STATE OF HAWAIʻI
OFFICE OF THE AUDITOR
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DEPT. COMM. NO. 391

March 8, 2023

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: ***2022 Annual Report***

Dear President Kouchi and Speaker Saiki:

Please find attached a copy of our *2022 Annual Report*, which includes summaries of the performance and financial audit reports that were issued since July 1, 2021.

The report is accessible through our website at:
https://files.hawaii.gov/auditor/Reports/2022/2022AnnualReport.pdf.

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

Very truly yours,

Leslie H. Kondo
State Auditor

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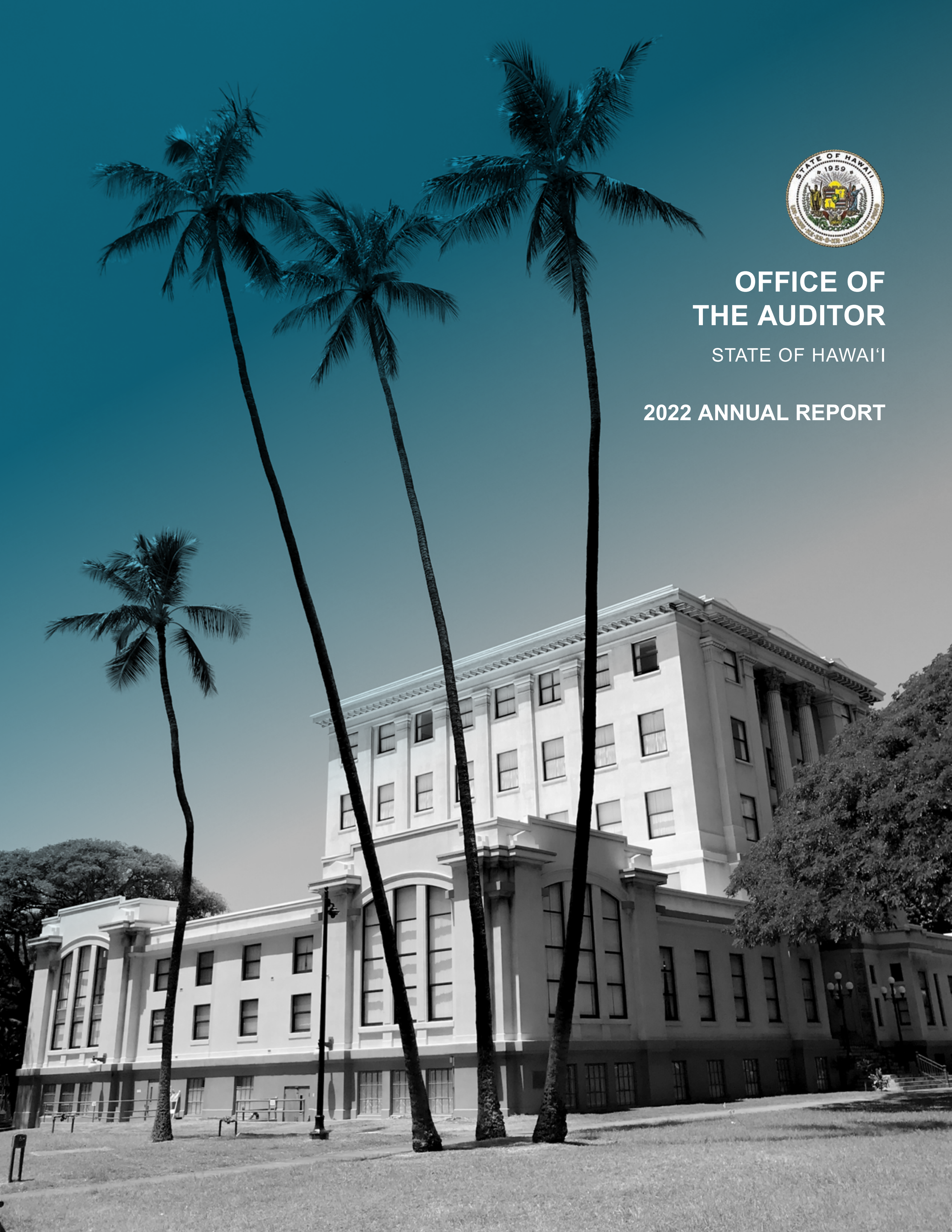
Attachment

ec/attach: Members of the Senate
Members of the House of Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

OFFICE OF THE AUDITOR

STATE OF HAWAIʻI

2022 ANNUAL REPORT



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:
https://auditor.hawaii.gov

PHOTO: OFFICE OF THE AUDITOR

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Message from the Auditor

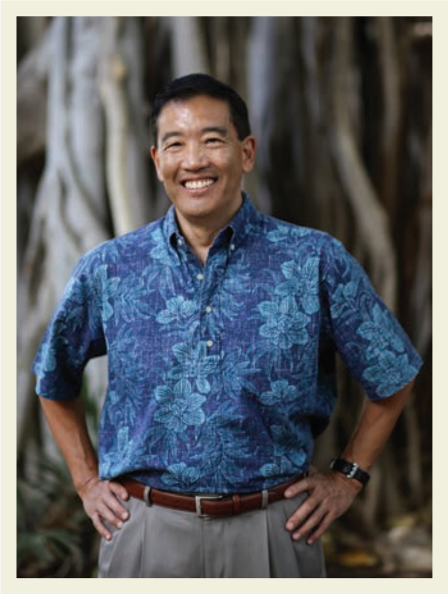

PHOTO: MICHAEL KEANY

WELCOME to this annual report, which highlights the Office of the Auditor's work since July 1, 2021.

During 2022, our staff returned to the office more frequently, gathering in conference rooms instead of virtually and collaborating face-to-face instead of online. We socially distanced and wore masks, but we were together, bringing a welcome buzz of activity back to the office and the camaraderie and collaboration that proved challenging in a remote work environment.

