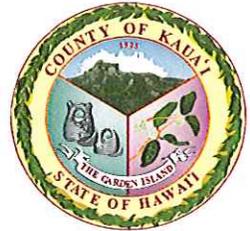


# AUDIT OF COUNTY FURLOUGH PROGRAM

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**Submitted by**

Office of the County Auditor  
County of Kaua'i  
State of Hawai'i

Report No. 14-01

## **PREFACE**

This audit assesses whether the County is acting efficiently and effectively in managing personnel costs. This performance audit of the 2010 furlough was designed to examine County programs to reduce employee costs in response to the economic downturn.

We would like to thank all who contributed data to this report, especially the Managing Director, the Department of Finance, the Information Technology section, and the Department of Personnel Services.

Ernesto G. Pasion, County Auditor

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## EXECUTIVE SUMMARY

PKF Pacific Hawaii LLP has completed an audit of the County of Kaua'i's furlough program under contract with the County of Kaua'i Office of the County Auditor. The performance audit examined the County-wide furlough program that was implemented from July 1, 2010 to December 31, 2010. The audit was designed to answer:

- What was the financial impact of the furlough on the County? and
- Did the County plan and manage the furlough effectively and efficiently?

Although some time has passed since the furlough ended, the results of the audit are still relevant. The lessons learned from the furlough program should assist the County in designing and implementing future cost-cutting programs affecting County employees.

The audit findings and recommendations are summarized as follows:

**Finding 1: The County realized salary savings as a result of the furlough, but the savings could have been better if the County monitored and set clear cost objectives for the furlough.**

**Recommendation:** In implementing future furlough or other employee cost reduction programs, the County needs to establish an adequate and transparent justification for the programs, set financial targets and monitor program implementation so that the programs will achieve the necessary results.

**Finding 2: The furlough program was effective but it could have been more efficient if the County had followed best practices.**

**Recommendation:** When planning furloughs or other wage reduction programs, the County administration should consider:

1. Expanding its implementation team to include departmental human resource specialists or other human resources line personnel who are familiar with the salary practices of the various departments to minimize withholding errors.
2. Improving its internal communication to ensure that each group of employees (blue collar, white collar, professional, exempt, excluded, appointed and elected) receives adequate information about the effect of the furlough (or similar wage reduction program)

on the employee group. The County administration should also consider issuing detailed guidance for department heads and others responsible for implementation to ensure uniform program administration.

3. Ensuring that the legal and strategic bases for the furlough are evaluated, that viable alternatives are considered and that the process of evaluation and consideration are documented.
4. Ensuring that a furlough plan is developed that (a) provides adequate notice to affected employees; (b) is workable, neutral and fair and (c) complies with any applicable collective bargaining agreements, contracts, or handbook requirements, as well as applicable statutes and regulations.
5. Taking the time necessary to train those who will implement the plan, especially those responsible for communicating with employees and making payroll entries.

### **Auditee Response**

The Auditee responds that it will adopt the recommendations of the audit in future furlough or wage reduction programs. However, its responses call into question whether it has the necessary resources and sense of accountability and responsibility to do so.

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# CHAPTER 1

## **Introduction**

This audit was conducted pursuant to the authority of the Office of the County Auditor, as provided in the Kaua‘i County Charter. The audit was included in the County auditor’s annual work plan for fiscal year 2010-2011, which was sent to the mayor and the County Council in June 2010.

## ***Background***

This performance audit examines a County furlough program to reduce employee costs. Performance audits provide information to improve program operations and facilitate decision making. See complete definition of performance audits in Government Auditing Standards section 2.10.

## ***Audit Objectives and Scope***

The audit was designed to answer the following questions:

- What was the financial impact of the furlough on the County?
- Did the County plan and manage the furlough effectively and efficiently?

## ***Audit Methodology***

Our audit work included:

- Obtaining information (through interviews, telephone conferences, and written requests) about the reasons for the furlough and details regarding its planning and execution. Information was obtained from the managing director, director of finance, personnel services director, members of the county council, personnel officers of the police and fire department, the payroll officer of the county and other county employees involved in the furlough;
- Conducting research concerning best practices for planning and implementing furlough programs to determine whether the County’s actions were consistent with these practices;
- Reading comprehensive annual financial reports and other County reports, presentations to rating agencies and other documentation to

determine the County's fiscal condition when the furlough was planned, implemented and terminated;

- Reading the Mayor's proclamations, press releases, legislative testimony (including County Council minutes) and employee communications concerning the furlough program for descriptions and details of the program;
- Requesting and analyzing the payroll records of all furloughed County employees with effective dates from July 1, 2010 to December 31, 2010 to estimate cost savings from the furlough, to calculate overtime incurred during the furlough and to determine whether furlough-related withholdings complied with furlough guidelines and whether there were any discrepancies;
- Examining payroll records from June 2010 to identify specific furloughed employees who received pay increases prior to the commencement of the furlough and computing the salary savings forgone by Kaua'i County during the furlough because of these pay increases and,
- Analyzing payroll records with effective dates prior to July 1, 2010 to make comparisons of County payroll costs during the furlough to those in each prior six-month period, commencing with July 1, 2008.

We conducted this audit in accordance with generally accepted government auditing standards. Information deemed confidential under the Hawai'i state open records law (Hawai'i Revised Statutes (HRS) chapter 92F) was omitted from this report. The determination of whether information was confidential was based on Office of Information Practices (OIP) Guideline No. 3, effective September 7, 2011 and OIP memorandum dated May 1, 2002, "OIP Guidance Regarding Disclosure of Agency Records and Information to Auditors." Under the guidance of these documents, the following were omitted as confidential: employee social security numbers and actual base rates of pay and gross salaries for employees covered by or included in bargaining units as defined in the Hawai'i collective bargaining law (HRS chapter 76).

## *What Is A Furlough?*

A furlough involves placing employees in temporary non-duty, non-pay status for budget reasons. A furlough differs from a normal layoff in that employees continue to work on a fairly regular basis, with employers scheduling them to have certain days off.<sup>1</sup>

A furlough can be voluntary or involuntary and last for a few days or weeks. Typically, employee service time is unaffected, and most benefits are continued if an employer is proactive in how it structures the furlough. The employer benefits from saving payroll dollars in the short term and having employees who are already trained and skilled when the employer's health improves and the furlough is discontinued. The employees benefit by maintaining their service time, having a job (some income is better than no income), and having some or all of their benefits continue.<sup>2</sup>

## *The Kaua'i County Furlough*

The stated reason for the furlough was the County's difficult financial condition. In 2009, Kaua'i County and the other public employers (City and County of Honolulu, Hawai'i County, Maui County, the State of Hawai'i, the Hawai'i Health Systems Corporation and the Hawai'i Judiciary) entered into agreements with the unions representing public employees (the Hawai'i Government Employees Association, AFSCME, Local 152, AFL-CIO or "HGEA" and the United Public Workers, AFSCME Local 646, AFL-CIO or "UPW") that allowed up to 18 days of involuntary, unpaid furlough for the 2009-10 fiscal year and up to 24 days for the 2010-11 fiscal year. The reasons cited by the public employers for the furlough were "significant revenue shortfalls [that] have necessitated budget reductions."

After the County and other public employers were able to impose furloughs through the agreements with the public worker unions, the Kaua'i mayor announced that furlough would be imposed on most bargaining units' exempt employees because "the County of Kaua'i is experiencing a fiscal crisis of extraordinary proportion, requiring extreme measures to address the projected reduction and deficit in the County's General Fund" and that "the expenditure and adjustments already executed are not sufficient to address the major funding shortfall."

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<sup>1</sup> "Furloughs and Reduced-Hour Schedules as Alternatives to Layoffs," M. Lee Smith Publishers, April 10, 2009 (excerpted from Nevada Employment Law Letter written by attorneys at the law firm of Holland & Hart LLP).

<sup>2</sup> Debra Weiss Ford and Nancy E. Oliver, "FURLOUGHS AND RIFS Signs of the Times: Use of Furloughs and Reductions in Force to Cut Costs," New Hampshire Bar Journal, Fall 2009 at 52.

