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DEPT. COMM. NO. 54

November 29, 2019

VIA EMAIL

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

VIA EMAIL

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

Re: *2018 Annual Report*

Dear President Kouchi and Speaker Saiki:

We are attaching a copy of our *2018 Annual Report*, which has been uploaded to the Legislature's web-based application. This report includes summaries of the performance and financial audit reports that were issued during the 2018 calendar year.

The report is accessible through our website at:

http://files.hawaii.gov/auditor/Reports/2019/2018AnnualReport.pdf.

If you or other Legislators would like a printed version of the report, please let me know.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:emo

Attachments
ec/attach: Senators
Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

OFFICE OF THE AUDITOR

STATE OF HAWAIʻI

2018 ANNUAL REPORT

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COVER PHOTO: OFFICE OF THE AUDITOR

Special Funds, Special Work

PHOTO: MICHAEL KEANY

WELCOME to this Annual Report, which highlights the work of the Office of the Auditor in 2018.

Over the course of the year, we released 23 reports – audits, analyses, studies, and recommendation follow-ups on everything from examining the Office of Hawaiian Affairs' non-competitive grants program to assessing whether health insurance should cover treatment for port wine stains.

Audit work is a meticulous and painstaking activity; however, some of our most meticulous and painstaking projects don't involve auditing at all. Every year, our staff reviews the special funds, revolving funds, trust funds, and trust accounts held by certain state departments. These pools of money are collected and held outside of the general fund, which is the State's main account. And many departments rely on these revenue sources for their operations and programs.

Our non-general funds reviews are dense and can be challenging for those unfamiliar with state government to see how these accounts fit. But it's important information, because over the past three decades these non-general funds have proliferated to the point that roughly half of all state expenditures are financed by funds the Legislature does not control, and cannot easily track. And since all the money in the state budget is public money, lawmakers need to know general fund and non-general fund account balances when determining how much money is available to spend. For instance, in 2018, the six state agencies we reviewed collectively had non-general fund balances amounting to more than $21.3 billion at the end of FY2018. But these non-general funds contained hundreds of accounts, and often sub-accounts, which must also be reviewed. Consequently, it can take several hours to review one fund – resulting in many months each year doing this important work.

So, in addition to thanking our entire staff for all their great work in 2018, I'd like to give a big shout-out to our funds review team. We appreciate all the detailed, exhaustive, and sometimes mind-numbing work you did to keep state government transparent and accountable.

Aloha,

Leslie H. Kondo
State Auditor

Mission of the Office of the Auditor

Improving government through independent and objective analyses.

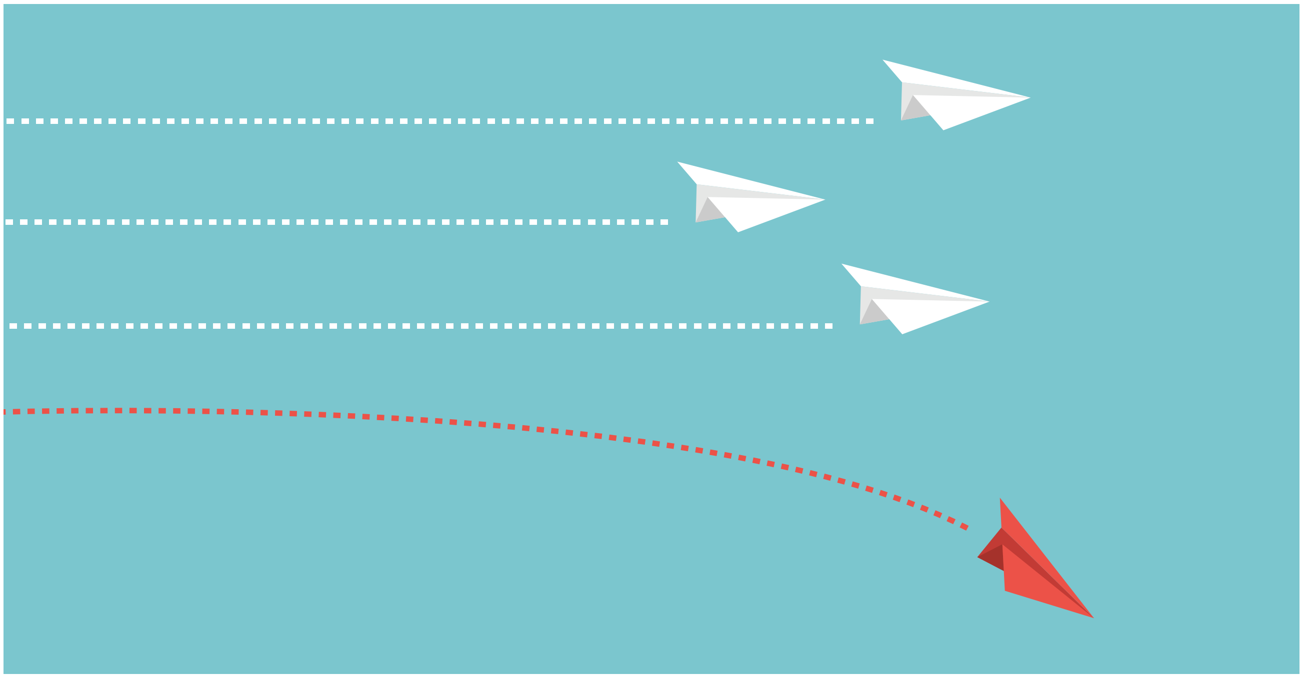


PHOTO: OFFICE OF THE AUDITOR

Keep or Toss?

In 2018, the Legislative Auditor's Office produced 23 reports, including performance audits of the Hawai'i State Energy Office, the Office of Hawaiian Affairs, the Hawai'i Tourism Authority, the Public Utilities Commission, the Department of the Attorney General's Asset Forfeiture Program, and the Office of Health Care Assurance's Adult Residential Care Homes Program. The office also contracted with independent CPA firms for 24 financial and single audits of various state departments and programs, including the State's Comprehensive Annual Financial Report, and actively administered those engagements.

PERFORMANCE AUDITS provide objective analysis, findings, and recommendations to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision-making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability. Performance audit objectives vary widely and may include assessments of program effectiveness and efficiency; the presence of internal controls; and compliance with laws, rules, policies, and regulations. Our performance audits, generally, produce the most discussion with legislators and the public. However, we produce a variety of other reports for the Legislature, as well, including studies assessing legislative proposals to mandate health insurance coverage for certain medical conditions and procedures, sunrise analyses when the Legislature is considering regulating a profession, and reviews of the State's tax exemptions, exclusions, and credits.

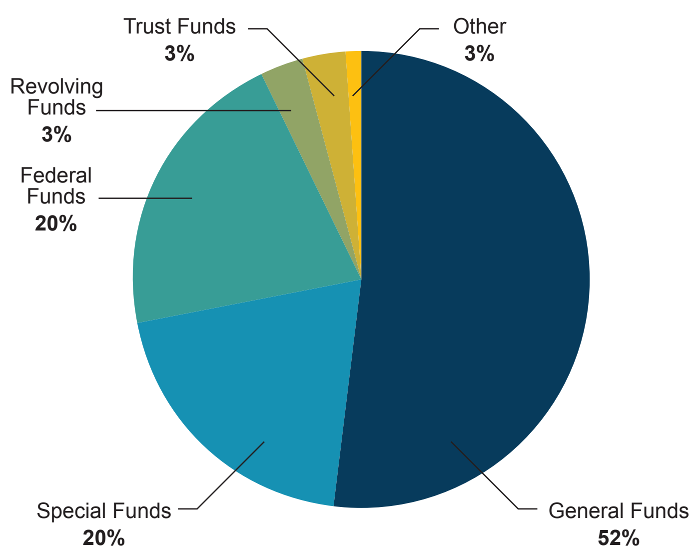
We also review the special funds, revolving funds, trust funds, and trust accounts held by state departments. Significant findings in recent reports underscore the importance of these reviews, which have revealed pockets of money that otherwise may have gone unreported. For example, we discovered a department had not been reporting all of its special funds, trust funds, and trust accounts to the Legislature as required by law, which significantly increased the scope of our review as we worked to provide the Legislature with a more complete picture of that department's finances.

During 2018, our team reviewed 666 special funds, revolving funds, trust funds, and trust accounts across six departments, reported on 177 that we determined to be the funding sources for the other 459 funds and accounts, and recommended 58 funds and accounts with a combined balance of $511.4 million be evaluated for reclassification, closure, or transfer to another account. Notably, we identified $120 million in unused public money scattered across 27 Department of Transportation (DOT) accounts that showed no financial activity for at least the past five years. The Legislature may ultimately choose to redirect some of this money toward other state priorities.

Our non-general fund reviews can be difficult for those unfamiliar with the State budget to fully understand or appreciate. These densely detailed reports are tailored for legislators and legislative staff, whose access to a department's financial information is often limited to moneys the Legislature appropriates from the State's main account, or general fund. But certain departments rely on other revenue sources for their operations and programs, such as special and revolving funds that are self-sustaining and held outside of the Legislature's general fund appropriation process and purview. These special and revolving funds may not be part of the general fund, but they are state moneys, nonetheless. As such, the Legislature requires departments to submit a report listing all administratively established accounts and funds, along with balance information, 20 days before the start of each legislative session.[1] If a new fund or account is administratively created, a separate report is required within 30 days of the account or fund's creation.[2] Information provided in these required reports may not be included in budget testimony, however, giving legislators an incomplete picture of an agency's financial landscape.

Reviews by our office provide an additional check that departments are accurately reporting their non-general fund activity and other related information as required by law. This is no small task since the special, revolving, and trust fund balances are substantial, accounting for about 26 percent of the State's $14.1 billion annual operating budget in fiscal year 2018. In other words, departments, not the Legislature, controlled more than one-quarter of the funding for state programs. And as we reported, each of the departments whose funds and accounts we reviewed was deficient in different aspects of its reporting, which means the Legislature likely was unaware of some of the funds and accounts that departments maintained, as well as how much state money departments controlled. To illustrate, we found the Department of Land and Natural Resources' (DLNR) non-general fund reports to the 2018 Legislature omitted funds amounting to more than $16.4 million. A subsequent audit of DLNR's Special Land and Development Fund (SLDF) offered insight into how this incomplete reporting could occur.[3] While DLNR's non-general fund report to the 2018 Legislature stated that the SLDF was comprised of one "parent" account and one sub-account, we determined the SLDF's parent account is the primary funding source for 24 sub-accounts, not just one. In its non-general fund report, DLNR should have consolidated the financial data for all 25 SLDF accounts; by reporting only the balances of the parent account and the one sub-account, the department understated the SLDF balance by more than $1.5 million. We note the SLDF is just one of the 107 DLNR funds and accounts in our 2018 review.

Role of All Funds in FY2018 Executive Branch Operating Budget



Source: Overview of Proposed Special and Revolving Fund Analyses*, Report No. 18-06, Office of the Auditor*

[1] 37-52(b), Hawai'i Revised Statutes (HRS)

[2] 37-52(a), HRS

[3] Report No. 19-12, A*udit of the Department of Land and Natural Resources' Special Land and Development Fund*.

Keep or Toss?