This report summarizes performance audits of the Department of Public Safety and the Office of Language Access; financial audits of 20 agencies; assessments of whether the state should require health insurers to provide coverage for fertility preservation services for cancer patients as well as for ambulance services; assessments of proposed regulation for the school psychologist and community health worker professions; reviews of non-general funds for 3 departments; and follow-up reports on prior audits of the Office of Hawaiian Affairs, the Hawai'i Tourism Authority, and the Department of Land and Natural Resources' Land Conservation Fund. Copies of our reports are available on our website: auditor.hawaii.gov.

Our performance audit of the Department of Public Safety focused on staffing, finding that the department's method for calculating the number of security staff positions to safely operate the prison was outdated, leading to closed posts, suspended inmate programs, reassigned corrections officers, and significant amounts of overtime. Our performance audit of the Office of Language Access examined the agency tasked with improving access to state government for individuals with limited English proficiency. We found that the agency, established in 2006, has done little to ensure meaningful language access to government services, programs, and activities for this population, as required by federal and state law.

We look forward to furthering our efforts to improve efficiency and effectiveness in state government in 2023.

Mission of the Office of the Auditor

Improving government through independent and objective analyses.

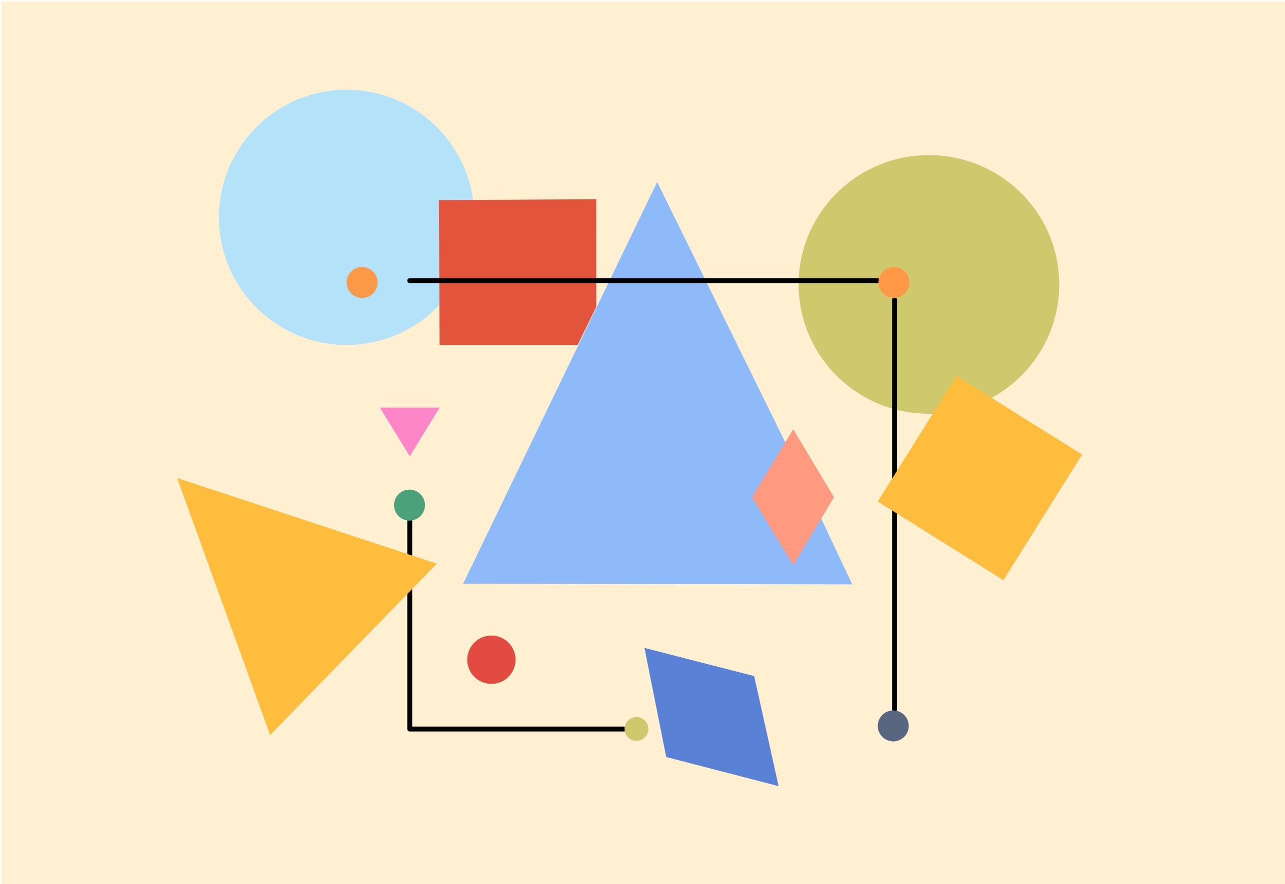

ILLUSTRATION: ISTOCK.COM

Different, But the Same

While each of our diverse staff brings a unique perspective to the table, we all came to the office to help hold government accountable.

WE'VE GOT A LOT OF ACCOMPLISHED PEOPLE on our staff, including former journalists, lawyers, real estate professionals, a certified public accountant, a former law clerk to a Hawai'i Supreme Court justice, and a former clerk to a Hawai'i Intermediate Court of Appeals judge. We have a mix of employees from the private sector and those who have been in state government for years. Among our more recent hires is a former legislative committee clerk, an internal auditor at one of Las Vegas' largest gaming companies, and a one-time park ranger. We even have two doctors in our house: a doctor of philosophy and a doctor of cultural anthropology.

We take advantage of the wealth of knowledge within our walls and, more importantly, we depend on an abundance of research and interviewing skills to gather meaningful, relevant data and evidence out in the field. The diversity of experience among our staff enables us to meet the challenge of reporting on a variety of disparate topics each year. But it also makes us smarter, helping ensure that our reports are independent, objective, and meaningful.

According to a 2016 article in *Harvard Business Review*,[1] diverse teams simply perform better. While team members with similar backgrounds may collaborate more smoothly and give the sensation of progress, in exercises, adding an outsider versus an insider more than doubled a team's chance of arriving at the correct solution, from 29 percent to 60 percent. The reasons are simple. Diverse members bring different viewpoints and ideas, process information more carefully, and scrutinize one another's ideas.