The mayor sent a letter to the affected employees announcing the furlough and stating that the County was imposing furloughs “in order to weather the financial hardships before us.” On May 10, 2010, the mayor announced that his Supplemental Budget Submittal for the coming fiscal year included two furlough days per month.

On June 15, 2010, the mayor issued a letter to County employees stating that a two-day per month furlough would occur in fiscal year 2011. The mayor said that the decision to furlough employees was difficult, but “in order to weather the financial hardships before us, it [was] a necessary measure for us to take.”

The furlough plan was announced to the public in a news release dated June 22, 2010. The news release stated that the furlough would be effective July 1, 2010 to June 30, 2011 and would include “most County employees who are members of the Hawai‘i Government Employees Association (HGEA) and the United Public Workers unions, along with contract employees and those appointed by Mayor Bernard P. Carvalho, Jr.”

The press release also noted that the members of the State of Hawai‘i Organization of Police Officers and the Hawai‘i Fire Fighters Association would not be subject to the furloughs because of previously negotiated collective bargaining agreements and that the police chief and fire chief would not be subject to furloughs. The press release concluded by announcing furloughs for all County workers, except the following, who would be placed on staggered furlough schedules or deployed in some other manner to maintain the present level of service:

- Liquor department - investigators
- Parks department - golf course and beach park maintenance crews
- Public works department
  - building division inspection staff
  - Kekaha landfill workers
  - residential refuse pickup workers
  - transfer station workers
  - wastewater treatment facility workers
- Fire department
  - fire stations and lifeguard towers
- Police department
  - 911 dispatch, cellblock, investigative service bureau and patrol services bureau employees
- Prosecutors

On June 19, 2010, the mayor announced that he and his department heads would voluntarily take nine percent salary cuts, so their pay cuts would be the same as County employees faced with two-day-a-month furloughs.

On December 14, 2010, the finance director sent a memo to the County Council recommending elimination of the furlough based on the “strong fiscal condition of the County.” The attachment to the memo showed an 11 percent decrease in salaries, overtime, and fringe expenditures from July to November 2010 (or \$4,226,490), when compared to July to November 2009.

On December 23, 2010, the mayor sent a letter to all County employees stating that he forwarded a bill that would appropriate the funds necessary to eliminate furloughs and would therefore be cancelling the first furlough day in January (January 14). On January 10, 2011, the mayor announced that the furlough for executive branch employees would end with the cancellation of the County’s first furlough day of 2011, Friday, January 14, 2011. On January 12, 2011, the chair of the Kaua‘i County Council announced cancellation of the furlough for the employees of the legislative branch.

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## CHAPTER 2

### Audit Findings and Recommendations

**Finding 1. The County realized salary savings as a result of the furlough, but the savings could have been better if the County monitored and set clear cost objectives for the furlough program.**

During the mayor's budget testimony on April 9, 2010, he projected that the furlough could save the County \$4.3 million over the one-year budget period, or \$2.15 million over six months. Estimates were based on two furlough days per month, or a 9.23 percent reduction in salary expenses.<sup>3</sup>

On December 14, 2010, the finance director estimated that the County furlough had resulted in an 11 percent decrease in salaries, overtime, and fringe expenditures from July to November 2010 (or \$4,226,490), when compared to July to November 2009. At a joint hearing of the budget committees of the State legislature (finance committee of the House of Representatives and ways and means committee of the State Senate) on January 12, 2011, the mayor stated that the two-day per month furlough from July to December 2010 resulted in a \$2.3 million savings.

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<sup>3</sup> For unknown reasons, the budget itself showed projected savings of \$1,576,277 for six months.

## Salary savings

The table below shows the difference between the savings for salaries only from the furlough, as projected in the budget ordinance, and the actual salary savings taken from the payroll records for the six-month furlough period.

### SALARY SAVINGS FROM FURLOUGH Projected vs. Actual

Department/Agency	Projected Savings	Actual Savings
Mayor's Office <sup>4</sup>	\$53,675	\$53,175
Legislative Branch <sup>5</sup>	96,900	72,872
County Attorney	52,835	50,175
Prosecuting Attorney	69,520	31,700
Finance	195,508	190,873
Personnel	26,035	24,629
Planning	59,880	53,702
Economic Development	17,810	21,994
Police	44,920	66,649
Fire Administration	15,120	14,826
Civil Defense	11,068	14,687
Public Works	595,470	561,274
Parks and Recreation	232,435	212,060
Elderly Affairs	23,480	33,461
Housing	25,455	65,470
Transportation	34,133	34,841
Liquor	22,033	18,329
<b>Total</b>	<b>\$1,576,277</b>	<b>\$1,520,717</b>

The Water department is not included in the County projections because it did not project savings in the budget. According to payroll records, the actual salary savings of the Water department during the furlough period totaled \$172,154, which, if included in the table, would increase total actual salary savings to \$1,692,871. The savings figure also does not include the savings from the five percent salary reduction for water safety officers (lifeguards), which was \$34,550 and would further increase the total actual salary savings to \$1,727,421. As such, the County realized actual savings in proximity with their budgeted projections.

<sup>4</sup> The Mayor's Office includes the Americans with Disabilities Act ("ADA") coordinator and the staff of the Office of Boards and Commissions.

<sup>5</sup> The Legislative Branch includes the staff of council services, elections and the auditor's office.

### Comparative payroll costs

Overall, total County payroll costs for the furlough period from July to December 2010 decreased when compared to similar six-month periods for the prior two years. However, individual payroll cost categories exhibited both increases and decreases as described and shown in the table below:

- a) Non-overtime pay was less during the furlough period than in each of the four preceding six-month periods;
- b) The dollar value of compensatory time was less during the furlough period than in each of the four preceding six-month periods;
- c) Cash overtime pay was greater during the furlough period than in three of the four preceding six-month periods and,
- d) Standby pay was greater during the furlough period than in each of the four preceding six-month periods.

The higher levels of cash overtime pay and standby pay, however, were more than offset by a lower level of non-overtime pay and a smaller dollar value of compensatory time, resulting in a lower total pay figure during the furlough period than in each of the four preceding six-month periods.

### COUNTYWIDE PAYROLL COSTS BY SIX-MONTH PERIOD

Six Month Period	Average Employees Per Payroll	Base Pay Plus Non-Overtime Differentials and Salary Add-Ons	Cash Overtime Pay Plus Overtime Differentials and Salary Add-Ons	Dollar Value of Comp Time	Standby Pay	Total Pay
2008 - Jul to Dec	1229	\$29,656,087	\$3,520,810	\$416,861	\$103,209	\$33,696,968
2009 - Jan to Jun	1230	\$30,180,553	\$2,994,401	\$441,893	\$110,841	\$33,727,688
2009 - Jul to Dec	1243	\$30,785,310	\$2,974,324	\$399,951	\$115,884	\$34,275,468
2010 - Jan to Jun	1210	\$30,308,155	\$2,790,284	\$437,270	\$111,544	\$33,647,252
2010 - Jul to Dec	1235	\$29,338,469	\$3,020,101	\$340,561	\$119,669	\$32,818,800

## **Furlough effects**

The effects of the furlough on personnel-related costs were uneven across County departments.

From July-December 2009 to July-December 2010, the first 14 departments of the 18 listed in the table below experienced decreases in total payroll costs, driven largely by decreases in non-overtime pay arising from the furlough (that is, base pay plus non-overtime differentials and salary add-ons, such as temporary assignment pay, hazardous duty pay, standard of conduct pay and night shift differentials).

Eight of these 14 departments (namely, Public Works, Planning, Civil Defense, Parks and Recreation, Housing, Personnel, County Attorney and Mayor's Office) also experienced either a decrease in costs or no change in costs for cash overtime pay, the dollar value of compensatory time and standby pay.

Of the remaining six departments, Finance experienced an increase only in standby pay, Liquor and Economic Development experienced an increase only in the dollar value of compensatory time, Transportation experienced an increase only in cash overtime pay, Elderly Affairs experienced an increase in both cash overtime pay and the dollar value of compensatory time and Water experienced an increase in both cash overtime pay and standby pay.