Under Section 23-12, Hawai‘i Revised Statutes, the Auditor must review each agency's non-general funds to determine whether the funds still serve their intended purpose and meet the statutory definition of the fund. For each fund, the Auditor presents a five-year financial summary, the purpose of the fund, and conclusions about its use and whether it meets the definition of a special fund, revolving fund, trust fund, or trust account and should be continued, reclassified or closed. To keep to the five-year cycle, we review the non-general funds attached to multiple agencies every year.

There is nothing inherently wrong with creating special, revolving, trust funds, and trust accounts. These are moneys earmarked for specific purposes, moneys replenished by the federal government or other sources, and moneys held for the benefit of certain persons. If the funds (1) achieve the purpose for which they were created, and (2) meet legal requirements, our reports primarily provide a summary of the transactions for each fund or account maintained by the department over the preceding five fiscal years: fund balances at the beginning and end of each fiscal year as well as the total revenues into the fund, and the total expenditures and transfers out of the fund. When funds and accounts do not meet the relevant criteria, we recommend that the department consider closing or reclassifying them. For instance, we identified three DLNR accounts and related sub-accounts with close to $1.9 million in remaining balances after five years of no financial activity. We recommended the idle account balances be transferred to the appropriate funds for more effective and efficient use.

In 2018, the six state agencies we reviewed collectively had non-general fund balances amounting to more than $21.3 billion at the end of FY2018: Accounting and General Services ($79.8 million), Agriculture ($41.5 million), Budget and Finance ($19.5 billion), Defense ($2.8 million), Land and Natural Resources ($144.7 million), and Transportation ($1.5 billion)[4]. These agencies administered 666 funds and accounts holding non-general funds, ranging from 11 trust funds and accounts at the Department of Defense to 377 funds and accounts at DOT.

As Tom Yamachika, president of the Tax Foundation of Hawai‘i, explains,

> …The object of this exercise is not for the auditor to come to the department with a program-chopping axe. It's for everyone involved to understand where the money is. It's about lifting the veils and promoting transparency, not about swinging the budget machetes through the marshlands.
>
> [Agencies need] to understand that the money in these funds isn't "their" money. It's taxpayer money.
>
> Legislative oversight of that money isn't just an inconvenience, it is a constitutional requirement. Once our government agencies understand this, all of us will be better off.
>
> — *Tom Yamachika,*
> *Honolulu Civil Beat*[5]

We couldn't agree more.

You can read summaries of our 2018 fund reviews, performance and financial audits, studies, and analyses in this report, or visit auditor.hawaii.gov to read our reports in their entirety.

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[4] In 2018, we reviewed the funds and accounts maintained by the Department of Transportation, the Department of Defense, the Department of Land and Natural Resources, the Department of Agriculture, the Department of Accounting and General Services, and the Department of Budget and Finance. See Section 23-13, HRS. We issued our report about the Department of Transportation's funds and accounts in January 2019. See Report No. 19-05, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Transportation*.

[5] Yamachika, Tom. "No, Killing a Special Fund Doesn't Kill People." Civil Beat. December 30, 2018.

Summary of 2018 Reports

PHOTO: THINKSTOCK

Our audit of the Hawai‘i State Energy Office (Energy Office) was conducted pursuant to Article VII, Section 10 of the Hawai‘i State Constitution and Section 23-4, Hawai‘i Revised Statutes, which require the Office of the Auditor to conduct post-audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions. This was the first audit of the office.

WE FOUND that the Energy Office needs to better define its mission, role, and priorities within the State's energy independence effort. For instance, the Energy Office could not provide us with documentation that clearly articulates its projects' expected contributions to clean energy goals, let alone the data that supports such accomplishments. We also found that the Energy Office's strategic plan includes goals and targets that are unrealistic and may be impossible to achieve. Reporting on its more achievable strategic goals, such as "photovoltaic capacity per capita," has been inconsistent.

Federal stimulus funding through the American Recovery and Reinvestment Act and ambitious state clean energy goals energized the Energy Office, nearly doubling its staff from 20 in 2009 to 35 in 2012. These growth factors also helped remake the office from an organization whose major functions included outreach, information dissemination, and training, to one that could pursue a wide variety of clean energy initiatives, including environmental studies, grid improvements, permitting facilitation, and support of alternative vehicles. However, stimulus funding expired in 2012, and while the Energy Office has made some staffing adjustments, they have not been nearly enough.

The Energy Office's personnel costs now account for more than 90 percent of the office's expenses. In FY2016, the Energy Office's expenses exceeded its revenue by nearly $600,000 – decreasing the Energy Security Special Fund balance to $2.2 million. At its current rate of spending, the Energy Office is expected to substantially deplete the fund by FY2019. The Energy Office needs to better define its mission, role, and priorities in the State's energy independence effort, and together with the governor and the Legislature determine if the State can afford to pay for this effort.

The Energy Office's personnel costs now account for more than 90 percent of the office's expenses. In FY2016, the Energy Office's expenses exceeded its revenue by nearly $600,000 — decreasing the Energy Security Special Fund balance to $2.2 million. At its current rate of spending, the Energy Office is expected to substantially deplete the fund by FY2019.

Sunrise Analysis: Regulation of Dental Assistants

Report No. 18-02, January 2018

PHOTO: THINKSTOCK

During the 2017 Session, the Legislature directed us to evaluate whether the profession of dental assisting should be regulated. The Hawai'i Regulatory Licensing Reform Act requires us to assess legislative proposals that will create a regulatory scheme for professions and vocations that currently are unregulated. These reviews, which are known as "Sunrise Analyses," examine whether regulation is necessary to protect the health, safety, or welfare of consumers of the services and is consistent with other regulatory policies.

WE FOUND that several tasks routinely performed by dental assistants in Hawaiʻi pose a reasonable risk of injury to patients and therefore should be regulated under the criteria established by the Legislature in the Hawaiʻi Regulatory Licensing Reform Act. These tasks include using dental instruments with a sharp tip or blade that can harm a patient's soft gum tissue; applying materials used to make impressions which could cause patients to choke or aspirate; and sterilizing and disinfecting dental instruments, which, if improperly done, could transfer infectious disease to patients. Hawaiʻi law requires the State to regulate professions or vocations when the health, safety, or welfare of the consumer may be jeopardized by the nature of the service offered by the provider.

However, a number of tasks that dental assistants in Hawaiʻi are allowed to perform do not appear to pose a reasonable threat to patient health and safety; for that reason, we recommended that the State consider a tiered regulatory framework, requiring dental assistants who perform those tasks that may jeopardize patient safety to be credentialed by the State. Such a model would not regulate dental assistants who do not perform those functions that potentially may harm dental patients. Several examples of tiered regulatory frameworks adopted by many other states were provided in an appendix to the report.

We found that several tasks routinely performed by dental assistants in Hawaiʻi pose a reasonable risk of injury to patients and therefore should be regulated.

Audit of the Office of Hawaiian Affairs

Report No. 18-03, February 2018

PHOTO: OFFICE OF HAWAIIAN AFFAIRS

Our audit of the Office of Hawaiian Affairs (OHA) was conducted pursuant to Section 10-14.55, Hawai'i Revised Statutes, which requires the Auditor to conduct an audit of OHA at least every four years.

WE FOUND that OHA uses alternate funding processes to regularly direct money toward a multitude of programs, projects, and individuals. These expenditures are not held to the same requirements as OHA's formal grant process, such as rigorous vetting, monitoring, reporting, and Board of Trustee consultation and approval.

In FY2015 and FY2016, OHA spent nearly double as much on discretionary disbursements ($14 million) as it did on planned, budgeted, and properly publicized, vetted, and monitored grants ($7.7 million). We found OHA had spent with little restraint, using Native Hawaiian Trust Fund moneys to pay for such things as the retirement benefits for a former trustee ($56,300), political donations, an international conservation convention ($500,000), as well as a beneficiary's rent ($1,000), a beneficiary's funeral-related clothing expenses ($1,000), and a trustee's personal legal expenses ($1,500). A budget realignment ($8 million) and withdrawals from the fiscal reserve ($6 million) funded these unexpected expenditures.

Vague rules guiding OHA's discretionary spending are broadly interpreted, arbitrarily enforced, and at times, disregarded. For instance, we found on several occasions OHA's chief executive officer (CEO) ignored "do not fund" recommendations from administration personnel, funding sponsorships contrary to written guidelines. We also found significant irregularities in and abuse of OHA's Trustee Allowance process, which was originally established to cover incidental expenses for trustees to develop and maintain ongoing communication with beneficiaries and the general public. The process has evolved to allow a broad range of expenditures, some questionable, which the trustees, CEO, and other officers have consistently justified as helping a Native Hawaiian or Hawaiian beneficiary, thus fulfilling OHA's mission to improve the conditions and well being of Native Hawaiians.

OHA's fiscal reserve funds much of OHA's discretionary spending, and has been spent down rapidly in recent years. Drawing the maximum $3 million a year allowed under OHA's policy reduced the reserve fund balance from $15.1 million in FY2011 to little more than $2 million in FY2016. These spending irregularities pose risks – both great and small – to the Native Hawaiian Trust Fund, and also appear to violate the OHA trustees' solemn fiduciary obligation to their beneficiaries to administer the trust fairly, equitably, and without self-interest. Instead, this form of behind-the-scenes giving is inherently inequitable to OHA's many other beneficiaries who may be in need of financial assistance, but are unaware of who and how to ask for help. We acknowledge the trustees' broad discretion in determining whether a particular expenditure betters the conditions of Native Hawaiians, but their desire to provide assistance to a few should be tempered by their fiduciary duties to all of the beneficiaries, both present and future. Doing so would not only benefit Native Hawaiians and Hawaiians in the long term, it would help ensure that they are treated more equitably in the short term.

Audit of the Hawai‘i Tourism Authority

Report No. 18-04, February 2018

PHOTO: HAWAI'I TOURISM AUTHORITY (HTA) / TOR JOHNSON

Our audit of the Hawai‘i Tourism Authority (HTA) was conducted pursuant to Section 23-13, Hawai‘i Revised Statutes, which requires the Auditor to conduct a management and financial audit of all contracts or agreements in excess of $15 million awarded by the Authority at least every five years.

WE ASSESSED the oversight of two HTA contracts valued at over $15 million: one with AEG Management HCC, LLC (AEG) to manage, operate, and market the Hawai‘i Convention Center, and the second with the Hawai‘i Visitors and Convention Bureau to market Hawai‘i in the United States and Canada. We also examined HTA's procurement of service contracts and its compliance with the statutory limit on its administrative expenses. In all three areas, we found that HTA's autonomy, which includes permanent funding and an exemption from the State Procurement Code, has facilitated lax oversight, deficient internal controls, and, ultimately, less accountability.

We found HTA reimbursed millions of dollars to contractors without receipts and other required documentation; reimbursed extravagant expenses, such as first-class airfare and luxury hotel accommodations that were expressly prohibited by contract; and consistently failed to enforce contract terms that are intended to protect the State. HTA has disregarded its own procurement policies and procedures, awarding sole source contracts based on questionable justifications, paying contractors without existing contracts, and voluntarily waiving ownership of intellectual property that the State paid to develop. In response to a statutory change reducing the amount of the Tourism Special Fund that can be used for administrative expenses, HTA shifted some expenses to other budget lines and to HTA programs, but did not significantly reduce its costs.

We found that HTA's semi-autonomy and its exemption from the State Procurement Code has led the authority to be less accountable and less prepared – operations lack the rigor necessary to adequately manage and oversee its contracts and ensure that procurement is conducted fairly, appropriately, and in the State's best interest; also, as HTA's staffing has evolved over the years, we found that its policies and procedures have become outdated, no longer reflecting the reality of its current organizational structure.

