

April 18, 2019

VIA EMAIL & HAND DELIVERY

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
Hawai'i State Capitol, Room 409
Honolulu, Hawai'i 96813

VIA EMAIL & HAND DELIVERY

The Honorable Scott K. Saiki
Speaker, House of Representatives
415 South Beretania Street
Hawai'i State Capitol, Room 431
Honolulu, Hawai'i 96813

RE: Financial and Compliance Audit of the Department of Human Services

Dear President Kouchi and Speaker Saiki:

The financial and compliance audit of the Department of Human Services for the fiscal year ended June 30, 2018, was issued on March 22, 2019. The Office of the Auditor retained KMH LLP to perform the financial and compliance audit. For your information, we are attaching a copy of the two-page Auditor's Summary of the financial and compliance audit report.

You may view the financial and compliance audit report and Auditor's Summary on our website at:

http://files.hawaii.gov/auditor/Reports/2018_Audit/DHS2018.pdf; and

http://files.hawaii.gov/auditor/Reports/2018_Audit/DHS_Summary_2018.pdf.

If you have any questions about the report, please contact me.

Very truly yours,


Leslie H. Kondo
State Auditor

LHK:RTS:emo

Enclosures

cc/attach (Auditor's Summary only): Senators

Representatives

Brian Takeshita, House Chief Clerk

Carol Taniguchi, Senate Chief Clerk

Auditor's Summary

Financial and Compliance Audit of the Department of Human Services

Financial Statements, Fiscal Year Ended June 30, 2018



PHOTO: DEPARTMENT OF HUMAN SERVICES

DHS Director Pankaj Bhanot and Rep. Dee Morikawa join the DHS Division of Vocational Rehabilitation for their annual white cane walk to raise awareness of the importance of the cane for those who are blind, visually impaired and deaf and blind.

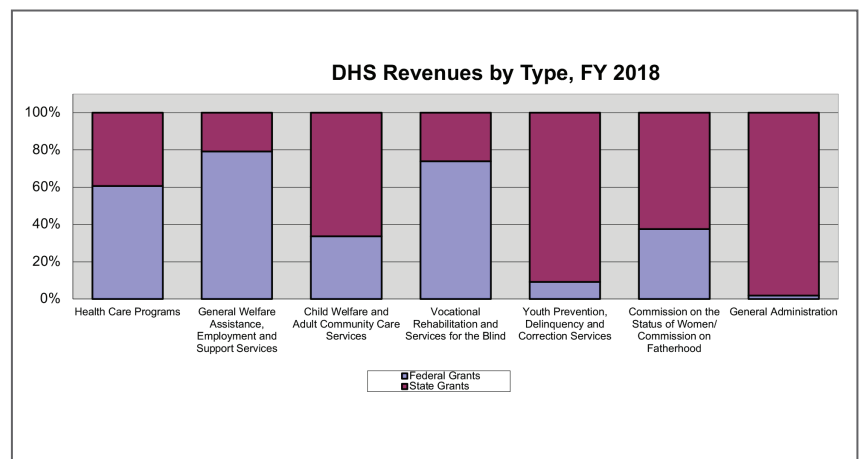
THE PRIMARY PURPOSE of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Human Services (DHS), as of and for the fiscal year ended June 30, 2018, and to comply with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by KMH LLP.

About the Department

DHS' MISSION is to direct its resources toward protecting and helping those least able to care for themselves and to provide services designed toward achieving self-sufficiency for clients as quickly as possible. DHS' activities and attached programs include Health Care Programs; General Welfare Assistance, Employment and Support Services; Child Welfare and Adult Community Care Services; Vocational Rehabilitation and Services for the Blind; Youth Prevention, Delinquency and Correction Services; General Administration; Commission on the Status of Women; and Commission on Fatherhood.

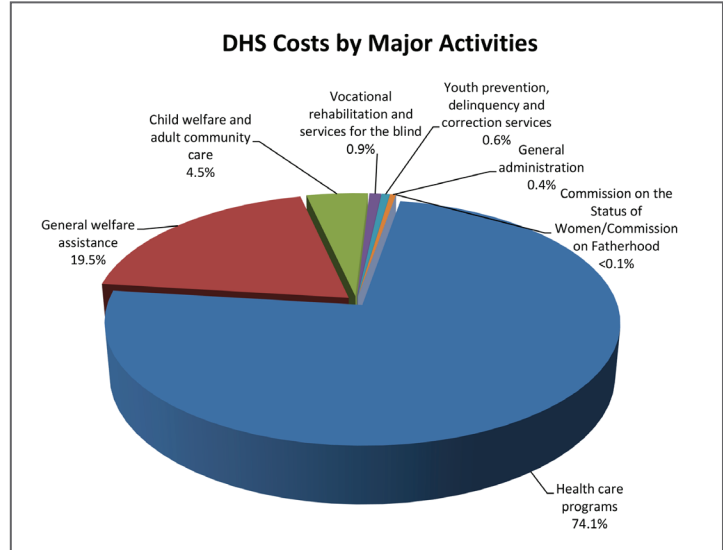
Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2018, DHS reported total revenues of \$3.72 billion and total expenses of \$3.63 billion. Revenues consisted of \$1.39 billion of State allotments, net of lapsed amounts plus nonimposed employee fringe benefits, and \$2.33 billion in program revenues, which consist of operating grants from the federal government. Revenues from these federal grants paid for 64.3 percent of the cost of DHS' activities.



Health care and general welfare assistance programs comprised 74.1 and 19.5 percent, respectively, of the total cost. The following chart presents each major activity as a percent of the total cost of all DHS activities.

As of June 30, 2018, DHS' total assets of \$535 million were comprised of cash of \$355 million, receivables of \$100 million, and net capital assets of \$80 million. Total liabilities of \$243 million were comprised of vouchers payable of \$25 million, accrued wages and employee benefits of \$15 million, amounts due to the State general fund of \$96 million, accrued medical assistance payable of \$93 million, and accrued compensated absences of \$14 million.



Auditors' Opinions

DHS RECEIVED AN UNMODIFIED OPINION that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DHS received a qualified opinion on its compliance with requirements that could have a direct and material effect on its major federal programs, except for the Children's Health Insurance Program, CCDF Cluster, and Adoption Assistance Program, which received an unmodified opinion in accordance with the *Uniform Guidance*.

Findings

THERE WAS ONE SIGNIFICANT DEFICIENCY in internal control over financial reporting that is required to be reported under *Government Auditing Standards*. There were 14 material weaknesses and three significant deficiencies in internal control over compliance that are required to be reported in accordance with the *Uniform Guidance* and *Government Auditing Standards*.

Material Weaknesses (13)

- Lack of proper documentation to support eligibility determinations and actions taken related to benefits (3);
- Lack of proper documentation to support program participant benefits;
- Lack of proper documentation to support revalidation of provider eligibility;
- Eligibility determinations were not processed or not completed in a timely manner (2);
- Failure to complete the participant's individualized plan for employment or obtain approval;
- Inaccurate federal data reporting (2);
- Inadequate monitoring of subrecipients;
- Lack of monitoring for earmarked funds;
- Lack of proper documentation to indicate whether appropriate action was taken regarding non-cooperating participants; and
- Lack of approval of individualized plans for employment of participants to receive benefit payments.

Significant Deficiencies (4)

- DHS did not properly accrue several payable accounts;
- Lack of policies and procedures for compiling the Schedule of Expenditures of Federal Awards;
- Lack of documentation to support participant monthly benefit payments; and
- Failure to ensure contractor was not federally suspended or debarred.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2018_Audit/DHS2018.pdf

**Department of Human Services
State of Hawaii**

Financial Statements
June 30, 2018
Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**



A Hawaii Limited Liability Partnership

March 22, 2019

Mr. Leslie Kondo, State Auditor
Office of the Auditor
State of Hawaii

Dear Mr. Kondo:

This is our report on the financial audit of the Department of Human Services of the State of Hawaii (DHS) as of and for the fiscal year ended June 30, 2018. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), *Government Auditing Standards*, Audits of States, Local Governments, and Non-Profit Organizations.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the DHS's basic financial statements as of and for the fiscal year ended June 30, 2018, and to comply with the requirements of the Uniform Guidance. The objectives of the audit were as follows:

1. To provide a basis for an opinion as to whether the financial statements of the DHS are fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles.
2. To report on the DHS's internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.
3. To provide a basis for an opinion as to whether the DHS has complied with compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of its major federal programs, including whether the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.
4. To report on the internal control over compliance of the DHS for the purpose of expressing an opinion on compliance with requirements of laws, regulations, contracts and grants that could have a direct and material effect on each major federal program in accordance with OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Uniform Guidance. The scope of our audit included an examination of the transactions and accounting records of the DHS as of and for the fiscal year ended June 30, 2018.

ORGANIZATION OF THE REPORT

This report is presented in six parts as follows:

- Part I – The basic financial statements and related notes of the DHS as of and for the fiscal year ended June 30, 2018, and our opinion on the basic financial statements.
- Part II – Our report on internal control over financial reporting and compliance.
- Part III – Our report on compliance with requirements applicable to each major program and internal control over compliance.
- Part IV – The schedule of findings and questioned costs.
- Part V – The summary schedule of prior audit findings.
- Part VI – Corrective action plan.

We wish to express our sincere appreciation for the cooperation and assistance extended by the officers and staff of the DHS.

Sincerely,



Wilcox Choy
Partner

Table of Contents

	Page
PART I FINANCIAL SECTION	
Independent Auditor's Report	6 – 8
Management's Discussion and Analysis	9 – 19
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	20
Statement of Activities	21
Fund Financial Statements:	
Balance Sheet – Governmental Funds	22
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	23
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	24
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances to the Statement of Activities	25
Statement of Revenues and Expenditures – Budget and Actual - General Fund	26
Statement of Revenues and Expenditures – Budget and Actual - Special Revenue Funds	27
Statement of Fiduciary Net Assets – Fiduciary Funds	28
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	29
Notes to the Basic Financial Statements	30 – 55
Supplementary Information:	
Schedule of Expenditures of Federal Awards	57 – 59
Notes to the Schedule of Expenditures of Federal Awards	60

Table of Contents (continued)

	Page
PART II REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	62 – 63
PART III REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE	65 – 68
PART IV SCHEDULE OF FINDINGS AND QUESTIONED COSTS	70 – 106
PART V SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	108 – 114
PART VI CORRECTIVE ACTION PLAN	116 – 128

PART I
FINANCIAL SECTION



A Hawaii Limited Liability Partnership

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Human Services of the State of Hawaii (DHS), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the DHS's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the DHS, as of June 30, 2018, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the DHS are intended to present the financial position, the changes in financial position, and budgetary comparisons, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the DHS. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2018, the changes in financial position, and budgetary comparisons, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 9 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the DHS's basic financial statements. The schedule of expenditures of federal awards as required by the Office of Management and Budget, Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2019 on our consideration of the DHS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DHS's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 22, 2019

Department of Human Services

State of Hawaii

Management Discussion and Analysis
June 30, 2018

This discussion and analysis of the financial performance of the Department of Human Services (DHS) provides an overview of the financial activities of the DHS for the fiscal year ended June 30, 2018. The intent of this discussion is to allow management to provide an objective and easily readable analysis of the financial activities of the DHS based on currently known facts, decisions, or conditions. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements and other supplementary information.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements of the DHS. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide a broad overview of the finances of the DHS using the economic resources measurement focus and accrual basis of accounting, in a manner similar to private-sector businesses. It provides both long-term and short-term information about the overall financial status of the DHS.

The statement of net position includes all of the assets and liabilities of the DHS, with the difference between the two reported as net position. This statement is similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the DHS is improving or deteriorating. This statement also provides information on how services were financed in the short-term as well as what remains for future spending.

The statement of activities presents information showing how net position changed during the fiscal year. All changes in net position are reported using the accrual method of accounting, similar to the method used by most private-sector businesses. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are reported when the goods or services are received, regardless of the timing of the related cash flows. The activities of the DHS are principally supported by appropriations made available by the State Legislature and intergovernmental revenues from the federal government (governmental activities). The DHS does not recover any portion of its costs through user fees or charges for services (business-type activities).

Department of Human Services

State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2018

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The DHS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the DHS are divided between either governmental funds or fiduciary funds. Governmental funds are used to account for most, if not all, of a government entity's tax-supported activities. Fiduciary funds are used to account for resources that are held by a government entity as a trustee or agent for parties outside of the government entity. The resources of fiduciary funds cannot be used to support the government entity's own programs.

The fund financial statements of the DHS include the following types of funds:

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources and balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government entity's near-term financing requirements. By comparing the governmental fund and government-wide financial statements, readers may better understand the long-term impact of the entity's near-term financing decisions. In order to facilitate a comparison between the governmental fund and government-wide financial statements, a reconciliation between the two is provided following each governmental fund financial statements.

Fiduciary funds - The fiduciary funds of the DHS consists of agency funds which are clearing accounts for assets held by the DHS in its role as custodian until the funds are allocated to the individuals, private organizations, or government agencies to which they belong. These activities are excluded from the government-wide financial statements of the DHS because the DHS cannot use these assets to finance its operations.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Department of Human Services
State of Hawaii**

Management Discussion and Analysis (continued)
June 30, 2018

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following table presents a condensed government-wide statement of net position of the DHS as of June 30, 2018 and 2017.

Condensed Statement of Net Position

	<u>2018</u>	<u>2017</u>
Current Assets	\$ 454,835,250	\$ 394,853,835
Capital Assets, net	79,736,054	106,258,668
Total assets	<u>\$ 534,571,304</u>	<u>\$ 501,112,503</u>
Current Liabilities	\$ 234,595,450	\$ 291,687,891
Non-current Liabilities	7,963,366	15,842,026
Total liabilities	<u>242,558,816</u>	<u>307,529,917</u>
Net Position:		
Invested in capital assets	79,736,054	106,258,668
Restricted	-	-
Unrestricted	<u>212,276,434</u>	<u>87,323,918</u>
Total net position	<u>292,012,488</u>	<u>193,582,586</u>
Total liabilities and net position	<u>\$ 534,571,304</u>	<u>\$ 501,112,503</u>

As noted earlier, an analysis of net position over time may be a useful indicator of whether a government entity's financial condition is growing stronger or weakening. During the fiscal year ended June 30, 2018, the combined net position of the DHS increased by approximately \$98 million.

The unrestricted net position of the DHS was approximately \$212.3 million as of June 30, 2018. The largest liabilities as of June 30, 2018, are the federal expenditures incurred but not yet reimbursed by the federal government as of June 30, 2018 and the estimated amount of medical assistance service provided as of June 30, 2018, for which the related claims and capitation fees will be processed and paid subsequent to June 30, 2018. For the unreimbursed federal expenses as of June 30, 2018 of \$72.6 million, the majority is for the non-medical assistance programs, of which \$50.9 million will be received after June 30, 2018. Of the estimated \$93.3 million of medical assistance payable, the State's share of these costs is approximately \$47.6 million. The estimated federal share of these costs to be paid in the future was recorded as intergovernmental revenues in the current fiscal year and is included in the balance due from other governments. In addition to the estimated medical assistance payable, the liability for compensated absences totaling approximately \$13.5 million as of June 30, 2018, is not funded by state allotments until the employee uses the earned leave or is paid out upon termination. Therefore, there are no assets currently available to the DHS to pay for these liabilities as of June 30, 2018.

Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2018

The DHS reported a total of approximately \$79.7 million in net position invested in capital assets as of June 30, 2018. Although the DHS is not the legal owner of the state buildings that are reported as part of its capital assets, the portion of the state facilities used by the DHS are required to be reported as part of its capital assets. The DHS uses these capital assets to provide services; consequently, these assets are not available for future spending and the related annual depreciation expense of the cost of these facilities is included in the statement of activities for the fiscal year ended June 30, 2018.

