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

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A Report to the  
Governor  
and the  
Legislature of  
the State of  
Hawai'i

Report No. 07-01  
January 2007

**THE AUDITOR**  
STATE OF HAWAI'I

# OVERVIEW

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

Report No. 07-01, January 2007

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### Summary

The Legislature initiated a financial and operational audit of the Hawai'i Youth Correctional Facility through Act 1, Session Laws of Hawai'i 2006. The operational audit of the facility was previously conducted and issued during May 2006 as Report No. 06-03, *Management Audit of the Hawai'i Youth Correctional Facility*. This financial audit was conducted by the Office of the Auditor and the certified public accounting firm of Grant Thornton LLP. We assessed selected fiscal issues of the Office of Youth Services and the Hawai'i Youth Correctional Facility, including, but not limited to, a review of sick leave, overtime, ward trust accounts, and procurement issues. The Office of Youth Services is responsible for leading the State's services to at-risk youths. The youth correctional facility is a branch of the Office of Youth Services.

Our audit found that the facility incurs significant overtime costs and sick leave usage among its youth corrections officers (YCOs). For example, for the 20 YCOs' payroll histories that we reviewed, an average of 35 percent of their gross compensation was earned through overtime during FY2004-05. In fact, one YCO earned \$44,845 in overtime compensation as compared to \$36,494 in base pay. We also reviewed the sick leave patterns for these YCOs, noting they took an average of 164 hours of sick leave and 234 hours of compensatory time off in lieu of sick leave during FY2004-05. However, we found that high vacancy levels among the facility's YCOs and the inherently stressful nature of the work were the primary drivers of overtime costs and sick leave usage.

We also found that internal controls over the collection of salary overpayments could be improved; controls over processing, disbursing, and reporting of wards' trust accounts should be strengthened; and improved compliance with procurement laws and rules is needed.

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### Recommendations and Response

We recommended that the facility develop and implement a formal system of monitoring overtime and sick leave usage among all employees concurrently to identify any patterns of abuse. The facility should also work with the Office of Youth Services to fill vacant youth corrections officers positions as soon as possible. We also made a number of recommendations to the Hawai'i Youth Correctional Facility and the Office of Youth Services regarding monitoring salary overpayments, handling of wards' trust accounts, and complying with procurement laws and rules.



The Office of Youth Services agreed with our findings and expressed appreciation for the professionalism and courtesy afforded by our staff and Grant Thornton LLP. The office provided details of corrective actions being taken or already implemented since the conclusion of our audit fieldwork.

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**Marion M. Higa**  
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Governor  
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Hawai'i

Conducted by

The Auditor  
State of Hawai'i  
and  
Grant Thornton LLP

Submitted by

**THE AUDITOR**  
STATE OF HAWAI'I

Report No. 07-01  
January 2007

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## Foreword

This is a report of the financial audit of the Hawai'i Youth Correctional Facility, for the fiscal year July 1, 2004 to June 30, 2005. The audit was conducted in response to Act 1, Session Laws of Hawai'i 2006, which requested the State Auditor to conduct a financial and operational audit of the facility. The operational audit of the facility was previously conducted and issued during May 2006 as Report No. 06-03, *Management Audit of the Hawai'i Youth Correctional Facility*. This financial audit was conducted by the Office of the Auditor and the certified public accounting firm of Grant Thornton LLP.

We wish to express our appreciation for the cooperation and assistance extended by the officials and staff of the Department of Human Services, the Office of Youth Services, and the Hawai'i Youth Correctional Facility.

Marion M. Higa  
State Auditor

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# Chapter 1

## Introduction

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The Hawai‘i Youth Correctional Facility, the State’s only institution for incarcerated juvenile offenders, has been the focus of intense scrutiny over the past several years. This scrutiny has risen from extensive research done by the American Civil Liberties Union of Hawai‘i (ACLU) and the U.S. Department of Justice (DOJ) and has resulted in lawsuits filed against the State of Hawai‘i. In its August 2003 report, the ACLU found a pattern of egregious conduct and conditions that violate minimum, constitutional standards. This was followed by the ACLU’s filing of a class action lawsuit in 2005. The DOJ’s August 2005 report cited the absence of policies and procedures as the cause of the “state of chaos” at the facility. The DOJ also filed suit, but entered into a memorandum of agreement that requires the State to remedy conditions at the facility in three years’ time. In addition, in November 2005, the Hawai‘i State Legislature held informational briefings that surfaced further concerns about the management of the facility.

Significant attention on the Hawai‘i Youth Correctional Facility (HYCF) spurred the Legislature to request that the State Auditor conduct an audit pursuant to Act 1, Session Laws of Hawai‘i (SLH) 2006. Our office thereby conducted an audit that assessed the adequacy of the facility’s management and organization and in May 2006 issued the *Management Audit of the Hawai‘i Youth Correctional Facility*, Report No. 06-03. Additionally, we procured the services of a certified public accounting firm to review selected financial issues of the facility; however, the consultant was not available to conduct its audit work simultaneously with our audit of management issues. The purpose of this report is to present the consultant’s findings related to the facility’s fiscal matters. Specifically, the consultant reviewed the policies and procedures, records, and internal controls in place at the Office of Youth Services and the facility related to sick leave, overtime, ward trust accounts, and procurement. The Office of Youth Services (OYS) has the charge of coordinating a broad range of services and programs for youth-at-risk, including the oversight of the facility.