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[1] "Diverse Teams Feel Less Comfortable – and That's Why They Perform Better" by David Rock, Heidi Grant, and Jacqui Grey. *Harvard Business Review*. September 22, 2016.

Diverse members bring different viewpoints and ideas, process information more carefully, and scrutinize one another's ideas.

The Auditor's staff is a collegial crew, civil and respectful, but we do not – or cannot – shy away from difficult or uncomfortable conversations, especially those held in our own conference rooms. Each of us came to the office to help hold government accountable; each of us brings a unique perspective to the table; and each of us relies on our colleagues to review, revise, and challenge our work until it meets both internal standards and broadly recognized standards for government auditing. And we are all accountability professionals – government watchdogs, in some parlance – trained to offer recommendations intended to improve state government when we identify something amiss.

Our staff does not hesitate to highlight statements in our draft reports that need further support to verify they are factual, fair, and based on competent evidence rather than speculation or subjective opinion. This can make for lively discussions, but it keeps us objective and instills confidence that our conclusions are based on the evidence we have collected. Our drafting process forestalls anything from casually or carelessly being inserted into our reports; every sentence we publish has first passed through a series of reviews, including an independent quality assurance review.

A diversity of staff education and experience isn't just nice to have – under the federal *Government Auditing Standards* that guide our audit work, it's practically a requirement. *Government Auditing Standards* require that our auditors "collectively possess the competence" to make sound professional judgments. The standards further suggest developing a recruitment, hiring, and training process to ensure that the staff, as a whole, has the essential skills, knowledge, and abilities needed to conduct our work.

We also look for ways to further develop our skills and knowledge specific to auditing, as well as in subject matters relevant to Hawai‘i government, such as Native Hawaiian Law Training offered in 2022. Our auditors must complete a minimum of 80 hours of continuing professional education every 2 years, 56 hours of which must directly enhance auditors' professional expertise. Our audit staff has completed in-person training from the U.S. Government Accountability Office on *Government Auditing Standards*, has attended training sponsored by organizations such as the National Legislative Program Evaluation Society (NLPES) and the National Association of State Auditors, Comptrollers, and Treasurers (NASACT), and has participated in working group meetings involving federal inspector generals and other state audit offices in addition to other professional development relevant to our individual roles in the office.

The office is also subject to regular professional peer reviews by independent, external accountability professionals. Those accountability professionals are government auditors from other states, independent reviewers who have experience in conducting government performance audits. Reviews are thorough and exacting, resulting in an opinion on whether we truly are meeting government auditing standards. A 2022 peer review of our office noted staff are dedicated and believe in the work of our office, reinforcing what we have known all along – the strength of this office is in our people and their commitment to the work of making government better.

Summary of Reports

July 1, 2021 to December 31, 2022

PHOTO: OFFICE OF THE AUDITOR

Follow-Up on Recommendations from Report No. 18-09, *Audit of the Department of the Attorney General's Asset Forfeiture Program*

Report No. 21-09, July 2021

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 presents the results of our review of recommendations made to the Department of the Attorney General (the department) in Report No. 18-09, Audit of the Department of the Attorney General's Asset Forfeiture Program*, which was published in June 2018.*

IN REPORT NO. 18-09, we found the department was administering the program without administrative rules describing the specific procedures and practice requirements for asset forfeiture or clear internal policies and procedures to ensure that petitions for forfeiture, as well as petitions for remission or mitigation, are timely and consistently processed.

In the absence of administrative rules, the program was providing only informal, piecemeal guidance to law enforcement agencies and the public, resulting in, among other things, numerous petitions for forfeiture being dismissed by the department and inconsistent handling of forfeited property by county police departments. We also found the program manager was acting only as a property manager in charge of overseeing forfeited property, but neither actively guiding the program's day-to-day activities nor overseeing the financial management of the program.

Our follow-up efforts were limited to reviewing and reporting the implementation status of our audit recommendations. We did not explore new issues or revisit old ones that did not relate to the original recommendations. Report No. 21-09 details the audit recommendations made in 2018 and their current implementation status based on our review of information and documents provided by the Department of the Attorney General, and other publicly available information.

In 2021, we found the department had promulgated administrative rules but noted the administrative rules did not address the process by which organizations can request and receive moneys from the Criminal Forfeiture Fund for drug abuse education, prevention, and rehabilitation programs. We also found while the department had made some effort to document procedures, a two-page document entitled "Processing of Forfeiture Petitions - Time requirement as cited in the Statute and the Administrative Rules" was intended for law enforcement and the department had not yet developed written policies and procedures sufficient to guide and direct department staff in processing petitions for administrative forfeiture.

The department did provide evidence that petitions for administrative forfeiture have been processed in a comparatively more timely fashion, stating petitions were processed on average in 204 days in FY2020, down from 561 days during the two-year period from July 2012 through

REGARDING THE DEPARTMENT OF THE ATTORNEY GENERAL

In 2021, we found the department had promulgated administrative rules but noted the administrative rules do not address the process by which organizations can request and receive moneys from the Criminal Forfeiture Fund for drug abuse education, prevention, and rehabilitation programs.

July 2014. Additionally, the department stated money from cost bonds, seized funds pending disposition, and forfeited funds are entered into a master ledger and the master ledger is reconciled to the Hawai‘i Financial Accounting and Management and Information System.

Our first recommendation related to the department's need to promulgate administrative rules, and our second recommendation addressed the need for clear internal policies and procedures. Our third recommendation involved strengthening internal controls to provide transparency and accountability for forfeited property and program funds. Our follow-up of the department's implementation of the seven recommendations made in Report No. 18-09 found the department had implemented two of the recommendations, partially implemented two of the recommendations, and three of the recommendations were not implemented.