Of the 14 departments in which total payroll costs decreased between the two time periods under consideration, 12 also had a decrease in the average number of employees per payroll; only two, namely, the Mayor's Office and Transportation saw this average increase.

As the bottom of the table indicates, four departments or branches, namely, Prosecuting Attorney, Police, Fire and Legislative Branch, experienced increases in total payroll costs when comparing July-December 2009 to July-December 2010. All four saw base pay plus non-overtime differentials and salary add-ons increase. Such increases can be explained, in part, by (a) the furlough exemptions granted to sworn law enforcement and firefighting personnel and employees in the prosecuting attorney's office and (b) the increased personnel needs of the County Clerk for the fall election of 2010. Two of the four, namely, Police and the Legislative Branch, also experienced increases in both cash overtime pay and the dollar value of compensatory time. Police was the only department of the four in which the average number of employees per payroll declined between the two time periods under consideration.

**IMPACT OF FURLOUGH BY DEPARTMENT  
(Comparing July-December 2009 to July-December 2010)**

▲	Increase
▼	Decrease
-----	No Change

Department/Agency Name	Base Pay Plus Non-Overtime Differentials and Salary Add-Ons	Overtime Pay Plus Overtime Differentials and Salary Add-Ons	Dollar Value of Comp Time	Standby Pay	Total Pay	Average Employees Per Payroll
PUBLIC WORKS	▼	▼	▼	▼	▼	▼
PLANNING	▼	▼	▼	-----	▼	▼
CIVIL DEFENSE	▼	▼	▼	-----	▼	▼
PARKS AND RECREATION	▼	▼	▼	-----	▼	▼
HOUSING	▼	▼	▼	-----	▼	▼
PERSONNEL	▼	-----	▼	-----	▼	▼
COUNTY ATTORNEY	▼	▼	-----	-----	▼	▼
MAYOR'S OFFICE	▼	▼	▼	-----	▼	▲
FINANCE	▼	▼	▼	▲	▼	▼
LIQUOR	▼	▼	▲	-----	▼	▼
ECONOMIC DEVELOPMENT	▼	▼	▲	-----	▼	▼
TRANSPORTATION	▼	▲	▼	-----	▼	▲
ELDERLY AFFAIRS	▼	▲	▲	-----	▼	▼
WATER	▼	▲	▼	▲	▼	▼
PROSECUTING ATTORNEY	▲	▼	▼	-----	▲	▲
FIRE	▲	▼	▼	-----	▲	▲
POLICE	▲	▲	▲	▼	▲	▼
LEGISLATIVE BRANCH	▲	▲	▲	-----	▲	▲

## Other fiscal impacts from the furlough

### Overtime

As shown in the fourth column of the table immediately below, Countywide total overtime costs, including both cash overtime pay and the dollar value of compensatory time, were less during the furlough period than three of the four preceding six-month periods. Two effects, however, were noted during the furlough period. First, although total overtime costs decreased during the four six-month periods before the furlough, the total overtime costs during the furlough period (July to December 2010) reversed this trend, moving higher during the furlough period than in the preceding period (January to June 2010). Second, the level of cash overtime pay during the furlough period was relatively higher than in prior periods, and the dollar value of compensatory time during the furlough period was relatively lower. This effect could be a result of employees preferring cash over compensatory time to make up for salary reductions.

### COUNTYWIDE OVERTIME COSTS BY SIX-MONTH PERIOD

Six Month Period	Cash Overtime Pay Plus Overtime Differentials and Salary Add-Ons	Dollar Value of Comp Time	Total Overtime Costs	Cash OT Share of Total	Comp OT Share of Total
2008 - Jul to Dec	\$3,520,810	\$416,861	\$3,937,671	89%	11%
2009 - Jan to Jun	\$2,994,401	\$441,893	\$3,436,294	87%	13%
2009 - Jul to Dec	\$2,974,324	\$399,951	\$3,374,274	88%	12%
2010 - Jan to Jun	\$2,790,284	\$437,270	\$3,227,554	86%	14%
2010 - Jul to Dec	\$3,020,101	\$340,561	\$3,360,662	90%	10%

The following tables compare overtime costs during the furlough period to historical overtime costs by department. With regard to total overtime costs in the fifth column, the following conclusions can be drawn:

- a) Total overtime costs were zero during the furlough period for the County Attorney, which is equivalent to the immediately preceding six-month period;
- b) Total overtime costs were less during the furlough period than in each of the four preceding six-month periods for the Mayor's Office, Prosecuting Attorney, Finance, Planning, Fire, Civil Defense, Parks and Recreation and Housing;

- c) Total overtime costs were less during the furlough period than in three of the four preceding six-month periods for Personnel, Economic Development and Public Works;
- d) Total overtime costs were less during the furlough period than in two of the four preceding six-month periods for Liquor Control and Water;
- e) Total overtime costs were higher during the furlough period than in three of the four preceding six-month periods for the Legislative Branch and Transportation and
- f) Total overtime costs were higher during the furlough period than in each of the four preceding six-month periods for Police and Elderly Affairs.

## DEPARTMENTAL OVERTIME COSTS BY SIX-MONTH PERIOD

### (a) Total Overtime Costs of Zero during Furlough Period

Department/Agency	Six Month Period	Cash Overtime Pay Plus Overtime Differentials and Salary Add-Ons	Dollar Value of Comp Time	Total Overtime Costs	Cash OT Share of Total	Comp OT Share of Total
COUNTY ATTORNEY	2008 - Jul to Dec	\$4,410	\$0	\$4,410	100%	0%
	2009 - Jan to Jun	\$51	\$0	\$51	100%	0%
	2009 - Jul to Dec	\$87	\$0	\$87	100%	0%
	2010 - Jan to Jun	\$0	\$0	\$0	0%	0%
	2010 - Jul to Dec	\$0	\$0	\$0	0%	0%

### (b) Total Overtime Costs in Furlough Period Less Than Each of Preceding Four Periods

Department/Agency	Six Month Period	Cash Overtime Pay Plus Overtime Differentials and Salary Add-Ons	Dollar Value of Comp Time	Total Overtime Costs	Cash OT Share of Total	Comp OT Share of Total
MAYOR'S OFFICE	2008 - Jul to Dec	\$327	\$6,509	\$6,836	5%	95%
	2009 - Jan to Jun	\$54	\$3,311	\$3,365	2%	98%
	2009 - Jul to Dec	\$58	\$3,032	\$3,090	2%	98%
	2010 - Jan to Jun	\$45	\$1,478	\$1,523	3%	97%
	2010 - Jul to Dec	\$0	\$418	\$418	0%	100%
PROSECUTING ATTORNEY	2008 - Jul to Dec	\$109	\$1,858	\$1,967	6%	94%
	2009 - Jan to Jun	\$465	\$2,062	\$2,527	18%	82%
	2009 - Jul to Dec	\$234	\$2,352	\$2,586	9%	91%
	2010 - Jan to Jun	\$941	\$3,287	\$4,228	22%	78%
	2010 - Jul to Dec	\$59	\$976	\$1,034	6%	94%
FINANCE	2008 - Jul to Dec	\$57,124	\$7,037	\$64,161	89%	11%
	2009 - Jan to Jun	\$36,865	\$9,465	\$46,330	80%	20%
	2009 - Jul to Dec	\$30,877	\$9,057	\$39,934	77%	23%
	2010 - Jan to Jun	\$16,422	\$6,970	\$23,392	70%	30%
	2010 - Jul to Dec	\$16,228	\$6,812	\$23,040	70%	30%
PLANNING	2008 - Jul to Dec	\$12,259	\$6,805	\$19,064	64%	36%
	2009 - Jan to Jun	\$8,723	\$7,112	\$15,835	55%	45%
	2009 - Jul to Dec	\$2,573	\$3,152	\$5,725	45%	55%
	2010 - Jan to Jun	\$2,658	\$3,071	\$5,729	46%	54%
	2010 - Jul to Dec	\$2,335	\$1,566	\$3,900	60%	40%
FIRE	2008 - Jul to Dec	\$824,249	\$58,446	\$882,695	93%	7%
	2009 - Jan to Jun	\$762,368	\$95,104	\$857,472	89%	11%
	2009 - Jul to Dec	\$832,245	\$62,659	\$894,904	93%	7%