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## Background

In Hawai‘i, the practice of youth incarceration dates back to the period of the Hawaiian monarchy. In 1864, on the island of O‘ahu, King Kamehameha V created the Keone‘ula Reformatory School for boys and girls in Kapālama, the first juvenile facility of its kind in the islands. In 1903, 75 of the boys were relocated to farmland in Waiale‘e on the North

Shore. Then, in succeeding decades, various types of facilities and locales were used to house, train, and educate the youths. Finally, in 1961, the boys' and girls' operations were combined to form the Hawai'i Youth Correctional Facility now based in Kailua. The facility would later experience its own series of moves as it went from one agency's headship to another. In 1987, the Legislature created a juvenile justice interdisciplinary committee to study and determine the appropriate placement of the youth corrections program. The committee report, made in January 1989, recommended that a youth services agency be created and attached to the Department of Human Services for administrative purposes. This recommendation resulted in the enactment of Act 375, SLH 1989, which created a new office responsible for the management and operations of the facility and its juvenile parole functions.

***Organization of the  
Office of Youth  
Services***

The stipulations of Act 375 called for the Office of Youth Services to assume the leadership role in responding to the needs of youth-at-risk by developing and insuring a comprehensive continuum of statewide planning and coordination, maintaining oversight of activities and services for children and families, and providing responsibility and accountability for these services. Additionally, the act noted the importance of a single entity that would serve as a hub that is able to coordinate a wide range of services and programs in the effort to prevent delinquency and reduce the incidence of recidivism.

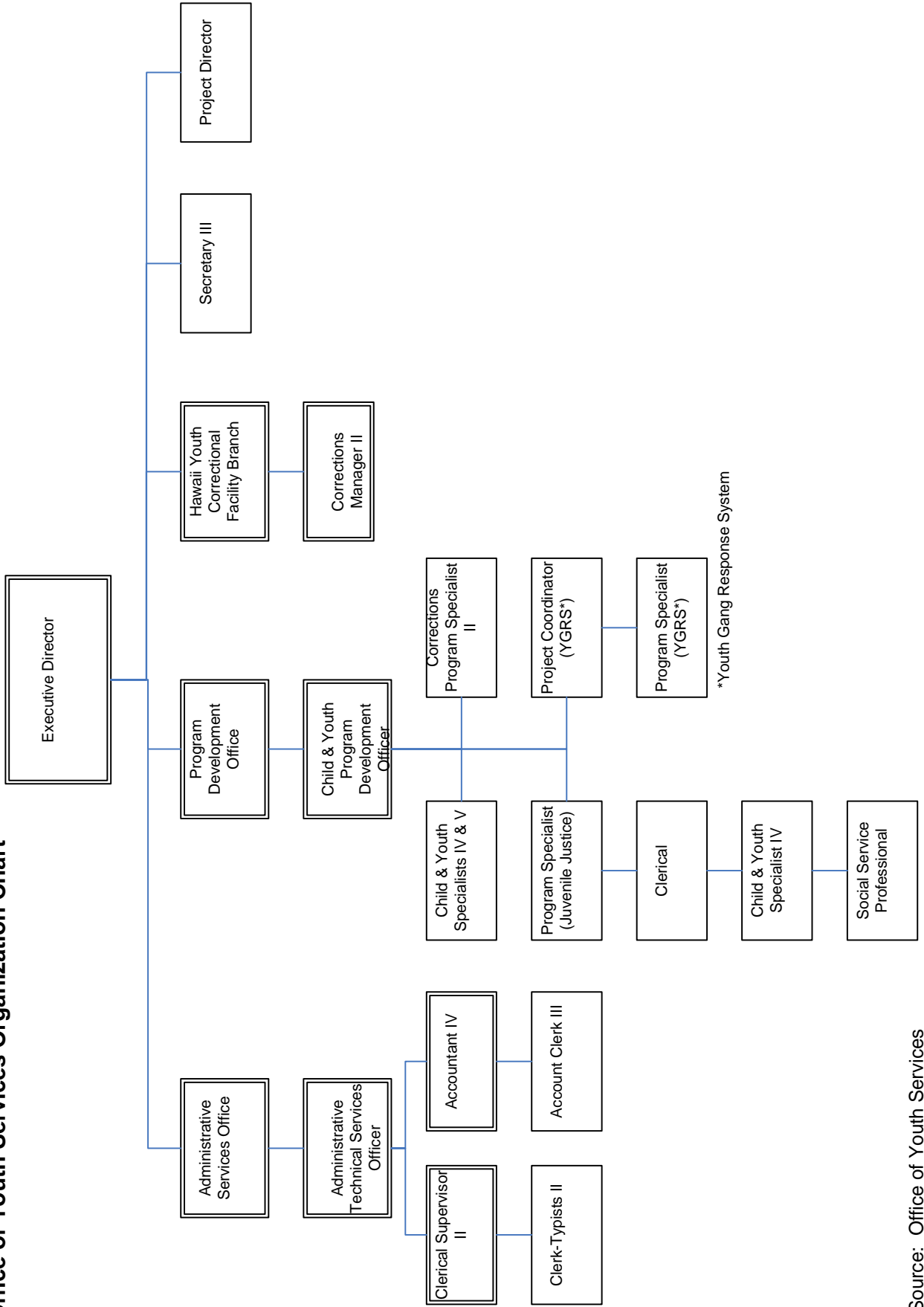
Headed by an executive director, the office comprises three sections: the Administrative Services Office, the Program Development Office, and the Hawai'i Youth Correctional Facility Branch. The Administrative Services Office is responsible for fiscal, procurement, personnel, and technical services for the organization. The Program Development Office administers, implements, evaluates, and monitors a broad spectrum of youth services. The Hawai'i Youth Correctional Facility Branch coordinates youth corrections and rehabilitation services, which is described in the following section. Exhibit 1.1 shows the Office of Youth Services organization chart.