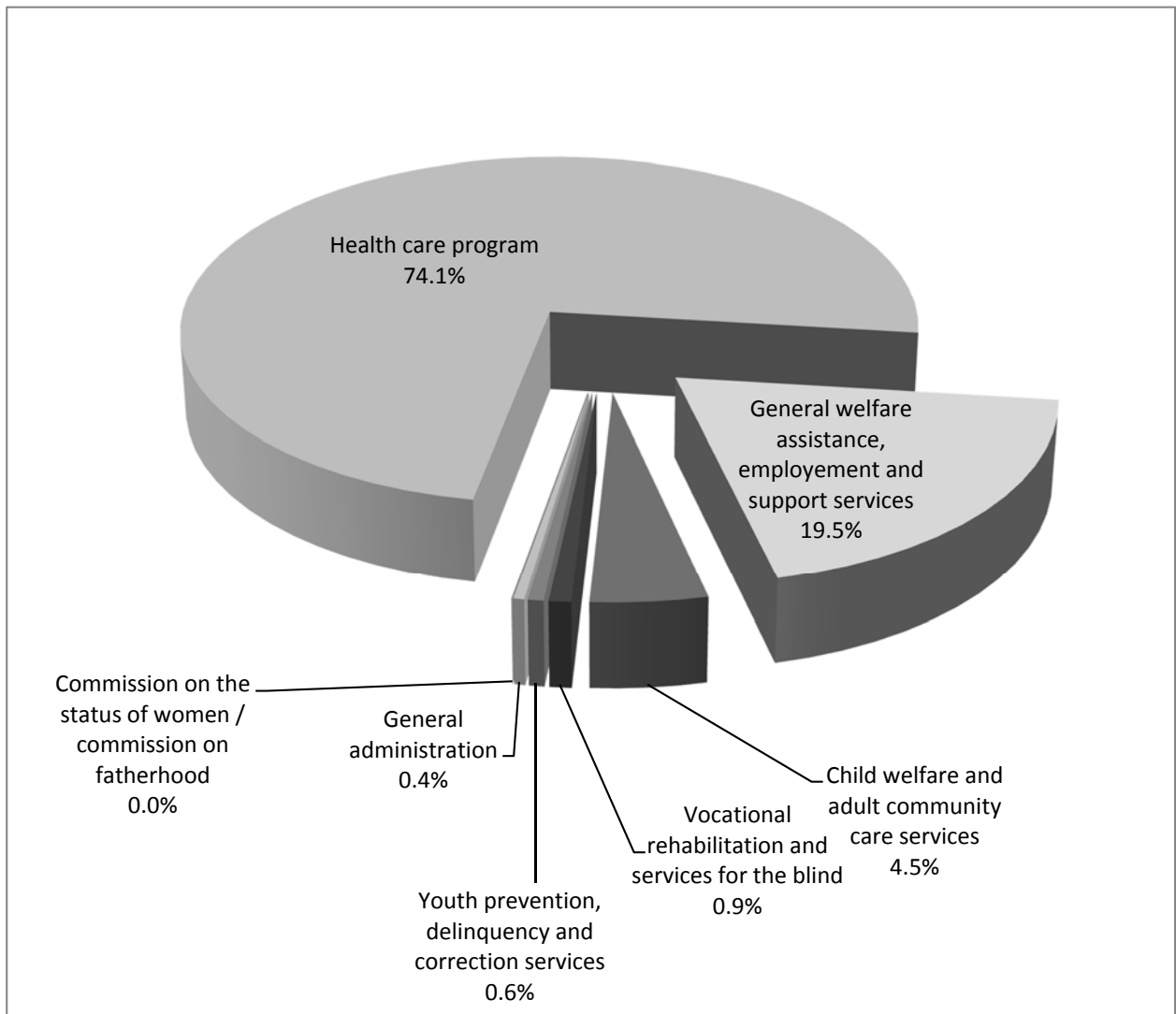
The changes in the net position of the DHS from governmental activities are summarized below. The DHS directs its resources towards assisting people to meet their basic needs for food, shelter, medical care and other essentials for daily living. As such, the DHS does not conduct business-type activities and the accompanying analysis of the changes in net position focuses on the cost of services and who provides the funds to pay for the costs.

Changes in Net Position			
	2018	2017	Percent Change
Revenues:			
Program revenues	\$ 2,333,114,706	\$ 2,345,870,246	(0.54)%
General revenues	1,392,536,417	1,283,087,995	8.53%
Total revenues	<u>3,725,651,123</u>	<u>3,628,958,241</u>	2.66%
Expenses:			
Health care programs	2,688,545,711	2,631,888,594	2.15%
General welfare assistance, employment and support services	708,229,744	770,491,168	(8.08)%
Child welfare and adult community care services	161,573,452	164,003,017	(1.48)%
Vocational rehabilitation and services for the blind	30,933,701	32,224,666	(4.01)%
Youth prevention, delinquency and correction services	21,715,682	23,480,974	(7.52)%
General administration	15,265,384	15,246,694	0.12%
Commission on the status of women / commission on fatherhood	298,336	299,593	(0.42)%
Total expenses	<u>3,626,562,010</u>	<u>3,637,634,706</u>	(0.30)%
Change in net position, before transfers	<u>\$ 99,089,113</u>	<u>\$ (8,676,465)</u>	

Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2018

The total cost of all programs and services was approximately \$3.62 billion, a 0.30% decrease from the prior fiscal year. Health care and general welfare assistance programs comprised 74.1% and 19.5%, respectively, of the total costs. The following chart presents each major activity as a percent of the total cost of all DHS activities:

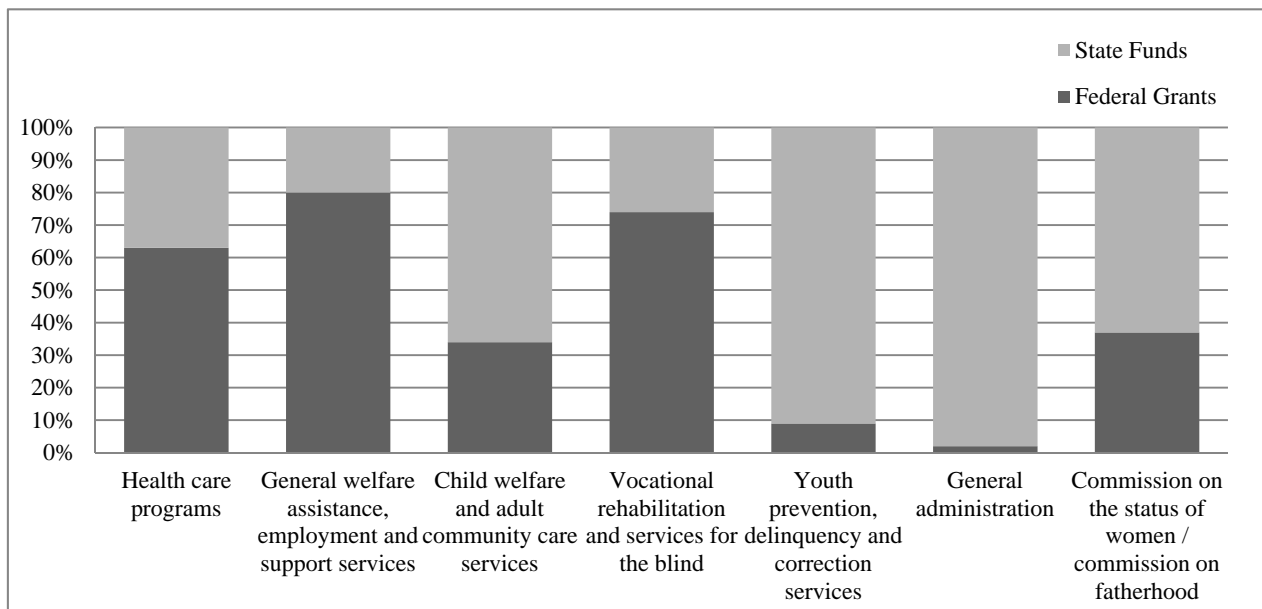


Department of Human Services State of Hawaii

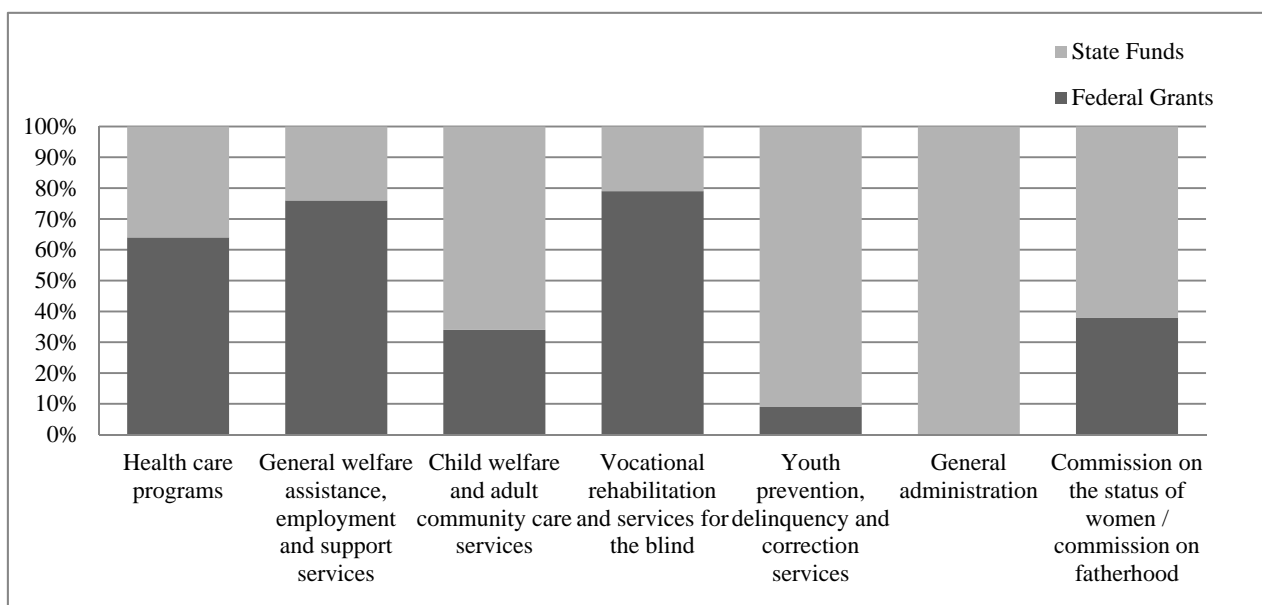
Management Discussion and Analysis (continued)
June 30, 2018

Program revenues consist primarily of operating grants from the federal government. Revenues from these federal grants paid for 64.33% of the cost of all the DHS’s activities. The following chart presents the percentage of costs funded by federal grants for each major activity of the DHS for the fiscal years ended June 30, 2018 and 2017:

Fiscal Year 2018



Fiscal Year 2017



**Department of Human Services
State of Hawaii**

Management Discussion and Analysis (continued)
June 30, 2018

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

As noted earlier, the DHS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The DHS has two governmental fund types; the general fund and special revenue funds. The general fund is used to account for all financial resources except those required to be accounted for in another fund. The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. In general, operating grants the DHS receives from the federal government are accounted for in the special revenue funds and all allotments of state funds are accounted for in the general fund along with any other resources available to the DHS that are not accounted for in the special revenue funds.

Total expenditures reported on an accrual basis decreased by \$7.7 million over the prior fiscal year. This decrease is primarily related to a decrease in reimbursement of prior year costs for the general welfare assistance, employment and support services.

At June 30, 2018, the total governmental fund balance of the DHS consisted of committed, and assigned fund balance of approximately, \$2.7 million, and \$223.0 million, respectively. The committed fund balance of the special revenue funds totaling \$2.7 million is principally the result of amounts that are limited by the state law for specific use.

The following table presents total revenues and expenditures of the governmental funds of the DHS for the fiscal years ended June 30, 2018 and 2017:

	2018	2017	Percent Change
Revenues:			
State allotted appropriations	\$ 1,360,501,582	\$ 1,256,862,302	8.25%
Intergovernmental revenues	2,333,114,706	2,345,870,246	(0.54)%
Non-imposed employee fringe benefits	32,034,835	26,225,693	22.15%
Total	<u>\$ 3,725,651,123</u>	<u>\$ 3,628,958,241</u>	2.66%

**Department of Human Services
State of Hawaii**

Management Discussion and Analysis (continued)
June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>Percent Change</u>
Expenditures:			
Health care programs	\$ 2,663,779,884	\$ 2,609,586,686	2.08%
General welfare assistance, employment and support services	707,945,910	769,904,877	(8.05)%
Child welfare and adult community care services	168,650,163	164,015,613	2.83%
Vocational rehabilitation and services for the blind	31,030,359	33,753,383	(8.07)%
Youth prevention, delinquency and correction services	21,002,207	22,749,602	(7.68)%
General administration	15,158,807	15,263,141	(0.68)%
Commission on the status of women / commission on fatherhood	301,696	298,848	0.95%
Total	<u>\$ 3,607,869,026</u>	<u>\$ 3,615,572,150</u>	(0.21)%

BUDGETARY ANALYSIS

As required by Section 37-68, Hawaii Revised Statutes, the DHS prepares a budget that becomes legally adopted when the State Legislature approves the executive budget with the enactment of an appropriations act. A comparison and analysis of the general fund is presented below as additional financial information:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Health care programs	\$ 1,017,069,851	\$ 1,017,136,944	\$ 988,004,212	\$ 29,132,732
General welfare assistance, employment and support services	158,405,755	156,281,712	149,970,686	6,311,026
Child welfare and adult community care services	105,201,772	107,046,430	104,768,788	2,277,642
Youth prevention, delinquency and correction services	18,904,944	18,850,228	17,836,762	1,013,466
General administration	10,438,024	10,014,042	10,013,362	680
Vocational rehabilitation and services for the blind	6,686,004	7,672,594	6,342,394	1,330,200
Commission on the status of women/commission on fatherhood	168,324	166,653	164,613	2,040
	<u>\$ 1,316,874,674</u>	<u>\$ 1,317,168,603</u>	<u>\$ 1,277,100,817</u>	<u>\$ 40,067,786</u>

Department of Human Services

State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2018

The differences between the original and final budget for the individual programs is mainly due to the collective bargaining allocations and the restriction of funds.

The majority of the savings for the health care programs were due to the late receipt of reimbursements. Because the reimbursements were received after the fiscal year ended, the program was not able to utilize the funds. Also the revenues received for the health care program limited the amount they could expend for year 2018. The amounts expended in comparison to the amount budgeted appears favorable.

CAPITAL ASSETS

As of June 30, 2018 and 2017, the cost basis of capital assets, net of accumulated depreciation, used by the DHS are presented in the table below. Approximately \$180 thousand of capital assets were added in the fiscal year ended June 30, 2018. The major increase in capital assets is due to the recording of buildings for the Office of Youth Services. Annual depreciation totaling approximately \$ 26.6 million decreased the net cost basis during the fiscal year ended June 30, 2018.

Capital Assets, Net of Depreciation

	2018	2017
Depreciable Assets:		
State office buildings and improvements	\$ 10,961,908	\$ 13,650,196
Building and improvements for the Office of Youth Services	13,097,304	12,290,566
Intangible assets - software	55,393,198	80,012,397
Total buildings and improvements	79,452,410	105,953,159
Furniture, equipment and vehicles	283,638	305,503
Non-depreciable Assets:		
Land	6	6
Total	\$ 79,736,054	\$ 106,258,668

In addition to the capital assets listed above, the DHS leases numerous office facilities from third-party lessors under operating lease arrangements. Those leases for additional space beyond the state facilities listed above as buildings and improvements are necessary to provide program services throughout the State.

ECONOMIC FACTORS

In state fiscal year 2018, the number of individuals in Hawaii receiving financial assistance decreased by -11%. This year's decline follows a -13% decrease last year. In June 2017, a total of 20,876 individuals in Hawaii were receiving financial assistance as compared to 18,538 in June 2018, a decline of 2,338 individuals.

Department of Human Services State of Hawaii

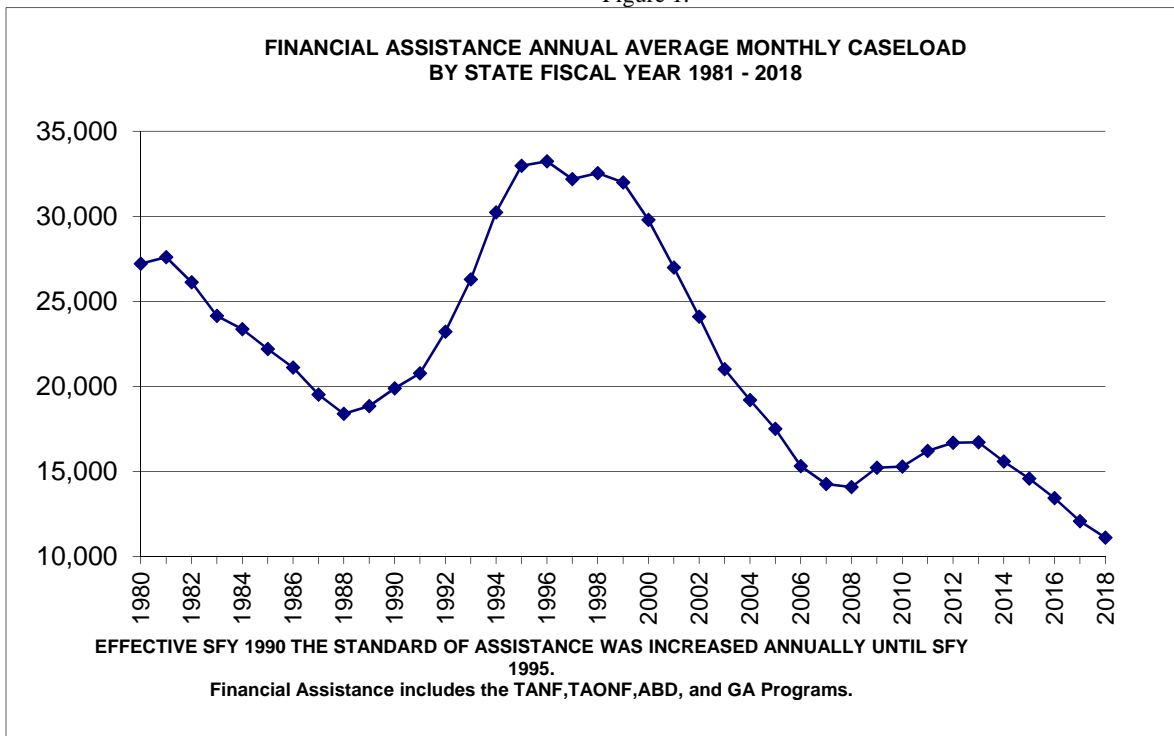
Management Discussion and Analysis (continued)
June 30, 2018

Average monthly financial assistance caseload decreased by -8% from state fiscal year 2017 to 2018, from 12,092 to 11,118, respectively.

Over the most recent 2018 fiscal year, the average number of individuals in Hawaii receiving Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamp Program decreased by -3.5%. This year's decline follows a -4.6% decrease last year. The monthly average number of individuals receiving SNAP benefits in Hawaii in fiscal years 2017 and 2018 was 170,850 and 164,788 respectively.

Over the past fiscal year, the number of individuals receiving SNAP benefits and financial assistance in Hawaii continued on a downward trend. Policy proposals at the national level could change work requirements that individuals must meet to receive SNAP benefits, and result in fewer individuals eligible for SNAP benefits in the future.