PHOTOS: ISTOCK.COM

Follow-Up on Recommendations from Report No. 18-08, *Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations*

Report No. 21-10, August 2021

Section 23-7.5, Hawai'i Revised Statutes (HRS), 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 presents the results of our follow-up on the Office of Hawaiian Affairs' implementation of the 11 audit recommendations made in Report No. 18-08, Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations*.*

IN REPORT NO. 18-08, *Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations*, we focused on OHA's use of grants to support Native Hawaiian programs and services. We found that while the policies and procedures for OHA's competitively awarded grants were for the most part defined, there were shortcomings in the way awarded grants were monitored and evaluated. Section 10-17, HRS, requires OHA to monitor and evaluate every grant to ensure compliance with the purpose and intent of the grant, and to determine whether the intended results were achieved. At the time of our audit, OHA's Grants Program Standard Operating Procedures (Grants SOP) manual described four funding resources that involved competitive and non-competitive processes.

We found OHA's 'Ahahui and Community Grants involved a solicitation process that notified the public of available grant funding opportunities and details of eligibility criteria. These grants, awarded through a competitive process, made up 35 percent of OHA's total grant spending. In Report No. 18-08, we found that OHA did not consistently meet the statutory requirements to monitor and evaluate 'Ahahui Grants and mostly met monitoring and evaluation requirements for Community Grants. We also found the program primarily responsible for administering grants, the Transitional Assistance Program, followed the policies and procedures for the planning, solicitation, application, review, and recommendation phases for the 'Ahahui and Community Grants process cycles, but that a standard operating procedures manual for 'Ahahui Grants did not include steps for monitoring and evaluating grants that had been awarded.

In response to Report No. 18-08, OHA instituted specific policies and actions related to its use of 'Ahahui Grants and Community Grants, revising its standard operating procedures for grants to mandate performance requirements and developing an information management system to ensure grants are monitored and evaluated.

We found OHA had implemented 10 and partially implemented 1 of the 11 recommendations made in our report.

PHOTO: OFFICE OF THE AUDITOR

Report on the Implementation of State Auditor's Recommendations 2015 – 2019

Report No. 21-11, October 2021

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 2015–2019. We conducted the follow-ups pursuant to Section 23-7.5, Hawai'i Revised Statutes (HRS), which requires the Auditor to report to the Legislature on each recommendation that 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 agencies to provide us with the status of their implementation of the recommendations made as part of our audit 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 action on recommendations has been taken. Our efforts are limited to reviewing and reporting on an agency's implementation of recommendations made in the original audit report. We do not explore new issues or revisit issues from the report that are unrelated to our original recommendations.

From 2015 to 2019, we made 241 actionable audit recommendations. Based on information self-reported by the agencies and information from active reviews, 209 of those recommendations have been partially or fully implemented.

We based our scope and methodology on the United States Government Accountability Office – formerly the General Accounting Office – (GAO) guidelines, published in *How to Get Action on Audit Recommendations* (1991), as well as the *Government Auditing Standards* and Section 23-7.5, HRS.

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. Effective follow-up is essential to realizing the full benefits of audit work.

PHOTOS: ISTOCK.COM

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Offices of the Governor and Lieutenant Governor

Report No. 21-12, October 2021

Section 23-12, Hawai'i Revised Statutes (HRS), 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 Office of the Governor's revolving funds, trust funds, and trust accounts, and our fifth review of the Office of the Lieutenant Governor's funds and accounts. It is our second review of these offices' special funds since Section 23-12, HRS, was amended by Act 130, Session Laws of Hawai'i 2013, to include reviews of special funds.

WE REVIEWED three trust funds of the Office of the Governor (GOV); the office did not have special funds, revolving funds, or trust accounts during the period of review, FY2017 – FY2021. We found GOV's trust funds did not collect, spend, or transfer any funds in FY2021. GOV closed two of the trust funds during the period under review and planned to close the third. The Office of the Lieutenant Governor did not have any special funds, revolving funds, trust funds, or trust accounts during the same five-year period.

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 was 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 noted that GOV did not file statutorily required reports and funds totaling approximately $1,000. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

GOV did not dispute the findings and will take appropriate action to close a trust fund that no longer serves its original purpose. GOV also stated that it will ensure compliance with all reporting requirements.


PHOTO: OFFICE OF THE AUDITOR

Financial and Program Audit of the Department of Health's Deposit Beverage Container Program, June 30, 2020

Report No. 21-13, December 2021

This audit was conducted pursuant to Section 342G-107, Hawai'i Revised Statutes, which requires the Office of the Auditor to conduct a management and financial audit of the Deposit Beverage Container Program and Deposit Beverage Container Deposit Special Fund in fiscal years ending in even-numbered years, after the initial audit for the fiscal year ended June 30, 2005. The audit for fiscal year ended June 30, 2020, was conducted by the certified public accounting firm of KMH LLP with the assistance of the Office of the Auditor.

IN SEVERAL PRIOR AUDITS, we raised concerns about the Deposit Beverage Container Program's reliance on self-reported data from distributors and redemption centers, explicitly stating that the Department of Health's (DOH) passive oversight exposes the program to possible fraud, waste, and abuse. During an initial meeting with the department, management conceded that they had not addressed any of our previous audit findings, despite actual fraud that was reported in 2018. As a result, we redirected this year's review to ascertain and report why DOH has failed to address the long-standing findings.

DOH's disinterest or reluctance to properly administer the program may be because management does not believe the program should be its responsibility. According to the Deputy Director for Environmental Health at the time, the prior DOH Director believed that the department should not be administering the program in the first place and that those duties should be contracted out. However, administration of the program is a department responsibility, and until the Legislature amends that responsibility, DOH must be accountable for the program's shortcomings.

In earlier audits, we performed very limited testing of distributors and redemption centers' compliance with their respective statutory requirements. We found many instances where distributors and redemption centers have improperly enriched themselves – whether intentionally or not – because of the department's lack of controls and its passive administration. And, because DOH is entirely reliant on distributors to self-report the number of containers sold, and on redemption centers to self-report the number of containers redeemed, there is both incentive and opportunity to continue to do so.

In addition, the moneys that the program collects are the deposits and handling fees collected from consumers that are held in a fund for those consumers who redeem the containers at redemption centers. While the number of containers that consumers redeem continues to decline (which means the fund continues to grow), DOH is accountable for the deposits and handling fees. Should the program ever run short of funds, taxpayers would be – but should not be – responsible for reimbursing the amounts redemption centers pay to consumers who redeem their containers.