***Organization of the  
Hawai'i Youth  
Correctional Facility***

One of the facility's main goals is to rehabilitate incarcerated youth and to assist them in the successful transitioning into the community at the time of their release. The facility offers a variety of counseling, treatment, and educational services for the youths who are referred to as wards or commitments. All staff members participate in the effort to provide guidance and opportunities leading towards positive change in the behavior of the youth. The Department of Education also provides educational programs for the wards, including special education.



**Exhibit 1.1  
Office of Youth Services Organization Chart**



Source: Office of Youth Services

The facility includes three secure units: the Secure Custody Facility, which houses high-risk boys; Ho‘okipa Makai, the unit designated for short-term, low-risk boys; and the Observation and Assessment building, which provides housing for the girls. During FY2004-05, the facility admitted 108 new wards who had never been incarcerated before and did not arrive due to a parole suspension; these commitments were 80 percent male and 20 percent female. Among the new wards, 45 percent were short-term commitments (where their incarceration periods last less than 365 days) and 64 percent were minority commitments (with incarcerations lasting until the age of 18, 19, or 20 is reached). Fifty-nine wards were committed by the Family Court’s First Judicial Circuit, 45 from the Second, Third, and Fifth Circuits of the Family Court, and unknown sources. During FY2004-05, the average daily population of facility wards numbered 60.

A corrections manager, more commonly referred to as the administrator, heads the facility. A secretary and a corrections program specialist report directly to the administrator, as do section heads for health care services, business services, corrections and social services, and facility maintenance-related services sections. Several key positions at the facility are temporarily filled. Exhibit 1.2 illustrates the organization of the Hawai‘i Youth Correctional Facility.

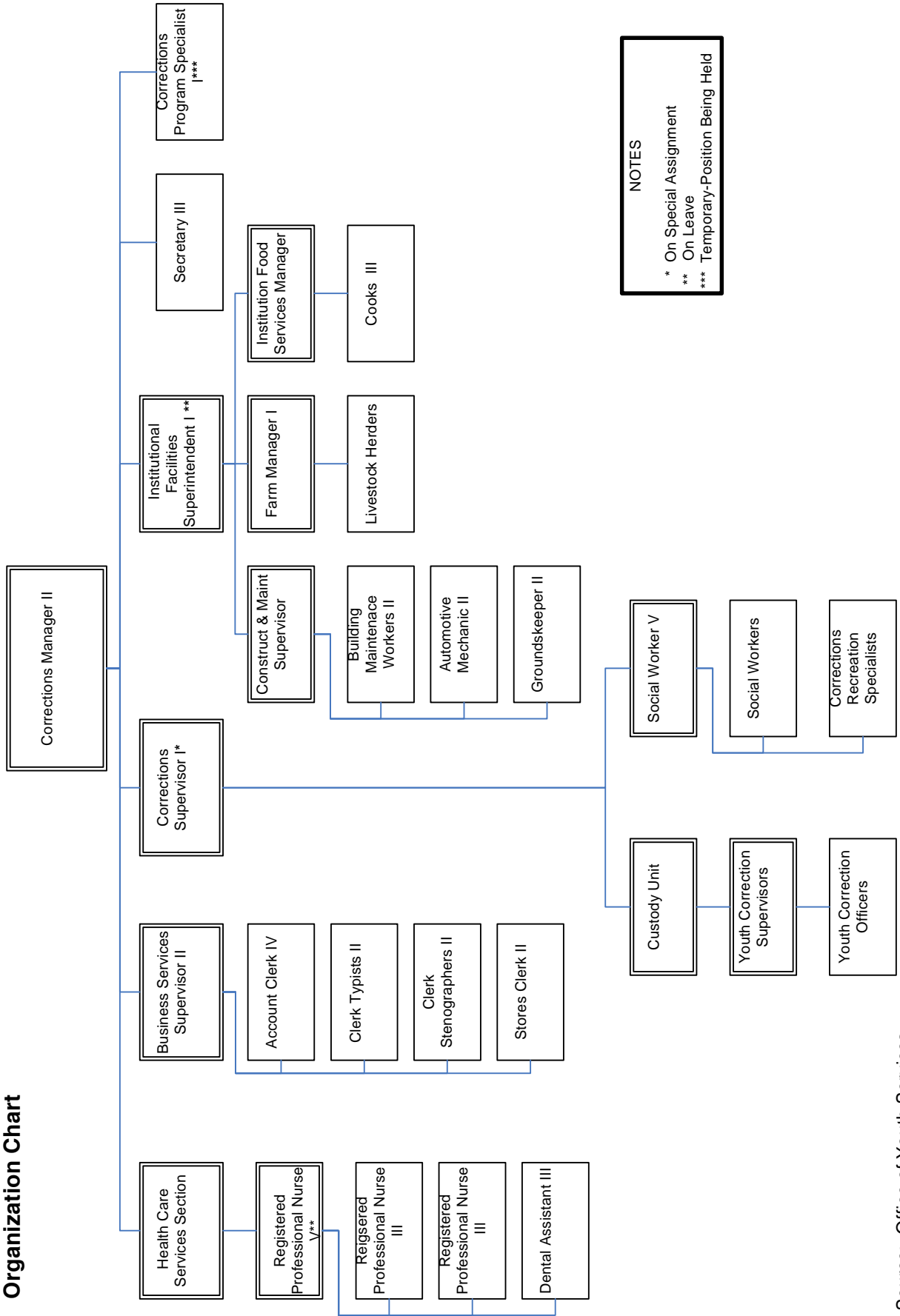
**Program appropriations of the Hawai‘i Youth Correctional Facility**