Figure 1.



Department of Human Services State of Hawaii

Management Discussion and Analysis (continued)
June 30, 2018

Figure 2.

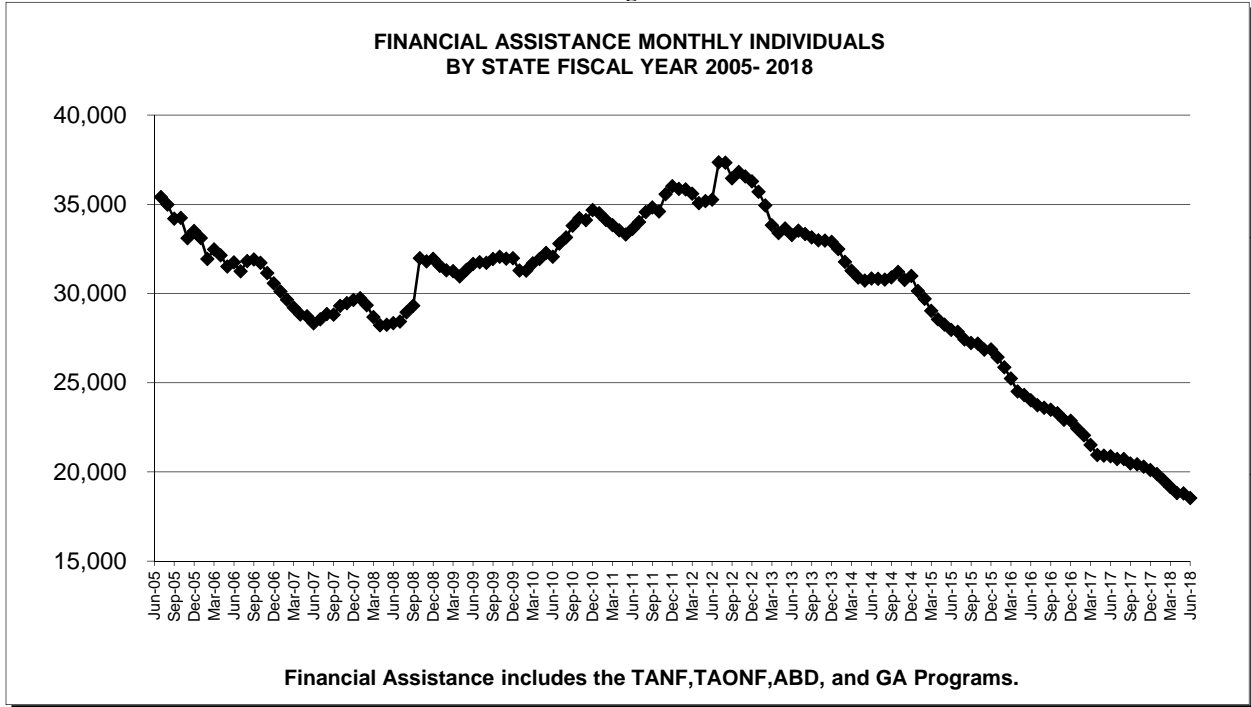
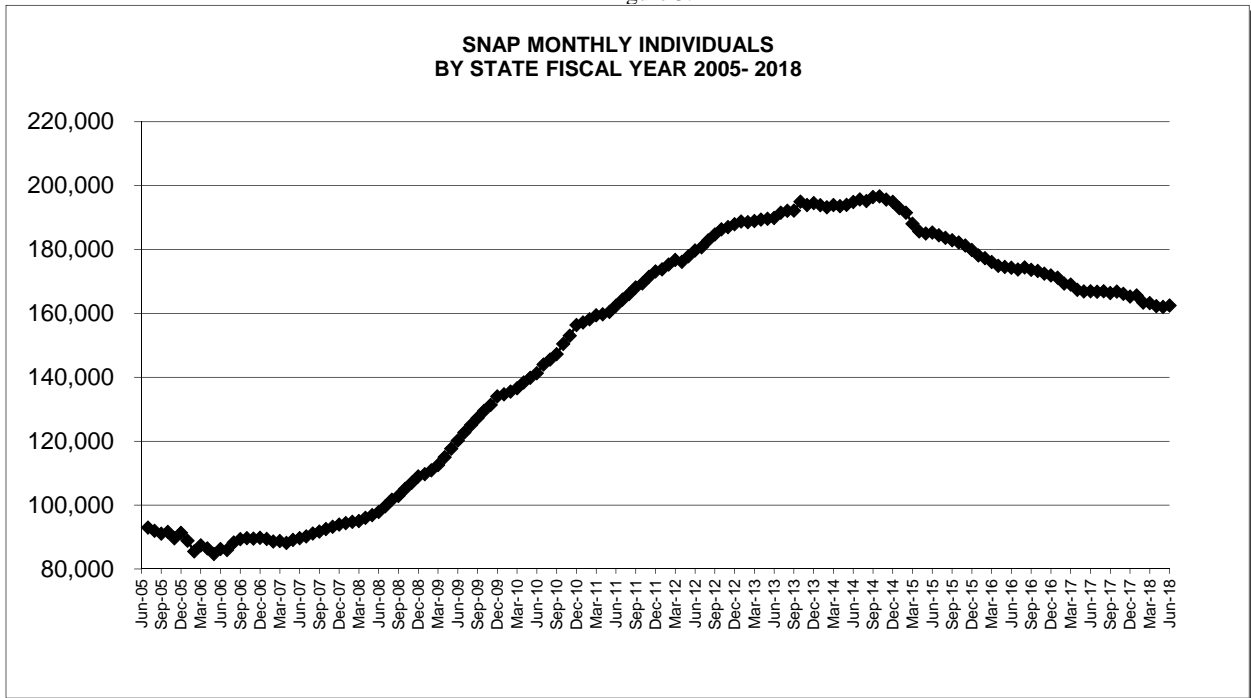


Figure 3.



**Department of Human Services
State of Hawaii**

Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ 354,965,547
Receivables, net	69,518,666
Due from Other Governments	<u>30,351,037</u>
Total current assets	454,835,250
Capital Assets, Net of Accumulated Depreciation	<u>79,736,054</u>
Total assets	<u><u>\$ 534,571,304</u></u>
<u>Liabilities</u>	
Vouchers Payable	\$ 24,639,043
Accrued Wages and Employee Benefits Payable	14,728,430
Due to State General Fund	96,461,815
Accrued Medical Assistance Payable	93,255,162
Accrued Compensated Absences	<u>5,511,000</u>
Total current liabilities	234,595,450
Accrued Compensated Absences, Less Current Portion	<u>7,963,366</u>
Total liabilities	<u><u>242,558,816</u></u>
<u>Net Position</u>	
Net Investment in Capital Assets	79,736,054
Unrestricted	<u>212,276,434</u>
Total net position	<u>292,012,488</u>
Total liabilities and net position	<u><u>\$ 534,571,304</u></u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Statement of Activities
For the Fiscal Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Health care programs	\$ 2,688,545,711	\$ -	\$ 1,688,487,301	\$ (1,000,058,410)
General welfare assistance, employment and support services	708,229,744	-	563,845,347	(144,384,397)
Child welfare and adult community care services	161,573,452	-	55,492,484	(106,080,968)
Vocational rehabilitation and services for the blind	30,933,701	-	23,028,545	(7,905,156)
Youth prevention, delinquency and correction services	21,715,682	-	1,907,268	(19,808,414)
General administration	15,265,384	-	243,311	(15,022,073)
Commission on the status of women / commission on fatherhood	298,336	-	110,450	(187,886)
Total governmental activities	<u>\$ 3,626,562,010</u>	<u>\$ -</u>	<u>\$ 2,333,114,706</u>	<u>\$ (1,293,447,304)</u>
General Revenues:				
				\$ 1,360,501,582
				<u>32,034,835</u>
				<u>1,392,536,417</u>
				<u>(659,211)</u>
				98,429,902
				<u>193,582,586</u>
				<u>\$ 292,012,488</u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Balance Sheet – Governmental Funds
June 30, 2018

	<u>General</u>	<u>Med-QUEST Special Revenue Fund</u>	<u>Human Services Special Revenue Fund</u>	<u>Total</u>
ASSETS:				
Cash and cash equivalents	\$ 280,536,096	\$ 19,200,278	\$ 55,229,173	\$ 354,965,547
Receivables, net	17,947,143	50,095,415	1,476,108	69,518,666
Due from other funds	91,806,504	-	-	91,806,504
Due from other governments	-	21,716,714	8,634,323	30,351,037
Total assets	<u>\$ 390,289,743</u>	<u>\$ 91,012,407</u>	<u>\$ 65,339,604</u>	<u>\$ 546,641,754</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Vouchers payable	\$ 16,806,747	\$ -	\$ 7,832,296	\$ 24,639,043
Accrued wages and employee benefits payable	6,348,726	1,200,322	7,179,382	14,728,430
Due to other funds	-	44,133,978	47,672,526	91,806,504
Due to State general fund	96,461,815	-	-	96,461,815
Accrued medical assistance payable	47,577,055	45,678,107	-	93,255,162
Total liabilities	<u>167,194,343</u>	<u>91,012,407</u>	<u>62,684,204</u>	<u>320,890,954</u>
FUND BALANCES:				
Committed	-	-	2,655,400	2,655,400
Assigned	223,095,400	-	-	223,095,400
Total fund balances	<u>223,095,400</u>	<u>-</u>	<u>2,655,400</u>	<u>225,750,800</u>
Total liabilities and fund balances	<u>\$ 390,289,743</u>	<u>\$ 91,012,407</u>	<u>\$ 65,339,604</u>	<u>\$ 546,641,754</u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2018

Total Fund Balances - Governmental Funds		\$ 225,750,800
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Capital assets:		
Governmental capital assets	248,342,669	
Less accumulated depreciation and amortization	<u>(168,606,615)</u>	79,736,054
Accrued compensated absences are not due in the current period and, therefore, are not reported in the governmental funds.		<u>(13,474,366)</u>
Net Position of Governmental Activities		<u><u>\$ 292,012,488</u></u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2018

	<u>General</u>	<u>Med-Quest Special Revenue Fund</u>	<u>Human Services Special Revenue Fund</u>	<u>Total</u>
REVENUES:				
State-allotted appropriations	\$ 1,360,501,582	\$ -	\$ -	\$ 1,360,501,582
Intergovernmental	-	1,688,487,301	644,627,405	2,333,114,706
Nonimposed employee fringe benefits	32,034,835	-	-	32,034,835
	<u>1,392,536,417</u>	<u>1,688,487,301</u>	<u>644,627,405</u>	<u>3,725,651,123</u>
EXPENDITURES:				
Health care programs	975,292,583	1,688,487,301	-	2,663,779,884
General welfare assistance, employment and support services	144,100,564	-	563,845,346	707,945,910
Child welfare and adult community care services	112,914,324	-	55,735,839	168,650,163
Vocational rehabilitation and services for the blind	8,318,980	-	22,711,379	31,030,359
Youth prevention, delinquency and correction services	19,094,938	-	1,907,269	21,002,207
General administration	14,915,495	-	243,312	15,158,807
Commission on the status of women / commission on fatherhood	191,446	-	110,250	301,696
	<u>1,274,828,330</u>	<u>1,688,487,301</u>	<u>644,553,395</u>	<u>3,607,869,026</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>117,708,087</u>	<u>-</u>	<u>74,010</u>	<u>117,782,097</u>
OTHER FINANCING SOURCES (USES)				
TRANSFERS IN	6,182,274	-	-	6,182,274
TRANSFERS OUT	(6,684,515)	-	-	(6,684,515)
	<u>(502,241)</u>	<u>-</u>	<u>-</u>	<u>(502,241)</u>
NET CHANGE IN FUND BALANCES	117,205,846	-	74,010	117,279,856
FUND BALANCES AT JULY 1, 2017	<u>105,889,554</u>	<u>-</u>	<u>2,581,390</u>	<u>108,470,944</u>
FUND BALANCES AT JUNE 30, 2018	<u>\$ 223,095,400</u>	<u>\$ -</u>	<u>\$ 2,655,400</u>	<u>\$ 225,750,800</u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ 117,279,856
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because	
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays less dispositions the year.	(26,365,644)
Net capital asset transfers to other State departments that are not recorded in the governmental funds.	(156,970)
Change in long-term compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	572,660
Change in claims and judgements reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>7,100,000</u>
Change in Net Position - Governmental Activities	<u><u>\$ 98,429,902</u></u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

General Fund
Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2018

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES --				
State Allotments	\$ 1,316,874,674	\$ 1,317,168,603	\$ 1,278,358,650	\$ (38,809,953)
EXPENDITURES:				
Health care programs	1,017,069,851	1,017,136,944	988,004,212	29,132,732
General welfare assistance, employment and support services	158,405,755	156,281,712	149,970,686	6,311,026
Child welfare and adult community care services	105,201,772	107,046,430	104,768,788	2,277,642
Youth prevention, delinquency and correction services	18,904,944	18,850,228	17,836,762	1,013,466
General administration	10,438,024	10,014,042	10,013,362	680
Vocational rehabilitation and services for the blind	6,686,004	7,672,594	6,342,394	1,330,200
Commission on the status of women / commission on fatherhood	168,324	166,653	164,613	2,040
	<u>1,316,874,674</u>	<u>1,317,168,603</u>	<u>1,277,100,817</u>	<u>40,067,786</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>1,257,833</u>	<u>1,257,833</u>
OTHER FINANCING USES --				
TRANSFERS OUT	<u>-</u>	<u>-</u>	<u>(502,241)</u>	<u>(502,241)</u>
	<u>-</u>	<u>-</u>	<u>(502,241)</u>	<u>(502,241)</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 755,592</u>	<u>\$ 755,592</u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Special Revenue Funds
Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2018

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>		<u>Variance Favorable (Unfavorable)</u>
			<u>Med-QUEST Special Revenue Fund</u>	<u>Human Services Special Revenue Fund</u>	
REVENUES --					
Intergovernmental Revenues:					
Med-QUEST	\$ 1,816,650,851	\$ 1,816,650,851	\$ 1,783,886,995	\$ -	\$ (32,763,856)
Human services	<u>182,270,174</u>	<u>182,270,174</u>	<u>-</u>	<u>172,331,009</u>	<u>(9,939,165)</u>
	<u>1,998,921,025</u>	<u>1,998,921,025</u>	<u>1,783,886,995</u>	<u>172,331,009</u>	<u>(42,703,021)</u>
EXPENDITURES:					
Health care programs	1,816,650,851	1,816,650,851	1,773,791,068	-	42,859,783
General welfare assistance, employment and support services	101,877,108	101,877,108	-	78,008,389	23,868,719
Child welfare and adult community care services	52,813,935	52,813,935	-	51,707,947	1,105,988
Vocational rehabilitation and services for the blind	22,813,530	22,813,530	-	22,128,131	685,399
Youth prevention, delinquency and correction services	2,570,167	2,570,167	-	997,241	1,572,926
General administration	2,085,184	2,085,184	-	1,447,115	638,069
Commission on the status of women / commission on fatherhood	<u>110,250</u>	<u>110,250</u>	<u>-</u>	<u>110,250</u>	<u>-</u>
	<u>1,998,921,025</u>	<u>1,998,921,025</u>	<u>1,773,791,068</u>	<u>154,399,073</u>	<u>70,730,884</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,095,927</u>	<u>\$ 17,931,936</u>	<u>\$ 28,027,863</u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2018

	<u>Agency Fund</u>	<u>Private Purpose Trust Funds</u>
ASSETS --		
Cash	\$ 8,549,579	\$ 388,285
Total assets	<u>\$ 8,549,579</u>	<u>\$ 388,285</u>
LIABILITIES:		
Due to individuals	\$ 7,032,379	\$ -
Due to others	<u>1,517,200</u>	<u>-</u>
Total liabilities	<u>\$ 8,549,579</u>	<u>-</u>
NET ASSETS - HELD IN TRUST		<u>\$ 388,285</u>

See accompanying notes to the basic financial statements.

**Department of Human Services
State of Hawaii**

Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
June 30, 2018

	Private Purpose Trust Funds
Additions --	
Donations	\$ 19,326
Total additions	<u>19,326</u>
Deductions --	
Other	<u>6,425</u>
Total deductions	<u>6,425</u>
CHANGES IN NET ASSETS	12,901
NET ASSETS AT JULY 1, 2017	<u>375,384</u>
NET ASSETS AT JUNE 30, 2018	<u><u>\$ 388,285</u></u>

See accompanying notes to the basic financial statements.

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2018

1. Financial Reporting Entity

The Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959) created the Department of Social Services and Housing. In 1987, the name was changed to the Department of Human Services (DHS). The DHS's mission is to direct its resources toward protecting and helping those least able to care for themselves and to provide services designed toward achieving self-sufficiency for clients as quickly as possible. The DHS is committed to maintaining a high level of quality, efficiency, and effectiveness in its services.

The DHS is part of the executive branch of the State of Hawaii (State). The DHS's basic financial statements reflect only its portion of the fund type categories. The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State annually which includes the DHS's financial activities.

The accompanying basic financial statements reflect the financial position and results of operations of the following activities of the DHS:

Health Care Programs: The Med-QUEST Division administers the State's Medicaid program through which healthcare is provided to the low-income population. The Medicaid program is jointly financed by the State and the federal government. The division develops and maintains working relationships with health plans, providers, federal and state authorities, community agencies, client advocacy groups, and others. Healthcare coverage is provided through either fee-for-service payments to healthcare providers or contracts with managed care health plans. The State's Children Health Insurance Program was established to expand health coverage to more children whose families may be working but do not earn enough to pay for health coverage for their children. The division's operations are reported in the general, special revenue, and agency funds.