With tourism being one of the industries responsible for the State's economic growth and standard of living, it is vital that HTA be best able to accomplish its critical mission while remaining accountable and ensuring appropriate stewardship of public funds. Without strong oversight of its contracts, HTA may be allowing its contractors to underperform and overspend. In fact, in the case of AEG's contract to transition the management and operation of the Hawai‘i Convention Center, we found instances in which HTA approved improper, extravagant expenses including first-class airfare and luxury hotel accomodations not allowed under contract.

Audit of the Public Utilities Commission

Report No. 18-05, February 2018

PHOTO: THINKSTOCK

This is the sixth audit of the Hawai'i Public Utilities Commission (PUC), conducted pursuant to Act 198, Session Laws of Hawai'i 2017, which requires the Auditor to conduct a management audit to evaluate the efficiency and effectiveness of the commission and aid in the commission's transition to a better functioning entity.

THE PUC regulates 1,759 entities, including all chartered, franchised, certificated, and registered public utility companies that provide electricity, gas, telephone, telecommunications, private water and sewage, as well as motor and water carrier transportation providers in the state. When a person, company, or the PUC itself initiates a matter for the commission's review and disposition, the commission opens a proceeding, commonly known as a docket. Dockets vary widely in complexity; some are worked on by a team of attorneys, engineers, and auditors; others are handled by a single staffer. Processing times range from a few months to several years. In FY2017, the PUC opened 426 new dockets, issued a total of 859 decisions and orders, and carried 163 open dockets over to FY2018.

We found PUC staff turnover is high: 45 of 56 employees (80 percent) have worked for the commission 5 years or less, while 19 employees (34 percent) have worked at the PUC no more than a year. Further, we found the PUC lacks clearly documented administrative procedures for its docket processing, from initial intake of filings and scanning of applications, to recommendations and the drafting and approval of decisions and orders. Having such documentation is important for any staff, but it is particularly critical at the PUC, where the vast majority of employees are relatively new. In addition, most management and staff consider the PUC's $2.8 million Document Management System (DMS) difficult to use, unreliable, slow, and obsolete, with staff developing elaborate workarounds to compensate for the system's shortcomings. Our report found the PUC had no firm plans to fix or replace this problematic system, even though DMS' $1.6 million maintenance contract would expire in 2018 and will likely need to be extended. Although the PUC's annual report includes "Goals and Objectives of the Commission" (Statement of Goals), it is missing action plans and performance measures that would link to the commission's actual work and activities. The Statement of Goals also does not address the current challenges facing the commission, such as staff retention, improving or replacing DMS, inconsistent docket processing, and long-range planning.

Without agency-wide strategies and action plans to provide staff with the necessary tools, training, and support, maintaining institutional knowledge will continue to be a persistent challenge, one that the PUC appears to be failing to meet.

The PUC's work is as important as it is complicated. Yet institutional knowledge at the commission appears to be in short supply, with the overwhelming majority of its staff with a tenure at the commission of five years or less. Without agency-wide strategies and action plans to provide staff with the necessary tools, training, and support, maintaining institutional knowledge will continue to be a persistent challenge, one that the PUC appeared to be failing to meet.

PHOTO: OFFICE OF THE AUDITOR

Overview of Proposed Special and Revolving Fund Analyses

Report No. 18-06, March 2018

Every year, the Auditor analyzes all legislative bills introduced each session that propose to establish new special or revolving funds. During the 2018 legislative session, 64 special and revolving funds were proposed, none of which met the amended statutory criteria for establishing such funds.

ONLY ABOUT HALF OF THE MONEY the State spends each year comes from its main financial account, the general fund. The other half of expenditures are financed by special, revolving, federal, and trust funds. Over the past ten years, the number of these non-general funds and the amount of money contained in them have substantially increased. Much of this upward trend has been caused by an increase in special funds, which are funds set aside by law for a specified object or purpose. In 2013, the Legislature amended Section 23-11, HRS, after the Auditor recommended changes to stem a trend in the proliferation of special and revolving funds over the past 30 years.

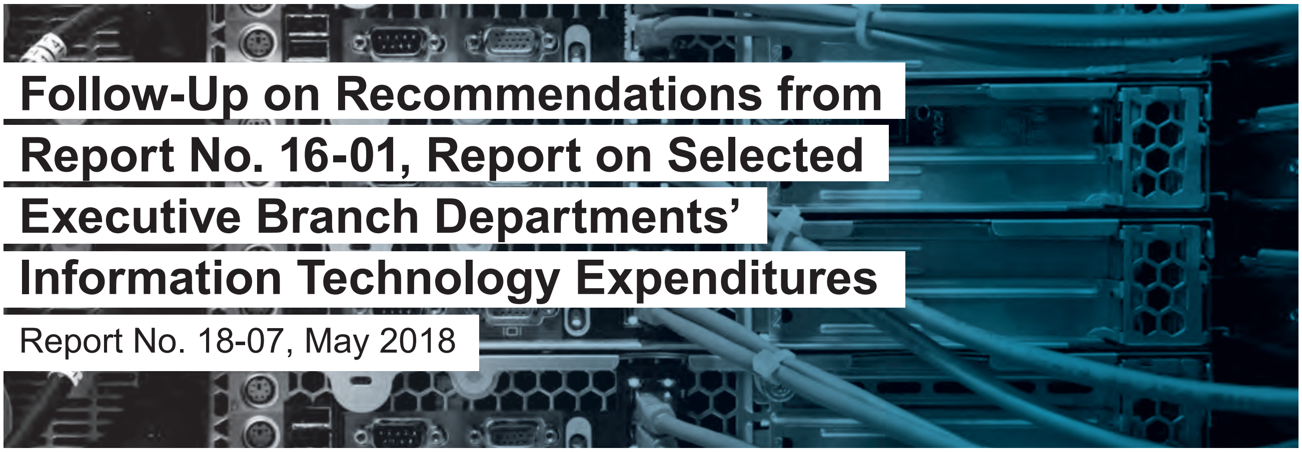
General funds, which made up about two-thirds of State operating budget outlays in the late 1980s, had dwindled to about half of outlays by 2011, when special funds amounted to $2.48 billion, or 24.3 percent, of the State's $10.2 billion operating budget.

Also ballooning were revolving funds, which are used to pay for goods and services and are replenished through charges to users of the goods and services or transfers from other accounts or funds. By 2011, revolving funds made up $384.2 million, or 3.8 percent, of the State's operating budget.

Further hampering the Legislature's control over the budget process was a 2008 court case. In *Hawai'i Insurers Council v. Linda Lingle, Governor of the State of Hawai'i*, the state Supreme Court determined that under only certain conditions could the Legislature "raid" special funds to balance the state budget. In 2013, in order to gain more control over the budget process, the Legislature built new safeguards into the criteria for establishing special funds. Despite the new criteria, special and revolving funds persist: in FY2018, the general fund comprised approximately 52 percent of the state operating budget, with special and revolving funds comprising 23 percent.

Over the past ten years, the number of non-general funds and the amount of money contained in them has substantially increased. In 2013, the Legislature amended Section 23-11, HRS, after the Auditor recommended changes to stem a growing trend in the proliferation of special and revolving funds over the past 30 years.

Since FY2008, the number of non-general funds and the amount of money contained in them have substantially increased. In FY2018, non-general funds accounted for about half of the State's $14.1 billion operating budget, an increase of 32 percent from FY2008. This proliferation of non-general funds has hampered the Legislature's ability to direct general fund spending.



Follow-Up on Recommendations from Report No. 16-01, Report on Selected Executive Branch Departments’ Information Technology Expenditures

Report No. 18-07, May 2018

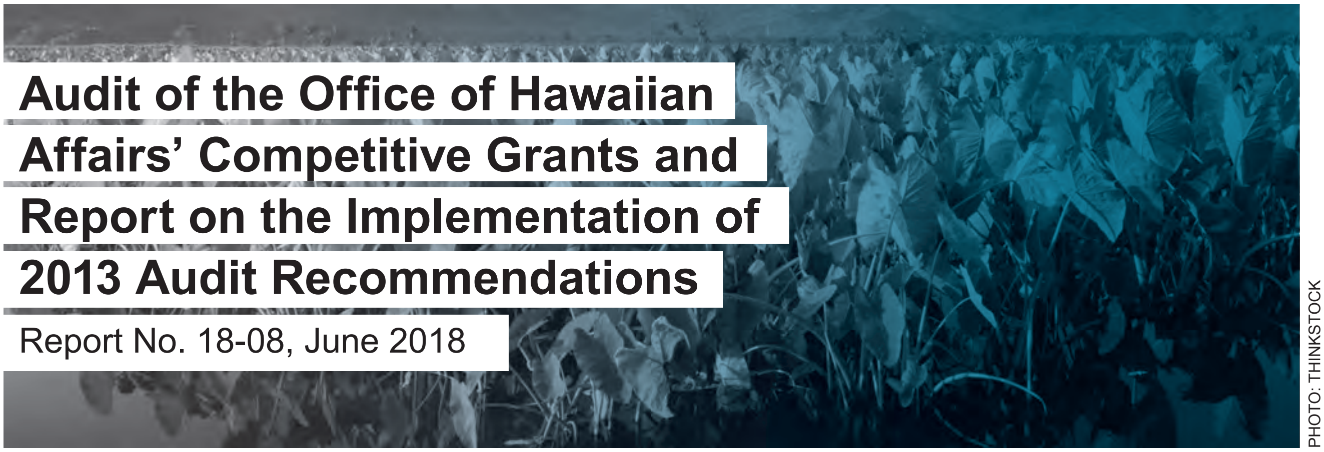
PHOTO: THINKSTOCK

Section 23-7.5, Hawai‘i Revised Statutes, requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. This report presented the results of our review of five recommendations made to the Office of Enterprise Technology Services (ETS) in Report No. 16-01, Report on Selected Executive Branch Departments’ Information Technology Expenditures, *which was published in March 2016.*

IN REPORT NO. 16-01, we noted that departments had varying interpretations of which goods and services constituted information technology or “IT” expenditures. As a result of this lack of standardization, IT expenditure data was spread throughout dozens of unrelated categories (known in accounting as object codes), thus making an accurate and comprehensive compilation of these costs extremely time-consuming, if not impossible to complete. In addition, without an annual reporting requirement to a central agency, the State was unable to manage its IT resources in the short-term or plan for long-term IT growth. We found that, while IT expenditures had increased significantly, IT staffing had flattened out. We also noted that a handful of vendors were providing goods and services to a majority of departments.

Our follow-up on the implementation of recommendations made in Report No. 16-01, conducted between February and April 2018, included interviews with selected personnel, examining relevant documents and records, and evaluating whether ETS’ actions appeared to fulfill our recommendations. We found that ETS has implemented two recommendations: (1) becoming the central agency to establish policies and procedures over IT governance statewide and (2) incorporating itself into the IT budgeting process to oversee significant IT contracts and expenditures. Two recommendations were partially implemented: (1) establishing a statewide definition for IT that clearly defines what ETS considers IT costs, and (2) requiring annual reporting by all departments on IT assets, expenditures, contracts, personnel costs, and positions. A recommendation to provide statewide training to fiscal personnel to ensure all IT costs are correctly recorded to assigned object codes was not implemented.