The budget for the Office of Youth Services comprises three programs: HMS 501—Youth Services Administration; HMS 502—Youth Services Programs; and HMS 503 Youth Residential Programs. The Office of Youth Services allocates moneys to the Hawai‘i Youth Correctional Facility from the approved HMS 503 budget. HMS 503 provides “a continuum of residential programs and services ranging from secure custody to non-secure community-based residential programs.” Exhibit 1.3 summarizes the HMS 503—Youth Residential Programs budgets for the past two years, as approved by the Legislature in Acts 41, SLH 2004, and 178, SLH 2005.

**Prior audits**

In 1986, our *Management Audit of the Hawai‘i Youth Correctional Facility*, Report No. 86-15, assisted the Legislature in assessing the facility’s role and performance. We found that Hawai‘i’s youth corrections policies and practices lacked clarity and consistency and failed to provide an adequate framework for effective program management. More specifically, we found that Hawai‘i’s legislation created ambiguity in the roles and responsibilities of the three departments directly involved in providing services at the Hawai‘i Youth Correctional Facility. These included the then Departments of Social Services and Housing, Education, and Health. These departments lacked

**Exhibit 1.2  
Hawai'i Youth Correctional Facility  
Organization Chart**



**NOTES**  
 \* On Special Assignment  
 \*\* On Leave  
 \*\*\* Temporary-Position Being Held

Source: Office of Youth Services

**Exhibit 1.3**  
**HMS 503 – Youth Residential Programs Budgets for**  
**FY2004-05 and FY2005-06**

<i>Positions</i>	FY2004-05	FY2005-06
General Fund Positions	88.50	88.50
Transfer Fund Positions	.50	.50
Total Positions	89.00	89.00

<i>Funds</i>	FY2004-05	FY2005-06
General Fund	\$5,472,979	\$6,278,187
Federal Funds	1,463,704	1,463,704
Transfer Funds	15,940	16,540
CIP Fund	0	100,000
Total Funds	\$6,952,623	\$7,858,431

*Source: Department of Human Services*

concerted planning and programming, and they mainly warehoused wards temporarily committed to their care.

Our audit also revealed that the Hawai'i Youth Correctional Facility fell short in preparing its wards for return to the community. The facility was largely deficient in the areas of basic and vocational education, reintegration, and family involvement. The facility also lacked a health education program and an infirmary. We concluded that a confusing and uncertain central mission plagued the facility's internal management.

In May 2006, our *Management Audit of the Hawai'i Youth Correctional Facility*, Report No. 06-03, assessed the adequacy of the facility's management and organization. We found that the Office of Youth Services has not provided the Hawai'i Youth Correctional Facility with adequate guidance and support to carry out its mission. The Office of Youth Services has not effectively implemented its strategic plan and has not established a clear mission for the Hawai'i Youth Correctional Facility.

We further found that the Hawai'i Youth Correctional Facility needs to use productive management tools relating to human resource management and quality assurance programs. The facility has left many critical positions vacant or temporarily filled, conducted job performance evaluations only sporadically, and has no formal or systematic training program.

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## Objectives

1. Assess selected fiscal issues of the Office of Youth Services and Hawai'i Youth Correctional Facility, including, but not limited to, a review of sick leave, overtime, ward trust accounts, and procurement issues.
2. Make recommendations as appropriate.

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## Scope and Methodology

Our review focused on FY2004-05 to the present, but it included previous fiscal years as necessary. We procured the services of a certified public accounting firm (Grant Thornton LLP) to review selected financial issues of the Hawai'i Youth Correctional Facility. Specifically, the consultant reviewed the policies and procedures, records, and internal controls in place at the Office of Youth Services and the Hawai'i Youth Correctional Facility related to sick leave, overtime, and procurement. In addition, the consultant interviewed personnel involved in the management and oversight of the Hawai'i Youth Correctional Facility and other relevant agencies.

Our work was performed from February 2006 to June 2006, and conducted according to generally accepted government auditing standards.

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# Chapter 2

## HYCF Has Staffing and Internal Control Deficiencies

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Management ensures that organizational goals and objectives are met and resources are safeguarded with the aid of internal controls. This chapter presents our findings and recommendations on the financial accounting and internal control practices and procedures of the Hawai'i Youth Correctional Facility.