Department/Agency	Six Month Period	Cash Overtime Pay Plus Overtime Differentials and Salary Add-Ons	Dollar Value of Comp Time	Total Overtime Costs	Cash OT Share of Total	Comp OT Share of Total
	2010 - Jan to Jun	\$748,372	\$88,961	\$837,333	89%	11%
	2010 - Jul to Dec	\$594,927	\$58,491	\$653,418	91%	9%
<b>CIVIL DEFENSE</b>	2008 - Jul to Dec	\$3,482	\$3,261	\$6,743	52%	48%
	2009 - Jan to Jun	\$1,787	\$2,414	\$4,201	43%	57%
	2009 - Jul to Dec	\$5,951	\$1,121	\$7,072	84%	16%
	2010 - Jan to Jun	\$5,166	\$458	\$5,624	92%	8%
	2010 - Jul to Dec	\$2,633	\$83	\$2,717	97%	3%
<b>PARKS AND RECREATION</b>	2008 - Jul to Dec	\$76,005	\$54,978	\$130,983	58%	42%
	2009 - Jan to Jun	\$86,574	\$58,180	\$144,755	60%	40%
	2009 - Jul to Dec	\$78,343	\$69,491	\$147,834	53%	47%
	2010 - Jan to Jun	\$74,723	\$57,865	\$132,588	56%	44%
	2010 - Jul to Dec	\$46,787	\$21,089	\$67,875	69%	31%
<b>HOUSING</b>	2008 - Jul to Dec	\$9,321	\$8,582	\$17,903	52%	48%
	2009 - Jan to Jun	\$5,039	\$8,954	\$13,992	36%	64%
	2009 - Jul to Dec	\$10,843	\$4,586	\$15,429	70%	30%
	2010 - Jan to Jun	\$6,882	\$3,457	\$10,339	67%	33%
	2010 - Jul to Dec	\$5,446	\$4,164	\$9,610	57%	43%

(c) Total Overtime Costs in Furlough Period Less Than Three of Preceding Four Periods

Department/Agency	Six Month Period	Cash Overtime Pay Plus Overtime Differentials and Salary Add-Ons	Dollar Value of Comp Time	Total Overtime Costs	Cash OT Share of Total	Comp OT Share of Total
<b>PERSONNEL</b>	2008 - Jul to Dec	\$10	\$780	\$790	1%	99%
	2009 - Jan to Jun	\$252	\$233	\$485	52%	48%
	2009 - Jul to Dec	\$0	\$480	\$480	0%	100%
	2010 - Jan to Jun	\$0	\$0	\$0	0%	0%
	2010 - Jul to Dec	\$0	\$74	\$74	0%	100%
<b>ECONOMIC DEVELOPMENT</b>	2008 - Jul to Dec	\$4,437	\$3,249	\$7,686	58%	42%
	2009 - Jan to Jun	\$3,696	\$7,279	\$10,975	34%	66%
	2009 - Jul to Dec	\$1,353	\$2,878	\$4,232	32%	68%
	2010 - Jan to Jun	\$1,439	\$9,237	\$10,676	13%	87%
	2010 - Jul to Dec	\$1,281	\$4,623	\$5,904	22%	78%
<b>PUBLIC WORKS</b>	2008 - Jul to Dec	\$687,069	\$130,500	\$817,570	84%	16%
	2009 - Jan to Jun	\$598,198	\$96,200	\$694,398	86%	14%
	2009 - Jul to Dec	\$655,699	\$118,947	\$774,646	85%	15%
	2010 - Jan to Jun	\$654,633	\$111,584	\$766,218	85%	15%
	2010 - Jul to Dec	\$631,845	\$117,094	\$748,939	84%	16%

**(d) Total Overtime Costs in Furlough Period Less Than Two of Preceding Four Periods**

Department/Agency	Six Month Period	Cash Overtime Pay Plus Overtime Differentials and Salary Add-Ons	Dollar Value of Comp Time	Total Overtime Costs	Cash OT Share of Total	Comp OT Share of Total
<b>LIQUOR</b>	2008 - Jul to Dec	\$708	\$1,590	\$2,298	31%	69%
	2009 - Jan to Jun	\$1,116	\$2,765	\$3,882	29%	71%
	2009 - Jul to Dec	\$1,671	\$1,368	\$3,039	55%	45%
	2010 - Jan to Jun	\$82	\$4,010	\$4,092	2%	98%
	2010 - Jul to Dec	\$1,511	\$1,934	\$3,445	44%	56%
<b>WATER</b>	2008 - Jul to Dec	\$349,364	\$50,042	\$399,406	87%	13%
	2009 - Jan to Jun	\$236,170	\$50,334	\$286,504	82%	18%
	2009 - Jul to Dec	\$128,089	\$32,821	\$160,910	80%	20%
	2010 - Jan to Jun	\$127,240	\$39,611	\$166,852	76%	24%
	2010 - Jul to Dec	\$165,702	\$31,533	\$197,234	84%	16%

**(e) Total Overtime Costs in Furlough Period Higher Than Three of Preceding Four Periods**

Department/Agency	Six Month Period	Cash Overtime Pay Plus Overtime Differentials and Salary Add-Ons	Dollar Value of Comp Time	Total Overtime Costs	Cash OT Share of Total	Comp OT Share of Total
<b>LEGISLATIVE BRANCH<sup>6</sup></b>	2008 - Jul to Dec	\$98,090	\$10,571	\$108,661	90%	10%
	2009 - Jan to Jun	\$11,176	\$5,446	\$16,622	67%	33%
	2009 - Jul to Dec	\$7,980	\$5,948	\$13,929	57%	43%
	2010 - Jan to Jun	\$25,939	\$9,087	\$35,026	74%	26%
	2010 - Jul to Dec	\$86,094	\$7,571	\$93,664	92%	8%
<b>TRANSPORTATION</b>	2008 - Jul to Dec	\$20,187	\$13,093	\$33,280	61%	39%
	2009 - Jan to Jun	\$24,298	\$13,715	\$38,013	64%	36%
	2009 - Jul to Dec	\$26,373	\$8,574	\$34,947	75%	25%
	2010 - Jan to Jun	\$45,443	\$8,202	\$53,645	85%	15%
	2010 - Jul to Dec	\$34,005	\$5,197	\$39,202	87%	13%

<sup>6</sup> The furlough occurred during an election period. Election periods normally cause legislative overtime to increase because election functions must be provided outside of regular county work hours. Overtime costs for the election period during the furlough were lower than during the prior election period from July to December 2008.

**(f) Total Overtime Costs in Furlough Period Greater Than Each of Preceding Four Periods**

Department/Agency	Six Month Period	Cash Overtime Pay Plus Overtime Differentials and Salary Add-Ons	Dollar Value of Comp Time	Total Overtime Costs	Cash OT Share of Total	Comp OT Share of Total
POLICE	2008 - Jul to Dec	\$1,371,406	\$58,563	\$1,429,969	96%	4%
	2009 - Jan to Jun	\$1,217,568	\$78,265	\$1,295,833	94%	6%
	2009 - Jul to Dec	\$1,191,947	\$69,107	\$1,261,054	95%	5%
	2010 - Jan to Jun	\$1,080,297	\$86,483	\$1,166,780	93%	7%
	2010 - Jul to Dec	\$1,430,987	\$74,444	\$1,505,431	95%	5%
ELDERLY AFFAIRS	2008 - Jul to Dec	\$2,254	\$997	\$3,252	69%	31%
	2009 - Jan to Jun	\$0	\$1,053	\$1,053	0%	100%
	2009 - Jul to Dec	\$0	\$4,377	\$4,377	0%	100%
	2010 - Jan to Jun	\$0	\$3,508	\$3,508	0%	100%
	2010 - Jul to Dec	\$262	\$4,493	\$4,754	6%	94%

**Foregone savings and additional furlough-related costs**

Foregone savings occurred from salary increases granted to employees at the start of the furlough and under-withholding. Additional costs occurred from electricity consumption, output loss and the economic impact of lost disposable income. Paid administrative leaves may have resulted in furlough savings or costs, depending when the leaves were taken.