We found that ETS has implemented two recommendations, two recommendations were partially implemented, and a recommendation to provide statewide training to fiscal personnel to ensure all IT costs are correctly recorded to assigned object codes was not implemented.



Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations

Report No. 18-08, June 2018

In Report No. 18-08, Audit of the Office of Hawaiian Affairs' (OHA) Competitive Grants and Report on the Implementation of 2013 Audit Recommendations, *we reviewed the Office of Hawaiian Affairs' two competitive grant programs, i.e., those with a formal solicitation process: 'Ahahui Grants and Community Grants. We also assessed the status of OHA's implementation of the 23 recommendations in our 2013 audit, which addressed OHA's land management and grants administration processes. This report is a companion to Report No. 18-03,* Audit of the Office of Hawaiian Affairs, *issued in February 2018.*

ALTHOUGH THE POLICIES and procedures for OHA's competitively awarded grants are largely defined, we found shortcomings in the way grants staff monitors and evaluates these grants. Specifically, while OHA predominantly met the statutory requirements for its Community Grants, it did not consistently meet the requirements to monitor and evaluate 'Ahahui Grants. For example, OHA did not require that staff attend and monitor 'Ahahui Grant-funded events, and afterward, did not formally evaluate the events to determine whether they met the intended objectives and/or should be funded in the future.

With regard to the 23 recommendations made in our 2013 audit, we found that OHA has fully implemented 7 of those recommendations and partially implemented 15 others. OHA has taken no action and does not intend to implement a recommendation related to its Grants Tracking System.

In some cases, OHA does have policies and procedures in place that, if performed consistently, could provide the requisite assurance that both 'Ahahui Grants and Community Grants are being awarded and used in a manner consistent with the purpose and intent of the grant, and allow OHA to assess whether the grant achieved expected results. However, in practice, these procedures are not followed in every case. Additionally, the agency has not established policies and procedures that fully address the statutory requirements for monitoring and evaluating all OHA grants.

Without consistent monitoring and evaluation of its competitive grants, OHA cannot ensure it is meeting its statutory requirements. While the total dollar amounts being awarded in the form of competitive grants are relatively small compared to OHA's non-competitive grants and total annual budget overall, OHA still has a fiduciary obligation to its beneficiaries to ensure that Native Hawaiian Trust Fund resources are used consistent with their intended purpose in order to better the conditions of all Native Hawaiian beneficiaries, both in the short-term and in the future.

With regard to the 23 recommendations made in our 2013 audit, we found that OHA has fully implemented 7 of those recommendations and partially implemented 15 others. OHA has taken no action and does not intend to implement one of the recommendations.

Audit of the Department of the Attorney General's Asset Forfeiture Program

Report No. 18-09, June 2018

PHOTO: OFFICE OF THE AUDITOR

During the 2016 legislative session, public concerns that the State may be abusing its forfeiture powers spurred the adoption of House Concurrent Resolution No. 4, which required the Auditor to review the State's asset forfeiture program to evaluate its efficiency and effectiveness, to determine whether the program uses its moneys for the purposes outlined in statute, to account for money and property seized and disposed of through asset forfeitures, and to determine how many asset forfeitures occurred in cases that did not result in criminal convictions. We also followed up on the recommendations made in Auditor's Report No. 95-22, Sunset Evaluation of the Forfeiture Program.

OUR AUDIT FOUND that, nearly 30 years since the program's inception, the department has not yet adopted administrative rules describing procedures and practice requirements for asset forfeiture. Without these rules, the program provides only informal, piecemeal guidance to law enforcement agencies and the public. We also found the asset forfeiture program lacks policies and procedures, and its program manager did not guide and oversee day-to-day activities and financial management during our audit period.

Adopting rules has not been a priority for the asset forfeiture program and the process has been painfully slow. A 2005 report to the Legislature identified adopting rules as a program goal, but that same goal – "promulgating rules, policies and procedures pursuant to Chapter 712A, HRS, for more efficient operation" – was also listed in its 2006, 2007, 2008, 2009, and 2010 reports. In 2011, the department fielded suggestions from county prosecutors as it prepared to draft rules. In 2013, an Asset Forfeiture Task Force, made up of county prosecutors, provided comments on the department's proposed rules. Draft rules were presented to the Attorney General for approval by mid-2014. As of March 2018, these rules had yet to be adopted.

The lack of consistent, formal rules leaves prosecutors unclear about the department's requirements for administrative forfeiture, resulting in a high rate of petition dismissals, particularly on neighbor islands. In FY2013–FY2015, the department dismissed 107 petitions for administrative forfeiture – 14 percent of the total filed – for reasons that included lack of probable cause; failure to establish a nexus between the seized property and a covered offense; insufficient notice to property owners of forfeiture procedures; and technical errors in documents. For some owners, being deprived of their property for any period of time may result in significant hardship, and it is likely the property held may lose value by deteriorating or falling into disrepair, or becoming outdated and obsolete. These effects can be prolonged or exacerbated without clear rules to guide owners seeking remission or mitigation of the forfeiture. Additionally, without policies, procedures, and a manager to guide and oversee day-to-day activities and financial management, the program cannot fully account for the property it has obtained by forfeiture, is unable to adequately manage its funds, and cannot review or reconcile its forfeiture case data to ensure accurate reporting of information to the Legislature and the general public.

For some owners, being deprived of their property for any period of time may result in significant hardship, and it is likely the property held may lose value by deteriorating or falling into disrepair, or becoming outdated and obsolete.

PHOTO: RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAI'I

Follow-Up on Recommendations from Report No. 15-07, Audit of the Research Corporation of the University of Hawai‘i

Report No. 18-10, September 2018

Section 23-7.5, Hawai‘i Revised Statutes, requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. This report presented the results of our review of 11 recommendations made to the Research Corporation of the University of Hawai‘i (RCUH) in Report No. 15-07, Audit of the Research Corporation of the University of Hawai‘i, *which was published in June 2015.*

THE 2015 AUDIT was performed pursuant to Article VII, Section 10 of the Hawai‘i State Constitution and Section 23-4, Hawai‘i Revised Statutes, which require the Auditor to conduct post-audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions. In Report No. 15-07, we found that RCUH acted primarily as a provider of services to UH, which constituted $9 out of every $10 in RCUH business in FY2014.

Our 2015 audit found RCUH's executive director and board took a cautious business approach that ignored plans to pursue more non-UH projects. We further found RCUH allowed state agencies to circumvent contract requirements, secure services without proof of governor approvals, and forgo required evaluations of $4.3 million in projects. We also found the corporation lacked clear policies and procedures for the review and acceptance of direct projects, and the department in charge of administering those projects lacked staff to ensure adequate project vetting and monitoring. We further found that written policies and procedures could improve RCUH's oversight of intramural and revolving account projects.

Our follow-up on the implementation of recommendations made in Report No. 15-07, conducted between February and August 2018, included interviewing selected personnel, examining relevant documents and records, and evaluating whether RCUH's actions appeared to fulfill our recommendations. We found RCUH has implemented all 11 recommendations.

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

Report No. 18-11, September 2018

PHOTO: DEPARTMENT OF DEFENSE

Section 23-12, Hawai'i Revised Statutes, requires the Auditor to review all existing special, revolving, and trust funds once every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our second review of the special funds, revolving funds, trust funds, and trust accounts of the Department of Defense.

OUR REVIEW of six trust funds and four trust accounts of the Department of Defense (DOD) found one trust fund did not meet criteria and should be closed.

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

We also noted that DOD did not file statutorily required reports for non-general funds and for administratively created funds. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

DOD agreed with our review of its funds and will take appropriate action to close the trust fund that did not meet criteria. DOD stated it will also comply with reporting requirements.

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Follow-Up on Recommendations from Report No. 15-20, Audit of the Department of Human Services' KOLEA System

Report No. 18-12, September 2018

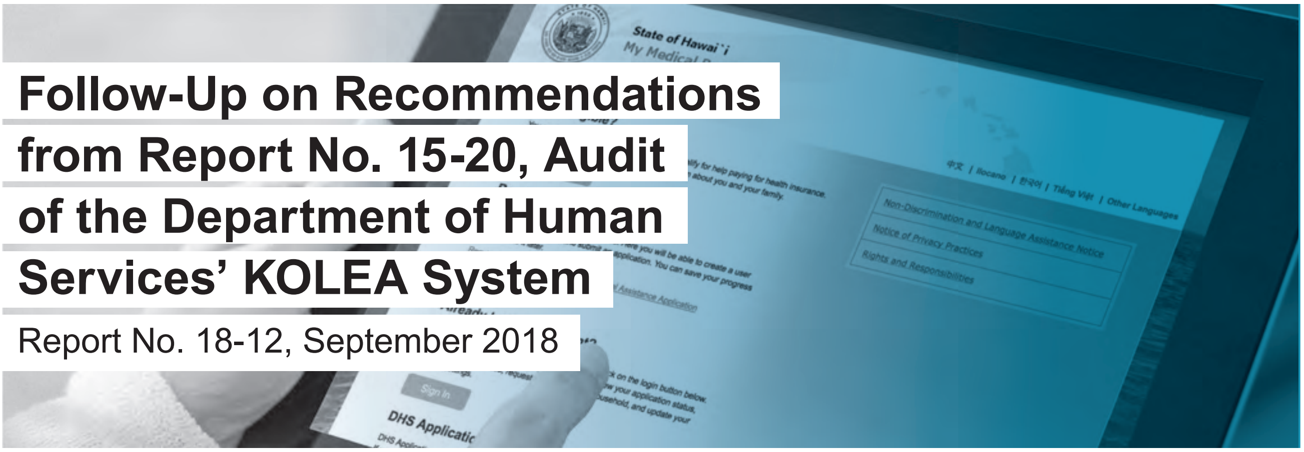


PHOTO: THINKSTOCK

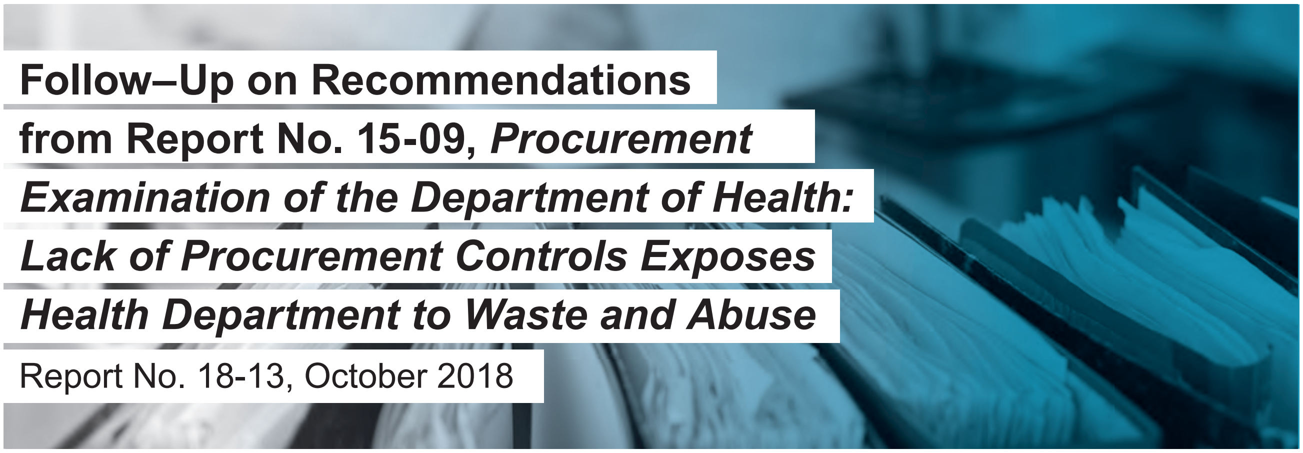
Section 23-7.5, Hawaiʻi Revised Statutes, requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. This report presented the results of our review of recommendations made to the Department of Human Services in Report No. 15-20, Audit of the Department of Human Services' KOLEA System: $155 Million KOLEA Project Does Not Achieve ACA Goals, *which was published in December 2015.*

SECTION 131 OF ACT 119, Session Laws of Hawaiʻi 2015, required the Auditor to perform a management and financial audit of KOLEA (Kauhale On-line Eligibility Assistance), including an evaluation of the procurement of KOLEA and the proposed addition of other Department of Human Services (DHS) program functions such as the Supplemental Nutrition Assistance Program (SNAP) and the Temporary Assistance For Needy Families (TANF) program. The audit also called for a review of all contract modifications, planning for ongoing maintenance and operations for KOLEA, effectiveness of staff training on and utilization of KOLEA, and an analysis of KOLEA's capabilities.