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### Summary of Findings

1. High vacancies drive significant overtime costs and sick leave usage.
2. Internal controls over the collection of salary overpayments could be improved.
3. Controls over processing, disbursing, and reporting of wards' trust accounts should be strengthened.
4. Improved compliance with procurement laws and rules is needed.

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### High Vacancies Drive Significant Overtime Costs and Sick Leave Usage

The Hawai'i Youth Correctional Facility's youth corrections officers (YCOs) have incurred a significant amount of overtime and sick leave during the fiscal year ended June 30, 2005. According to an analysis prepared by the facility and submitted to the Legislature, the facility paid out \$818,231 in overtime to its 54 YCOs during FY2005. This represents 52 percent of total base compensation for YCOs. These individuals also accounted for 5,995 sick leave hours taken. The stressful nature of the YCO position coupled with high vacancies contributes to considerable overtime and sick leave costs for the facility. However, because overtime and sick leave can be closely associated with one another, the facility should be more proactive in monitoring both for potential abuse.

### *Overtime is a significant but inherent cost of the facility*

In the facility overtime analysis, we judgmentally selected a sample of 20 YCOs and reviewed their payroll histories for FY2005. These YCOs incurred total overtime pay of \$406,425, which represents 35 percent of their total gross compensation (\$1,149,668) and 57 percent of their total base compensation (\$713,652). In fact, three out of the 20 YCOs tested earned more in overtime than in base pay. One YCO earned \$44,845 in overtime compensation as compared to \$36,494 in base pay.

Youth corrections officers fulfill a critical function at the facility by maintaining care, custody, and control of juvenile wards. The position works in a setting requiring 24 hours-a-day coverage. Overtime at the facility is incurred when a YCO calls in sick and the youth corrections supervisor on duty must find a replacement. Youth corrections officers who are not scheduled to work on that respective day are offered the opportunity for overtime through a system that benefits officers with the most seniority. All overtime is approved by either the corrections supervisor I or the youth facility administrator on Form D-55 "State of Hawai'i Individual Timesheet."

We were informed by facility personnel that one cause of the significant amount of overtime is the high YCO vacancy level at the facility. Based on the facility's payroll records, we found that as of June 30, 2005, 18 out of 70 available positions were either vacant or filled by temporary employees; there were 11 vacancies and seven positions that were filled by 89-day emergency hires. Overtime is also driven by the amount of sick leave taken by YCOs. Due to the critical nature of the function, if an YCO unexpectedly calls in sick, a replacement will have to be asked to work overtime to cover.

Difficulty in filling and maintaining adequate staffing levels for YCOs, coupled with the stressful nature of the work, contribute to the significant amounts of overtime incurred by the facility's YCOs. This condition could lend itself to higher levels of employee stress and turnover. The high level of overtime could also lead to sick leave abuse, which is defined as taking sick leave when not actually sick.

***Youth corrections officers incur a significant amount of sick leave***

In order to assess YCO sick leave usage we considered the same 20 YCOs selected for overtime analysis; however, we noted only 17 of these YCOs had been employed at the facility for the entire year and limited our review to these individuals. For these 17 YCOs, we reviewed the payroll registers noting that they took a total of 2,787 hours of sick leave, which amounts to an average of 164 hours per officer. Generally, state employees earn 168 hours, or 21 days, of sick leave per year. However, we found that 12 of the 17 YCOs tested took 168 hours or more of sick leave during FY2005. In addition, these 12 YCOs also took an aggregate of 2,809 hours of compensatory time off in lieu of sick leave which averages out to 234 hours per officer. One YCO took 168 hours of sick leave and 481 hours of compensatory time off in lieu of sick leave, for an aggregate of 649 hours.

Youth corrections officers are required to call the youth corrections supervisor on duty for their section and inform them that they will be on sick leave for that respective day. The YCOs are required to complete Form G-1 "State of Hawai'i – Application for Leave of Absence" within



five days after they return to work. After each pay period, a clerk stenographer at the facility updates YCO leave records based on an attendance report, which is a summary of daily attendance records by pay period. If the clerk stenographer finds that a YCO has exhausted all sick leave hours, she informs the YCO via memorandum that there is insufficient sick leave and what type of leave may be elected in lieu of sick leave, including available compensatory time and vacation. If the officer's Form G-1 has already been approved, the clerk stenographer whites out the authorized signatures and sends the Form G-1 back to the YCO for revision and approval.

Youth corrections officers are responsible for contacting their section supervisors when taking sick leave. The supervisors do not have the YCOs' leave records available when taking the call to determine if the YCO has adequate sick leave.

***The facility should monitor overtime and sick leave concurrently***

Although the facility's procedures for approval of overtime and sick leave appear adequate, the facility does not have a system for simultaneously monitoring both for potential abuse. Facility management does not periodically compare overtime and sick leave records to determine patterns which signal misuse. Such a review is important due to the close relationship between the two factors and the resulting expenses. Not only do significant overtime and sick leave lead to higher levels of stress and employee turnover, they directly drive each other. Facility personnel have indicated that they sometimes take sick leave because they "need a break" from all the overtime. The facility must take the initiative in controlling these significant costs and stressful situations.

