irrigation System*	17	14	82%	DOA
08-08	*Financial Review of the Hawai'i Health Systems Corporation*	17	n/a	n/a	DOH

Capstone: Follow-Up of Audit Recommendations for Reports Published from 2008–2012

Report No.	Title	No. of Recs.	No. of Recs. Partially or Fully Implemented	% Implemented	Dept.
08-09	*Performance Audit on the State Administration's Actions Exempting Certain Harbor Improvements to Facilitate Large Capacity Ferry Vessels From the Requirements of the Hawai'i Environmental Impact Statements Law: Phase I*	12	7	58%	DOT
08-11	*Performance Audit on the State Administration's Actions Exempting Certain Harbor Improvements to Facilitate Large Capacity Ferry Vessels From the Requirements of the Hawai'i Environmental Impact Statements Law: Phase II*	8	4	50%	DOT
	Total	**77**	**43**	**56%**	

2012 Follow-Up on Audit Recommendations Made in Reports Published in 2009

Report No.	Title	No. of Recs.	No. of Recs. Partially or Fully Implemented	% Implemented	Dept.
09-02	*Management and Financial Audit of Hawai'i Tourism Authority's Major Contracts*	10	10	100%	DOE
09-03	*Procurement Audit of Department of Education, Part 1*	9	9	100%	HTA
09-04	*Procurement Audit of Department of Education, Part 2*	23	23	100%	DOE
09-05	*Study on the Appropriate Accountability Structure of the Hawai'i Teacher Standards Board*	7	1	14%	HTSB

Capstone: Follow-Up of Audit Recommendations for Reports Published from 2008–2012

Report No.	Title	No. of Recs.	No. of Recs. Partially or Fully Implemented	% Implemented	Dept.
09-06	*Audit of the State of Hawai'i's Information Technology: Who's in Charge?*	34	22	65%	DAGS
09-07	*Investigation of Procurement Practices: DBEDT*	9	7	78%	DBEDT
	Total	**92**	**62**	**67%**	

2013 Follow-Up on Audit Recommendations Made in Reports Published in 2010

Report No.	Title	No. of Recs.	No. of Recs. Partially or Fully Implemented	% Implemented	Dept.
10-01	*Investigation of Specific Issues of the Department of Business, Economic Development & Tourism*	11	6	55%	DBEDT
10-03	*Financial Examination of the Department of Budget and Finance*	27	24	89%	B&F
10-04	*Management Audit of the Aloha Tower Development Corporation*	5	3	60%	ATDC
10-05	*Program and Management Audit of the State's Purchasing Card Program*	7	0	0%	SPO
10-06	*Audit of the Department of Public Safety, Sheriff Division*	5	3	60%	PSD
10-10	*Management Audit of the Department of Public Safety's Contracting for Prison Beds and Services*	10	8	80%	PSD
10-11	*Management and Financial Audit of Department of Taxation's Contracts*	7	5	86%	DoTAX
	Total	**72**	**50**	**69%**	

Capstone: Follow-Up of Audit Recommendations for Reports Published from 2008–2012

2014 Follow-Up on Audit Recommendations Made in Reports Published in 2011

Report No.	Title	No. of Recs.	No. of Recs. Partially or Fully Implemented	% Implemented	Dept.
11-01	*Management Audit of the Hawai‘i Public Housing Authority*	12	11	92%	HPHA
11-03	*Performance Audit of the Hawai‘i Public Charter School System*	n/a	n/a	n/a	DOE
	Total	**12**	**11**	**92%**	

2015 Follow-Up on Audit Recommendations Made in Reports Published in 2012

Report No.	Title	No. of Recs.	No. of Recs. Partially or Fully Implemented	% Implemented	Dept.
12-02	*Investigation of the Stadium Authority's Swap Meet Operations*	10	10	100%	SA
12-03	*Management Audit of the Natural Energy Laboratorty of Hawai‘i*	28	23	82%	NELHA
12-04	*Study of the Transfer of Non-General Funds to the General Fund*	1	1	100%	AG
12-05	*Audit of the Department of Taxation's Administrative Oversight of High-Technology Business Investment and Research Tax Credits*	5	0	0%	DoTAX
12-07	*Management Audit of the Department of Education's School Bus Transportation Services*	20	17	85%	DOE
	Total	**64**	**50**	**80%**	

Summary of 2014 Financial Audits

Summary of 2014 Financial Audits

To attest to the fairness of agencies' financial statements, the Office of the Auditor examines the adequacy of their financial records and accounting and internal controls, and determines the legality and propriety of expenditures. In 2015, we administered 21 financial statement audit contracts, including the State's Comprehensive Annual Financial Report and Single Audit Report.