Our 2015 audit found that although DHS was able to launch KOLEA on the federally mandated deadline of October 1, 2013, this new information technology (IT) application fell short of meeting Affordable Care Act goals. More specifically:

- Poor planning and lack of effective leadership at the Med-QUEST Division exacerbated already tight time constraints for developing the system and forced the KOLEA Project Team to take on the additional task of developing the eligibility and enrollment process while designing KOLEA.
- The $155 million IT eligibility and enrollment system failed to achieve the Affordable Care Act's goals of creating a simple, real-time eligibility and enrollment process that uses electronic data to ease the paperwork burden on applicants and state agencies while expediting an eligibility determination.
- KOLEA was unable to perform electronic data matching to verify an applicant's income, and staff reported that KOLEA was difficult to use and error prone.
- The Med-QUEST Division's Eligibility Branch workers were not appropriately trained on either the new Affordable Care Act eligibility rules, policies, and procedures or on how to navigate KOLEA and its subsequent system updates.
- With respect to the proposed addition of other DHS program functions such as SNAP and TANF programs, we found that, because of the time constraints, the department prioritized Medicaid in the initial IT upgrade phase, but had already begun working on a new enterprise-wide system to allow integration of other human services programs.

Two and half years after our audit, we found that the Med-QUEST Division has embarked upon an organizational transformation to implement redesigned business processes and to leverage the KOLEA system. Our follow-up on the implementation of recommendations made in Report No. 15-20, conducted between February and May 2018, included interviews of selected personnel, examination of relevant documents and records, and evaluating whether DHS and the Med-QUEST Division's actions appeared to fulfill our recommendations. We found that the department has implemented seven of the recommendations and has made significant progress toward implementation of the remaining seven recommendations.



Follow–Up on Recommendations from Report No. 15-09, *Procurement Examination of the Department of Health: Lack of Procurement Controls Exposes Health Department to Waste and Abuse*

Report No. 18-13, October 2018

PHOTO: THINKSTOCK

Section 23-7.5, Hawai'i Revised Statutes, requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. This report presented the results of our review of recommendations made to the Department of Health in Report No. 15-09, Procurement Examination of the Department of Health: Lack of Procurement Controls Exposes Health Department to Waste and Abuse, *which was published in July 2015.*

IN REPORT NO. 15-09, we found the Department of Health's (DOH) delegation of procurement functions to individual staff understandable due to the diversity of the department's programs. However, we found there was minimal oversight over these staff and no process to provide them with procurement service support. When procurement issues arose, staff did not have clearly defined procedures for how they should obtain technical assistance. We found DOH did not systematically review procurement activities to monitor and promote compliance, or to ensure that all staff adhere to key procurement requirements. Consequently, monitoring practices among divisions were generally informal and vastly inconsistent. We also found there was neither oversight of contract administrators nor a periodic and systematic review to ensure that functions were being conducted appropriately. In addition, we pointed to one contract in particular – the contract for an audit of redemption centers – that epitomized the flaws in DOH's procurement process. We concluded that even minimal review and oversight should have detected numerous procurement violations and irregularities relating to this contract.

Our follow-up on the implementation of recommendations made in Report No. 15-09 was conducted from January through June 2018. To determine if DOH's actions addressed the recommendations made in Report 15-09, we interviewed DOH administrators and State Procurement Office personnel, and reviewed various documents that were provided by DOH. Our follow-up efforts were limited to reviewing and reporting on the implementation of our audit recommendations. We did not explore new issues or revisit old ones that did not relate to the original recommendations. We

We found that, following the issuance of Report No. 15-09, DOH's Administrative Services Office (ASO) underwent a substantial reorganization to address the findings and recommendations made in Report No. 15-09. DOH cited our report as one of the primary driving factors for initiating a reorganization of their ASO in 2016.

found that, following the issuance of Report No. 15-09, DOH's Administrative Services Office (ASO) underwent a substantial reorganization to address the findings and recommendations made in Report No. 15-09. DOH cited our report as one of the primary driving factors for initiating a reorganization of their ASO in 2016. Although changes associated with the reorganization of the ASO are ongoing, we found that DOH has implemented one recommendation, partially implemented two recommendations, and has not implemented two recommendations. One recommendation is no longer applicable.

Follow-Up on Recommendations from Report No. 15-18, *Audit of the Department of Transportation's Energy Performance Contracts: Improved Oversight is Needed to Ensure Savings*

Report No. 18-14, October 2018

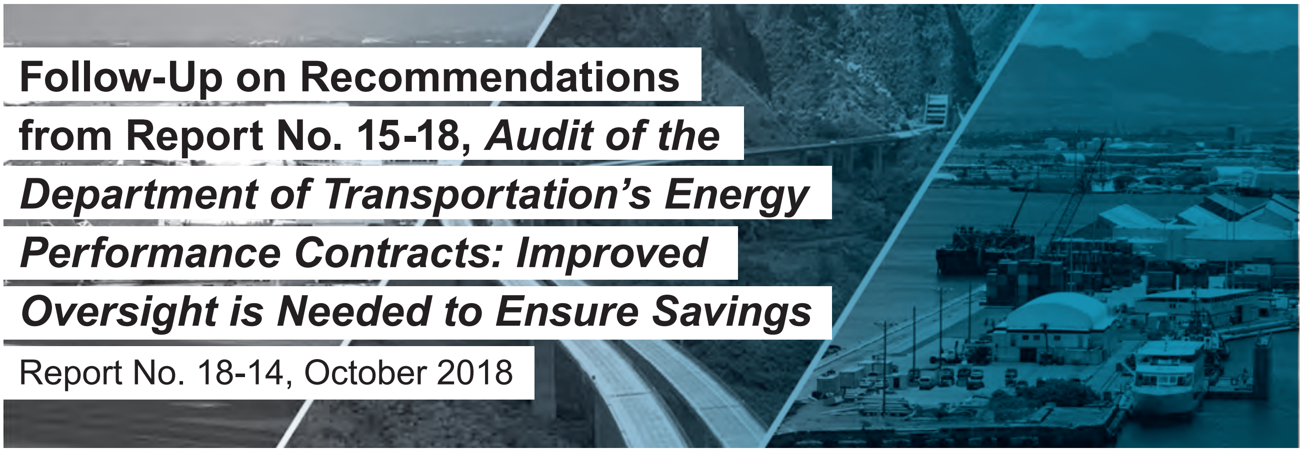


PHOTO: DEPARTMENT OF TRANSPORTATION

Section 23-7.5, Hawai'i Revised Statutes, requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. This report presented the results of our review of 11 recommendations made to the Department of Transportation in Report No. 15-18, Audit of the Department of Transportation's Energy Performance Contracts: Improved Oversight is Needed to Ensure Savings, *which was published in December 2015.*

THE 2015 LEGISLATURE required the Auditor to conduct an audit of the energy performance contracts of the Department of Transportation (DOT), including an evaluation of the terms and conditions for monitoring utility consumption, a determination of utility cost savings to the State, and payments to the contractor. In response to that request, we issued Report No. 15-18, *Audit of the Department of Transportation's Energy Performance Contracts: Improved Oversight Is Needed to Ensure Savings*.

In Report No. 15-18, we found flaws in the design and implementation of the DOT Airport Division's energy performance project, which undermined the energy contract's $518 million savings guarantee and weakened the division's ability to challenge or dispute any savings issues discovered after a 90-day annual savings report review period expired. Among other things, we found that the contract contained conflicting termination dates, which jeopardized savings guarantees. According to DOT budget documents, the energy contract proposal solicitation, and a news release announcing the project, the division's deal with Johnson Controls was for a duration of 20 years. However, we found that, because of a drafting oversight, the energy contract actually ended after 19 years. Although savings guarantee details are specified in Schedule P of the contract – which runs for 20 years, from January 2014 to December 2033 – the contract itself terminates in December 2032. As a result of these conflicts, a 12-month guarantee period encompassing nearly $60 million in guaranteed savings occurs after the contract itself terminates. Because of that conflict, Johnson Controls may not have been required to reimburse the State for any savings potential shortfall that occurred during that period. We also found the division lacked the procedures and expertise needed to evaluate annual savings reports.

The audit did not evaluate separate DOT energy savings contracts with Johnson Controls involving the Harbors and Highways Divisions because, at the time of the audit, those contracts had just been executed or were still in negotiations. However, we did recommend that the DOT director take steps to ensure that the Harbors and Highways Divisions' contracts did not contain the same problems found in the Airports Division contract.

Our follow-up on DOT's implementation of the recommendations made in Report No. 15-18, conducted between February and May 2018, included interviews with selected personnel, examining relevant documents and records, and evaluating whether DOT's actions appeared to address the recommendations. We found that DOT implemented eight of the recommendations; two recommendations were partially implemented; and one was not implemented as it was no longer applicable.

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

Report No. 18-15, October 2018

PHOTO: DEPARTMENT OF AGRICULTURE

Section 23-12, Hawai'i Revised Statutes, requires the Auditor to review all existing special, revolving, and trust funds once every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our sixth review of the revolving funds, trust funds, and trust accounts, and our second review of the special funds of the Department of Agriculture.

WE REVIEWED 50 funds and accounts administered by the Department of Agriculture (DOA) and reported on 31 of them – specifically, 14 special funds, 7 revolving funds, 3 trust funds, and 7 trust accounts. We found five special funds and two revolving funds did not meet criteria – specifically, three special funds and two revolving funds should be evaluated for continuance, one special fund should be closed, and one special fund should be reclassified to a revolving fund.

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

We also noted that DOA did not file statutorily required reports for non-general funds and for administratively created funds. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

DOA generally agreed with our findings and will take appropriate action to evaluate the continuance, closure, and reclassification for those funds that did not meet criteria. DOA indicated it will also comply with reporting requirements. In reference to the Agricultural Development and Food Security Fund, DOA pointed out that the language in Act 73, SLH 2010, states there is a nexus between the tax on petroleum products and programs to support food security. We recognize that this language exists in the preamble to Act 73, however, our analysis did not find convincing evidence of such nexus.

DOA generally agreed with our findings and will take appropriate action to evaluate the continuance, closure, and reclassification for those funds that did not meet criteria.