***Recommendation***

We recommend that the facility develop and implement a formal system of monitoring overtime and sick leave usage among all employees. This system should designate a management level employee to review timesheets in conjunction with leave records on a monthly basis for situations indicative of overtime and sick leave abuse. The system should define these situations, which could include periods of extensive overtime followed by sick leave. Once employees have displayed any of these patterns they should be placed in a program of more thorough review. This would also allow the facility to identify and alleviate excessively stressful situations for its employees.

We further recommend that the facility work with the Office of Youth Services to fill YCO vacancies as soon as possible. We also recommend that a management level employee be designated to assess whether overtime is in fact necessary in situations when a YCO calls in sick.

Lastly, we recommend that the facility determine whether YCOs' leave records can be made available to section supervisors during their shifts to determine if adequate sick leave is available to an officer who calls in sick.

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## **Internal Controls Over the Collection of Salary Overpayments Could Be Improved**

The Hawai'i Youth Correctional Facility does not employ monitoring controls in the collection of salary overpayments. Salary overpayments arise when employees are paid for days they are absent from work but have no sick leave, compensatory time, or vacation leave to account for the time off. A clerk stenographer maintains employee leave records, and additionally processes documents sent to the payroll section which adjust employees' current or subsequent payroll for any leave without pay. The clerk stenographer maintains a file of all documents sent to payroll; however, there is no process to ensure that collections were processed correctly and timely by the payroll section. Further, payroll adjustment records are maintained in the payroll section.

A proper system of internal controls should include monitoring functions such as maintaining detailed records of salary overpayments incurred and collected, reviewing the collections processed by the payroll section, and reviewing the "State of Hawai'i Payroll Assignment Register" for facility employees with overpayment balances from prior years. Although no significant discrepancies were found during our testing, the current process does not ensure that amounts collected for salary overpayments are proper or collected in timely fashion.

During our testwork we noted the following data related to salary overpayments:

- During FY2005, five youth corrections officers incurred overpayments resulting from sick leave in 18 pay periods aggregating \$7,588. We reviewed nine repayments and noted that they were processed in the subsequent pay periods. As of July 20, 2005, all overpayments were repaid.
- At the beginning of FY2005, nine employees had overpayment balances totaling \$16,631, which were being repaid through payroll withholdings pursuant to agreements with the Department of Human Services. At the end of the fiscal year, two youth corrections officers had overpayment balances totaling \$3,608.
- We found one instance where \$148 was over-collected from a youth corrections officer.

### ***Recommendation***

We recommend that the facility implement monitoring controls over the collection of salary overpayments, including maintaining detailed records of salary overpayments incurred and collected. We also recommend that a management level employee be designated to perform the following:

- Review the detailed records of salary overpayments incurred and collected to monitor the extent and status of the overpayments.
  - Review the collections processed by the payroll section to ensure accuracy and timeliness.
  - Review the “State of Hawai‘i Payroll Assignment Register” for facility employees with overpayment balances from prior years to monitor the extent of the balances and to ensure they are collected timely.
- 

### **Controls Over Processing, Disbursing, and Reporting of Wards’ Trust Accounts Should Be Strengthened**

During our review of facility procedures over wards’ trust accounts, we noted a lack of segregation of duties over the processing and recordkeeping of transactions in the wards’ trust accounts and a weakness in the controls over disbursements from the wards’ trust accounts. We also noted noncompliance with the facility policy in providing wards with monthly statements of their transactions. Although the balances in the wards’ trust accounts are immaterial to the facility (24 trust accounts totaling \$656 as of June 30, 2005), they can be very significant to the respective wards.

### ***Processing and recording duties for wards’ trust account transactions are not properly segregated***

There is a lack of segregation of duties over the processing and recordkeeping of transactions in the wards’ trust accounts. The facility account clerk records wards’ trust account transactions in the accounting system, reconciles the bank statement, and prepares and distributes checks for disbursements from the accounts. The account clerk also has access to the safe in which documents and cash are stored until they are deposited. In addition, a review of the bank reconciliation by a person not otherwise involved in the processing of wards’ funds is not performed.

Segregation of duties is one of the most important principles of internal accounting control. No one person should be responsible for the recording and processing of a transaction. In addition, an independent review of the bank reconciliation is one of the basic tenets of internal control over cash. The potential effect is that the lack of segregation of duties does not provide an adequate safeguard over the wards’ funds.

The cause of the problem is a lack of consideration or understanding of the basic principles of internal control at the facility.

***No review of supporting documents when signing for wards' checks***

Withdrawals from trust accounts are initiated by the ward's authorized requisitioner who is required to complete Form YCF #87 "HYCF Request Withdrawal of Funds from Ward's Trust Fund." After approval by the facility section administrator, the form is submitted to the account clerk who prepares the check after first determining that the ward has sufficient funds. We were informed that check signers are not provided Form YCF #87 and other supporting documents when signing the check, except upon request. One of the basic tenets of internal control over cash disbursements is that check signers review and initial the supporting documents to show proof of their review when signing checks.

Because check signers are not consistently reviewing the supporting documents when signing checks, there is increased risk of unauthorized withdrawals being made from the wards' trust accounts.

***Wards may not be given an opportunity to review their account statements***

We discovered that wards are not regularly presented with a monthly statement of the transactions relating to their accounts. While the account clerk prepares a monthly statement of the activity of each ward's account, a copy of the statement is not provided to the ward except upon request. Hawai'i Youth Correctional Facility Policy #1.02.53 "Trust Account," Section 4.4 "Procedures," indicates that "the Account Clerk shall maintain individual ledger accounts for each committed person and shall issue a monthly statement showing deposit amounts, withdrawal amounts, dates of transactions, and trust account balances to each committed person via their respective Social Workers."