Department of the Attorney General—June 30, 2014, Financial Statements and Single Audit Report

The department reported total revenues of $74 million and total expenses of $71 million. The department received an unmodified opinion on its financial statements. The auditors from Akamine, Oyadomari & Kosaki, CPAs, Inc., reported no material weaknesses in internal control over financial reporting; however, they did identify one significant deficiency.

Department of Education—June 30, 2014, Financial Statements and Single Audit Report

The department reported total revenues of $2.75 billion and total expenditures of $2.51 billion, resulting in a gain of approximately $240 million. The department received an unmodified opinion on its financial statements. The auditors from N&K 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*. However, they found one significant deficiency in internal controls over financial reporting and one material weakness in internal controls over compliance.

Department of Hawaiian Home Lands—June 30, 2014, Financial Statements and Single Audit Report

The department's total expenditures exceeded total revenues (before transfers) by $5 million. Total revenues were $47.8 million (program revenues of $36.5 million and State appropriations of $11.3 million) before transfers, and expenses totaled $52.8 million. The department also received a transfer of $30 million as part of its annual settlement payment with the State of Hawai‘i. 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, 2014, Financial Statements and Single Audit Report

The department reported total revenues of approximately $746 million and total expenses of $620 million, resulting in excess revenues of $126 million before transfers. The department received an unmodified opinion on its financial statements. The auditors from N & K CPAs, Inc. reported three significant deficiencies and no material weaknesses in internal control over financial reporting. For internal control over compliance, the auditors identified three material weaknesses and five significant deficiencies.

Department of Human Services—June 30, 2014, Financial Statements and Single Audit Report

The department reported total revenues and total expenses of approximately $3 billion. Revenues consisted of $1.1 billion of state revenues and $1.9 billion in program revenues. The department received an unmodified opinion on its financial statements. The auditors from KMH LLP reported 19 material weaknesses and one significant deficiency over internal controls over financial reporting and compliance with major federal programs.

Summary of 2014 Financial Audits

Department of Human Services, Hawai'i Public Housing Authority—June 30, 2014, Financial Statements and Single Audit Report
The authority reported total revenues of $170 million and total expenditures of $140 million, resulting in excess revenues of $30 million. The authority also reported nearly $14 million in capital grants and contributions. The authority received an unmodified opinion on its financial statements. The auditors from KMH LLP identified two material weaknesses in internal control over compliance and one significant deficiency in internal controls over financial reporting.

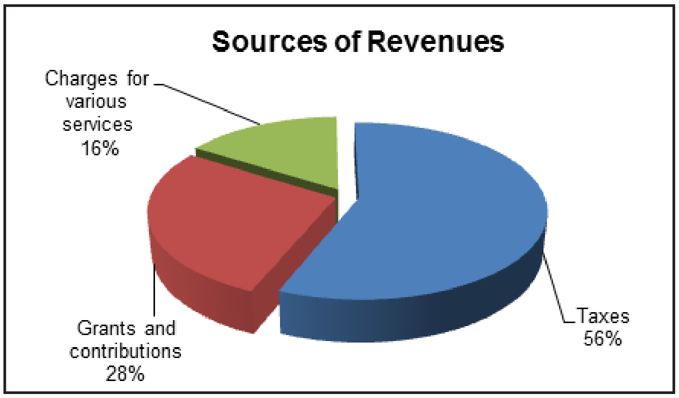
Department of Transportation, Administration Division—June 30, 2014, Financial Statements and Single Audit Report
The division reported total revenues of approximately $30.6 million and total expenses of $24.1 million, resulting in excess revenues of $6.5 million. Revenues primarily consisted of $17.5 million from assessments, $11.1 million from federal grants, $1 million from property rental, and $1 million from other revenue sources. 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; however, there were two deficiencies in internal controls over compliance that were considered significant deficiencies.

State of Hawai'i Comprehensive Annual Financial Report (CAFR) — June 30, 2014

For the fiscal year ended June 30, 2014, total revenues were $10.2 billion and total expenses were $10.3 billion, resulting in a decrease in net assets of $100 million. Approximately 56 percent of the State's total revenues came from taxes ($5.7 billion), 28 percent from grants and contributions ($2.9 billion), and 16 percent from charges for various goods and services ($1.6 billion). The largest expenses were for higher and lower education at 33 percent ($3.4 billion), welfare at 28 percent ($2.9 billion), health at 8 percent ($800 million), and general government at 6 percent ($500 million).