**Foregone savings from salary increases**

The Office of the County Attorney was subject to the furlough, but gave employees discretionary pay raises just before the furlough began.<sup>7</sup> The salaries for all but one of the deputy county attorneys were increased to \$89,500 as of June 30, 2010.<sup>8</sup> No raise was given to the remaining deputy county attorney because the salary for that position was already more than \$89,500. Without the increases, additional salary savings of \$17,028 would have occurred during the furlough period.<sup>9</sup> The following table shows the salary increases.

<sup>7</sup> Salary increases also were given to certain deputy prosecuting attorneys, police officers and firefighters, but they were not subject to the furlough.

<sup>8</sup> The salaries of the county attorney and first deputy county attorney are set by salary commission resolution and did not increase.

<sup>9</sup> The additional salary savings of \$17,028 is less than the semi-annual portion of the total salary increases paid over the six-month furlough period (that is, less than 0.5 x \$38,632 = \$19,316) because the 9.23 percent furlough-related reduction in pay also must be taken into account and one deputy county attorney moved to another position in a different department at a new pay rate for the last two pay periods of the furlough.

**SALARY INCREASES OF DEPUTY COUNTY ATTORNEYS  
GRANTED PRIOR TO FURLOUGH**

<b>Deputy County Attorneys</b>	<b>Salary as of 6/15/10</b>	<b>Salary as of 6/30/10</b>	<b>Dollar Increase</b>	<b>Percent Increase</b>
Attorney 1	\$82,500	\$89,500	\$7,000	8.48%
Attorney 2	82,500	89,500	7,000	8.48%
Attorney 3	82,500	89,500	7,000	8.48%
Attorney 4	82,500	89,500	7,000	8.48%
Attorney 5	82,500	89,500	7,000	8.48%
Attorney 6	85,868	89,500	3,632	4.23%
Attorney 7	90,000	90,000	0	0.00%

**Foregone savings - Electricity**

Electrical consumption for the County was reviewed to determine savings during the furlough period. By being open 18 working days instead of 20 working days each month, the County would presumably be able to cut one-tenth (or 10 percent) of its consumption. Based on this assumption, electrical consumption should have been about 10 percent less than during a comparable past period. If July to December of 2009 is used as a reference, consumption during the furlough period should have been close to 9,113,738 kWh, or 90 percent of the 10,126,376 kWh consumed during that reference period. However, actual consumption was 10,138,851 kWh, or 12, 475 kWh more. The usage data also shows that more electricity was used during the furlough period than in the same period a year later (July to December 2011), when 10,044,397 kWh was used. A reason electricity use was higher than expected may be that the furlough was not planned or implemented so that County buildings were completely closed to reduce electrical use. Buildings may have remained only partially closed on furlough days because they housed employees who were not furloughed (such as the police department and prosecutor’s office) and had labs, computer rooms and other areas with sensitive equipment that required air conditioning 24 hours a day, seven days a week.

### **Additional furlough costs - paid administrative leaves**

The pay of the following groups of employees was reduced by five percent as a result of the furlough, but the employees were granted up to five additional paid administrative leave days off that had to be used by June 30, 2011 or the benefit would be lost: lifeguards and water safety officers (45 employees), police radio dispatcher II (15 employees) and police public safety worker I (four employees).<sup>10</sup>

The paid administrative leave days reduced the number of hours worked by such employees in the pay periods in which they were used in the same manner as a furlough day. If such an employee did not use a paid administrative leave day during a furlough-related pay period, then the County benefitted because the employee's pay was reduced by five percent for the pay period in question with no additional paid leave taken by the employee.

On the other hand, the County incurred an additional cost for the employee if an administrative leave day was taken during a furlough-related pay period because the employee's pay was reduced by only five percent instead of the 9.23 percent that applied to furloughed employees.

Some of the employees in question did not use all five paid administrative leave days that they were granted. Even if they did use all five administrative leave days, they would be taking fewer paid leave days in comparison to taking one furlough day each pay period during the furlough period. As such, the County likely experienced a net benefit arising from more pay periods in which an employee's pay was reduced by five percent with no administrative leave taken in comparison to pay periods in which administrative leave was taken in conjunction with a five percent reduction in pay as opposed to the higher 9.23 percent that applied to most other employees.

The audit evidence was inconclusive as to the origin of the leaves. The finance director stated that the leaves were provided by the fire and police chiefs. However, the Personnel, Police and Fire departments understood that the leaves were negotiated by the mayor with the HGEA.

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<sup>10</sup> For illustration purposes, an annual five percent pay decrease is equivalent to 13 furlough days. In essence, if employees used all five administrative leave days, they would have received the pay equivalent to being furloughed for 8 days, or a 3.07 percent salary reduction. Therefore, these employees had the ability to realize an effective pay reduction of between 3.07 and five percent depending on the number of administrative leave days they took.

### **Additional furlough costs - output loss**

The County arguably reduced employee output by 10 percent by reducing the number of working days from 10 to nine days per pay period. The County was spending approximately \$30 million in salaries every six months before the furlough to provide County services. If this figure represents the value of services to the public (or, in other words, the reasonable cost to the taxpayers of services provided) a 10 percent reduction would equate to an output loss of \$3 million to the public from the furlough. This loss exceeds the savings from the furlough program.

Output was also lost because higher-level County officials (the mayor, managing director, department heads and deputy department heads) did not take furlough days off, but took a 9.23 percent reduction in pay instead and participated in the “Furlough Friday Force (FFF),” which was a program for mayoral appointees that involved recruiting appointees and other volunteers to work on service projects on the furlough days. Community organizations were asked to submit projects for the program. As it turned out, all the projects worked on by the FFF involved public schools. If the FFF group had worked on projects for a non-governmental group, questions might arise about the appropriateness of using County time and employees to benefit private organizations.

Unfortunately, the County cannot assess the impacts of the furlough or other major personnel or policy changes on productivity, since employee productivity is not measured. The County tracks departmental activity only by transactions (numbers of park users, permits processed or reviewed, cases filed) that do not correlate to employee productivity.

### **Additional furlough costs – effect on the Kaua‘i economy**

Economic theory suggests that any injection into, or withdrawal from, an economy does not stop at the face value of that injection or withdrawal. Rather, if one dollar is spent on something, the person who receives that dollar will spend a portion of it on something else, creating a ripple known as a multiplier effect. One reasonably can argue that the furlough negatively affected Kaua‘i’s economy, because the pay reductions imposed on County employees would lead to reduced spending by those employees that would ripple through the local economy, generating a negative multiplier effect.

First Hawaiian Bank released an economic forecast in 2009 that calculated a 1.5 multiplier specifically for the Hawaii economy.<sup>11</sup> As the first table in this report and the paragraph immediately following it indicate, County employees experienced a reduction in salaries over the furlough period of \$1.727 million if the salary reductions of water department employees and lifeguards in the Fire department are included. Applying a multiplier of 1.5 to this amount implies that the furlough-related salary reductions would reduce spending in the local economy by an estimated total of \$2.591 million. It should be noted that this amount is an estimate, and may be lower or higher depending on the multiplier used.

### **Net measurable effect of the furlough program**

Some effects of the furlough program can be measured more precisely than others. For example, the salary savings of \$1.727 million reported in relation to the first table of this report is derived directly from employee payroll records. The same is true for the savings foregone as a result of salary increases granted to deputy county attorneys just before the furlough began. Other effects, such as the output loss of County services and reduced spending in the local economy, depend on assumptions made about how to value County services or how to compute the spending multiplier.