If the department believes that the administration of the program is not aligned with its current capabilities, it should hire a third-party to administer the program, which the statute expressly allows. Whether through a third-party or its own staff, we recommend DOH take immediate action to address the deficiencies in the administration of the program that have been repeatedly identified in prior reports.

PHOTO: OFFICE OF THE AUDITOR

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Education and the Hawai‘i State Public Library System

Report No. 22-01, January 2022

Section 23-12, Hawai‘i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds, once every five years. Although not mandated by statute, we include trust accounts as part of our review. This is our sixth review of the revolving funds, trust funds, and trust accounts of the Department of Education (DOE) and our fifth review of the funds and accounts administered by the Hawai‘i State Public Library System (HSPLS). It is our second review of their special funds since Section 23-12, HRS, was amended by Act 130, Session Laws of Hawai‘i 2013, to include reviews of special funds. We last examined these funds and accounts in 2016.

WE REVIEWED 16 special funds, 9 revolving funds, 12 trust funds, and 1 trust account of DOE. We also reviewed two special funds, two trust funds, and two trust accounts of HSPLS. Total fund fiscal year-end balances for DOE amounted to at least $113 million per year during the five-year period reviewed (FY2017 – FY2021). Total fund fiscal year-end balances for HSPLS amounted to at least $5 million per year during the period reviewed.

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

We determined that two DOE trust funds no longer serve their original purposes and should be closed.

During our review of DOE and HSPLS non-general funds, we noted noncompliance with statutory requirements required by Section 37-52.5, HRS. DOE had non-general funds that were administratively created with balances totaling approximately $67.6 million that were not reported to the Legislature as required. HSPLS did not report administratively created non-general funds totaling approximately $3.5 million.

DOE agreed with our recommendation that two trust funds should be closed. Regarding the reporting of non-general funds, DOE said there have been different interpretations of the requirements, but the department will begin submitting the annual notices required by Section 37-52.5, HRS, starting during the 2023 legislative session.

HSPLS agreed with our recommendation that compliance with Section 37-52.5, HRS, should be met.

PHOTO: OFFICE OF HAWAIIAN AFFAIRS

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Office of Hawaiian Affairs

Report No, 22-02, February 2022

Section 23-12, Hawai‘i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds, once every five years. Although not mandated by statute, we include trust accounts as part of our review. This is our sixth review of the revolving funds, trust funds, and trust accounts of the Office of Hawaiian Affairs (OHA). It is our second review of its special funds since Section 23-12, HRS, was amended by Act 130, Session Laws of Hawai‘i 2013, to include reviews of special funds.

WE REVIEWED two special funds, one revolving fund, and one trust fund of OHA. Total fund fiscal year-end balances for OHA amounted to at least $51 million per year during the five-year period reviewed (FY2017 – FY2021).

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

We recommended one special fund be closed because it no longer serves the purpose for which it was created.

We also observed that OHA had non-general funds that were administratively created with balances totaling approximately $15.45 million that were not reported to the Legislature.

OHA agreed with our recommendation that one special fund be closed. However, the agency disagreed with our observation on its reporting of non-general funds, stating the fund in question was a federal revolving fund that was not required to be reported to the Legislature. As we noted in our response, Section 37-52.5(b), HRS, requires OHA to submit a list of all its administratively established funds and accounts to the Legislature, along with a statement of their revenues, expenditures, encumbrances, and ending balances.

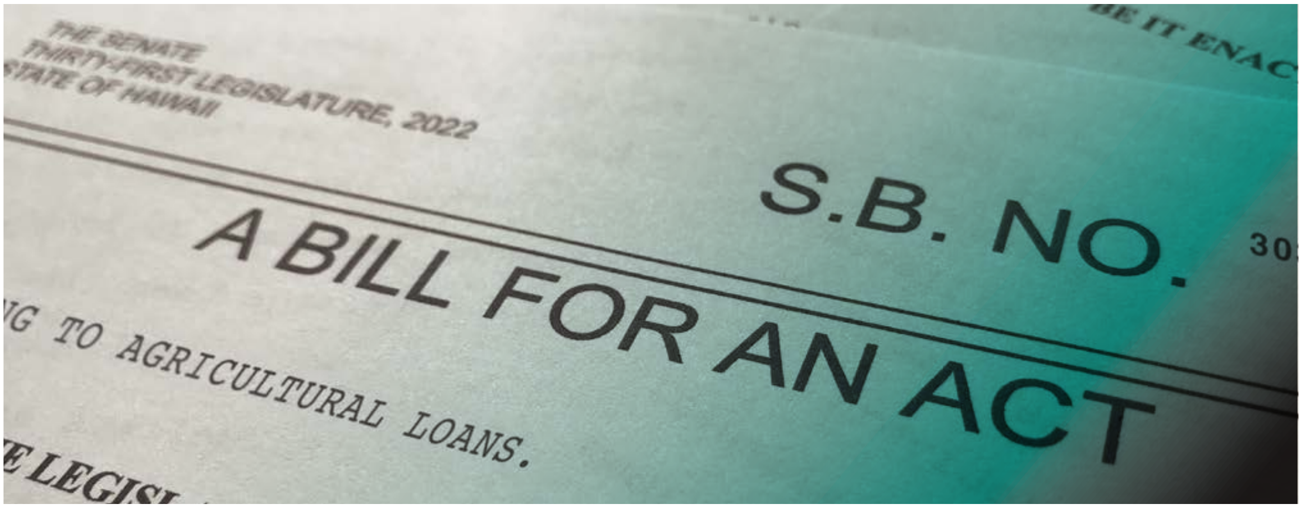


PHOTO: OFFICE OF THE AUDITOR

Analyses of Proposed Special and Revolving Funds 2022

Report No. 22-03, March 2022

This report compiles our analyses of new special and revolving funds proposed by 2022 legislative bills. The analyses were prepared in accordance with Section 23-11, Hawai'i Revised Statutes (HRS), which requires the Auditor to analyze all legislative bills introduced each session that propose to establish new special or revolving funds.