General Welfare Assistance, Employment and Support Services: The Benefit, Employment and Support Services division provides monthly benefits to assist eligible clients with such essentials as food, clothing, shelter, emergency assistance, child care, and work support, as well as employment and training to help families attain self-sufficiency. Cash benefits are provided to individuals and families through the Temporary Assistance to Needy Families, Temporary Assistance to Other Needy Families, General Assistance, and Assistance to the Aged, Blind, and Disabled programs, as well as the Low Income Home Energy Program and Child Care Connection Hawaii. The Supplemental Nutrition Assistance Program (SNAP) – formerly

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2018

1. Financial Reporting Entity (continued)

known as the Food Stamp Program, helps to ensure that no one goes hungry. The First-To-Work, Employment and Training programs provide job readiness, job development, job placement, case management, and other supportive services to ensure that families on public welfare are adequately prepared to end dependency, as well as providing a variety of at-risk youth and family strengthening programs to prevent family dependence. In 2011, the state homeless programs previously administered by the Hawaii Public Housing Authority, was transferred to the division. The division's operations are reported in the general, special revenue, and agency funds.

Child Welfare and Adult Community Care Services: The Social Services Division provides social services programs to ensure the health and safety of those least able to protect themselves from abuse and neglect. The Child Welfare Services (CWS) program provides services to ensure the safety and permanency of children in their own homes or, when necessary, in out-of-home placements. The program is community-based and neighbor-focused with many partnerships and collaborations with the private and public sectors. Services are focused on empowering families and building upon family strengths. When children cannot be safely returned to their family, the CWS program proceeds with permanent placement through adoption, legal guardianship, or other substitute long-term care, including independent living. The program also licenses foster families, boarding homes, group homes, and child placing-organizations. The Adult Protective Services program provides crisis intervention, including investigation and emergency services, to dependent adults who are reported to be abused, neglected, or financially exploited by others or seriously endangered due to self-neglect. The Home and Community-Based Services program provides comprehensive home and community-based services to disabled adults and children to enable them to live in their homes or in the community as long as possible to prevent premature institutionalization. The division's operations are reported in the general, special revenue, and agency funds.

Vocational Rehabilitation and Services for the Blind: The Vocational Rehabilitation and Services for the Blind Division administers programs that provide rehabilitation services to assist eligible persons with disabilities to secure employment and to lead full and independent lives. The Vocational Rehabilitation (VR) program offers vocational evaluation, planning, counseling, treatment, training, job placement, and follow-up services to persons with physical or mental disabilities to enable them to become employed. The economic benefits of the VR program include increased earnings and purchasing power, increased tax revenues, and decreased dependency on public assistance. The Services to the Blind program, called Ho'opono, enables

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2018

1. Financial Reporting Entity (continued)

visually impaired adults to attain maximum vocational functional independence by providing varied services including vocational, counseling, assistive technology, and social and independent living skills training. Persons with visual impairment are also assisted in establishing and operating vending facilities. The Disability Determination program determines eligibility for Social Security Disability Insurance and Supplemental Security Income benefits under the federal Social Security Program. The division's operations are reported in the general, special revenue, and agency funds.

Youth Prevention, Delinquency and Correction Services: The Office of Youth Services (OYS) develops and provides a continuum of services for youth at risk to prevent delinquency and to reduce recidivism through prevention, rehabilitation, and treatment services. Youths' needs, from prevention to incarceration to aftercare, are addressed through programs such as the Youth Services Centers, the Youth Gang Response System, and Ho'okala Adolescent Diversion as alternative to incarceration through immediate intervention services; non-residential and in-community aftercare services to prevent further incarceration; and community-based residential services as an alternative to incarceration. OYS also manages and operates the Hawaii Youth Correctional Facility (HYCF) to provide safe and secure housing for the most violent and dangerous juvenile offenders. Although a core responsibility of OYS is to manage and operate HYCF, the agency places great emphasis on providing and supporting "front end" prevention, diversion, and intervention services. Incarcerated youth are provided counseling, treatment, and educational services for redirection and rehabilitation. The division's operations are reported in the general, special revenue, and agency funds.

General Administration: General administration includes the six staff offices that support the DHS administration, operating divisions, and attached agencies. The Administrative Appeals Office (AAO) provides administrative due process hearings for three departmental divisions - Benefit, Employment and Support Services, Med-QUEST, and Social Services. The AAO also serves as the rules coordinator for the DHS and reviews administrative proceedings for the adoption, modification, or repeal of departmental rules. AAO is also responsible for establishing a mediation process for the DHS. The Fiscal Management Office (FMO) provides staff assistance and advisory services for the administrative functions of fiscal management and housekeeping services. FMO formulates policies and procedures and administers the DHS's central accounting, funds management, client and vendor payment, employee payroll, inventory management, contracting, purchasing, records management, office space allocation, and central mail distribution function. The Audit, Quality Control, and Research Office (AQCRO) conducts

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2018

1. Financial Reporting Entity (continued)

audits, research studies, and reviews of the DHS's internal control systems and financial operations to safeguard the DHS's assets. The AQCRO serves to ensure the DHS's compliance with federal laws and regulations in monitoring the use of federal funds for services and benefits to clients. The Budget, Planning, and Management Office (BPMO) conducts studies, analyses, management evaluations, and reviews of departmental programs and operations to ascertain statutory and/or regulatory compliance, appropriate budgetary levels, and achievement of stated goals and objective. Office of Information Technology (OIT) is responsible for the overall administration, planning, direction, management, development, implementation, and maintenance of all information technology and information systems processing for the DHS statewide. The Personnel Office oversees the personnel programs of the DHS, including recruitment, examination, placement, position description, classification and pricing analysis, labor relations, civil rights, employee safety and relations, employee training and development, personnel transactions, and maintenance of personnel records. Those operations are reported in the general and special revenue funds.

Commission on the Status of Women: The commission works for equality for women and girls in the State by acting as a catalyst for positive change through advocacy, education, collaboration, and program development. The commission acts as a central clearinghouse and coordinating body for governmental and nongovernmental activities and information relating to the status of women and creates public awareness and understanding of the responsibilities, needs, potential, and contributions of women and their roles in a changing society. The commission's operations are reported in the general and special revenue funds.

Commission on Fatherhood: The commission promotes healthy relationships between parents and children, emphasizing the important role fathers play in the lives of their children. The commission promotes, fosters, encourages, and financially supports programs designed to educate and train men who are both current and future fathers in effective parenting skills, behaviors and attitudes, strategies for overcoming personal challenges, and opportunities to be productive responsible contributors to their family. The commission's operations are reported in the special revenue fund.

The DHS has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the DHS are such that exclusion would cause the DHS's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability.

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2018

2. Significant Accounting Policies

The basic financial statements of the DHS have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

a. Basis of Presentation

The government-wide financial statements, which are the statement of net position and the statement of activities, report information of all of the non-fiduciary activities of the DHS. The effect of interfund activity has been removed from these government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments and other items properly excluded from program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

The financial activities are recorded in individual funds, each of which is deemed to be a separate accounting entity. The DHS uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Separate financial statements are provided for governmental funds and fiduciary funds. However, the fiduciary funds are not included in the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2018

2. Significant Accounting Policies (continued)

a. Basis of Presentation (continued)

The financial activities of the DHS that are reported in the accompanying fund financial statements have been classified into the following major governmental funds:

Governmental Fund Types

The DHS reports the following major governmental funds:

General Fund

The general fund is the general operating fund of the DHS. It is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.

Special Revenue Funds

The Special Revenue Funds are used to account and report the proceeds of specific revenue sources that are legally restricted or committed to expenditure for specific purposes other than debt service or capital projects. The Special Revenue Funds are as follows:

Med-QUEST - accounts for the programs related to the health care programs of the State.

Human Services - accounts for social services programs, which include public welfare and eligibility and disability determination.

In addition, a description of the DHS's fiduciary fund is as follows:

Fiduciary Fund Type

Trust and Agency Funds

Trust and agency funds account for various assets held by the DHS in a trustee capacity or as an agent for individuals, private organizations, other governmental agencies or other funds.

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2018

2. Significant Accounting Policies (continued)

b. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Funds Financial Statements - The governmental funds financial statements are reported using the current financial resources management focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the DHS considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include federal grants and funds appropriated by the State Legislature and allotted by the Governor. Expenditures are generally recorded when the related fund liabilities are incurred.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Encumbrances are recorded obligations in the form of purchase orders or contracts. The State records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end do not constitute expenditures or liabilities.

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2018

2. Significant Accounting Policies (continued)

b. Measurement Focus and Basis of Accounting (continued)

Fiduciary Funds - Fiduciary funds are used to account for resources held by the DHS as an agent for individuals, private organizations, other governmental agencies, and/or other funds. Fiduciary funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations. The private purpose trust fund is used to account for donations received by the DHS which are used to benefit clients of the Ho'opono, Services for the Blind Program under the Vocational Rehabilitation and Services for the Blind division.

c. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

d. Receivables

Receivables in the general and special revenue funds consist primarily of amounts due from Medicaid providers and drug rebates from manufacturers. The amounts reported as net receivables were established based on management's estimate of amounts collectible.

e. Capital Assets

Capital assets include land and land improvements, infrastructure assets, buildings and improvements, equipment, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation.

**Department of Human Services
State of Hawaii**

Notes to Financial Statements
June 30, 2018

2. Significant Accounting Policies (continued)

e. Capital Assets (continued)

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities. Capital assets are depreciated using the straight-line method over the useful lives below.

The State has adopted the following capitalization policy:

	Minimum Capitalization Amount	Estimated Useful Life
Land	All	Not applicable
Land improvements	\$ 100,000	15 years
Buildings and improvements	100,000	30 years
Furniture and equipment	5,000	7 years
Motor vehicles	5,000	5 years
Computer software internally generated	1,000,000	5-15 years

f. Compensated Absences

The DHS permits employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred. Employees are credited with vacation at the rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net assets.

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2018

2. Significant Accounting Policies (continued)

g. Due to Individuals

Due to individuals represents assets held by the DHS primarily in an agent capacity and is available to individuals receiving benefits under various programs primarily through the Electronic Benefits Transfer System.

h. Appropriations

Appropriations represent the authorizations granted by the State Legislature that permit a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year.

i. Operating Grants and Contributions

Federal grants and assistance awards are recorded as intergovernmental receivables and revenues when all eligibility requirements have been satisfied.

j. Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund.

k. Fund Balance

In the governmental fund financial statements, fund balances are classified using a hierarchy based on the extent to which the DHS is bound to follow constraints on the specific purposes for which amounts in the funds may be spent.

The DHS reports the following classifications:

Restricted Fund Balance - Restricted fund balances are restricted to specific purposes which are usually imposed by external parties such as grantors, contributors, or laws or regulations of other governments.

Committed Fund Balance - Committed fund balances are amounts that can only be used for specific purposes pursuant to formal action of the State Legislature.

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2018

2. Significant Accounting Policies (continued)

k. Fund Balance (continued)

Assigned Fund Balance - Assigned fund balances are amounts that are constrained by the State's intent to be used for specific purposes, but are neither restricted or committed. The State Legislature authorizes the amounts to specific purposes through the budgetary process. Assigned amounts within general fund include non-liquidated encumbrances at year end that are carried forward to the next fiscal year.

Unassigned Fund Balance - Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted or assigned to specific purposes within the General Fund.

When both restricted and unrestricted funds are available for use, it is DHS's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, fund balances are reduced in the following order when expenditures are incurred for purposes for which amounts in any of these unrestricted classifications can be used: committed, assigned then unassigned.

l. Net Position

Net position is restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, it is generally the DHS's policy to use restricted resources first, then unrestricted resources as they are needed.

m. Risk Management

The DHS is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2018

2. Significant Accounting Policies (continued)

n. Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's or the DHS's basic financial statements.

o. Recent Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 amends the accounting guidance related to employers' accounting for postemployment benefits other than pension (other postemployment benefits or OPEB) administered through trusts that meet specified criteria. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures related to OPEB. Note disclosures and required supplementary information are addressed by the statement. GASB 75 was effective for the DHS's financial statements for the year ending June 30, 2018. The adoption of this Statement did not have a significant impact on the DHS's financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of this Statement are effective for the period beginning after December 15, 2018. The DHS has not yet determined the effect this statement will have on its financial statements.

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2018

2. Significant Accounting Policies (continued)

o. Recent Accounting Pronouncements (continued)

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thus enhancing the relevance and consistency of information reported about the government's leasing activities. The provisions of this Statement are effective for the period beginning after December 15, 2019. The DHS has not yet determined the effect this statement will have on its financial statements.

3. Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures - budget and actual (budgetary basis) - are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the Appropriations Act of 2016 (Act 124, SLH 2016), and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various Session Laws of Hawaii (SLH).

All expenditures of these appropriated funds are made pursuant to the appropriations in the fiscal 2016 - 2018 biennial budget. The general and special revenue funds have legally appropriated annual budgets.

The final legally adopted budget in the accompanying statement of revenues and expenditures - budget and actual (budgetary basis) - general and special revenue funds represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the State Department of Accounting and General Services. During the fiscal year ended June 30, 2018, there were no expenditures in excess of appropriations in the individual funds.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2018

3. Budgeting and Budgetary Control (continued)

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the general and special revenue funds are presented in the accompanying statement of revenues and expenditures - budget and actual (budgetary basis). The DHS's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase orders and contract obligations (basis difference), which is a departure from GAAP.

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the fiscal year ended June 30, 2018:

	General	Med QUEST	Human Services
Excess of revenues and other sources over expenditures - actual on a budgetary basis	\$ 755,592	\$ 10,095,927	\$ 17,931,936
Current year's appropriations encumbered at fiscal year-end	214,162,716	31,619,905	14,153,319
Expenditures for liquidation of prior fiscal year encumbrances	(82,944,663)	(29,913,125)	(19,955,482)
Net changes in liabilities	(4,933,442)	(1,440,154)	(1,613,141)
Net change in accrued medical assistance payable	(11,885,785)	(5,386,012)	-
Accruals related to federal reimbursements for program expenditures	(82,142,933)	90,414,914	(8,271,991)
Net change in other receivables	2,051,427	(1,440)	13,632
Difference for revenues recognized for GAAP purposes	82,142,934	(95,390,025)	(2,184,263)
Net change in fund balances - GAAP basis	\$ 117,205,846	\$ -	\$ 74,010

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2018

4. Cash and Cash Equivalents

The State Director of Finance is responsible for the safekeeping of cash in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State which, in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that depository banks pledge as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

GASB Statement No. 40, Deposit and Investment Risk Disclosures, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the DHS. However, as the DHS's monies are held in the State cash pool, the DHS does not manage its own investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the department level. The risk disclosures of the State's cash pool are included in the CAFR which may be obtained from the Department of Accounting and General Services' ("DAGS") website: <http://ags.hawaii.gov/accounting/annual-financial-reports/>.

**Department of Human Services
State of Hawaii**

Notes to Financial Statements
June 30, 2018

5. Receivables

Receivables of the DHS, net of an allowance for doubtful accounts, consisted of the following at June 30, 2018:

	<u>General</u>	<u>Med-QUEST</u>	<u>Human Services</u>
Welfare benefit overpayments	\$ 23,411,185	\$ 2,181,959	\$ 26,546,911
Drug rebate receivable	-	48,682,283	-
Medicaid providers receivable	9,500,000	-	-
Medicaid assistance receivable	8,049,864	1,291,807	-
Social Security interim assistance loans	644,732	-	-
CSEA receivable	60,795	-	-
	<u>41,666,576</u>	<u>52,156,049</u>	<u>26,546,911</u>
Less allowance for doubtful accounts:			
Welfare benefit overpayments	22,109,433	2,060,634	25,070,803
Medicaid providers receivable	<u>1,610,000</u>	<u>-</u>	<u>-</u>
	<u>23,719,433</u>	<u>2,060,634</u>	<u>25,070,803</u>
Receivables, net	<u>\$ 17,947,143</u>	<u>\$ 50,095,415</u>	<u>\$ 1,476,108</u>

6. Interfund Receivable and Payable

The general fund had a net receivable due from the special revenue funds totaling \$91,806,504 as of June 30, 2018, for federal reimbursements of program expenditures. The Med-QUEST and Human Services special revenue funds had a payable to the general fund totaling \$44,133,978 and \$47,672,526, respectively, as of June 30, 2018, for federal reimbursements of program expenditures.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2018

7. Capital Assets

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Other</u>	<u>Balance</u> <u>June 30, 2018</u>
Depreciable Assets:					
Building and improvements	\$ 58,706,263	\$ -	\$ -	\$ 463,113	\$ 59,169,376
Furniture and equipment	33,962,873	150,349	(220,139)	(11,537)	33,881,546
Motor vehicles	1,662,042	29,387	(86,824)	-	1,604,605
Intangible assets – software	153,687,136	-	-	-	153,687,136
Non-Depreciable Assets--					
Land	<u>6</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u>
Total at historical cost	<u>248,018,320</u>	<u>179,736</u>	<u>(306,963)</u>	<u>451,576</u>	<u>248,342,669</u>
Less Accumulated Depreciation/ Amortization:					
Building and improvements	32,765,501	1,784,733	-	559,930	35,110,164
Furniture and equipment	33,717,192	116,252	(170,377)	(19,293)	33,643,774
Motor vehicles	1,602,220	43,345	(86,826)	-	1,558,739
Intangible assets - software	<u>73,674,739</u>	<u>24,619,199</u>	<u>-</u>	<u>-</u>	<u>98,293,938</u>
Total accumulated depreciation/ amortization	<u>141,759,652</u>	<u>26,563,529</u>	<u>(257,203)</u>	<u>540,637</u>	<u>168,606,615</u>
Capital Assets, net	<u>\$ 106,258,668</u>	<u>\$ (26,383,793)</u>	<u>\$ (49,760)</u>	<u>\$ (89,061)</u>	<u>\$ 79,736,054</u>