In terms of furlough effects quantified in this report, the net impact can be tabulated as follows:

Salary savings from furlough	\$1.727 million
Forgone savings attributable to salary increases granted to deputy county attorneys	<u>(\$0.017 million)</u>
Total actual savings	<u>\$1.710 million</u>

Other potential impacts related to output loss and reduced spending cannot be definitively quantified, but can be estimated as follows:

Output loss of County services to the public	(\$3.000 million)
Reduced spending in the local economy	(\$2.591 million)

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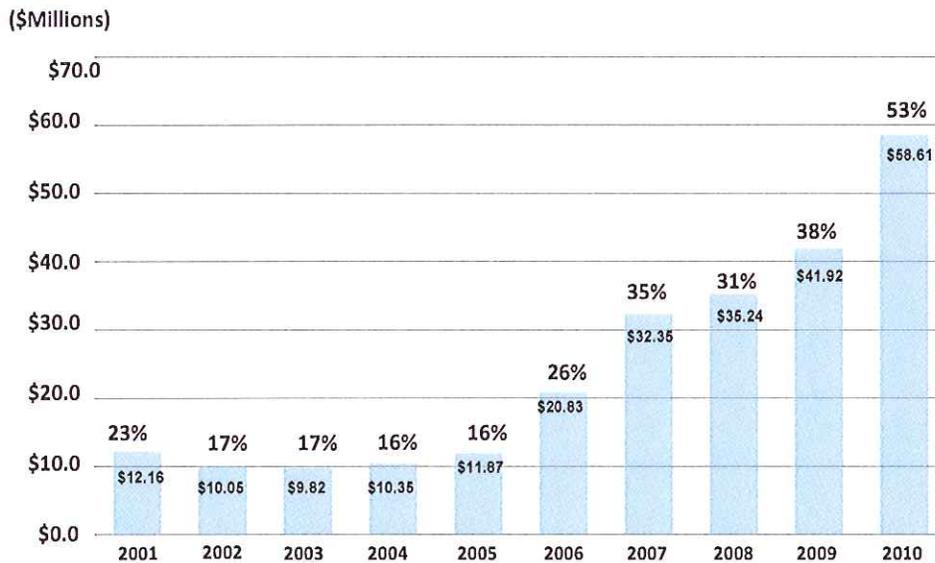
<sup>11</sup> First Hawaiian Bank, "Economic Forecast - Special Report 2009: Assessing Tourism's Contribution to the Hawai'i Economy," pages 14-15. While the Economic Forecast was focused on tourism, the multiplier was calculated based on estimates of Hawaii's marginal propensity to consume, marginal propensity to import and marginal tax rate, which could be applied to any dollar injected into or withdrawn from the economy.

## Reason for program results

The results of the furlough program may not have been as great as anticipated because of the overall lack of planning and monitoring. While the ultimate decision and rationale to implement the furlough are not immediately clear (see chart below, indicating a \$58,614,000 surplus as of June 30, 2010), the County nevertheless had a duty to plan and monitor the program to obtain the best possible results. Included in this process is following best practices of other governmental jurisdictions, as discussed in more detail in Finding 2.

## Unreserved General Fund Balance Fiscal Year 2001 through 2010 <sup>12</sup>

### Unreserved General Fund Balance FY 2001 - 2010



Note: Percentages represent unreserved fund balance as a percent of total general fund expenditures and transfers out. For FY 2009, the County adopted GASB 54 which prompted changes in reporting fund balances. The FY 2009 general fund unassigned balance as reported in the 2009 CAFR was \$32,844,060. FY 2009 and FY 2010 unreserved fund balances include \$9,074,550 and \$15,514,951, respectively, from the general assigned fund balances to balance future budget shortfalls.

Source: Department of Finance

In other jurisdictions, departments were controlled and monitored, and variations to the furlough program needed to be submitted to a policy group for approval. If the County had provided this kind of additional oversight, it might have reduced or eliminated foregone savings or additional costs.

<sup>12</sup> The County of Kaua'i Office of the County Auditor released surplus data, which was sourced from the Department of Finance, in its Report to Citizens for FY 2009-2010.

**Recommendation: In implementing future furlough or other employee cost reduction programs, the County needs to establish an adequate and transparent justification for the programs, set financial targets and monitor program implementation so that the programs will achieve the necessary results.**

**Finding 2. The furlough program was effective but it could have been more efficient if the County had followed best practices.**

It does not appear that the County was required to follow any specific best practices or implementation guidelines. However the County is still responsible for an effective and efficient furlough program. Because furloughs are typically contemplated during difficult financial periods, they have not been consistently utilized in the past, resulting in a lack of information regarding best practices for planning and implementation. The National Association of College and University Attorneys (NACUA) has published the following best practices for implementing furloughs which could help the County improve efficiency if another furlough were necessary in the future.<sup>13</sup>

**1. Carefully prepare for any furlough plan by developing a team approach to decision-making and communications.**

Although the administration formed a management team to determine the proposed furlough schedules, the team could have been improved by including departmental personnel specialists with detailed knowledge of departmental payroll practices.

The implementation team consisted of the personnel services director, the personnel services manager and the deputy county attorney for personnel matters. The team obtained input from department heads to see if their individual operations could accommodate a schedule with pre-determined furlough days. Proposed furlough schedules were then developed based on the input.<sup>14</sup>

However, more careful, inclusive planning could have avoided implementation errors, such as instances of over-withholding. Of the 49 employees whose withholding was more than 9.23 percent, 37 (or 75.5 percent) were Public

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<sup>13</sup> "Furloughs: The New 'Normal'?" NACUA Notes, Volume 8, No. 7 (March 23, 2010). While this document was focused on furlough programs implemented on university systems, we feel that the best practices are relevant to any institution or organization contemplating a furlough program.

<sup>14</sup> The schedules consisted of a proposed master schedule and separate schedules to address certain operations.

Works (Solid Waste) employees who worked 10-hour shifts.<sup>15</sup> The reason is that the furlough formula was correct for employees working eight-hour shifts, but resulted in a higher reduction (less pay) when applied to employees working 10-hour shifts. The human resource personnel specialists in the Public Works department called the errors to the attention of the Finance department. If the implementation team had included the Public Works personnel specialists or consulted with them, this could have helped to avoid the errors.

Recommendation regarding best practice 1: When planning furloughs or other wage reduction programs, the County administration should consider expanding its implementation team to include departmental human resource specialists or other human resources line personnel who are familiar with the salary practices of the various departments to minimize withholding errors.

## **2. Establish a clear communications plan that will be effective with internal and external constituencies**

The County's general guidance to employees involved in the personnel and payroll functions to enable the implementation of the furlough could have been better. The internal communication consisted of responses to frequently asked questions (FAQs) to the members of the bargaining units affected by the furlough, the UPW (blue collar supervisors and workers) and the HGEA (white collar employees, supervisors, professional employees and lifeguards). Among the shortcomings of the County's internal communication program were (1) the FAQs were incomplete, (2) no FAQs were issued to exempt, appointed or elected employees and (3) no comprehensive written furlough guidelines were developed or provided to department heads, human resource specialists and others charged with implementing the furlough.<sup>16</sup>

The external communication regarding the furlough consisted of notices to the public about office closures. Nothing was discovered during audit fieldwork to indicate any inadequacies in external communication.

Recommendations regarding best practice 2: When implementing furlough or other wage reduction programs, the County administration should consider improving its internal communication to ensure that each group of employees (blue collar, white collar, professional, exempt, excluded, appointed and elected) receives adequate information about the effect of the furlough (or similar wage reduction program) on the employee group. The County

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<sup>15</sup> The reasons for the errors were (1) the withholding calculations did not take into account employees working 10-hour (rather than eight-hour) shifts and (2) most of the 10-hour shift employees did not experience a pay decrease during the first two pay periods of the furlough, but the larger, "catch-up" deduction made in subsequent pay periods lasted too long, and resulted in over-withholding. The errors occurred over 423 pay periods, and the total amount over-withheld was \$4,257.60.

<sup>16</sup> See also discussion of best practice no. 5, below.

administration should also consider issuing detailed guidance for department heads and others responsible for implementation to ensure uniform program administration.

**3. Evaluate and document the basis (legal and strategic) for the furlough, and document the consideration (or use) of viable alternatives.**

The County documented the legal basis for the furlough. Along with the State and the other counties, it entered into agreement allowing up to 18 furlough days with the unions representing the employees covered by collective bargaining agreements.

While we reviewed County Council minutes in which the council discussed the necessity of the furlough, we did not see any documentation that summarized a comprehensive strategic decision that incorporated necessity, pros, cons or other financial analysis of the furlough. There was also no documentation produced to evidence that alternatives to the furlough were considered.