The State received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

For the past three years, the Government Finance Officers Association has awarded the State of Hawai'i a Certificate of Achievement for Excellence in Financial Reporting for its CAFR. The award recognizes state and local governments that "go beyond the minimum requirements of generally accepted accounting principles to prepare comprehensive annual financial reports that evidence the spirit of transparency and full disclosure."



Department of Transportation, Airports Division—June 30, 2014, Financial Statements and Single Audit Report
The division reported total revenues of approximately $432 million and total expenses of approximately $368 million, resulting in excess revenues

Summary of 2014 Financial Audits

of $64 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 reporting and found no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*. However, for the second year in a row, the auditors recommended that the division enhance internal controls over the cash reimbursement process to ensure that invoice are paid prior to submitting the reimbursement request to the federal government.

Department of Transportation, Harbors Division—June 30, 2014, Financial Statements
The division reported revenues of $122.4 million and expenses of $89.7 million. Total revenues consisted of $92.4 million in services, $26.7 million in rentals, $2.6 million in other revenues, and $700,000 in interest income. The division also transferred-out $300,000 to other funds. As a result, DOT–Harbors' net position increased by nearly $32.4 million for the fiscal year. The division received an unmodified opinion on its financial statements. The auditors from KKDLY LLC reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters to be reported under *Government Auditing Standards*.

Department of Transportation, Highways Division—June 30, 2014, Financial Statements and Single Audit Report
The division reported total revenues of approximately $466 million and total expenses of $531 million and transfers of $5 million, resulting in a deficiency of $70 million. The division received an unmodified opinion on its financial statements. The auditors from KKDLY LLC reported two significant deficiencies and no material weaknesses in internal control over financial reporting and no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*. The auditors also found three significant deficiencies in internal controls over compliance.

State of Hawai'i–June 30, 2014 Single Audit Report

The report includes the total federal expenditures and findings related to only those departments that are included in the State of Hawai'i Single Audit of Federal Financial Assistance Programs. Federal expenditures totaled approximately $376.7 million. Other departments' federal expenditures and findings are reported in their individual single audit reports. The auditors from Accuity LLP reported one material weakness and two significant deficiencies in internal controls over financial reporting. They also reported five material weaknesses and 22 significant deficiencies over compliance with major federal programs.

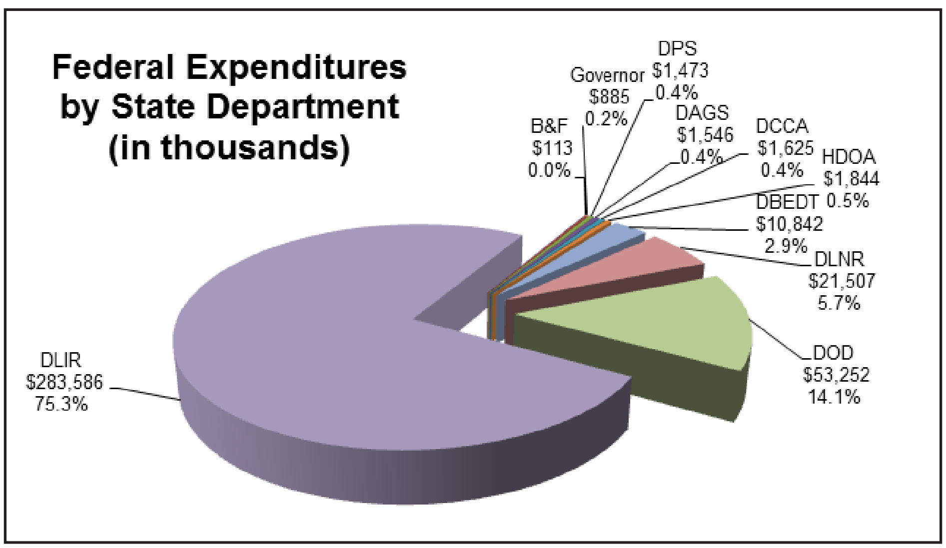
Department of Transportation, O'ahu Metropolitan Planning Organization—June 30, 2014, Financial Statements and Single Audit Report
The agency reported total revenues of $1.53 million and total expenses of $1.51 million. The division received an unmodified opinion on its financial statements. The auditors from Gilford Sato & Associates, CPAs, Inc. reported six material weaknesses in internal control over financial reporting and two material weaknesses in internal control over compliance.