Report on the Implementation of State Auditor's Recommendations 2012 – 2016

Report No. 18-16, November 2018

PHOTO: OFFICE OF THE AUDITOR

This is a report on the follow-up reviews of state departments' and agencies' implementation of audit recommendations contained in audits issued in calendar years 2012–2016. We conducted the follow-ups pursuant to Section 23-7.5, Hawai'i Revised Statutes, which requires the Auditor to report to the Legislature on each recommendation the Auditor has made that is more than one year old and that has not been implemented by the audited agency.

EVERY YEAR, we follow up on recommendations made in our audit reports. We ask affected agencies to provide us with the status of their implementation of the recommendations made in our reports starting a year after the report was issued. After two or three years, we conduct a more rigorous follow-up review. Those reviews, which we refer to as "active reviews," include interviewing selected personnel from the agency and examining the agency's relevant policies, procedures, records, and documents to assess whether its actions fulfilled our recommendations. Our efforts are limited to the reviewing and reporting on an agency's implementation of recommendations made in the original audit report. We do not explore new issues or revisit old ones that do not relate to our original recommendations.

From 2012 to 2016, we made 277 actionable audit recommendations, of which the affected agencies reported partially or fully implementing 247. We based our scope and methodology on guidelines from the United States Government Accountability Office (GAO), which are published in *How to Get Action on Audit Recommendations* (1991) and Section 23-7.5, Hawai'i Revised Statutes.

According to the GAO, saving tax dollars, improving programs and operations, and providing better service to the public represent audit work's "bottom line." Recommendations are the vehicles by which these objectives are sought. However, it is action on recommendations – not the recommendations themselves – that helps government work better at less cost. Effective follow-up is essential to realizing the full benefits of audit work.

Our current policy is to conduct follow-ups on recommendations for a five-year period after initial issuance of the report. We have determined that, after this time period, further action on recommendations is unlikely. At that point, a new audit may be more appropriate. Report No. 18-16 summarized the results of our active follow-ups on reports issued during the past five years, and for those reports that we have yet to conduct an active follow-up, we included agencies' self-reported status of their respective implementation of the recommendations. In some cases, we also included the agencies' responses to our formal requests for an updated status of implementation of our recommendations since issuance of the active follow-up report.

From 2012 to 2016, we made 277 actionable audit recommendations, of which the affected agencies reported partially or fully implementing 247. Recommendations are the vehicles by which these objectives are sought. However, it is action on recommendations – not the recommendations themselves – that helps government work better at less cost.

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Budget and Finance

Report No. 18-17, November 2018

PHOTO: DEPARTMENT OF BUDGET AND FINANCE

Section 23-12, Hawai'i Revised Statutes, requires the Auditor to review all existing special, revolving, and trust funds every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our sixth review of the revolving funds, trust funds, and trust accounts, and our second review of the special funds of the Department of Budget & Finance.

WE REVIEWED 29 funds and accounts administered by the Department of Budget and Finance (B&F) and reported on 20 of them – specifically, 3 special funds, 4 trust funds, and 13 trust accounts. B&F did not have any revolving funds during the period of our review.

We found one special fund did not meet criteria and should be closed. We used criteria developed by the Legislature and by our office based on public finance and accounting literature. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data which is provided for informational purposes. And we did not present conclusions about the effectiveness of programs or their management, or whether the programs should be continued.

We also noted that B&F did not file statutorily required reports for non-general funds and for administratively created funds. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

B&F agreed with our findings and will take appropriate action to close the special fund that did not meet criteria. B&F will also comply with reporting requirements.

B&F did not file statutorily required reports for non-general funds and for administratively created funds. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

Audit of the Office of Health Care Assurance's Adult Residential Care Homes Program

Report No. 18-18, November 2018

PHOTO: THINKSTOCK

Our audit of the Office of Health Care Assurance's Adult Residential Care Homes Program was conducted pursuant to Article VII, Section 10 of the Hawai'i State Constitution and Section 23-4, Hawai'i Revised Statutes, which authorizes the Auditor to conduct post-audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions.

IN REPORT NO. 18-18, we examined the Office of Health Care Assurance's (OHCA) relicensing process. That process is integral to OHCA's ability to ensure that care homes maintain certain quality of care standards to safeguard the health, safety, and welfare of care home residents. Relicensing is a time-consuming effort, which relies heavily on the judgment and discretion of the office's nurse consultants who inspect adult residential care homes (ARCHs) and expanded adult residential care homes (E-ARCHs), and identify deficiencies in quality of care standards.

We found that OHCA renewed licenses without first completing the relicensing process, substituted much less rigorous unannounced care home visits for statutorily required inspections, and issued licenses without inspecting or visiting facilities. About half of the 214 care homes we sampled were allowed to operate in 2017 with either an expired license or a license hastily issued before all required steps of the relicensing process were completed. Of these, OHCA had yet to complete the inspection process from 2016 for 22 care homes. In 2017, 8 care homes in our sample had 20 or more deficiencies with certain quality of care standards, but OHCA relicensed them before those deficiencies were resolved. Most of the time, OHCA simply renewed a care home's license.

In addition, we found that OHCA has no written guidelines to enforce compliance with quality of care standards. For instance, OHCA does not rank specific care home deficiencies according to severity or provide guidance on the number of deficiencies that would disqualify a care home from license renewal. This may at least partially explain why OHCA neither sanctioned nor fined a single care home nor did it completely terminate a single care home license in the 10-year period from 2007 to 2017, even for care homes with substantial or repeat deficiencies.

We found that OHCA's primary objective appears to support the continued operations of care homes, not to ensure the health, safety, or welfare of the facilities' residents as mandated by statute. Perhaps, as a result, we found that OHCA lacks the basic organizational infrastructure necessary to guide and support its relicensing activities, such as a uniform system to track inspections or review and update information. OHCA also has no internal timelines or deadlines for each step of the relicensing process to ensure tasks are completed within a specific timeframe, and ultimately, before a care home's one-year license expires.

"Assurance" is the "A" in OHCA. Assurance assumes that care home residents' health, safety, and welfare are protected. However, relicensing a care home before the inspection process is completed or doing so without verifying compliance does not provide assurance. And, failure to fully define and use enforcement authority does not provide assurance. To the contrary, these circumstances, which we found to exist at OHCA, likely increase the risk to the health, safety, and welfare of care home residents.

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Land and Natural Resources

Report No. 18-19, December 2018

PHOTO: DEPARTMENT OF LAND AND NATURAL RESOURCES

Section 23-12, Hawai'i Revised Statutes, requires the Auditor to review all existing special, revolving, and trust funds every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our sixth review of the Department of Land and Natural Resources' (DLNR) revolving funds, trust funds, and trust accounts, and our second review of DLNR's special funds.

WE REVIEWED 107 funds and accounts administered by DLNR and reported on 37 of them – specifically, 18 special funds, 1 revolving fund, 9 trust funds, and 9 trust accounts. We found nine special funds, four trust funds, and four trust accounts did not meet criteria – specifically, eight special funds and one trust fund should be evaluated to determine if they should be continued; one special fund, two trust funds, and two trust accounts should be closed; two trust accounts should be reclassified to trust funds; and one trust fund should be reclassified to a trust account.

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

We found that three DLNR special funds and related sub-accounts had no financial activity during the five-year period we reviewed. As of June 30, 2018, these idle funds and accounts had remaining balances of nearly $1.9 million, which is an inefficient use of public funds. We also noted that DLNR did not file statutorily required reports for non-general funds and administratively created funds, and pointed out that accurate and complete reporting would greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility. We further found DLNR did not transfer the State's $26 million portion of ceded land revenues to the general fund in a timely manner, and recommend DLNR work with the Department of Budget and Finance to ensure the State's full portion is transferred at least annually.

DLNR agreed with our assessment that six funds and 2 accounts did not meet criteria, and will evaluate whether those funds and accounts should be continued, closed, or reclassified. However, DLNR disagreed with our assessment that another six funds and 2 accounts also did not meet criteria; after reviewing DLNR's reasoning, we maintain that our analyses are appropriate.

Additionally, we found the Special Land and Development Fund did not completely meet criteria for a special fund because there is no clear nexus between the program and the portion of highway fuel tax that provides revenue to the fund. While DLNR asserts there is a nexus between the fuel tax and the visitor industry, we found the nexus to be tenuous as there needs to be a clear link between the revenue source and the program.

DLNR agreed with our observations about inactive balances, timely reporting, and ensuring annual transfers of the State's portion of ceded lands.

PHOTO: THINKSTOCK

Study of Proposed Mandatory Health Insurance for Port-Wine Stains

Report No. 18-20, December 2018

In the 2018 legislative session, the Hawai'i State Legislature contemplated mandating insurance coverage for treatment of port-wine stains, irrespective as to whether the treatment is deemed to be medically necessary.

IN REPORT NO. 18-20, *Study of Proposed Mandatory Health Insurance for Port-Wine Stains,* we surveyed Hawai'i's health-plan providers and found that insurance coverage is currently provided for "medically necessary" treatment. However, there are differing positions between health insurers and health care providers as to when treatments for port-wine stains are for cosmetic purposes and when treatments are considered medically necessary. The majority of health care insurers surveyed said that medical treatments are deemed necessary when a patient experiences some functionality issues resulting from a port-wine stain. However, some health care providers argue that port-wine stains may negatively impact a patient's quality of life and have psychological impacts even where there are no functionality issues.

State law requires an impact assessment by the Auditor before any legislative measure mandating health insurance coverage for a specific health service, disease, or provider can be considered. In our examination of the potential social and financial effects of mandating health insurance coverage for port-wine stains, the majority of insurers either could not provide the total number of members who received medical treatment for port-wine stains over a three-year period, or said that they did not receive any claims for such treatments. Based on data reported in published studies, we estimated that the number of people in Hawai'i that have port-wine stains ranged from nearly 600 to roughly 7,100 people.

The scope of coverage under House Bill No. 1705, H.D. 1, also presented some challenges to our assessment. The proposed mandate does not consider medical necessity and would, therefore, apply to all port-wine cases. The majority of insurers surveyed replied that mandated coverage would cause insurance premiums to increase, but did not provide an estimate. As raised in this report, there will be several issues to address when considering whether to implement House Bill No. 1705, H.D. 1.

We found that insurance coverage is currently provided for "medically necessary" treatment. However, there are differing positions between health insurers and health care providers as to when treatments for port-wine stains are for cosmetic purposes and when treatments are considered medically necessary.

PHOTO: OFFICE OF THE AUDITOR

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

Report No. 18-21, December 2018

Section 23-12, Hawai'i Revised Statutes, requires the Auditor to review all existing special, revolving, and trust funds every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our sixth review of the revolving funds, trust funds, and trust accounts, and our second review of the special funds of the Department of Accounting and General Services.

WE REVIEWED 92 funds and accounts administered by the Department of Accounting and General Services (DAGS) and reported on 33 of them – specifically, 7 special funds, 6 revolving funds, 7 trust funds, and 13 trust accounts. We found two special funds, two trust funds, and four trust accounts did not meet criteria – specifically, two special funds, two trust funds, and three trust accounts should be closed, and one trust account should be reclassified to a trust fund.

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

We also noted that DAGS did not file statutorily required reports for administratively created funds. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

DAGS agreed with our findings and will take appropriate action to close the identified funds and accounts that did not meet criteria and reclassify the one trust account to a trust fund. DAGS indicated it will also comply with reporting requirements.