The monthly trust account statements are given to each ward's social worker; however, no monitoring controls over the distribution of statements to the wards are in place, including oversight by a management level employee to ensure the wards receive their monthly statements from their social workers. Without such receipt, wards are unaware of the activity in their account and thus could not dispute potential errors.

***Recommendations***

We recommend that:

- A review over the internal controls over wards' funds be conducted to address the lack of segregation of duties. Consideration should be given to utilizing personnel from the Office of Youth Services to assist in the review of monthly bank reconciliations. In addition, the review should be documented with the reviewer's initials.

- Check signers be presented with all supporting documents when signing checks, with the necessary review documented by the reviewer's initials.
- Wards should be provided with a copy of a monthly statement of their account in accordance with Hawai'i Youth Correctional Facility Policy #1.02.53, Section 4.4. Also, this process should be documented by obtaining wards' initials or signatures. Lastly, monitoring controls over the distribution of monthly trust account statements to wards should be implemented, including designating a management level employee to oversee the distribution of monthly trust account statements to wards by their social workers.

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## **Improved Compliance with Procurement Laws and Rules Is Needed**

We reviewed all Office of Youth Services contracts entered into during FY2005 that were \$100,000 or greater for compliance with Chapters 103D, "Hawai'i Public Procurement Code," and 103F, "Purchases of Health and Human Services," Hawai'i Revised Statutes (HRS). Among 24 health and human services contracts examined, we noted that a "Log of Proposals Received" was not prepared in a timely manner for each of the reviewed contracts. Chapter 103F-402, HRS, and Section 3-143-615, Hawai'i Administrative Rules (HAR), require that a register of proposals be prepared and available for public inspection after contract proposal submission. The register shall include the name of all applicants and other identifying information, and shall be made available for public inspection within ten working days (or a reasonable time) after the submittal deadline. The "Log of Proposals Received" for these contracts was finally made available for public inspection as late as three to ten months after the deadline for contract submittal.

Office of Youth Services' personnel explained the discrepancies were due to employee error. However, state procurement laws and rules clearly mandate how and when to prepare a register of contract proposals as well as the public's right to inspect these contract files. Fortunately for OYS, there were no such public requests for inspection of the contracts we reviewed.

We additionally found that 19 of the 28 contracts reviewed lacked evidence of certain required approvals. Two individuals, the administrative technical services officer and program development officer, are required to sign the "Individual Agreement Log" that accompanies each contract to indicate their joint approval; however, in the 19 contracts reviewed, this log was not signed by the program development officer.

***Recommendations***

We recommend that the Office of Youth Services review all relevant sections of the Hawai'i Public Procurement Code relating to contracts to ensure compliance and to make certain that the "Individual Agreement Log" is properly approved.

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## Response of the Affected Agency

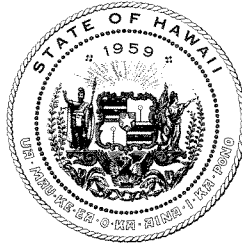
### **Comments on Agency Response**

We transmitted a draft of this report to the Department of Human Services on December 28, 2006. A copy of the transmittal letter to the department is included as Attachment 1. The response of the Office of Youth Services is included as Attachment 2.

The Office of Youth Services agreed with our findings and expressed appreciation for the professionalism and courtesy afforded by our staff and Grant Thornton LLP. The office provided details of corrective actions being taken or already implemented since the conclusion of our audit fieldwork.

ATTACHMENT 1

STATE OF HAWAII  
OFFICE OF THE AUDITOR  
465 S. King Street, Room 500  
Honolulu, Hawaii 96813-2917



MARION M. HIGA  
State Auditor  
  
(808) 587-0800  
FAX: (808) 587-0830

December 28, 2006

*COPY*

The Honorable Lillian Koller  
Director  
Department of Human Services  
Queen Liliuokalani Building  
1390 Miller Street  
Honolulu, Hawai'i 96813

Dear Ms. Koller:

Enclosed for your information are three copies, numbered 6 to 8, of our confidential draft report, *Financial Audit of the Hawai'i Youth Correctional Facility*. We ask that you telephone us by Tuesday, January 2, 2007, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Monday, January 8, 2007.

The Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this confidential draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

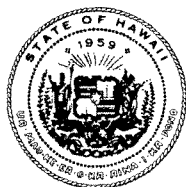
Sincerely,

A handwritten signature in cursive script, appearing to read 'Marion M. Higa'.

Marion M. Higa  
State Auditor

Enclosures





STATE OF HAWAII  
DEPARTMENT OF HUMAN SERVICES  
**OFFICE OF YOUTH SERVICES**  
820 Miliiani Street, Suite 817  
Honolulu, Hawaii 96813

January 8, 2007

RECEIVED

Ms. Marion Higa, State Auditor  
Office of the Auditor  
State of Hawaii  
465 South King Street, Suite 500  
Honolulu, Hawaii 96813

2007 JAN -8 PM 2:49

OFF. OF THE AUDITOR  
STATE OF HAWAII

Dear Ms. Higa:

Thank you for the opportunity to provide comments to the draft report entitled *Financial Audit of the Hawaii Youth Correctional Facility*. We appreciate the professionalism and courtesy afforded by your staff and that of Grant Thornton. Below, we address each of the four major findings.