Recommendation regarding best practice 3: When implementing furloughs or other wage reduction programs, the County administration should consider ensuring that the legal and strategic bases for the furlough are evaluated, that viable alternatives are considered and that the process of evaluation and consideration are documented.

**4. Develop a furlough plan that: (a) provides adequate notice to affected employees; (b) is workable, neutral and fair and (c) complies with any applicable collective bargaining agreements, contracts, or handbook requirements, as well as applicable statutes and regulations.**

For this best practice:

- (a) The County did not provide adequate notice to affected employees, as summarized in the discussion of best practice 2.
- (b) The furlough was workable overall, but had aspects of inequity, and was not completely fair and neutral. Previous sections of this report have discussed problems with certain employee groups. Employees disadvantaged by the furlough were employees of the Solid Waste division of the Public Works department who worked 10-hour shifts and other employees who were over-withheld.

Employees who benefited during the furlough period were (1) the deputy county attorneys who received raises when the furlough began, and (2) the employees who were under-withheld.

By the cut-off day for responding, January 15, 2012, the administration had not responded as to whether it will collect the amounts under-withheld or refund the amounts over-withheld. According to council services, the Legislative Branch will not collect the amounts under-withheld or return the over-withholding because the discrepancies are a result of commitments made by the former County Clerk.

- (c) The County ensured that the furlough program complied with collective bargaining requirements by entering into negotiated agreements and supplemental agreements with the unions representing most of the County workers. The mayor issued executive orders to authorize the furlough of other employees. The deputy county attorney with human resource credentials was part of the management team planning the implementation of the furlough, so the administration had legal guidance to ensure that applicable statutes and regulations were followed.

Recommendation regarding best practice 4: When implementing furloughs or other wage reduction programs, the County administration should consider ensuring that a furlough plan is developed that (a) provides adequate notice to affected employees; (b) is workable, neutral and fair and (c) complies with any applicable collective bargaining agreements, contracts, or handbook requirements, as well as applicable statutes and regulations.

**5. Take the time necessary to train those who will implement the plan, especially those responsible for communicating with employees affected during an emotionally charged time.**

There was no evidence from the documents produced for the audit or information from the interviews to evidence that training was provided to those who were responsible for implementing the furlough plan or for communicating with employees.

Other government employers have provided more complete guidance. For example, the OPM's "Guidance for Administrative Furloughs" (February 2013) addresses 93 subjects that should be communicated in the event of a furlough. The OPM internal communication program involved sending the OPM FAQs to each employee providing individual notice of the reasons for the furlough and furlough conditions. The OPM FAQs also took the extra step of addressing the furlough treatment of different categories of employees (such as appointed and elected employees) and providing explanations when employees of the same department were treated differently, which may have assisted in alleviating employee concerns.

In contrast, County furlough FAQs addressed 21 (UPW) and 30 (HGEA) subjects, respectively. If the FAQs cover more subjects, affected employees are provided more clarity and department heads and personnel specialists are provided more guidance. The result should be better program execution.

The County FAQs did not cover the furlough rules for exempt, appointed and elected employees, contributing to the disproportionate number of withholding errors and discrepancies within the Legislative Branch, which had the largest number of exempt, appointed and elected employees relative to department size. During the furlough period, the Legislative Branch had an average of 36 employees per payroll period, but the number of withholding errors in the Legislative Branch was second only to public works, which had an average of 284 employees per payroll period.

<b>Department</b>	<b>Employees over-withheld (underpaid)</b>	<b>Employees under-withheld (overpaid)</b>	<b>Number of erroneous salary payments<sup>17</sup></b>
Public works	40	17	473
Legislative Branch	1	10	47
All other departments	8	27	62
<b>Total</b>	<b>49</b>	<b>54</b>	<b>582</b>

For the Legislative Branch, ten employees were under-withheld (overpaid) because their pay was not reduced at all for one to four pay periods. Seven of the ten employees held the position of Election Clerk II, suggesting some confusion may have been present about whether they were subject to the furlough, particularly during the 2010 election period.

One employee in the Legislative Branch was over-withheld (underpaid), a net result arising during payroll entry from the use of an hourly rate when multiplied by eight hours of furlough leave generating withholdings less than 9.23 percent in two pay periods with 11 work days and withholdings greater than 9.23 percent in a third pay period with 10 work days. The over-withholdings in the third pay period exceeded the combined under-withholdings from the two prior pay periods.

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<sup>17</sup> This number does not include employees or salary payments involving no net error, that is, when the sum of the furlough withholdings was equal to 9.23 percent overall. This may have occurred for employees whose pay was not withheld for one or more pay periods, but subsequent catch up (double) withholdings were made in subsequent pay periods.

Certain decisions, such as not imposing a furlough-related reduction in pay for select employees in some pay periods or computing reductions in pay in a manner that does not account for the fluctuating numbers of work days within a pay period, should have been subject to review and high-level approval. As an example, the “Furlough Implementation Tips” of the state of Kentucky limit the ability to make policy decisions regarding payroll actions to persons with designated appointing authority.

Clear guidance regarding elected officials was also needed. Interviews with council services staff and councilmembers disclosed that they understood that the only way councilmember salary reductions could occur was if the salary commission reduced councilmembers’ salaries or if councilmembers wrote checks and the council formally met to accept the checks as gifts to the County.<sup>18</sup> Based on this understanding, six councilmembers attempted to voluntarily reduce their pay by writing checks based on calculations from the finance department.<sup>19</sup> The checks were held by the office of council services. There was no documentation produced to show the council met to accept the checks, and this was likely the reason the checks were never cashed. It is important to note that although the salaries of the mayor, department heads and deputy department heads are also set by salary commission resolution, their furlough reductions did not go through the gifting process.

Recommendation regarding best practice 5: When implementing furloughs or other wage reduction programs, the County administration should consider taking the time necessary to train those who will implement the plan, especially those responsible for communicating with employees and making payroll entries.

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<sup>18</sup> Council members had already voluntarily reduced their auto allowances, but wanted to further reduce their compensation during the furlough through salary reductions.

<sup>19</sup> The total value of the checks was \$7,763.23.

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## AUDITEE RESPONSE

**Finding 1: The County realized salary savings as a result of the furlough, but the savings could have been better if the County monitored and set clear cost objectives for the furlough.**

**Recommendation:** In implementing future furlough or other employee cost reduction programs, the County needs to establish an adequate and transparent justification for the programs, set financial targets and monitor program implementation so that the programs will achieve the necessary results.

**Auditee's Response:**

The Auditee responds that adequate justification was made to the unions during negotiations over the furlough, but that its internal communication to departments and employees might not have been clear or sufficient. The Auditee states it will provide information about the financial necessity and targeted financial savings to all departments, and will monitor program implementation should employee cost reduction programs be necessary in the future.

**Auditor's Comment:**

While the Auditee claims it provided adequate information to the union, it did not identify the information provided. The Auditee does not address how it justified the need for the furlough, considering the County's \$58,614,000 surplus as of June 30, 2010. Therefore, it is unclear what information, if any, the Auditee could have used to justify the financial need for the two-day furlough program.

The Auditee also does not address how improved internal communication will address the deficiencies in the justification, planning and implementation processes, such as the difference in projected savings between the Mayor's budget testimony and the budget itself.

The Auditee's response simply pushes its obligations to the next time a furlough might be needed, and does not demonstrate accountability and responsibility to the employees and the general public affected by the 2010 furlough.

**Finding 2: The furlough program was effective but it could have been more efficient if the County had followed best practices.**

**Recommendation:** When planning furloughs or other wage reduction programs, the County administration should consider:

1. Expanding its implementation team to include departmental human resource specialists or other human resources line personnel who are familiar with the salary practices of the various departments to minimize withholding errors.

**Auditee's Response:**

The Auditee states that the Department of Personnel Services ("DPS") has expanded since the furlough, and will be the lead department in ensuring that the necessary personnel are actively engaged as resources to minimize payroll errors should wage reduction programs be necessary in the future.

**Auditor's Comment:**

The response does not address the point of the recommendation, which is that the DPS might again be unable to fully anticipate problems because it is not as familiar with departmental pay practices as the departmental human resources personnel, who deal with department-specific payroll issues every day.