In reference to the Shared Services Technology Special Fund, DAGS disagreed with our conclusion that the fund did not meet the criteria of a special fund and said that it will "defer" to the Legislature regarding whether the fund meets the criteria. The Legislature charged the Office of the Auditor with reviewing the funds maintained by state departments,

In reference to the Shared Services Technology Special Fund, DAGS disagreed with our conclusion that the fund did not meet the criteria of a special fund and said that it will "defer" to the Legislature regarding whether the fund meets the criteria. The Legislature charged the Office of the Auditor with reviewing the funds maintained by State departments, including DAGS.

including DAGS. That review includes assessing whether the funds should be continued based on criteria established by the Legislature. For a special fund, one of the criteria is that the fund "[s]erves a need as demonstrated by . . . [a]n explanation as why the program cannot be implemented successfully under the general fund appropriation process," Section 37-52.3, HRS. As we reported, DAGS represented to us that the program which the special fund supports can be implemented under the general fund appropriation process.

On that basis, we concluded that the fund did not meet the criteria of a special fund. Furthermore, in our prior fund review, Report No. 14-01 (March 2014), DAGS expressed its intention to move the positions funded by this special fund to general-funded positions.

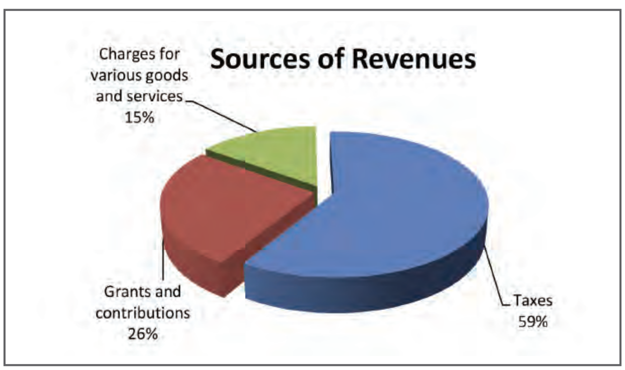
Summary of 2017 Financial Audits

Summary of 2017 Financial Audits

To attest to the fairness of agencies' financial statements, the Office of the Auditor, through contracted CPA firms, examines the adequacy of their financial records and accounting and internal controls, and determines the legality and propriety of the expenditures. In 2018, we administered 20 financial audit contracts, including the State's Comprehensive Annual Financial Report and Single Audit Report.

State of Hawai'i Comprehensive Annual Financial Report – June 30, 2017

For the fiscal year ended June 30, 2017, total revenues were $11.6 billion and total expenses were $11.8 billon, resulting in a decrease in net position of $200 million. Approximately 58 percent of the State's total revenues came from taxes of $6.7 billion, 27 percent from grants and contributions of $3.1 billion, and 15 percent from charges for various goods and services of $1.8 billion.



Total tax revenues of $6.7 billion consisted of general excise taxes of $3.2 billion, net income taxes of $2.4 billion, and other taxes of $1.1 billion.

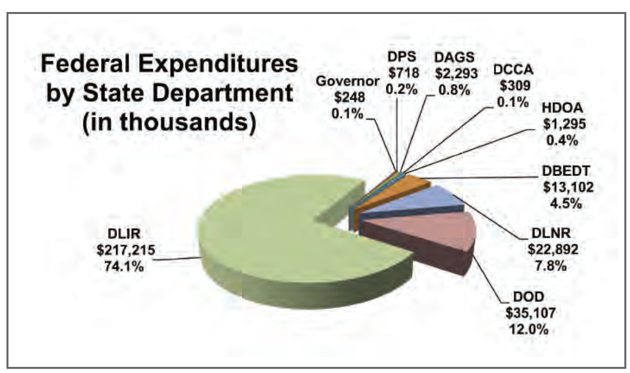
The largest expenses were for welfare at $3.5 billion, lower education at $3.2 billion, higher education at $900 million, health at $900 million, and general government at $600 million.

As of June 30, 2017, total assets and deferred outflows of resources of $24 billion exceeded total liabilities and deferred inflows of resources of $22.9 billion, resulting in a net position of $1.1 billion. Of this amount, $4.8 billion was for the State's net investment in capital assets, $3.1 billion was restricted by parties outside of the state (such as citizens, public interest groups, or the judiciary), and a negative $6.8 billion in unrestricted assets.

The State received an unmodified opinion from the auditors at Accuity LLP that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

State of Hawai'i Single Audit of Federal Financial Assistance Programs of the State of Hawai'i Report – June 30, 2017

This report includes the total federal expenditures and findings related to only those departments that are included in the State of Hawai'i Single Audit of Federal Financial Assistance Programs for the fiscal year ended June 30, 2017. Federal expenditures totaled approximately $293.2 million. The auditors from Accuity LLP identified three significant deficiencies in internal controls over financial reporting that are required to be reported in accordance with *Government Auditing Standards*.* They also expressed a qualified opinion on certain major federal programs and identified five material weaknesses and ten significant deficiencies over compliance with major federal programs that are required to be reported in accordance with the *Uniform Guidance*.**



* The U.S. Government Accountability Office's Government Auditing Standards (Government Auditing Standards).

Department of Accounting and General Services, State Motor Pool Revolving Fund – June 30, 2017 Financial Statements

For the fiscal year ended June 30, 2017, the fund reported total revenues of $2.5 million and total operating expenses of $2.9 million, resulting in a net loss of $400,000. Motor vehicle rentals and repairs represented 95 percent of the fund's total revenue. Total operating expenses of $2.9 million consisted of personnel services of $1.2 million, depreciation of $900,000, gas and oil of $300,000, repairs and maintenance of $300,000, and other costs of $200,000. The fund received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors of KPMG LLP reported no deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department of Accounting and General Services, State Parking Revolving Fund – June 30, 2017 Financial Statements

For the fiscal year ended June 30, 2017, the fund reported total revenues of $3.7 million and total expenses of $3.7 million. Total revenues consisted of parking assessments of $2.5 million, parking meter collections of $1 million, and traffic fines and other income of $200,000. Total expenses consisted of depreciation of $600,000, personnel services of $1.9 million, repairs and maintenance of $500,000, and other expenses of $700,000. The fund received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors of KPMG LLP reported no deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**The U.S. Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards, located in Title 2, Part 200, Code of Federal Regulations (Uniform Guidance).

Department of the Attorney General – June 30, 2017 Financial Statements and Single Audit Report

For the fiscal year ended June 30, 2017, the department reported total revenues of $93.4 million and total expenses of $95.1 million, resulting in a decrease in net position of $1.7 million. Revenues include general revenues of $42.3 million, consisting primarily of state general fund appropriations, program revenues of $22.4 million, and $28.7 million in operating grants and contributions. Total expenses of $95.1 million consisted of $54.9 million for general administrative and legal services, $25.6 million for child support enforcement, $7.5 million for crime prevention and justice assistance, and $7.1 million for criminal justice data center activities. The department received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The department also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. The auditors from Akamine, Oyadomari & Kosaki, CPAs, Inc. reported no deficiencies in internal control over financial reporting that were considered to be material weaknesses that are required to be reported under *Government Auditing Standards*. However, the auditors identified two deficiencies in internal control over financial reporting that are significant deficiencies. The auditors reported no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance.* However, the auditors identified two deficiencies in internal control over compliance that are significant deficiencies.

Hawai'i Employer-Union Health Benefits Trust Fund – June 30, 2017 Financial Statements

The Employer-Union Health Benefits Trust Fund (EUTF) has three types of funds: an enterprise fund, an agency fund, and an Other Post-Employment Benefits (OPEB) trust fund.

ENTERPRISE FUND: For the fiscal year ended June 30, 2017, net operating revenues totaled $126.3 million and operating expenses totaled $100.2 million, resulting in a net operating income of $26.1 million. The net operating revenues consisted of premium revenue self-insurance of $95.6 million and experience refunds of $30.7 million. The operating expenses consisted of benefit claims expense of $89.6 million, administrative operating expenses of $7.6 million, depreciation of $800,000, and $2.2 million for other operating expenses. As of June 30, 2017, assets totaled $136.6 million and liabilities totaled $61 million, resulting in a net position balance of $75.6 million.

AGENCY FUND: As of June 30, 2017, the EUTF's Agency Fund held $230.4 million in assets, which included $147.8 million in cash and investments, $74.4 million in receivables, and $8.2 million in deposits with insurance carriers. Agency Fund liabilities totaled $230.4 million, of which $191.8 million was held on behalf of employers for retiree benefits.

OPEB TRUST FUND: For the fiscal year ended June 30, 2017, total additions were $567.8 million, of which $427.3 million were from employer contributions and $140.5 million were from net investment earnings. As of June 30, 2017, the OPEB Trust Fund net position balance totaled $1.78 billion. EUTF received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors from KKDLY LLC reported no deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hawai‘i Convention Center – December 31, 2017 Special Purpose Financial Statements

For the year ended December 31, 2017, the center reported total operating revenues of $17.6 million, total operating expenses of $22.5 million, and $8.6 million in net contributions from the Hawai‘i Tourism Authority, which resulted in a change in net assets of $3.7 million. Revenues consisted primarily of $12.8 million from food and beverage, $2.3 million from rental income, $2.4 million from events, and $100,000 from other operating revenues. Expenses consisted of $7 million for personnel services, $4.7 million for building-related expenses, $4.5 million for cost of goods sold, and $6.3 million for other costs. The center received an unmodified opinion from the auditors of CW Associates, a Hawai‘i Certified Public Accounting Corporation that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Hawai'i Housing Finance and Development Corporation – June 30, 2017 Financial Statements and Single Audit Report

For the fiscal year ended June 30, 2017, the corporation reported total program revenues of $88 million and total program expenses of $48 million. As of June 30, 2017, total assets and deferred outflows of resources of $1.2 billion exceeded total liabilities and deferred inflows of resources of $403 million, resulting in a net position of $830 million. Total assets and deferred outflows of resources of $1.2 billion were comprised of cash of $329 million, investments of $63 million, notes and loans receivable of $590 million, due from the State and other state departments of $122 million, net capital assets of $86 million, and other assets and deferred outflows of resources of $43 million. The corporation received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The corporation also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance.* The auditors from Accuity LLP reported no deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance.*

Hawai'i Tourism Authority – June 30, 2017 Financial Statements

For the fiscal year ended June 30, 2017, the authority reported total revenues of $118.9 million and total expenses and transfers of $106.1 million. Revenues consisted of $108.5 million from the Transient Accommodations Tax and $10.1 million from charges for services, and interest of $300,000. Total expenses of $106.1 million consisted of $84.1 million for contracts, $10.3 million for interest on debt obligations, $7.3 million for depreciation, and $4.4 million for payroll, administrative and other costs. The authority received an unmodified opinion that the financial statements were presented fairly, in all material aspects, in accordance with generally accepted accounting principles. The auditors from CW Associates, a Hawai'i Certified Public Accounting Corporation reported no material weaknesses in internal control over financial reporting, and no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Department of Education – June 30, 2017 Financial Statements and Single Audit Report

For the fiscal year ended June 30, 2017, the department reported total revenues of $2.92 billion and total expenses of $2.82 billion, resulting in a change in net position of $98 million. Total revenues of $2.92 billion consisted of $1.99 billion in state allotted appropriations, net of lapsed funds, $597 million in non-imposed employee wages and fringe benefits, $269 million in operating grants and contributions, $2 million in capital grants and contributions, and $59 million in charges for services. Total expenses of $2.82 billion consisted of $2.6 billion for school-related costs, $66 million for state and school complex area administration, $50 million for public libraries, and $105 million for capital outlay. The department received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOE also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. The auditors from N&K CPAs, Inc., reported no deficiencies in internal controls over financial reporting that were considered to be material weaknesses and required to be reported under *Government Auditing Standards*. However, the auditors identified one deficiency in internal controls over financial reporting that is considered a significant deficiency. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

Department of Hawaiian Home Lands – June 30, 2017 Financial Statements and Single Audit Report

For the fiscal year ended June 30, 2017, the department's total revenues exceeded total expenditures by $8.6 million. Total revenues were $61.9 million (program revenue of $45.4 million and state appropriations and transfers of $16.5 million), and expenses totaled $53.3 million. Approximately 19 percent of program revenues of $45.4 million came from interest income, 42.7 percent from grants and contributions, 37 percent from the general lease program, and 1.3 percent from other sources. The department received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The department also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. The auditors of Accuity, LLP reported no deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The auditors reported no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*. However, there was one other matter that was required to be reported under the *Uniform Guidance*.