WE REVIEWED 104 Senate and House bills introduced during the 2022 legislative session proposing 63 special and revolving funds. None satisfied the criteria set forth in Section 23-11, HRS, for proposed special and revolving 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. Between 2008 and 2012, the number of these non-general funds and the amount of money contained in them substantially increased. Much of that upward trend had 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. Such funds erode the Legislature's ability to control the state budget through the general fund appropriation process. 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, 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 Hawai'i Supreme Court determined that under only certain conditions could the Legislature "raid" special funds to balance the state budget. In 2013, the Legislature built new safeguards into the criteria for establishing special funds to gain more control over the budget process.

PHOTO: OFFICE OF HAWAIIAN AFFAIRS

Follow-Up on Recommendations from Report No. 18-03, Audit of the Office of Hawaiian Affairs

Report No. 22-04, March 2022

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 presents the results of our follow-up on the Office of Hawaiian Affairs' (OHA) implementation of the 39 audit recommendations made in Report No. 18-03, Audit of the Office of Hawaiian Affairs.

IN REPORT No. 18-03, *Audit of the Office of Hawaiian Affairs*, we reviewed OHA policies and actions regarding use of its Kūlia Initiatives, Fiscal Reserve, CEO Sponsorships, and Trustee Allowances. We found that, over time, OHA had created alternate funding processes to direct more money toward programs, projects, and individuals. Initially, those funding opportunities appeared to be guided by policies, procedures, and guidelines designed to ensure that funds were distributed fairly and equitably. We found those expenditures and other forms of discretionary spending did not undergo the rigorous vetting, monitoring, and reporting requirements of OHA's formal grant process. Some were approved by the Administration without the Board of Trustees' approval or even knowledge.

In fiscal years 2015 and 2016, we found OHA spent nearly twice as much on non-competitive discretionary disbursements ($14 million) as it did on grants that were planned, budgeted, publicized, vetted, and monitored ($7.7 million). To fund these unplanned expenditures, OHA realigned its budget by $8 million, moving moneys budgeted for other purposes, and drawing $6 million from its Fiscal Reserve. Report No. 18-03 found OHA lacked a clear policy guiding use of its Fiscal Reserve, which had been spent down rapidly and used to pay for such things as retirement benefits for a former trustee ($56,300), a trip to New Zealand for a group that included trustees and members of the Administration to pick up a Hawaiian feathered cape and helmet ($100,000), and costs associated with an international conservation convention ($500,000).

We also found CEO Sponsorships were subject to minimal oversight and, despite written guidelines, were often approved based on the then-CEO's personal discretion, even when staff recommended "do not fund."

During our follow-up, OHA stated it had discontinued its non-competitive Kūlia Initiatives, established a new Fiscal Stabilization Fund and adopted a Fiscal Stabilization Policy, placed a moratorium on CEO Sponsorships, and changed the Trustee Allowance to the Trustee Protocol Allowance, reducing the annual amount to $7,200 per fiscal year, a $15,000 decrease.

We determined that OHA has implemented 11 and partially implemented 13 of the 39 recommendations made in Report No. 18-03. An additional nine recommendations were not implemented, and we determined six to be not applicable.

PHOTO: DEPARTMENT OF PUBLIC SAFETY

Audit of the Department of Public Safety

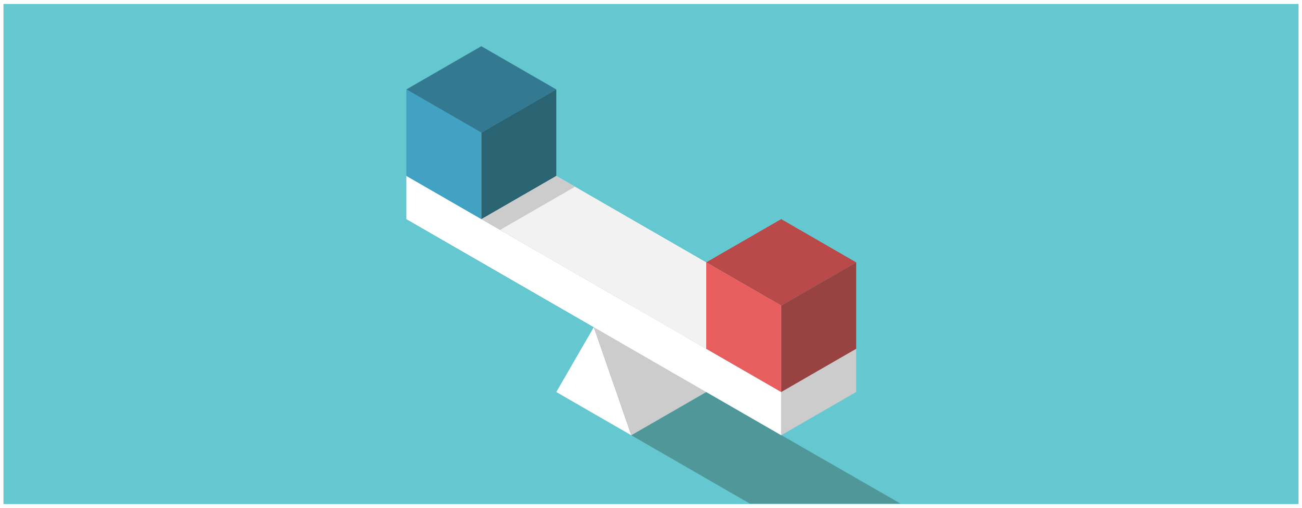
Report No. 22-05, June 2022

This audit 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.

ACCURATELY DETERMINING the appropriate level of staffing on a day-to-day basis is important for any organization. However, unlike many other state organizations, jails and prisons operate 24 hours a day, 365 days a year, providing services for persons who have been charged with or convicted of committing criminal offenses and requiring essential security posts in those facilities to be filled every shift. To determine the number of security staff positions (Adult Correctional Officers or ACOs) needed to safely operate facilities without having to close posts, suspend inmate programs, re-assign ACOs, and rely on significant amounts of overtime, correctional institutions employ a staffing multiplier called a shift relief factor, an important metric that accounts for staff absences.