**Department of Human Services
State of Hawaii**

Notes to Financial Statements
June 30, 2018

7. Capital Assets (continued)

Depreciation expense for the fiscal year ended June 30, 2018 was charged to functions/programs of the DHS as follows:

	<u>Governmental Activities</u>
Health care programs	\$ 24,820,959
General welfare assistance, employment and support services	845,045
Child welfare and adult community care services	171,899
Vocational rehabilitation and services for the blind	105,537
Youth prevention, delinquency and correction services	567,395
General administration	<u>52,694</u>
	<u><u>\$ 26,563,529</u></u>

8. Accrued Compensated Absences

The long-term liability of the DHS for governmental activities consisted of accrued compensated absences. The change in the long-term liability during the fiscal year ended June 30, 2018, was as follows:

	<u>Amount</u>
Balance at July 1, 2017	\$ 14,047,026
Additions	7,694,805
Reductions	<u>(8,267,465)</u>
Balance at June 30, 2018	13,474,376
Less current portion	<u>(5,511,000)</u>
	<u><u>\$ 7,963,370</u></u>

**Department of Human Services
State of Hawaii**

Notes to Financial Statements
June 30, 2018

9. Fund Balance

Fund balance constraints by purpose as of June 30, 2018 were as follows:

	<u>General</u>	<u>Med-QUEST Special Revenue Fund</u>	<u>Human Services Special Revenue Fund</u>	<u>Total</u>
Committed:				
Commission on the status of women / commission on fatherhood	\$ -	\$ -	\$ 3,560	\$ 3,560
Child welfare and adult community care	-	-	1,021,972	1,021,972
Vocation rehabilitation	-	-	1,629,868	1,629,868
Total – committed	<u>-</u>	<u>-</u>	<u>2,655,400</u>	<u>2,655,400</u>
Assigned:				
Human services	<u>223,095,400</u>	<u>-</u>	<u>-</u>	<u>223,095,400</u>
Total – assigned	<u>223,095,400</u>	<u>-</u>	<u>-</u>	<u>223,095,400</u>
Total fund balances	<u>\$223,095,400</u>	<u>\$ -</u>	<u>\$ 2,655,400</u>	<u>\$225,750,800</u>

10. Changes in Assets and Liabilities of the Agency Funds

The agency funds are purely custodial (assets equal liabilities) and thus do not involve the measurement of results of operations. The changes in assets and liabilities of the agency funds for the fiscal year ended June 30, 2018, were as follows:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2018</u>
Assets --				
Cash	<u>\$ 2,266,423</u>	<u>\$ 88,362,276</u>	<u>\$ 82,079,120</u>	<u>\$ 8,549,579</u>
Liabilities --				
Due to individuals and others	<u>\$ 2,266,423</u>	<u>\$ 88,362,276</u>	<u>\$ 82,079,120</u>	<u>\$ 8,549,579</u>

**Department of Human Services
State of Hawaii**

Notes to Financial Statements
June 30, 2018

11. Non-Imposed Employee Fringe Benefits

Payroll fringe benefit costs of the DHS’s employees that are funded by state appropriations (general fund) are assumed by the State and are not charged to the DHS’s operating funds. These costs, totaling approximately \$32,035,000 for the fiscal year ended June 30, 2018, have been reported as revenues and expenditures in the general fund of the DHS.

Payroll fringe benefit costs related to federally-funded salaries are not assumed by the State and are recorded as expenditures in the special revenue funds of the DHS.

12. Leases

The DHS leases office facilities under various operating leases expiring through 2025. Certain leases include renewal and escalation clauses. The DHS’s general fund share of lease costs is paid from the State General Fund. The federal share of these lease costs allocable to programs is reported in the special revenue fund of the DHS. The following is a schedule of the approximate minimum future lease commitments for non-cancelable operating leases as of June 30, 2018:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 1,752,000
2020	1,493,000
2021	1,251,000
2022	932,000
2023	198,000
2023 - 2025	166,000
	<u>\$ 5,792,000</u>

The DHS’s rent expenditures for operating leases for the fiscal year ended June 30, 2018, amounted to approximately \$2,479,000, and is included in the accompanying financial statements.

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2018

13. Retirement Benefits

Employees' Retirement System

All eligible employees of the DHS are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues an annual comprehensive annual financial report that is available to the public. For more information on the State's benefit plans, refer to the State of Hawaii Comprehensive Annual Financial Report (CAFR) and the ERS CAFR. The State's CAFR can be found at the Department of Accounting and General Services' website: <http://ags.hawaii.gov/accounting/annual-financial-reports/>. The ERS CAFR can be found at the ERS website: <http://www.ers.ehawaii.gov/>.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit plan options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2018

13. Retirement Benefits (continued)

Covered employees of the contributory plan who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 7.8% or 9.8% of their salary, respectively. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 12.2% or 14.2% of their salary, respectively. Covered employees of the hybrid plan who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 6% or 8% of their salary, respectively. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The actuarial valuation of the ERS does not provide pension information by department or agency. Accordingly, the State's policy on the accounting and reporting for pension benefits is to allocate a portion of the net pension liability, pension expense, and deferred inflows and outflows of resources required under GASB Statement No. 68 only to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's CAFR. The basis for the allocation is the number of covered employees for each component unit and proprietary fund for pension benefits. As such, no such allocation of the net pension liability is reported.

Contributions are established by HRS Chapter 88 and may be amended through legislature. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. The DHS's general fund share of the expense for pension benefits for the fiscal years ended June 30, 2018, 2017, and 2016 was paid from the State General Fund and totaled approximately \$10,246,000, \$9,659,000, and \$8,757,000, respectively. The DHS's federal share of pension benefits expense for the fiscal years ended June 30, 2018, 2017, and 2016 was approximately \$5,043,000, \$4,531,000, and \$4,945,000, respectively. The employer contribution rate for the fiscal years ended June 30, 2018, 2017, and 2016 was 18.00 %, 17.00%, and 17.00%, respectively.

The State's CAFR includes the required footnote disclosures and supplementary information on the State's pension plan.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2018

13. Retirement Benefits (continued)

Post-Retirement Health Care and Life Insurance Benefits

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State of Hawaii contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained at <http://eutf.hawaii.gov>.

For employees hired before July 1, 1996, the State pays the entire monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

The actuarial valuation of the EUTF does not provide other postemployment benefits (OPEB) information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to only allocate a portion of the State's Annual Required Contribution (ARC), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's CAFR. The basis for the allocation is the number of covered employees for each component unit and proprietary fund.

Department of Human Services

State of Hawaii

Notes to Financial Statements
June 30, 2018

13. Retirement Benefits (continued)

Contributions are based on negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage. The DHS's share of the expense for post-retirement health care and life insurance benefits for the fiscal years ended June 30, 2018, 2017, and 2016, was approximately \$7,649,000, \$6,736,000, and \$7,548,000, respectively.

The State's CAFR includes the required footnote disclosures and supplemental information on the State's OPEB plan.

14. Risk Management

The DHS is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a \$1 million per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is \$200 million, except for terrorism which is \$50 million per occurrence.

The State also has a crime insurance policy for various types of coverages with a limit of loss of \$10 million per occurrence with a \$500,000 deductible per occurrence, except for claims expense coverage which has a \$100,000 per occurrence and a \$1,000 deductible. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2018

14. Risk Management (continued)

General Liability (including torts)

Claims under \$10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a \$4 million self-insured retention per occurrence. The annual aggregate per occurrence is \$5 million and for crime loss, \$10 million with no aggregate limit.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated.

At June 30, 2018, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term debt as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The DHS's portion of the State's workers' compensation expense for the fiscal year ended June 30, 2018, was approximately \$452,000.

Department of Human Services State of Hawaii

Notes to Financial Statements
June 30, 2018

15. Commitments and Contingencies

Encumbrances

Encumbrances as of June 30, 2018 were as follows:

Fund	Amount
General	\$ 230,407,440
Med-QUEST	38,665,356
Human Services	34,638,321
Total	<u>\$ 303,711,117</u>

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a DHS employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2018, accumulated sick leave was approximately \$39 million.

Litigation

From time to time, the DHS is named as a defendant in various legal proceedings. Although the DHS and its counsel are unable to express opinions as to the outcome of the litigation, it has been the State's historical practice that certain types of judgments and settlements against an agency of the State are paid from the State General Fund through an appropriation bill which is submitted annually by the Department of the Attorney General to the State Legislature.

16. Related Party Transactions

The DHS had various amounts due to the State totaling \$96,461,815 as of June 30, 2018, which included federal reimbursements for program expenditures totaling \$69,282,505, receivables totaling \$27,039,347, and cash totaling \$139,963.

SUPPLEMENTARY INFORMATION

**Department of Human Services
State of Hawaii**

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services:				
<i>Other Programs</i>				
ACL Independent Living State Grants	93.369		\$ 292,537	\$ -
ACL Assistive Technology	93.464		378,894	251,224
Promoting Safe and Stable Families	93.556		804,731	664,085
Refugee and Entrant Assistance - State Administered Programs	93.566		2,971	-
Low-Income Home Energy Assistance	93.568		5,434,654	-
U.S. Repatriation Program	93.579		8,089	-
Chafee Education and Training Vouchers Program (ETV)	93.599		118,190	-
Children's Justice Grants to States	93.643		95,481	51,354
Stephanie Tubbs Jones Child Welfare Services Program	93.645		2,166,273	-
Foster Care - Title IV-E	93.658		19,394,192	-
Adoption Assistance	93.659		14,995,263	-
Guardianship Assistance	93.090		2,368,214	-
Social Services Block Grant	93.667		14,995,495	13,720,233
Family Violence Prevention and Services / Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671		860,365	482,169
Chafee Foster Care Independence Program	93.674		491,190	482,708
Elder Justice Innovation Grants	93.747		94,215	26,702
Children's Health Insurance Program	93.767		60,063,467	-
Money Follows a Person	93.791		486,710	-
<i>Total Other Programs</i>			123,050,931	15,678,475
<i>TANF Cluster</i>				
Temporary Assistance for Needy Families	93.558		40,885,729	4,195,597
<i>Total TANF Cluster</i>			40,885,729	4,195,597
<i>Medicaid Cluster</i>				
State Survey and Certification of Health Care Providers	93.777		1,082,125	-
Medical Assistance Program	93.778		1,585,700,179	-
<i>Total Medicaid Cluster</i>			1,586,782,304	-
<i>CCDF Cluster</i>				
Child Care and Development Block Grant	93.575		12,449,285	2,865,479
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		12,589,995	-
<i>Total CCDF Cluster</i>			25,039,280	2,865,479
Total U.S. Department of Health and Human Services			\$ 1,775,758,244	\$ 22,739,551

See independent auditor's report and accompanying notes to the schedule of expenditures of federal awards.

**Department of Human Services
State of Hawaii**

Schedule of Expenditures of Federal Awards (continued)
For the Fiscal Year Ended June 30, 2018

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Agriculture:				
<i>SNAP Cluster</i>				
Supplemental Nutrition Assistance Program	10.551		\$ 474,469,946	\$ -
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		22,386,935	1,459,700
<i>Total SNAP Cluster</i>			496,856,881	1,459,700
Total U.S. Department of Agriculture			496,856,881	1,459,700
U.S. Department of Housing and Urban Development:				
Emergency Solutions Grants Program	14.231		394,117	317,366
Housing Opportunities for Persons with AIDS	14.241		239,679	201,735
Continuum of Care Program	14.267		1,782,056	1,257,668
Total U.S. Department of Housing and Urban Development			2,415,852	1,776,769
U.S. Department of Justice:				
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		452,044	380,585
Juvenile Accountability Block Grant	16.523		19,222	19,222
Total U.S. Department of Justice			471,266	399,807
U.S. Department of Labor:				
Pass-through State Department of Labor and Industrial Relations Senior Community Service Employment Program	17.235	PY17-SCSEP-CC-DHS	166,837	-
WIA Pilots, Demonstration, and Research Projects	17.261		110,250	-
Total U.S. Department of Labor			\$ 277,087	\$ -

See independent auditor's report and accompanying notes to the schedule of expenditures of federal awards.

**Department of Human Services
State of Hawaii**

Schedule of Expenditures of Federal Awards (continued)
For the Fiscal Year Ended June 30, 2018

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
Corporation for National and Community Service --				
<i>Foster Grandparent/Senior Companion Cluster</i>				
Foster Grandparent Program	94.011		\$ 456,781	\$ -
Senior Companion Program	94.016		303,540	-
<i>Total Foster Grandparent/Senior Companion Cluster</i>			760,321	-
Total Corporation for National and Community Service			760,321	-
Social Security Administration --				
<i>Disability Insurance/SSI Cluster</i>				
Social Security - Disability Insurance	96.001		7,691,882	-
<i>Total Disability Insurance/SSI Cluster</i>			7,691,882	-
Total Social Security Administration			7,691,882	-
U.S. Department of the Interior--				
Pass-through the State Governor's Office				
Economic, Social, Political Developments of the Territories	15.875	Hawaii-CI-2018-1	12,762,262	-
Total U.S. Department of the Interior			12,762,262	-
U.S. Department of Education:				
Rehabilitation Services - Vocational				
Rehabilitation Grants to States	84.126		12,904,526	-
Rehabilitation Services - Independent Living				
Services for Older Individuals Who are Blind	84.177		330,031	-
Supported Employment Services for				
Individuals with the most Significant Disabilities	84.187		124,100	-
Total U.S. Department of Education			13,358,657	-
TOTAL FEDERAL EXPENDITURES			<u>\$ 2,310,352,452</u>	<u>\$ 26,375,827</u>

See independent auditor's report and accompanying notes to the schedule of expenditures of federal awards.

Department of Human Services

State of Hawaii

Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Department of Human Services (DHS) and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Transfers

Grand awards totaling \$9,857,840 were transferred from CFDA 93.558 Temporary Assistance for Needy Families to CFDA 93.667 Social Services Block Grant.

3. Supplemental Nutrition Assistance Program

Expenditures reported in the Schedule represent assistance utilized through the Electronic Benefits Transfer System.

4. Indirect Cost

The DHS has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

PART II

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**



A Hawaii Limited Liability Partnership

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Independent Auditor's Report

Office of the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Human Services of the State of Hawaii (DHS), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the DHS's basic financial statements, and have issued our report thereon dated March 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the DHS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DHS's internal control. Accordingly, we do not express an opinion on the effectiveness of the DHS's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency

in internal control, described in the accompanying *Schedule of Findings and Questioned Costs* as item 2018-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DHS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*.

The DHS's Response to Findings

The DHS's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. The DHS's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 22, 2019

PART III

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**



A Hawaii Limited Liability Partnership

**Report on Compliance for Each Major Federal Program and Report
on Internal Control over Compliance Required by the Uniform Guidance**

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the Department of Human Services of the State of Hawaii's (DHS') compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the DHS's major federal programs for the year ended June 30, 2018. The DHS's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the DHS's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the DHS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the DHS's compliance.

Basis for Qualified Opinion on the Major Federal Programs Identified in the Table Below

As described in Findings 2018-002 through 2018-014 in the accompanying *Schedule of Findings and Questioned Costs*, the DHS did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2018-002	93.777, 93.778	Medicaid Cluster	Eligibility
2018-003	93.777, 93.778	Medicaid Cluster	Eligibility
2018-004	93.777, 93.778	Medicaid Cluster	Special Tests and Provisions
2018-005	84.126	Rehabilitation Services - Vocational Rehabilitation Grant to the State	Eligibility
2018-006	84.126	Rehabilitation Services - Vocational Rehabilitation Grant to the State	Eligibility
2018-007	84.126	Rehabilitation Services - Vocational Rehabilitation Grant to the State	Special Tests and Provisions
2018-008	84.126	Rehabilitation Services - Vocational Rehabilitation Grant to the State	Activities Allowed and Allowable Costs
2018-009	15.875	Economic, Social, and Political Development of the Territories	Eligibility
2018-010	93.667	Social Services Block Grant	Earmarking
2018-011	93.667	Social Services Block Grant	Subrecipient Monitoring
2018-012	93.558	TANF Cluster	Special Tests and Provisions
2018-013	93.558	TANF Cluster	Reporting
2018-014	93.558	TANF Cluster	Reporting

Compliance with such requirements is necessary, in our opinion, for the DHS to comply with the requirements applicable to that program.

Qualified Opinion on the Major Federal Programs in the Table Above

In our opinion, except for the noncompliance described in Basis for Qualified Opinion paragraph, the DHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs identified in the Basis for Qualified Opinion paragraph for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the DHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs

identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-015. Our opinion on each major federal program is not modified with respect to this matter.

The DHS's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The DHS's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the DHS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the DHS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the DHS's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-002 through 2018-014 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-016 through 2018-18 to be significant deficiencies.

The DHS's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The DHS's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 22, 2019

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2018

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditor’s report issued on compliance for major federal programs: Qualified for all major programs except for Children’s Health Insurance Program, CCDF cluster, and Adoption Assistance, which are unmodified.