Department of Health, Drinking Water Treatment Revolving Fund – June 30, 2017 Financial Statements

For the fiscal year ended June 30, 2017, the fund reported total operating revenues of $2.7 million and total operating expenses of $7.2 million, resulting in an operating loss of $4.5 million. The fund also received nonoperating revenues of $15.4 million, resulting in a net increase in net position of $10.9 million. The fund's total assets and deferred outflows of resources was $202.2 million, which included $51.8 million in current assets, $148.9 million in loans receivable (net of current maturities), $632,000 in net capital assets, and $865,000 in deferred outflows of resources. The fund received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors of KMH LLP reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.* The auditors determined that the fund complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on its program.

Department of Health – June 30, 2017 Financial Statements and Single Audit Report

For the fiscal year ended June 30, 2017, the department reported total revenues of $802 million and total expenses of $739 million, resulting in a change in net position of $63 million. Revenues consisted of $616 million from general revenues, $148 million from operating grants and contributions, and $38 million from service charges. Total expenses of $739 million consisted of $289 million for health resources, $314 million for behavioral health, $90 million for environmental health, and $46 million for general administration. The department received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The department received a qualified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. The auditors of KMH LLP reported two material weaknesses and one significant deficiency in internal control over financial reporting that are required to be reported under *Government Auditing Standards*. The auditors also reported six material weaknesses and four significant deficiencies in internal control over compliance in accordance with the *Uniform Guidance*.

Department of Health, Water Pollution Control Revolving Fund – June 30, 2017 Financial Statements

For the fiscal year ended June 30, 2017, the fund reported total operating revenues of $3.1 million and total operating expenses of $3.5 million, resulting in an operating loss of $400,000. The fund also received nonoperating revenues of $13.8 million, resulting in an increase in net position of $13.4 million. The fund's total assets and deferred outflows of resources was $521 million, which included $185.2 million in current assets, $334.4 million in loans receivable (net of current maturities), and $1.4 million in net capital assets and deferred outflow of resources. The fund received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors of KMH LLP reported no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.* The auditors determined that the fund complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on its program.

Department of Human Services – June 30, 2017 Financial Statements and Single Audit Report

For the fiscal year ended June 30, 2017, the department reported total revenues of $3.63 billion and total expenses of $3.64 billion. Revenues consisted of $1.28 billion of state allotments, net of lapsed amounts plus non-imposed employee fringe benefits, and $2.35 billion in program revenues, which consist of operating grants from the federal government. Revenues from these federal grants paid for 65 percent of the cost of the department's activities. Health care and general welfare assistance programs comprised 72.4 and 21.2 percent, respectively, of the total cost. The department received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors from KMH LLP expressed a qualified opinion on its compliance with requirements that could have a direct and material effect on its major federal programs, with the exception of the Low-Income Home Energy Assistance, which received an unmodified opinion in accordance with the *Uniform Guidance*. The auditors reported one significant deficiency in internal control over financial reporting that is required to be reported under *Government Auditing Standards*. There were 13 material weaknesses and three significant deficiencies in internal control over compliance that are required to be reported in accordance with the *Uniform Guidance*.

Hawai'i Public Housing Authority – June 30, 2017 Financial Statements and Single Audit Report

For the fiscal year ended June 30, 2017, the authority reported total revenues of $160 million and total expenses of $142 million, resulting in a change in net position of $18 million. Total revenues of $160 million consisted of $22 million in charges for services, $90 million in operating grants and contributions, $6 million in capital grants and contributions, and

$42 million in State allotted appropriations, net of lapsed funds. The authority received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The department also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. The auditors of KMH LLP reported no deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

Department of Transportation, Administration Division – June 30, 2017 Financial Statements

For the fiscal year ended June 30, 2017, the division reported total revenues of $24.7 million, total expenses of $19.6 million, and transfers to other DOT divisions of $1.5 million, resulting in change in net position of $3.6 million. The transfers relate to unencumbered cash balances related to assessment revenues from those divisions. Revenues primarily consisted of $18.2 million from assessments, $5.2 million from federal grants, and $1.3 million from other revenue sources. Total expenses of $19.6 million consisted of $5.8 million for operating grants and $13.8 million for administration. The division received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The divison also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. The auditors from Egami & Ichikawa, Certified Public Accountants, Inc. reported no deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

Department of Transportation, Airports Division – June 30, 2017 Financial Statements and Single Audit Report

For the fiscal year ended June 30, 2017, the division reported total revenues of $545 million and total expenses of $409 million, resulting in an increase in net position of $136 million. Revenues consisted of $161 million in concession fees, $78 million in landing fees, $149 million in rentals, $114 million in facility charges, $24 million in federal operating and capital grants, and $19 million in interest and other income. Total expenses of $409 million consisted of $265 million for operations and maintenance, $100 million in depreciation, $19 million for administration, and $25 million in interest and other expenses. The division received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The division also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. The auditors of BKD, LLP reported one significant deficiency in internal control over financial reporting that was considered a material weakness and required to be reported under *Government Auditing Standards*. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

Department of Transportation, Highways Division – June 30, 2017, Financial Statements and Single Audit Report

For the fiscal year ended June 30, 2017, the division reported total revenues of $423 million, total expenses of $490 million, and transfers of $34 million from other state departments for the payment of debt service on general obligation bonds and for capital improvement projects, resulting in a decrease in net position of $33 million. Revenues consisted of $217 million in taxes, $148 million in grants and contributions primarily from the Federal Highway Administration, $55 million in charges for services, and $3 million in investment income and other revenues. Expenses consisted of $180 million for operations and maintenance, $203 million in depreciation, $87 million for administration and other expenses, and $20 million in interest. The division received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The division also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. The auditors from KKDLY LLC reported no deficiencies in internal control over financial reporting that were material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.* There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*. However, there was one significant deficiency in internal control over compliance.

Department of Transportation, Harbors Division – June 30, 2017 Financial Statements

For the fiscal year ended June 30, 2017, the division reported total revenues of $140.1 million, total expenses of $103.6 million, and capital contributions of $300,000 from federal grants restricted for capital asset acquisition and facility development, resulting in an increase in net position of $36.8 million. Total revenues consisted of $113.2 million in services, $22.9 million in rentals, $2.4 million in interest income, and $1.6 million in other income. Expenses consisted of $30.9 million for depreciation, $21.7 million for harbor operations, $21.5 million for personnel, $15.1 million for administration and other costs, and $14.4 million for interest expense and bond costs. The division received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors of KKDLY LLC reported no deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Oahu Metropolitan Planning Organization – June 30, 2017 Financial Statements and Single Audit Report

O'ahu Metropolitan Planning Organization (OahuMPO) reported total revenues of approximately $1.4 million and total expenses of approximately $1.4 million, resulting in no change in net position. Revenues consisted of $1.1 million from federal grants and $280,000 from state and city contributions. Total expenses consisted of $255,000 for transportation forecasting and long-range planning, $185,000 for short-range transportation system and demand management planning, $144,000 for transportation monitoring and analysis, and $821,000 for program coordination and administration. OahuMPO received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. OahuMPO received a qualified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. The auditors of N&K CPAs Inc. reported five significant deficiencies in internal controls over financial reporting that were required to be reported under *Government Auditing Standards*, and none of which were considered to be material weaknesses. The auditors also identified one material weakness and two significant deficiencies in internal control over compliance that are required to be reported in accordance with the *Uniform Guidance*.

Office of the Auditor Appropriations and Expenditures on a Budgetary Basis for the Fiscal Year Ended June 30, 2018

Appropriations

Act 1, SLH 2017 (Operations)	$3,001,649
Act 1, SLH 2017 (Special Studies)	150,000
Act 1, SLH 2017 (Audit Revolving Fund)	2,800,000
Act 1, SLH 2017 (Accrued Vacation Payments)	68,106
Act 1, SLH 2017, First Special Session:	
Audit of Honolulu Authority for Rapid Transportation (HART)	1,000,000
Act 21, SLH 2017 (Public Employment Cost Items)	60,007
Act 209, SLH 2017	
Audit of Department of Land and Natural Resources (DLNR)	100,000
	$7,179,762

Expenditures

Staff salaries	$2,155,804
Contractual services (operational)	0
Other expenses	109,725
Special studies	0
Contractual services (Audit Revolving Fund)	2,800,000
Contractual Services (DLNR Audit)	0
Contractual Services (HART Audit)	21,525
	$5,087,054

Excess of Appropriation over Expenditures

Act 1, SLH 2017 (operations)	$796,127
Act 1, SLH 2017 (special studies)	150,000
Act 1, SLH 2017 (Audit Revolving Fund)	0
Act 1, SLH 2017 (Accrued Vacation Payments)	68,106
Act 1, SLH 2017 First Special Session (HART Audit)	978,475
Act 21, SLH 2017 (Public Employee Cost Items)	0
Act 209, SLH 2017 (DLNR Audit)	100,000
	$2,092,708

OFFICE OF THE AUDITOR
STATE OF HAWAIʻI

Constitutional Mandate

Pursuant to Article VII, Section 10 of the Hawaiʻi State Constitution, the Office of the Auditor shall conduct post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the State and its political subdivisions.

The Auditor's position was established to help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent.

Hawaiʻi Revised Statutes, Chapter 23, gives the Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every agency. The Auditor also has the authority to summon people to produce records and answer questions under oath.

Our Mission

To improve government through independent and objective analyses.

We provide independent, objective, and meaningful answers to questions about government performance. Our aim is to hold agencies accountable for their policy implementation, program management, and expenditure of public funds.

Our Work

We conduct performance audits (also called management or operations audits), which examine the efficiency and effectiveness of government programs or agencies, as well as financial audits, which attest to the fairness of financial statements of the State and its agencies.

Additionally, we perform procurement audits, sunrise analyses and sunset evaluations of proposed regulatory programs, analyses of proposals to mandate health insurance benefits, analyses of proposed special and revolving funds, analyses of existing special, revolving and trust funds, and special studies requested by the Legislature.

We report our findings and make recommendations to the governor and the Legislature to help them make informed decisions.

For more information on the Office of the Auditor, visit our website:
http://auditor.hawaii.gov

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