We found the Department of Public Safety's current shift relief factor, which was calculated more than five decades ago, does not account for, among other things, federal and state regulations that have since been enacted, changes to collective bargaining agreements, and other conditions that have increased the amount of leave ACOs are entitled to use as well as training ACOs must complete, all of which have significantly increased the instances when ACOs are unable to cover their regularly assigned posts. Wardens routinely resort to solutions such as closing posts, suspending inmate programs, reassigning staff, and excessive overtime.

The then-Director of Public Safety said updating the shift relief factor is not a priority for the department, which is more focused on filling vacancies and monitoring other types of leave, such as workers compensation. However, until the department knows the number of ACO positions needed to cover the security posts in its facilities, wardens must resort to regularly closing posts, suspending inmate programs, re-assigning ACOs, and relying on significant amounts of overtime. Those types of "triage" measures likely increase work stresses and risks to security staff as well as to inmates. The department needs to base its staffing requirements on timely, objective information, which includes an up-to-date shift relief factor calculated using actual data about the instances ACOs are unable to cover their regularly assigned posts.



Review of Tax Provisions Pursuant to Section 23-74, Hawai‘i Revised Statutes

Report No. 22-06, June 2022

This report assessed certain Hawai‘i tax exemptions, exclusions, and credits under the General Excise Tax (GET), Use Tax, Public Service Company Tax, and Insurance Premium Tax. Section 23-71 et seq., Hawai‘i Revised Statutes (HRS), requires the Auditor to annually review tax provisions on a 10-year recurring cycle.

THIS REPORT reviewed a total of nine tax provisions, which include four exemptions, three exclusions from GET, and two tax credits. We obtained data on total aggregated amounts claimed for the two tax credits; however, according to the Department of Taxation (DoTax), data regarding the number of claims was not available.

We could not determine whether three GET exemptions and one tax credit were achieving their purpose. We also determined that one exemption, three exclusions, and one tax credit were at least partially meeting their stated or inferred purposes. Making conclusions as to whether purposes are being met is extremely challenging (and often impossible) when amounts claimed are not tracked or where no benchmarks or metrics are set forth in statute to assess whether a provision is achieving its intended purpose.

Many challenges hindered our ability to report information and analyze the exemptions, exclusions, and tax credits in the manner required under Section 23-71, HRS, most significantly, the lack of available data. Prior to 2017, DoTax did not systematically track GET and Use Tax exemptions, meaning there is little, if any, data about the number of taxpayers that claimed each exemption or the amounts they claimed.

Making conclusions as to whether purposes are being met is extremely challenging (and often impossible) when amounts claimed are not tracked or where no benchmarks or metrics are set forth in statute to assess whether a provision is achieving its intended purpose.

Additionally, DoTax generally does not track exemptions or tax credits applied against the Public Service Company Tax or the Insurance Premium Tax.

PHOTO: ISTOCK.COM

Review of Income and Financial Institutions Tax Provisions Pursuant to Section 23-93, Hawai‘i Revised Statutes

Report No. 22-07, June 2022

This report assessed tax credits and exclusions as well as one deduction from taxation under Hawai‘i's Income Tax and Financial Institutions Tax. Section 23-91 et seq., Hawai‘i Revised Statutes (HRS), requires the Auditor to review tax provisions on a five-year recurring cycle.

TAX CREDITS are amounts subtracted directly from a taxpayer's tax liability, reducing the amount of taxes due on a dollar-for-dollar basis. Deductions reduce the amount of income subject to taxation, while exclusions remove certain revenue from taxation. This report reviews two exclusions and two credits from Hawai‘i's Net Income Tax, one of which also applies to the Financial Institutions Tax, and one deduction from the Financial Institutions Tax.

We were unable to determine whether the two exclusions, two tax credits, and the deduction were achieving their purposes, primarily due to a lack of reliable data, articulated benchmarks, or other measurables. A lack of long-term historical data, subsequent structural changes to the tax provisions, and changing economic and technology trends precluded us from reasonably estimating use of the credits for the next three calendar years as required by Section 23-91, HRS.

We were further challenged to determine the specific outcomes that were expected to be generated by the provisions. As noted throughout this report, although the legislative acts that created the provisions articulated certain purposes, none included specific metrics for objectively identifying whether those purposes had been achieved. Often, it was not clear what actual outcomes were expected.

As noted throughout this report, although the legislative acts that created the provisions articulated certain purposes, none included specific metrics for objectively identifying whether those purposes had been achieved. Often, it was not clear what actual outcomes were expected.

For future tax provisions, we recommend that the Legislature consider including a statement of purpose that identifies the goal, or outcome, the tax expenditure is meant to achieve, along with objective criteria for us to determine whether the tax preference is meeting that purpose.

PHOTO: ISTOCK.COM

Sunrise Analysis: Regulation of Community Health Workers

Report No. 22-08, September 2022

This sunrise analysis was conducted pursuant to Senate Concurrent Resolution No. 2, Senate Draft 1 (2022 Regular Session), which requested the Auditor to conduct a sunrise review of the licensure and regulation of community health workers as proposed under Senate Bill No. 2882, also introduced during the 2022 Regular Session. Senate Bill No. 2882 proposes a regulatory framework that includes the creation of a licensing board and requirements for licensure.

COMMUNITY HEALTH WORKERS connect underserved communities with programs and services that impact health outcomes, addressing factors such as access to medical care, housing, and nutritious food. Many members of this workforce work in medical facilities, but community health care services are not limited to clinical settings. A recruitment facilitator for a statewide training program described community health workers as translators – of language, culture, and bureaucracy – helping others navigate healthcare and social service systems.

Under the Hawai‘i Regulatory Licensing Reform Act, the Office of the Auditor must assess whether proposed regulation and licensing of professions is reasonably necessary to protect consumers' health, safety, or welfare. The law makes clear that the purpose of regulation – whether full licensure or other restrictions – is to protect the public's welfare, "not that of the regulated profession or vocation." We found, as written, Senate Bill No. 2882 does not identify risks to public welfare as cause to regulate the community health worker profession. We concluded it would be improper to regulate the State's community health worker profession as broadly described in Senate Bill No. 2882.