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) Yes No

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section I – Summary of Auditor’s Results (continued)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social, and Political Development of the Territories
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
93.558	TANF Cluster
93.575, 93.596	CCDF Cluster
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	Children’s Health Insurance Program
93.777, 93.778	Medicaid Cluster

Dollar threshold used to distinguish between type A and type B programs: \$6,931,057

Auditee qualified as low-risk auditee? Yes No

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section II – Financial Statement Findings

Finding No.: 2018-001 Financial Statement Reporting

Type of Finding: Significant Deficiency

Criteria: In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, fund financial statements should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis, revenues are recognized only to the extent that they are susceptible to accrual and liabilities are required to be recorded only to the extent that their repayment will require the use of expendable available financial resources.

Condition: During our audit, we proposed and management accepted several audit adjustments related to the following:

- Under accrual of vouchers payable of approximately \$3.3 million.
- Over accrual of payables to the State of approximately \$3.3 million.

Context: During the audit, we noted that the Department of Human Services, in the process of preparing its financial statements, had under accrued amounts related to vouchers payable and over accrued amounts due to the State.

Cause: We noted the under accrual of vouchers payable and the over accrual of payables to the State were due to the following:

- (1) Management has a process in place to determine the accrual of vouchers payable which includes establishing a cut-off period for subsequent payments. A portion of the under accrual amount represents the amounts paid subsequent to this cut-off period.
- (2) The under accrual of vouchers payable also includes a legal claim payment which was overlooked by management as legal claim payments are historically infrequent and are generally appropriated to the Department of the Attorney General.
- (3) Amounts due to the State was incorrectly calculated and was not identified during management's review process.

Effect: The under or over accrual of the amounts, resulted in the initial management prepared financial information being misstated.

Recommendations: We recommend the Department perform a more thorough review of the information prepared for financial reporting.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section II – Financial Statement Findings (continued)

Finding No.: 2018-001 Financial Statement Reporting (continued)

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on page 117.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs

Finding No.: 2018-002 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.777 and 93.778
Program: Medicaid Cluster
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year: 05-1705HI5028 2017
05-1805HI5028 2018

Criteria: Title 42 CFR Part 435.911 requires the timely determination of eligibility of individuals who apply for Medicaid benefits within 1) ninety days for applicants who apply for Medicaid on the basis of disability, and 2) forty five days for all other applicants. In addition, Title 42 CFR Part 435.916 requires annual re-verifications of participant eligibility.

Condition: Eligibility determination for both MAGI and MAGI-excepted applications were not processed in accordance with the time standards.

Context: During our audit, we obtained the CMS Performance Metrics Report and noted that there were approximately 58,000 applications received during fiscal year 2018. At the end of each month, there was an average of approximately 1,900 Modified Adjusted Gross Income (MAGI) applications and approximately 200 MAGI-excepted applications for which eligibility was not determined in a timely manner. Additionally, there were approximately 345,000 renewals processed during fiscal year 2018. At the end of each month, there was an average of approximately 8,800 cases whose annual re-verification was not completed within 12 months.

Cause: The Department has identified issues in the system logic used in producing the CMS Performance Metric report.

Effect: There was an average of approximately 1,900 Modified Adjusted Gross Income (MAGI) applications and 200 MAGI-excepted applications for which eligibility was not determined in a timely manner. Also there were approximately 8,800 cases whose annual re-verification was not completed within 12 months.

Questioned costs: None

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-002 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner (continued)

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-002.

Recommendations: We recommend the Department review the system logic utilized in producing the CMS Performance Metrics report to ensure the information is aggregated properly.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on page 117.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-003 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.777 and 93.778
Program: Medicaid Cluster
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year: 05-1705HI5028 2017
05-1805HI5028 2018

Criteria: Per 42 CFR 431.17(b), "A State plan must provide that the Medicaid agency will maintain or supervise the maintenance of the records necessary for the proper and efficient operation of the plan. The records must include individual records on each applicant and recipient that contain information on facts essential to determination of initial and continuing eligibility." For aged, blind, or disabled (MAGI-excepted) individuals, verification of assets is required per 42 CFR 435.840.

Condition: Eligibility verification for 9 participants was not properly supported by the Department's records and the Supplemental Form for Individuals Applying for Coverage on the basis of Age, Blind, or Disability and/or Requests for Long-Term Care Services (DHS 1100B) and/or Disability Report form (DHS 1127/1128) were not properly maintained.

Context: During our audit, we selected a non-statistical sample of 60 MAGI-excepted participants for testing and noted the following:

- 4 instances where documentation of the asset verification was not maintained
- 2 instances where documentation of other insurance was not maintained
- 1 instance where the immigration status was supported by improper documentation
- 2 instances where the DHS 1100B was not maintained, of which 1 was missing verification of assets.

Cause: Although the Department has policies and procedures in place to ensure the proper eligibility documents are maintained, there was a lack of diligence in complying with the policies and procedures.

Effect: 9 participants received benefits in excess of the amounts supported by the Department's documentation.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-003 Maintaining Proper Case Documentation to Support Eligibility Determinations (continued)

Questioned Costs: \$7,664

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-003.

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department does not dispute the finding and will implement corrective action. Please refer to the corrective action plan on pages 117-118.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-004 Revalidation of Provider Eligibility

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.777 and 93.778
Program: Medicaid Cluster
Requirement: Special Tests and Provisions - Provider Eligibility
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year: 05-1705HI5028 2017
05-1805HI5028 2018

Criteria: Per 42 CFR Part 455, subpart E, the State Medicaid Agency, Department of Human Services, Med-Quest Division is required to perform more comprehensive screening, credentialing and enrollment for all Medicaid providers in effort to enhance Medicaid fraud prevention. The 21st Century Cures Act has set a compliance deadline of January 1, 2018 for these requirements.

Condition: We were unable to determine the Department’s compliance with the requirement.

Context: During our audit, we selected 60 providers out of approximately 1,800 providers for testing, however information requested to support compliance was not provided.

Cause: The Department did not provide information to support compliance with the requirement. Although we followed up with program management on several occasions, program management did not provide the information by the requested deadline.

Effect: The Department was not in compliance with the requirement.

Questioned costs: None

Identification of a repeat finding: Not applicable.

Recommendations: We recommend the Department provide the information to support compliance on a timely basis.

Views of responsible officials: The Department does not dispute the finding and will implement corrective action. Please refer to the corrective action plan on page 118.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-005 Complete Eligibility Determinations in a Timely Manner

Federal Agency: U.S Department of Education
CFDA No.: 84.126
Program: Rehabilitation Services - Vocational Rehabilitation Grants to States
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year:
H126A160015 2016
H126A170015 2017
H126A180015 2018

Criteria: In accordance with 29 USC 722(a)(6), the Department must determine whether an individual is eligible for Vocational Rehabilitation services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for services, unless exceptional and unforeseen circumstances exist beyond the Department's control and the Department and the applicant agree to a specific extension of time.

Condition: Eligibility determinations for 16 participants were not completed in a timely manner.

Context: During our audit, we selected a non-statistical sample of 60 participant files, out of a population of 971, for testing and noted the following:

- 10 participant files where eligibility determinations were completed outside of the 60 day window, without a signed extension letter.
- 5 participant files where eligibility determinations were not completed within the 60 day window, and whose cases were ultimately closed.
- 1 participant file where the eligibility determination was not completed within the 60 day window, and whose case was not closed.

Cause: Although the Department has policies and procedures in place to ensure that eligibility determinations are completed in a timely manner, there was a lack of diligence in complying with the policies and procedures.

Effect: 16 participants' eligibility was determined outside of the required timeframe.

Questioned Costs: None

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-005 Complete Eligibility Determinations in a Timely Manner (continued)

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-004.

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and corrective action is planned and will be implemented. Please refer to the corrective action plan on pages 118-119.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-006 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency: U.S Department of Education
CFDA No.: 84.126
Program: Rehabilitation Services - Vocational Rehabilitation Grants to States
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year:
H126A160015 2016
H126A170015 2017
H126A180015 2018

Criteria: Individuals determined to be disabled as defined at 29 USC 705(20)(A) are considered eligible for services. Additionally, an individual who is a beneficiary of Social Security Disability Insurance (SSDI) or a recipient of Supplemental Security Income (SSI) is presumed to be eligible for services.

Condition: 3 participant files were missing documents supporting their eligibility determinations.

Context: During our audit, we selected a non-statistical sample of 60 participant files, out of a population of 971 for testing and noted 3 participant files that were missing documents supporting the participants' qualifying criteria, resulting in the potential overpayment of benefits of \$90.

Cause: Although the Department has policies and procedures in place to ensure that the proper eligibility documents are maintained, there was a lack of diligence in complying with the policies and procedures.

Effect: 3 participants were determined to be eligible that were not supported by the Department's documentation.

Questioned Costs: \$90

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-006.

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

**Finding No.: 2018-006 Maintaining Proper Case Documentation to Support Eligibility
Determinations (continued)**

Views of responsible officials: The Department agrees with the finding and corrective action is planned and will be implemented. Please refer to the corrective action plan on pages 119-120.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-007 Complete Individualized Plan for Employment in a Timely Manner

Federal Agency: U.S Department of Education
CFDA No.: 84.126
Program: Rehabilitation Services - Vocational Rehabilitation Grants to States
Requirement: Special Tests and Provisions – Completion of IPEs
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year:
H126A160015 2016
H126A170015 2017
H126A180015 2018

Criteria: 29 USC 722(b)(3)(F) states that the individualized plan for employment (IPE) shall be developed as soon as possible, but not later than a deadline of 90 days after the date of the determination of eligibility, unless the designated State unit and the eligible individual agree to an extension of that deadline to a specific date by which the individualized plan for employment shall be completed. Section (3)(C) requires that an individualized plan for employment shall be (i) agreed to, and signed by, such eligible individual or, as appropriate, the individual's representative; and (ii) approved and signed by a qualified vocational rehabilitation counselor employed by the designated State unit.

Condition: For 14 participants, IPE's were not completed within the required timeframe or were not properly approved.

Context: During our audit, we selected a non-statistical sample of 60 participant files, out of a population of 971, for testing and noted the following:

- 9 participants whose IPE was completed outside of the required 90 day period without the required extension.
- 2 participant files where the IPE was not signed by the counselor, client or both parties resulting in a benefit overpayment of \$90.

Cause: Although the Department has policies and procedures in place to ensure that IPEs are completed in a timely manner, there was a lack of diligence in complying with the policies and procedures.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

**Finding No.: 2018-007 Complete Individualized Plan for Employment in a Timely Manner
(continued)**

Effect: Failure to complete the IPE's in a timely manner and have them properly approved resulted in non-compliance with requirement.

Questioned Costs: \$90

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-005.

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and corrective action is planned and will be implemented. Please refer to the corrective action plan on pages 120-121.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-008 Benefit Payments in Accordance with Individualized Plan for Employment (IPE)

Federal Agency: U.S Department of Education
CFDA No.: 84.126
Program: Rehabilitation Services - Vocational Rehabilitation Grants to States
Requirement: Activities Allowed and Allowable Costs
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year:

H126A160015	2016
H126A170015	2017
H126A180015	2018

Criteria: In accordance with 29 USC Section 723(a), vocational rehabilitation services provided under this subchapter are any services described in an individualized plan for employment developed for the individual. All services listed in the participant’s individualized plan for employment are considered to be allowable activities. Section 722 (b)(3)C) states that an individualized plan for employment shall be (i) agreed to, and signed by such eligible individual or, as appropriate, the individual's representative; and (ii) approved and signed by a qualified vocational rehabilitation counselor employed by the designated State unit.

The individualized plan for employment is developed with the input from the counselor and the participant, and entered into the Department’s Akamai system. Upon agreement of the IPE, the counselor will print and both the counselor and the participant will sign in agreement. Revisions to the individualized plan for employment are done on an as needed basis and are also agreed to and signed by the counselor and the participant.

Condition: For 5 participants, IPE’s were not properly approved.

Context: During our audit, we selected a non-statistical sample of 60 expenditures for testing of which 5 participant payments did not have an approved IPE, resulting in a benefit overpayment of \$7,464.

Cause: Although the Department has policies and procedures in place to ensure that IPEs are properly approved, there was a lack of diligence in complying with the policies and procedures.

Effect: Failure to have the IPEs properly approved resulted in benefit overpayments for 3 participants.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

**Finding No.: 2018-008 Benefit Payments in Accordance with Individualized Plan for
Employment (IPE) (continued)**

Questioned Costs: \$7,464

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-15.

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and corrective action is planned and will be implemented. Please refer to the corrective action plan on page 121.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-009 Maintaining Proper Case Documentation to Support Eligibility Determination

Federal Agency: U.S. Department of the Interior
CFDA No.: 15.875
Program: Economic, Social, and Political Development of the Territories
Requirement: Eligibility
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year: Hawaii-CI-2018-1 2018

Criteria: In accordance with 42 CFR 435.907, the DHS must accept an application from the applicant, and any documentation required to establish eligibility.

Per 42 CFR 435.407(i)(2), States must maintain copies of citizenship and identification documents in the case record or electronic data base and make these copies available for compliance audits.

Condition: 13 participant case files were missing documents supporting their eligibility determinations.

Context: During our audit, we selected a non-statistical sample of 60 participant files, out of a population of approximately 2,100 participants, for testing and noted exceptions in 13 participant case files as follows:

- For 5 case files, the applicant’s application was missing and the support for disability, citizenship, date of birth, SSN, and/or residence were missing.
- For 7 case files, the applicant's application was missing.
- For 1 case file, the support for asset was missing.

Cause: Although the Department has policies and procedures in place to ensure the proper support for eligibility determinations are maintained, there was a lack of diligence in complying with the policies and procedures.

Effect: 13 participants that were determined to be eligible did not have the proper support for eligibility determination.

Questioned Costs: \$23,899

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

**Finding No.: 2018-009 Maintaining Proper Case Documentation to Support Eligibility
Determination (continued)**

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-009.

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department does not dispute the finding and will implement corrective action. Please refer to the corrective action plan on pages 121-122.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-010 Tracking Earmarked Funds

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.667
Program: Social Services Block Grant
Requirement: Earmarking
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year:
G1601HISOSR 2016
G1701HISOSR 2017
G1801HISOSR 2018

Criteria: 42 USC 604(d)(3)(A) and 9902(2) requires an entity to use all of the amount transferred in from the Temporary Assistance for Needy Families (TANF) (CDFA 93.558) program to provides services to children or their families whose income is less than 200 percent of the official poverty guideline as revised annually by U.S. Department of Health and Human Services.

The Social Services Block Grant (SSBG) program receives transfers of funds from the TANF program to provide benefits to participants subject to the aforementioned income requirement. The SSBG program allocates portions of the TANF fund to its subrecipients through contracts during the budgeting process. During the year, the participants are required to self-report their income information to the subrecipients. The subrecipients compile the information pertaining to the number of TANF and non-TANF clients they serve, and for each contract, submit this information to the Department on a monthly basis, known as the “Client Eligibility List” (CEL). Quarterly, the SSBG program reviews the subrecipient’s client base to ensure that the contract funding is in compliance with the earmarking requirement. In the event of noncompliance, the SSBG program will re-allocate the TANF funds between subrecipient contracts to remain in compliance with the earmarking requirement.

Condition: Earmarking requirements for 10 TANF funded contracts were not met.

Context: During our audit, we selected a non-statistical sample of 10 contracts, out of a population of 23, for testing and noted the following:

- 7 contracts that did not meet the earmarking requirements which resulted in the over-allocation of \$736,547 of TANF funds to these contracts.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-010 Tracking Earmarked Funds (continued)

- 10 contracts where the client count and financial information used in the earmarking calculation were not supported.

Cause: The Department has established policies and procedures to monitor compliance with the earmarking requirement; however, program management has experienced difficulties with certain contracted entities in gathering the information necessary to demonstrate compliance with the requirements.

Effect: The Department was unable to demonstrate compliance with the earmarking requirements.

Questioned Costs: \$736,547

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-10.

Recommendations: We recommend that the Department provide adequate and continuous training to its contracted entities, in addition to sufficient monitoring to demonstrate compliance with the requirements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 122-123.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-011 Subrecipient Monitoring

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.667
Program: Social Services Block Grant
Requirement: Subrecipient Monitoring
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year: G1601HISOSR 2016
G1701HISOSR 2017
G1801HISOSR 2018

Criteria: CFR 200.331(d) states that the pass-through entity (PTE) is required to monitor the activities of the subrecipient as necessary to ensure that the subaward was used for authorized purposes and was in compliance with Federal statutes. CFR 200.331(d)(2) further states that the PTE must follow up and ensure that the subrecipient took timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient.

Condition: 2 subrecipients were not properly monitored.

Context: During our audit, we selected a non-statistical sample of 7 subrecipient contract files out of a population of 23, for testing and noted the following:

- 2 contract files which lacked adequate documentation to ascertain whether or not the PTE properly monitored the activities of the subrecipient.

Cause: The Department has established policies and procedures to comply with the subrecipient monitoring requirements, however there was a lack of diligence in complying with the policies and procedures.

Effect: Failure to follow the policies and procedures resulted in inadequate monitoring of subrecipients.

Questioned Costs: None

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-011 Subrecipient Monitoring (continued)

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-11.

Recommendations: We recommend that the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on page 123.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-012 Maintaining Proper Case Documentation to Support Compliance with Child Support Non-Cooperation Requirement

Federal Agency:	U.S Department of Health and Human Services			
CFDA No.:	93.558			
Program:	TANF Cluster			
Requirement:	Special Tests and Provisions - Child Support Non-Cooperation			
Type of Finding:	Non-Compliance and Material Weakness			
Federal award no. and year:	G1501HITAN3	2015	G1501HITANF	2015
	G1601HITAN3	2016	G1601HITANF	2016
	G1701HITAN3	2017	G1701HITANF	2017
	G1801HITAN3	2018	G1801HITANF	2018

Criteria: 45 CFR section 264.30 states the Title IV-A agency must take appropriate action, as defined, if the Title IV-D agency determines that an individual is not cooperating with the child support enforcement requirements.