2. Improving its internal communication to ensure that each group of employees (blue collar, white collar, professional, exempt, excluded, appointed and elected) receives adequate information about the effect of the furlough (or similar wage reduction program) on the employee group. The County administration should also consider issuing detailed guidance for department heads and others responsible for implementation to ensure uniform program administration.

**Auditee's Response:**

The Auditee defends its internal communication (in the form of Frequently Asked Questions ("FAQs")) by stating that the audit report does not state what was not included. The Auditee concludes that the FAQs were adequate because minimal questions were posed. It agrees that additional guidance will be provided in the future.

**Auditor's Comment:**

The presence of errors and adjustments in the payroll process, such as the over- and under-withholding of wages, salaries and corresponding income taxes of exempt, appointed and elected employees, indicates that there were questions that were not addressed prior to program implementation.

In developing internal notices for future furlough or other wage reduction programs, the Auditee could consider incorporating the OPM's approach to ensuring uniform program administration and transparency by having internal notices that (1) clearly and specifically address how each group of employees will be treated during the furlough, including the amount and method of withholding and a list of leave-exempt employee groups, if any; (2) minimize the county's liability by informing employees whether outside employment is permitted on furlough days, and (3) provide information about available resources for employees, including contact numbers for further questions about the furlough and the process for grieving or filing complaints about furlough-related issues.

3. Ensuring that the legal and strategic bases for the furlough are evaluated, that viable alternatives are considered and that the process of evaluation and consideration are documented.

**Auditee's Response:**

The Auditee responds that preparation time for the furlough was limited, and that it will look at viable cost reduction programs prior to contract settlements if necessary.

**Auditor's Comment:**

The Auditee has a responsibility to adequately anticipate and plan for potential issues prior to the implementation of any County program, and should take the necessary steps to ensure proper identification, involvement and communication with all relevant department personnel.

4. Ensuring that a furlough plan is developed that (a) provides adequate notice to affected employees; (b) is workable, neutral and fair and (c) complies with any applicable collective bargaining agreements, contracts, or handbook requirements, as well as applicable statutes and regulations.

**Auditee's Response:**

The Auditee responds that the furlough program was unprecedented and there were many lessons learned.

**Auditor's Comment:**

While we understand the unprecedented circumstances surrounding the 2010 furlough program and appreciate the lessons learned, the Auditee does not address the inequities in the program, such as the employees who were under- and over-withheld or the deputy county attorneys who were given raises just before the furlough began.

5. Taking the time necessary to train those who will implement the plan, especially those responsible for communicating with employees and making payroll entries.

**Auditee's Response:**

The Auditee responds that staff will be trained to implement a successful program in the future and that adequate notices will be developed.

**Auditor's Comment:**

The Auditee will be challenged in implementing this recommendation in light of anticipated retirements in the departments, including the DPS.<sup>20</sup> The Auditee must ensure that the departments responsible for developing and implementing the training programs have the necessary experience and capacity even if its most experienced employees are inevitably lost through retirement.

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<sup>20</sup> The County of Kaua'i Office of the Auditor's "Follow-up Audit of the County of Kaua'i Building Division, Department of Public Works" (Report No. 11-02, January 2012) cited a 2008 study by former mayor Bryan Baptiste that found that 32 percent of County employees will be retirement-eligible by 2013.

**Bernard P. Carvalho, Jr.**  
Mayor



**Nadine K. Nakamura**  
Managing Director

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April 11, 2014

Mr. Ernesto G. Pasion, County Auditor  
Hale Pumehana Building  
3083 Akahi Street, Room 201  
Lihu'e HI 96766

Subject: Draft Audit Report  
Audit of County Furlough Program

Dear Mr. Pasion,

Thank you for the opportunity to submit a written response to the subject draft report. Following are our responses to the recommendations made therein.

Finding 1: The County realized salary savings as a result of the furlough, but the savings could have been better if the County monitored and set clear cost objectives for the furlough.

Recommendation: In implementing future furlough or other employee cost reduction programs, the County needs to establish an adequate and transparent justification for the programs, set financial targets and monitor program implementation so that the programs will achieve the necessary results.

Response: **Although adequate and transparent justification was made during labor negotiations as to the necessity of the furlough and which was recognized by both the HGEA and UPW unions, this information may not have been clearly communicated to departments and employees sufficiently.**

**Should employee cost reduction programs be necessary in the future, information justifying the financial necessity of the program along with clear financial targeted savings will be communicated to all departments. In addition, program implementation will be monitored after each payroll processing to make the necessary corrections immediately and realize the savings as set forth in the program.**

Finding 2: The furlough program was effective but it could have been more efficient if the County had followed best practices.

Recommendation: When planning furloughs, or other wage reduction programs, the County administration should consider:

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1. Expanding its implementation team to include departmental human resource specialists or other human resources line personnel who are familiar with the salary practices of the various departments to minimize withholding errors.

**Since the time that furloughs were implemented in 2010, the Department of Personnel Services (DPS) has expanded its role in personnel management and will also be expanding duties to include payroll processing. As such, should wage reduction programs be necessary in the future, DPS will be the lead department in ensuring that necessary personnel are actively engaged as resources to personnel and salary practices to minimize payroll errors.**

2. Improving its internal communication to ensure that each group of employees (blue collar, white collar, professional, exempt, excluded, appointed and elected) receives adequate information about the effect of the furlough (or similar wage reduction program) on the employee group. The County administration should also consider issuing detailed guidance for department heads and others responsible for implementation to ensure uniform program administration.

**Although Frequently Asked Questions (FAQs) that were provided to employees are being characterized as “incomplete”, the audit report does not discuss what was not included. Minimal questions were posed to the Administration regarding the furlough program and thus, it would appear that the FAQs were adequate.**

**That being said, the Administration agrees that additional guidance will be provided to all departments with the expanded DPS being the central point to disseminate information and ensure uniform program administration.**

3. Ensuring that the legal and strategic bases for the furlough are evaluated, that viable alternatives are considered and that the process of evaluation and consideration are documented.

**When the union contract agreements that allowed for furloughs were finally settled, preparation time was limited. On a going forward basis, the DPS will work closely with the County Attorney’s Office and the Department of Finance to begin to look at viable cost reduction programs prior to contract settlements if necessary.**

4. Ensuring that a furlough plan is developed that (a) provides adequate notice to affected employees; (b) is workable, neutral and fair and (c) complies with any applicable collective bargaining agreements, contracts, or handbook requirements, as well as applicable statutes and regulations.

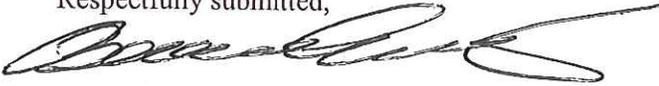
**The furlough program implemented in 2010 was unprecedented for Kaua’i County. There were many lessons learned which will be taken into consideration should it be necessary to realize salary savings if funding is not adequate to support the necessary County workforce.**

5. Taking the time necessary to train those who will implement the plan, especially those responsible for communicating with employees and making payroll entries.

**Future furlough programs will involve DPS as the lead department to work with all other County departments and agencies to ensure that staff is adequately trained to implement a successful furlough program that meets the necessary financial savings. In addition, the County communications team will be an integral component in developing necessary notices to ensure that all employees are adequately notified.**

We are pleased that the audit report revealed that although the furlough program could have been managed more effectively, the overall goal of financial savings was realized as the program intended.

Respectfully submitted,



Bernard P. Carvalho, Jr.  
Mayor

cc: Hon. Jay Furfaro, Chair  
Hon. Mason K. Chock, Sr., Vice-Chair  
Hon. Tim Bynum, Councilmember  
Hon. Gary Hooser, Councilmember  
Hon. Ross Kagawa, Councilmember  
Hon. Mel Rapozo, Councilmember  
Hon. JoAnn A. Yukimura, Councilmember  
Hon. Nadine K. Nakamura, Managing Director  
Alfred B. Castillo Jr., County Attorney  
Steven A. Hunt, Director of Finance  
Thomas T. Takatsuki, Acting Director of Personnel Services