### **High Vacancies Drive Significant Overtime Costs and Sick Leave Usage**

The report recognizes the inherent nature of overtime in a correctional facility, but also notes "[t]he stressful nature of the Youth Corrections Officer (YCO) position coupled with high vacancies contributes to considerable overtime and sick leave costs for the facility. However, because overtime and sick leave can be closely associated with one another, the facility should be more proactive in monitoring both for potential abuse."

We appreciate the need to develop a reporting system that will allow the administration to better manage overtime and sick leave, and track the potential for abuse. We will seek the assistance of the Department of Human Services (DHS) Management Services Office (MSO) in developing such a reporting system. In addition, the Hawaii Youth Correctional Facility (HYCF) has been in ongoing consultation with the United Public Workers Union (UPW) to implement the Sick Leave Program as provided by Unit 10 bargaining agreement. It is our intention to address possible abuse of sick leave at the facility through this program.

We have made considerable improvement in filling our YCO vacancies. Since Fiscal Year 2005, which is covered by the audit, the Hawaii State Legislature has approved 19 additional YCO positions. Combined with Youth Corrections Supervisor positions, the compliment of security staff stands at 74. With the assistance of the Office of Youth Services (OYS) and DHS Personnel Office, HYCF has made progress in filling its YCO vacancies. As of December 31, 2006, all but 11 of the 74 positions were filled. The status of the 11 positions is as follows:

Positions filled effective January 2007	2
Positions offered/commitment made	3
Certified list of eligible candidates to be referred to HYCF for interviews	1
Pending certified list of eligible candidates	4
Not in recruitment, pending arbitration decision	<u>1</u>
TOTAL	11

Four of these positions are currently filled by 89-day hire appointments.

In addition, OYS renewed its contract with the Office of the Attorney General (AG) to expedite background clearance for our potential YCO's through an exclusive AG investigator and has contracted an independent medical service to promptly conduct pre-employment physical examinations.

HYCF is also working with the OYS, DHS Personnel Office and MSO to solidify key management positions to effectively implement a cottage management system within the facility. Recommended by the Federal Monitor for the Department of Justice Settlement Agreement, a cottage management system is recognized as a "best practice" for juvenile correctional facility operations and will provide consistency in the delivery of program services for youth in each of the cottages/modules. A Correction Supervisor I will be assigned to each of the three HYCF housing areas to provide daily direct oversight on the programmatic and operational areas in the cottage. To implement the system, a budget request is being submitted to the 2007 Legislature for an additional Corrections Supervisor I position and to convert a current Correction Supervisor I from temporary to permanent. By creating smaller management units, it will be easier for monitoring attendance, overtime, and sick leave.

Finally, HYCF has proposed to the Federal Monitor a minimum security staffing level for the operation of the facility and is currently using this to determine if a position should be filled on an overtime basis. For each living unit (three in the Secure Custody Facility, one each in the other two housing areas), during the day and evening shifts, the ratio of YCO staff to wards is 1 to 8; during the night shift the ratio is 1 to 16. Central control must also be staffed 24-hours per day.

### **Internal Controls Over the Collection of Salary Overpayments Could Be Improved**

We will work closely with DHS Fiscal Management Office (FMO) Payroll Section to implement and monitor the collection of salary overpayments. A proper system of internal controls and documentation will be developed to monitor these overpayments. The recordkeeping for overpayments and its collection is currently done by the DHS/FMO payroll section. Monthly review of the State of Hawaii Payroll Assignment Register will be done by HYCF management to ensure that these overpayments are collected in a timely manner.

### **Controls Over Processing, Disbursing, and Reporting of Wards' Trust Accounts Should Be Strengthened**

The following changes will be implemented to segregate the duties of processing and recordkeeping of wards' trust accounts transactions:

- The HYCF Account Clerk will, within five working days of receipt, reconcile the monthly bank statement, and initial and date upon completion. The HYCF Business Services Supervisor will, within three working days of receiving the reconciled accounting from the Account Clerk, review the reconciliation, make changes if needed, and initial and date.
- Documents and cash/checks will be secured in a separate locked drawer in the safe by the clerk-steno. The Account Clerk will not have access to the key for this drawer.
- Supporting documents will be attached to checks that are presented to check signers. Reviewer will initial and date supporting documents.
- The Account Clerk will, within five working days of the 1<sup>st</sup> of each month, provide the social workers with ward trust account statements that need to be distributed. The social workers will, within three working days of receiving statements from the Account Clerk, distribute statements and obtain ward signatures to confirm receipt. Social workers will also be responsible for returning the completed signed list to Account Clerk for filing.

### **Improved Compliance with Procurement Laws and Rules is Needed**

The Office of Youth Services is now in compliance with Chapter 103F-402, Hawaii Revised Statutes and Section 3-143-615, Hawaii Administrative Rules concerning the timely completion of a register of proposals. The internal document, entitled "Individual Agreement Log," has been properly signed by the Program Development Officer for the past year.

We appreciate the opportunity to provide you with our comments.

Sincerely,



Martha T. Torney  
Acting Executive Director