Condition: 7 participant files were missing the proper case documentation to support compliance with the requirements.

Context: During our audit, we selected a non-statistical sample of 60 participant files, out of a population of 394 cases, for testing and noted that 7 participants who were missing documentation in their case file to indicate whether the Department took appropriate action regarding their non-cooperation, resulting in a potential overpayment of benefits of \$15,615.

Cause: Although the Department has established policies and procedures in place which require the program to maintain the required documents or to ensure that appropriate benefit reduction actions are taken, there was a lack of diligence in either filing or obtaining the required documents and stopping benefit payments.

Effect: Failure to properly maintain the required documentation on file resulted in non-compliance with the requirements and questioned costs.

Questioned Costs: \$15,615

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-12.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

**Finding No.: 2018-012 Maintaining Proper Case Documentation to Support Compliance with
Child Support Non-Cooperation Requirement (continued)**

Recommendations: We recommend that the Department diligently perform the required procedures and maintain the appropriate documents to comply with its policies and procedures.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 123-124.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-013 Special Report

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.558
Program: TANF Cluster
Requirement: Reporting
Type of Finding: Non-Compliance and Material Weakness
Federal award no. and year: G1701HITAN3 2017
G1701HITANF 2017

Criteria: 45 CFR 265.9 requires each State to file an annual report containing information on the TANF program and the State's MOE program for that year. The special report ACF-204, Annual Report including the Annual Report on State Maintenance-of-effort (MOE) Programs, is filed annually to meet this requirement. Further, the ACF-204 Instructions states that the MOE amounts claimed should equal the total MOE amounts claimed under all programs on the State's 4th quarter ACF-196R report.

Condition: The MOE reported on the ACF-204 did not agree with the MOE reported on the ACF-196R.

Context: During our audit, we selected the annual ACF-204 report for the federal fiscal year 2017 for testing and noted the total MOE expenditures reported on the ACF-204 did not agree to the total MOE reported on the ACF-196R report.

Cause: The Department indicated that although there were established policies and procedures in place over the ACF-204 reporting, the procedures did not include a requirement to compare the MOE amount reported on the ACF-204 and the ACF-196R.

Effect: Failure to properly report the correct data resulted in non-compliance with the requirement.

Questioned Costs: None

Identification of a repeat finding: Not Applicable.

Recommendations: We recommend the Department revise their policies and procedures to include a requirement to compare the MOE expenditures in the ACF-204 and the ACF-196R.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-013 Special Report (continued)

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 124-125.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-014 Quarterly Reporting

Federal Agency:	U.S Department of Health and Human Services			
CFDA No.:	93.558			
Program:	TANF Cluster			
Requirement:	Reporting			
Type of Finding:	Non-Compliance and Material Weakness			
Federal award no. and year:	G1701HITAN3	2017	G1801HITAN3	2018
	G1701HITANF	2017	G1801HITANF	2018

Criteria: 45 CFR 265.3 requires each State to collect on a monthly basis, and file on a quarterly basis, the data specified in the Temporary Assistance for Needy Families (TANF) Data Report.

Condition: 4 quarterly data reports, specifically 5 case files which support the quarterly data reports were incorrectly reported.

Context: During our audit, we selected all 4 quarterly data reports for testing. Each quarterly data report aggregates the information from approximately 7,000 case files. We selected a non-statistical sample of 60 case files for testing and noted 2 quarterly reports where the key report line item “Work Participation Status” was incorrectly reported for 2 case files.

Cause: The Department indicated that the errors were due to information that was updated in its system subsequent to the period in which the report was generated.

Effect: Failure to properly report the correct data resulted in non-compliance with the requirement. Further, 45 CFR 265.8 allows for a potential penalty to be imposed when the Department fails to comply with the requirement.

Questioned Costs: None

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-013.

Recommendations: We recommend the Department correct the programming errors in the system to ensure that the information reported is complete and accurate.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-014 Quarterly Reporting (continued)

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on page 125.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-015 Proper Determination of Benefit Amount

Federal Agency:	U.S. Department of Health and Human Services	
CFDA No.:	93.659	
Program:	Adoption Assistance	
Requirement:	Activities Allowed & Allowable Costs	
Type of Finding:	Known Questioned Cost when Likely Questioned Cost is Greater Than \$25,000	
Federal award no.	1701HI1407	2017
and year:	1801HI1407	2018

Criteria: 42 USC 673(a)(3) states that the amount of the payments to be made in any case under clauses (i) and (ii) of paragraph (1)(B) shall be determined through agreement between the adoptive parents and the State or local agency administering the program under this section, which shall take into consideration the circumstances of the adopting parents and the needs of the child being adopted, and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement), depending upon changes in such circumstances.

Program participant benefit payments are governed by a signed “Adoption Assistance Agreement” (Agreement). This Agreement outlines the terms and conditions for the participants and the Department, and includes the total amount of benefit payments. Benefit payments under the Agreement may be further supplemented due to difficulties in caring for a child as determined by a caseworker on an as needed basis and documented on the “Difficulty of Care” (DOC) worksheet. In the event of an increase or decrease to the amount of the DOC subsidy, the caseworkers are required to execute a revised Agreement.

Condition: 3 participant benefits were not properly supported by the Department’s records.

Context: During our audit, we selected a non-statistical sample of 23 participant benefit payments for testing which approximated \$11,000 out of a population of \$1.6 million benefit payments. In our testing, we noted 3 out of the 23 benefit payments had the following errors:

- 1 instance where the benefit payment start date was earlier than the date per the Adoption Assistance Agreement, resulting in the potential overpayment of benefits of \$61.
- 1 instance where the DOC worksheet was missing from the case file, resulting in the potential overpayment of benefits of \$259.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-015 Proper Determination of Benefit Amount (continued)

- 1 instance where the DOC worksheet did not support the benefit amount paid resulting in the potential overpayment of benefits of \$41.

Cause: Although the Department has policies and procedures in place to ensure the proper support for the monthly adoption assistance payment is maintained, calculated, and authorized, there was a lack of diligence in complying with the policies and procedures.

Effect: 3 participants potentially received benefits in excess the amounts supported by the Department's documentation.

Questioned Costs: \$361

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-008.

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 125-126.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-016 Schedule of Expenditures of Federal Awards (SEFA)

Federal Agency: U.S Department of Health and Human Services
CFDA No.: 93.558
Program: TANF Cluster
Requirement: Schedule of Expenditures of Federal Awards
Type of Finding: Significant Deficiency
Federal award no. and year:

G1702HITAN3	2017	G1702HITANF	2017
G1802HITAN3	2018	G1702HITANF	2018

Criteria: 2 CFR 200.510(b) states "the auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended..."

Condition: There was a difference of \$8,073,721 between the original SEFA and the federal expenditures reported in the quarterly federal financial reports (ACF-196R).

Context: During our audit, we compared the SEFA to the quarterly ACF-196R filed. We noted a difference of \$8,073,721 between the original SEFA and the amounts reported on the quarterly ACF-196R.

Cause: The difference between the amounts reported in the SEFA and the quarterly ACF-196R was due to the program accountant not comparing the expenditure amounts reported on the SEFA and the quarterly ACF-196R.

Effect: The original SEFA under reported expenditures by \$8,073,721.

Questioned Costs: None

Identification of a repeat finding: Not applicable.

Recommendations: The Department should establish formal procedures of compiling the Schedule of Expenditures of Federal Awards.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-016 Schedule of Expenditures of Federal Awards (SEFA) (continued)

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 126-127.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-017 Suspension and Debarment

Federal Agency: U.S Department of Education
CFDA No.: 84.126
Program: Rehabilitation Services - Vocational Rehabilitation Grants to States
Requirement: Procurement – Suspension and Debarment
Type of Finding: Significant Deficiency
Federal award no. and year: H126A170015 2017

Criteria: Title 2 CFR Section 180.300 states that when entering into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2 CFR Sections 180.210 through 180.220 and 180.970).

Condition: Evidence of the EPLS check was not maintained for 1 contract.

Context: During our audit, we selected a non-statistical sample of 4 contracts for testing out a population of 15 contracts and noted 1 contract where the support for the EPLS check was not maintained.

Cause: Although the Department has policies and procedures in place, they were not consistently applied.

Effect: 1 contract where the EPLS check was not supported by the Department’s documentation.

Questioned Costs: None

Identification of a repeat finding: Not applicable.

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-017 Suspension and Debarment (continued)

Views of responsible officials: The Department agrees with the finding and corrective action is planned and will be implemented. Please refer to the corrective action plan on page 127.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2018-018 Maintaining Proper Case Documentation to Support Eligibility Determinations

Federal Agency: U.S. Department of Health and Human Services
CFDA No.: 93.659
Program: Adoption Assistance
Requirement: Eligibility
Type of Finding: Significant Deficiency
Federal award no. and year: 1701HI1407 2017
1801HI1407 2018

Criteria: In accordance with 42 USC 673(c), if the child was determined by the Title IV-E agency to be a child with special needs, the child is eligible for adoption assistance, as defined. The Title IV-E agency documents the determination on the supplemental to Form 1570 “Documentation of a Child’s Special Needs”.

Program participant benefit payments are governed by a signed “Adoption Assistance Agreement” (Agreement). This Agreement outlines the terms and conditions for the participants and the Department, and includes the total amount of benefit payments. Benefit payments under the Agreement may be further supplemented due to difficulties in caring for a child as determined by a caseworker on an as needed basis and documented on the “Difficulty of Care” (DOC) worksheet. In the event of an increase or decrease to the amount of the DOC subsidy, the caseworkers are required to execute a revised Agreement.

Condition: 1 child classified as special need was not properly supported by the Department’s records.

Context: During our audit, we selected a non-statistical sample of 18 eligibility determinations, out of 177 eligibility determinations, noting 1 instance where the supplemental to Form 1570 “Documentation of a Child’s Special Needs” and the related DOC was not signed by either the caseworker and/or supervisor.

Cause: Although the Department has policies and procedures in place to ensure the proper support for the monthly adoption assistance payment is maintained, calculated, and authorized, there was a lack of diligence in complying with the policies and procedures.

**Department of Human Services
State of Hawaii**

Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III – Federal Award Findings and Questioned Costs (continued)

**Finding No.: 2018-018 Maintaining Proper Case Documentation to Support Eligibility
Determinations (continued)**

Effect: 1 child potentially received benefits in excess the amounts supported by the Department's documentation.

Questioned Costs: \$457

Identification of a repeat finding: Not applicable.

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Views of responsible officials: The Department agrees with the finding and will implement corrective action. Please refer to the corrective action plan on pages 127-128.

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Department of Human Services
State of Hawaii**

Summary Schedule of Prior Audit Findings
June 30, 2018

STATUS REPORT

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2017, dated March 21, 2018.

Recommendations

Status

Part II – Financial Statement Findings

2017-001 Financial Statement Reporting

Recommendation: We recommend the Med-Quest Division implement formal procedures to ensure management reviews the financial information related to the capitalization of intangible assets being included in the financial statements.

Corrective Action Taken or Planned:
Procedures have been implemented to ensure appropriate review by management.

This finding is no longer applicable.

Part III – Federal Award Findings and Questioned Costs Section

2017-002 Complete Eligibility Applications and Annual Eligibility Re-Verifications in a Timely Manner

**CFDA No.: 93.778
Program: Medicaid cluster**

Recommendation: We recommend the Department continue to assess the staffing requirements at the Eligibility Branch as well as reviewing its procedures over prioritizing applicants/participants to ensure that the backlog of applications pending eligibility determinations perform timely annual re-verifications is eliminated. We also recommend adding the renewal determination timeliness capability to the KOLEA system to enable monitoring over the process.

Corrective Action Taken or Planned:
Monitoring and training – on-going.

This finding is still applicable. See finding 2018-002.

**Department of Human Services
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
June 30, 2018

Recommendations

Status

Part III – Federal Award Findings and Questioned Costs Section (continued)

**2017-003 Maintaining Proper Case
Documentation to Support Eligibility
Determinations**

**CFDA No.: 93.778
Program: Medicaid cluster**

Recommendation: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Corrective Action Taken or Planned: Improvements to analytics tools and use are on-going. Monitoring and training – on-going.

This finding is still applicable. See finding 2018-003.

**2017-004 Complete Eligibility Determinations
in a Timely Manner**

**CFDA No.: 84.126
Program: Vocational Rehabilitation**

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Corrective Action Taken or Planned: Branch administrators are resolving past due activities from weekly monitoring reports.

This finding is still applicable. See finding 2018-005.

**2017-005 Complete Individualized Plan for
Employment in a Timely Manner**

**CFDA No.: 84.126
Program: Vocational Rehabilitation**

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Corrective Action Taken or Planned: Branch administrators are resolving past due activities from weekly monitoring reports.

This finding is still applicable. See finding 2018-007.

**Department of Human Services
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
June 30, 2018

Recommendations

Status

Part III – Federal Award Findings and Questioned Costs Section (continued)

2017-006 Maintaining Proper Case Documentation to Support Eligibility Determinations

**CFDA No.: 84.126
Program: Vocational Rehabilitation**

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Corrective Action Taken or Planned: Branch administrators are resolving past due activities from weekly monitoring reports.

This finding is still applicable. See finding 2018-006.

2017-007 Improve the Accuracy of Child Care Reimbursements

**CFDA No.: 93.575 and 93.596
Program: Child Care and Development Fund (CCDF) Cluster**

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Corrective Action Taken or Planned: Performed review on child care cases.

This finding is no longer applicable.

2017-008 Proper Determination of Benefit Amount

**CFDA No.: 93.659
Program: Adoption Assistance**

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Corrective Action Taken or Planned: Performed on-site reviews of casefiles.

This finding is still applicable. See finding 2018-015.

**Department of Human Services
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
June 30, 2018

Recommendations

Status

Part III – Federal Award Findings and Questioned Costs Section (continued)

2017-009 Maintaining Proper Case Documentation to Support Eligibility Determination

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

**CFDA No.: 15.875
Program: Economic, Social, and Political Development of the Territories**

Corrective Action Taken or Planned: The Division continues to improve maintenance of case files.

This finding is still applicable. See finding 2018-009.

2017-010 Tracking Earmarked Funds

Recommendations: We recommend that the Department provide adequate and continuous training to its contracted entities, in addition to sufficient monitoring to demonstrate compliance with the requirements.

**CFDA No.: 93.667
Program: Social Services Block Grant**

Corrective Action Taken or Planned:
1) Hold more training for each service category
2) Require CEL submittals on a monthly/quarterly basis and monitoring the percent of clients receiving TANF funds.

This finding is still applicable. See finding 2018-010.

2017-011 Subrecipient Monitoring

Recommendations: We recommend that the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

**CFDA No.: 93.667
Program: Social Services Block Grant**

Corrective Action Taken or Planned: SSD will take an active role in making sure that there is adequate monitoring of all subrecipient and that there will be follow-up with subrecipients who have had findings in their audit reports.

This finding is still applicable. See finding 2018-011.

**Department of Human Services
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
June 30, 2018

Recommendations

Status

Part III – Federal Award Findings and Questioned Costs Section (continued)

**2017-12 Maintaining Proper Case
Documentation to Support
Compliance with Child Support
Non-Cooperation Requirement**

**CFDA No.: 93.558
Program: TANF Cluster**

Recommendations: We recommend that the Department diligently perform the required procedures and maintain the appropriate documents to comply with its policies and procedures.

Corrective Action Taken or Planned:

- 1) The Financial Assistance Program (FAP) office continues to work with the Staff Development Office to ensure that the training and training materials given to the new hires are correct and includes updates to the program policies.
- 2) Child Support Enforcement Agency and the FAP office continue to work together to ensure information is received in a timely manner.

This finding is still applicable. See finding 2018-012.

2017-13 Quarterly Reporting

**CFDA No.: 93.558
Program: TANF Cluster**

Recommendations: We recommend the Department correct the programming errors in the system to ensure that the information reported is complete and accurate.

Corrective Action Taken or Planned:

The Financial Assistance Program office, Employment and Training Program office, and the Office of Information Technology continue to maintain the State's Federal TANF Data Reports.

This finding is still applicable. See finding 2018-014.

**Department of Human Services
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
June 30, 2018

Recommendations

Status

Part III – Federal Award Findings and Questioned Costs Section (continued)

**2017-014 Maintaining Proper Case
Documentation to Support Eligibility
Determinations**

**CFDA No.: 93.558
Program: TANF Cluster**

Recommendations: We recommend that the Department diligently comply with its policies and procedures.

Corrective Action Taken or Planned: The Financial Assistance Program Office continues to review the training contents and consult with Staff Development Office trainers to address any issues that may result from the application of policy.

This finding is no longer applicable.

**2017-015 Benefit Payments in Accordance
with Individualized Plan for
Employment (IPE)**

**CFDA No.: 84.126
Program: Vocational Rehabilitation**

Recommendations: We recommend the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Corrective Action Taken or Planned: Branch administrators are resolving past due activities from weekly monitoring reports.

This finding is still applicable. See finding 2018-008.

**Department of Human Services
State of Hawaii**

Summary Schedule of Prior Audit Findings (continued)
June 30, 2018

Recommendations

Status

Part III – Federal Award Findings and Questioned Costs Section (continued)

**2017-016 Improve Controls over Utilization,
Fraud and Accuracy of Medicaid
Claims**

**CFDA No.: 93.777 and 93.778
Program: Medicaid cluster**

Recommendations: The Department should improve its post-payment review process by developing formal policies and procedures to conduct regular post payment reviews on a sample of drug and non-drug claims to detect processing errors and identify ways to improve the claims processing system and procedures. The Payment Error Rate Measurement conducted by Centers for Medicare and Medicaid Services is an example of a post payment review.