Employees' Retirement System of the State of Hawai'i —June 30, 2014, Financial Statements
The agency reported total additions of $3.03 billion and total deductions of $1.14 billion. The agency recieved an unmodified opinion on its financial statements. The auditors from KPMG LLP reported no material weaknesses in internal control over financial

Summary of 2014 Financial Audits

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

Hawai'i Community Development Authority—June 30, 2014, Financial Statements
The authority's total revenues exceeded total expenditures by $9 million. Total revenues were $18 million, and expenses totaled $9 million. Revenues consisted of leasing and management of $3 million, community redevelopment of $13 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 no instances of noncompliance or other matters required to be reported under *Government Auditing Standards.*



Hawai'i Housing Finance and Development Corporation—June 30, 2014, Financial Statements and Single Audit Report
The corporation reported total revenues of $68 million and total expenses of $52 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.*

Hawai'i Employer-Union Health Benefits Trust Fund—June 30, 2014, Financial Statements
The trust fund has three types of funds: an enterprise fund, an agency fund, and an Other Post-Employment Benefits (OPEB) trust 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. The OPEB trust fund is used to account for the employer pre-funding contributions and related net investment earnings. For the enterprise fund, operating revenues totaled $77.3 million with operating expenses at $77.9 million, resulting in an operating loss of $600,000. The agency fund held $219.7 million in assets. The OPEB trust fund held $626.1 million in assets. The trust fund received an unmodified opinion on its financial statements. The auditors from KKDLY LLC reported no deficiencies in internal control over financial reporting and no instances of noncompliance or other matters required to be reported under *Government Auditing Standards.*

Summary of 2014 Financial Audits

Hawai'i Tourism Authority—June 30, 2014, Financial Statements

The authority reported total revenues of approximately $123.8 million, along with $190,000 in transfers from other departments. Total expenses were approximately $102.4 million. Revenues consisted of $115 million from transient accommodations tax, $8.2 million from services, and $300,000 in interest income and experienced a $300,000 net increase in the fair value of investments. 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 no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Stadium Authority—June 30, 2014, Financial Statements

The authority reported total operating revenues of $7.8 million and total operating expenses of $13.8 million, resulting in an operating loss of $6 million. The authority received an unmodified opinion on its financial statements. The auditors from KKDLY LLC reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

State Motor Pool Revolving Fund—June 30, 2014, 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 no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

State Parking Revolving Fund—June 30, 2014, Financial Statements

The fund reported operating revenues of $4 million and operating expenses of $4 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 no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*. ■

Office of the Auditor Appropriations and Expenditures on a Budgetary Basis for the Fiscal Year Ended June 30, 2015

Appropriations

Act 2, SLH 2014 (operations)	$2,643,849
Act 2, SLH 2014 (special studies)	150,000
Act 2, SLH 2014(Audit Revolving Fund)	2,800,000
Act 138, SLH 2013 (Public Employment Cost Items)	153,500
	$5,747,349

Expenditures

Staff salaries	$2,086,569
Contractual services (operational)	—
Other expenses	195,022
Special studies	99,500
Contractual services (Audit Revolving Fund)	2,800,000
	$5,181,091

Excess of Appropriation over Expenditures

Act 2, SLH 2014 (operations)	$515,758
Act 2, SLH 2014 (special studies)	50,500
Act 2, SLH 2014 (Audit Revolving Fund)	—
	$566,258

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 that receives state funding. 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 enforcement 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. **Performance audits**, also referred to as management audits, examine the effectiveness of programs, or the efficiency of agencies, or both. These are also called **program audits** when they focus on whether programs are attaining the expected 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.

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

3. **Sunrise analyses** evaluate unregulated professions or occupations to determine whether they should be regulated by the State. Before a new professional or vocational licensing program can be enacted, statute requires that a specific measure be analyzed by the Office of the Auditor as to whether regulation is necessary and its probable effects.

4. **Sunset evaluations** are similar to sunrise analyses, but apply to existing rather than proposed regulatory programs. They evaluate whether a program should be terminated, continued, or modified, in accordance with statutory criteria.

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 such funds meet legislative criteria.

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

8. **Audit recommendations follow-up reports** validate claims made by departments regarding implemented audit recommendations and inform the Legislature of 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. 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/