Corrective Action Taken or Planned: A written process to conduct post-payment reviews on a quarterly basis has been established.

This finding is no longer applicable.

**2017-017 Monitor the Medicaid Drug Rebate
Program**

**CFDA No.: 93.777 and 93.778
Program: Medicaid cluster**

Recommendations: The Department should establish formal procedures to monitor its subcontractor activities of the drug rebate program.

Corrective Action Taken or Planned: Formal procedures has been put into place.

This finding is no longer applicable.

2017-18 Reporting

**CFDA No.: 93.667
Program: Social Services Block Grant**

Recommendations: We recommend that the Department be more diligent in following its existing policies and procedures to ensure compliance with the Federal requirements.

Corrective Action Taken or Planned: Social Services Division’s reorganization planning is continuing to ensure proper delegation of duties.

This finding is no longer applicable.

PART VI
CORRECTIVE ACTION PLAN

DAVID Y. IGE
GOVERNOR



PANKAJ BHANOT
DIRECTOR

CATHY BETTS
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES

P. O. Box 339
Honolulu, Hawai'i 96809-0339

March 22, 2019

Mr. Wilcox Choy, Partner
KMH LLP
1003 Bishop Street
Suite 2400
Honolulu, Hawai'i 96813

Dear Mr. Choy:

In accordance with 2 CFR 200.511(c), we have enclosed the Department of Human Services' views of responsible officials and corrective action plans related to the State Fiscal Year (SFY) 2018 audit report findings and recommendations.

If you have any questions regarding these corrective action plans or need assistance in other areas of the SFY 2018 audit, please contact Mrs. Vickie Edu at (808) 586-4878.

Sincerely,

A handwritten signature in blue ink that reads "Pankaj Bhanot".

Pankaj Bhanot
Director

Enclosure

State of Hawai'i
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2018

Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
p72-73, 2018-001	<p>Views of responsible officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: We will be implementing a change in our review process which will result in a more detailed review to ensure payments are not made subsequent to the cut-off period, legal claims are not overlooked, and amounts due to the State are correctly calculated.</p> <p>End Date: On-going</p> <p>Responding Person: Derek Oshiro, Chief Accountant</p>
p74-75, 2018-002	<p>Views of responsible officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Department has identified issues in reporting timeliness and acknowledges that these issues are causing inaccurately inflated processing time findings. MQD plans to modify reporting logic in its KOLEA program to ensure that processing times are reported accurately.</p> <p>End Date: On-going</p> <p>Responding Person: Emerald Adams, MQD KOLEA Project Manager</p>
p76-77, 2018-003	<p>Views of responsible officials: The Department does not dispute the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: MQD will reinforce caseworker training on policy rules that require documentation of information used to make eligibility determinations. Majority of staff already have scanning and validating capability to ensure reported data is supported by complete and legible documents. We are also actively converting paper documentation to electronic files and through our business process redesign, developing processes to capture documentation up front, and digitizing and storing electronically at in-take. The Division continues to inform clients to submit documentation by use of the client online portal, use of navigators, and</p>

State of Hawai'i
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2018

Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
	<p>Health Care Outreach Branch to upload documents directly to their cases. Alerts on cases are generated to notify eligibility workers to take required action on and make determinations.</p> <p>End Date: On-going monitoring, training, and improvement of processes for efficiency.</p> <p>Responding Person: Kimberly Lutao, MQD Eligibility Branch Administrator</p>
p78, 2018-004	<p>Views of responsible officials: The Department does not dispute the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: To meet the compliance requirements, MQD is in the process of hiring four additional staff members over the next fiscal period. MQD will also work on and implement policies and procedures to perform more comprehensive screenings, credentialing, and enrollment for all Medicaid providers to enhance Medicaid Fraud prevention. In the future, MQD will make every effort to provide the auditors with the requested information timely.</p> <p>End Date: On-going</p> <p>Responding Person: Jon Fujii, MQD Health Care Services Branch Administrator</p>
p79-80, 2018-005	<p>Views of responsible officials: The Department agrees with the finding and corrective action is planned and will be implemented.</p> <p>Corrective Action Taken or Planned:</p> <ol style="list-style-type: none"> 1. Provide training on the policy on 60-Day Eligibility Waiver Form for sustained compliance with this internal control. 2. Provide training on the appropriate usage of the waiver form.

State of Hawai'i
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2018

Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
	<p>3. Counselors will utilize the Activity Dues Reports to close cases that are at the 45th day mark for applicants that do not have a documented disability.</p> <ul style="list-style-type: none"> a. Support staff will be scheduling appointments with clients 30 days after intake appointments, if appropriate, to update on the progress of the eligibility determination process with the client. b. Clerical support staff will be provided a monthly list of SSI/SSDI recipients. This will assist the division in determining presumptive eligibility. <p>4. Supervisory staff will conduct monthly validation of sustained compliance for 60-day eligibility determination or implementation of waiver within this period, and identify re-training needs as applicable for staff deviations.</p> <p>End Date: On-going</p> <p>Responding Person: Maureen Bates, DVR Administrator</p>
p81-82, 2018-006	<p>Views of responsible officials: The Department agrees with the finding and corrective action is planned and will be implemented.</p> <p>Corrective Action Taken or Planned:</p> <ul style="list-style-type: none"> 1. The supervisor will review all eligibility determination documentation within the 60-day eligibility determination period (or during the extended eligibility waiver period of determination), prior to case status movement to ensure the proper case documentation is compiled, accurate, and within established timelines for sustained compliance with internal controls. 2. The division will ensure clerical staff scan and upload supporting documentation in the participant's case record as requested by supervisor and/or counselors.

State of Hawai'i
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2018

Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
	<p>3. The division will enforce monthly case reviews by supervisors of open and closed cases by participant ID, case master ID, case type, and review date in a centrally verifiable folder for compliance and monitoring at Staff Support Office (SSO). In addition, the case review instrument will be updated to reflect Supported Employment, Service-E, Potentially Eligible and the use of comparable benefits monitoring.</p> <p>4. Supervisors will be required to review documentation of eligibility determination to identify social security presumptive eligibility is reflected before issuing authorizations for all proposed expenditures.</p> <p>End Date: On-going</p> <p>Responding Person: Maureen Bates, DVR Administrator</p>
p83-84, 2018-007	<p>Views of responsible officials: The Department agrees with the finding and corrective action is planned and will be implemented.</p> <p>Corrective Action Taken or Planned:</p> <ol style="list-style-type: none"> 1. Plan and establish procedures for the IPE waiver to extend the development of the IPE on an individualized basis per client's request. 2. Counselors will utilize the Activity Due Report weekly to ensure compliance with timeliness in completing IPE's and scheduling follow up appointments. Counselors will also conduct monthly review with their supervisor or their designee, on development of the IPE for sustained compliance with internal controls. 3. Support staff will be scheduling appointments with clients 30 days prior to the IPE activity due dates. 4. The division will enforce monthly case reviews by supervisors of open and closed cases by participant ID, case master ID, case type, and review date in a centrally verifiable folder for compliance and monitoring at the Staff Support Office (SSO). In addition, the case review instrument will be updated to reflect Supported Employment,

State of Hawai'i
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2018

Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
	<p>Service-E, Potentially Eligible, and the use of comparable benefits monitoring.</p> <p>End Date: On-going</p> <p>Responding Person: Maureen Bates, DVR Administrator</p>
p85-86, 2018-008	<p>Views of responsible officials: The Department agrees with the finding and corrective action is planned and will be implemented.</p> <p>Corrective Action Taken or Planned:</p> <ol style="list-style-type: none"> 1. Supervisor will review all IPEs before issuing payments to ensure the services are on the active IPE and the signature page of the IPE is uploaded in AKAMA.I. 2. Clerical support staff per unit/section will review all IPE's monthly to identify any deviation from having current signatures on IPE uploaded per case record, and immediately alert supervisor of all deviations identified for sustained compliance with internal controls. 3. The division will enforce monthly case reviews by supervisors of open and closed cases by participant ID, case master ID, case type, and review date in a centrally verifiable folder for compliance and monitoring at the Staff Support Office (SSO). In addition, the case review instrument will be updated to reflect Supported Employment, Service-E, Potentially Eligible, and the use of comparable benefits monitoring. <p>End Date: On-going</p> <p>Responding Person: Maureen Bates, DVR Administrator</p>
p87-88, 2018-009	<p>Views of responsible officials: The Department does not dispute the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: MQD is currently undergoing a business process transformation intended to establish, train, and maintain</p>

State of Hawai'i
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2018

Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
	<p>consistent and efficient processes. There will be more diligence applied to existing policies and procedures to ensure that the proper support for eligibility determinations are made in compliance with the Federal requirements.</p> <p>End Date: On-going</p> <p>Responding Person: Kimberly Lutao, MQD Eligibility Branch Administrator and Emerald Adams, MQD KOLEA Project Manager</p>
p89-90, 2018-010	<p>Views of responsible officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The staff position to monitor compliance with the earmarking requirements had been vacant for most of the fiscal year. The Department also acknowledges that one monitor is insufficient to meet the monitoring duties for all federal grants administered by the Social Services Division (SSD) and that the current policies and procedures need further revisions to strengthen and ensure compliance with earmarking requirements.</p> <p>In December 2018, the SSD's reorganization was finalized and approved. The reorganization re-established the Management Information and Compliance Unit (MICU), re-established the unit supervisor, and added an additional MICU monitor, for a total of 3 staff. The Department is currently in the process of establishing these positions to prepare for recruitment and selection of staff to provide adequate and continuous training for our contracted entities.</p> <p>The Department is also in the process of revising Policies and Procedures, within the MICU Supervisor's Manual, to include the overall process of meeting federal requirements and specific tasks with detailed explanations outlining the Division's and Provider's responsibilities and timelines. Provider training needs have been identified and a curriculum is being developed by the Department for implementation effective June 2019 to ensure data quality, consistent submission of reports, and better monitoring</p>

State of Hawai'i
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2018

Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
	<p>of the Division's use of the respective federal grants to demonstrate compliance with the requirements.</p> <p>End Date: On-going</p> <p>Responding Person: Kayle Perez, SSD Administrator</p>
p91-92, 2018-011	<p>Views of responsible officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The staff position to provide adequate and continuous training to the contracted providers and to conduct sufficient monitoring to demonstrate compliance with the program requirements had been vacant for most of the fiscal year. The Department also acknowledges that one monitor is insufficient to meet the monitoring duties for all federal grants administered by the Social Services Division (SSD).</p> <p>In December 2018, the SSD's reorganization was finalized and approved. The reorganization re-established the Management Information and Compliance Unit (MICU), re-established the unit supervisor, and added an additional MICU monitor, for a total of 3 staff. The Department is currently in the process of establishing these positions to provide better subrecipient monitoring and more diligence in following existing policies and procedures of the Division's use of the respective federal grants to ensure compliance with the Federal requirements.</p> <p>End Date: On-going</p> <p>Responding Person: Kayle Perez, SSD Administrator</p>
p93-94, 2018-012	<p>Views of responsible officials: The Department agrees with this finding and will implement corrective action.</p>

State of Hawai'i
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2018

Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
	<p>Corrective Action Taken or Planned: We will be reminding the staff to be more diligent in ensuring that all case files contain the necessary supporting documentation to support compliance with the requirements.</p> <p>End Date: On-going</p> <p>Responding Person: Cheryl Chang, BESSD TANF Program Specialist</p>
p95-96, 2018-013	<p>Views of responsible officials: The Department agrees with this finding and have implemented corrective action.</p> <p>Corrective Action Taken or Planned: The initial version of the ACF-196R and ACF-204 reports, submitted in December 2017, were reviewed for this audit and the discrepancy was already identified by ACF Region 9 prior to the audit. The Department, with ACF's guidance, developed a strategy and have taken the necessary steps to correct the FFY 2017 ACF-204 and ACF-196R reports. We have implemented the following:</p> <ol style="list-style-type: none"> 1. <u>Calculation Tool for the ACF-196R and 204 Reports</u> <p>An Excel document was developed to calculate expenditures on the 196R and 204 reports. The document has 2 worksheets:</p> <ol style="list-style-type: none"> a. Worksheet #1 - all Federal, State MOE, SSP-MOE, and 3rd-Party MOE expenditures that need to be reported on the ACF-196R are entered and the figures are totaled at the end of the worksheet; and b. Worksheet #2 - all State MOE and SSP-MOE figures that need to be reported on the ACF-204 will automatically populate fields on worksheet #2 and the figures are totaled at the end of the worksheet. <p>The State MOE and SSP-MOE totals on worksheets 1 and 2 must match.</p>

State of Hawai'i
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2018

Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
	<p>2. <u>ACF Guidance</u></p> <p>The Department will continue to work with ACF Region 9 to review the 2017 ACF-196R and ACR-204 reports to ensure they are completed correctly and reporting requirements are met. The Department will seek ACF's guidance, when necessary.</p> <p>End Date: April 2019 to submit final FFY 2017 ACF-204</p> <p>Responding Person: Paul Higa, BESSD Financial Assistance Program Administrator and Catherine Scardino, BESSD Employment and Training Program Administrator</p>
p97-98, 2018-014	<p>Views of responsible officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Each month the Financial Assistance Program (FAP) office receives a report from the Office of Information Technology (OIT) which identifies the TANF cases that are rejected due to errors and which needs to be corrected. Once corrected it is resubmitted to OIT and the report is rerun. The OIT will transmit the data to the appropriate office. The FAP office will continue to correct identified errors on the report received from OIT and will need to work closely with the OIT and the Employment and Training Office (ETPO) to ensure the data has been corrected, the information is complete, and is accurately reported.</p> <p>End Date: On-going</p> <p>Responding Person: Cheryl Chang, BESSD Financial Assistance Program Specialist</p>
p99-100, 2018-015	<p>Views of responsible officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Our plans to reduce and/or eliminate these errors have included and will continue to include:</p>

State of Hawai'i
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2018

Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
	<p>2. Continuation of the instructions to staff as stated in the Internal Communication Form (ICF) dated 09/24/18, which has been approved by ACF and includes the following:</p> <ul style="list-style-type: none"> a. CWS staff is to double check that the amount of the Adoption Assistance (AA) payment and the amount of the Difficulty of Care (DOC) payment, if applicable, match the amount on the AA Agreement and DOC worksheet, and in the Child Protective Services System (CPSS). b. Supervisors shall authorize payments in CPSS once the Supervisors have reviewed the forms and confirmed that the amounts match. c. Program Development and/or the Management Information and Compliance monitor will conduct monthly random reviews of four AA payment cases per Section. Findings will be shared with the assigned Section Administrator and CWSBA for inclusion in supervisor meetings. d. Refresher training will be provided to the Supervisors and Section Administrators. <p>3. More diligence in checking the dates and case files to ensure that benefits are not paid prior to the AA Agreement start date and that all necessary worksheets are in the case files.</p> <p>End Date: On-going</p> <p>Responding Person: Bernadette Lane, SSD Assistant Program Administrator</p>
p101-102, 2018-016	<p>Views of responsible officials: The Department agrees with the finding and has implemented corrective action.</p> <p>Corrective Action Taken or Planned: We have made an adjustment to our worksheet for a more comprehensive recording of the TANF expenditures</p>

State of Hawai'i
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2018

Page(s), Finding	Views of Responding Officials, Corrective Action Plans, Status, Responding Official
	<p>reported to the federal government and it has been instituted. We will also work on establishing formal procedures for compiling the SEFA.</p> <p>End Date: August 2019</p> <p>Responding Person: Derek Oshiro, Chief Accountant</p>
p103-104, 2018-017	<p>Views of responsible officials: The Department agrees with the finding and corrective action is planned and will be implemented.</p> <p>Corrective Action Taken or Planned:</p> <ol style="list-style-type: none"> 1. DVR will include a printout of the EPLS clearance report in each contract folder along with the state Hawaii Compliance Express (HCE) form for all contracts. 2. Every time the HCE report is checked the EPLS will be checked at the same time and both reports will be updated in unison. Monitoring EPLS will be added to the Contract Monitoring steps at every point where HCE compliance exists. 3. Contract Managers and Administrator will conduct annual review for compliance with required documentation. <p>End Date: On-going</p> <p>Responding Person: Maureen Bates, DVR Administrator</p>
p105-106, 2018-018	<p>Views of responsible officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Our plans to reduce and/or eliminate these errors have included and will continue to include:</p> <ol style="list-style-type: none"> 1. Continuation of the instructions to staff as stated in the Internal Communication Form (ICF) dated 09/24/18, which has been approved by ACF and includes the following:

State of Hawai'i
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2018

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	<p style="margin-left: 40px;">a. CWS staff is to double check that the amount of the Adoption Assistance (AA) payment and the amount of the Difficulty of Care (DOC) payment, if applicable, match the amount on the AA Agreement and DOC worksheet, and in the Child Protective Services System (CPSS).</p> <p style="margin-left: 40px;">b. Supervisors shall authorize payments in CPSS once the Supervisors have reviewed the forms and confirmed that the amounts match.</p> <p style="margin-left: 40px;">c. Program Development and/or the Management Information and Compliance monitor will conduct monthly random reviews of four AA payment cases per Section. Findings will be shared with the assigned Section Administrator and CWSBA for inclusion in supervisor meetings.</p> <p style="margin-left: 40px;">d. Refresher training will be provided to the Supervisors and Section Administrators.</p> <p style="margin-left: 20px;">2. More diligence in ensuring that all forms are properly signed and included in case files.</p> <p>End Date: On-going</p> <p>Responding Person: Bernadette Lane, SSD Assistant Program Administrator</p>