We found, as written, Senate Bill No. 2882 does not identify risks to public welfare as cause to regulate the community health worker profession. We concluded it would be improper to regulate the State's community health worker profession as broadly described in Senate Bill No. 2882.

We noted that Senate Bill No. 2882 appears intended to benefit the profession, recognizing the important work community health workers perform to help individuals navigate medical and social service systems and live healthier lifestyles; it does not suggest that regulation is needed for consumer protection, and we do not believe that the types of services in the bill for which certification would be required are such that reasonably endanger the health, safety, or welfare of those benefiting from the services.

PHOTO: HAWAI'I VISITORS AND CONVENTION BUREAU

Follow-Up on Recommendations from Report No. 18-04, *Audit of the Hawai'i Tourism Authority*

Report No. 22-09, September 2022

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. In this report, we present the results of our review of 27 recommendations made to the Hawai'i Tourism Authority (HTA) in Report No. 18-04, Audit of the Hawai'i Tourism Authority*, which was published in February 2018.*

IN REPORT No. 18-04, we assessed HTA's oversight of its two 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 (HVCB) to market Hawai'i in the continental 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 included a permanent source of funding and an exemption from the State Procurement Code, facilitated lax oversight, deficient internal controls, and ultimately, less accountability.

We found HTA had reimbursed millions of dollars to contractors without receipts and other required documentation; reimbursed costs, such as first-class airfare, luxury hotel accommodations, and other extravagant expenses that were expressly prohibited by contract; and consistently failed to enforce other contract terms intended to protect the State. We also found HTA had disregarded its own procurement policies and procedures, awarding sole source contracts based on questionable justifications, paying contractors without executed contracts, and voluntarily waiving ownership of intellectual property the State paid to develop. In response to a statutory change that reduced the amount HTA could use for its administrative expenses from the Tourism Special Fund, we reported HTA had shifted some of those administrative expenses to non-Tourism Special Fund sources and to HTA programs, but the agency had not significantly reduced its administrative costs.

Our review of the HTA's implementation of the recommendations made in Report No. 18-04 was conducted during August and September 2021. We waited to issue this report in part because of legislation introduced this past session (2022), that proposed significant changes to HTA's budget.

Our follow-up efforts were limited to reviewing and reporting the implementation status of our audit recommendations. We did not explore new issues or revisit old ones that did not relate to the original recommendations. We found that HTA had implemented 5 and partially implemented 16 of the 27 recommendations directed to HTA in Report No. 18-04, *Audit of the Hawai'i Tourism Authority*. Two recommendations were not implemented; HTA does not agree with and has not implemented two recommendations; and we found two recommendations to be no longer applicable.

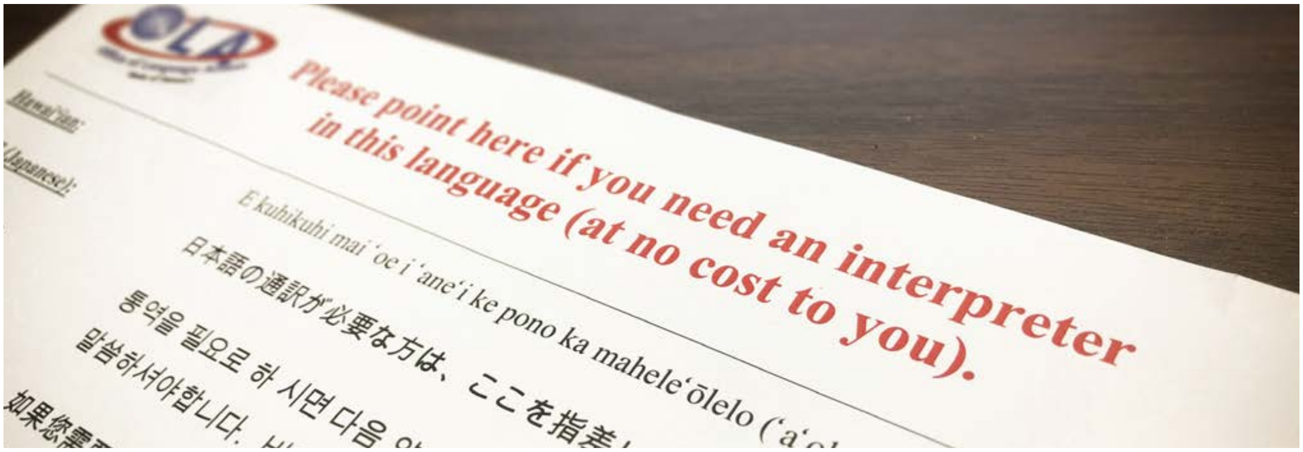


PHOTO: OFFICE OF THE AUDITOR

Audit of the Office of Language Access

Report No. 22-10, October 2022

Our audit of the Office of Language Access (OLA) was conducted pursuant to Article VII, Section 10 of the Hawaiʻi State Constitution and Section 23-4, Hawaiʻi Revised Statutes (HRS), 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 2006, the Legislature established the Office of Language Access to address the needs of limited English proficient individuals in Hawaiʻi and to ensure they have meaningful access to state services, programs, and activities. OLA is responsible for, among other things, ensuring compliance with language access laws by all state offices, including those attached to the legislative and judicial branches of state government, and organizations that receive state funding, which the law refers to as "covered entities."

In addition, OLA's Language Access Resource Center (LARC) is required by statute to maintain a publicly available roster of language interpreters and translators that includes each individual's qualifications and credentials based on OLA guidelines and in consultation with the Language Access Advisory Council.

We found that OLA is not performing obligations required by its enabling statute, Chapter 321C, HRS, that the Legislature clearly believed were necessary to address the language access needs of the State's limited English proficient population. For example, OLA does not "provide oversight and central coordination to state agencies in their implementation of language access requirements" or "provide technical assistance to covered entities in their implementation" of the law. Furthermore, while OLA does maintain a roster of language interpreters and translators on its website, that roster does not include any OLA-approved qualifications and credentials as the statute directs. In fact, we found that applicants are not required to show proof of their qualifications and competency before they are added to the roster.

OLA's Executive Director describes Chapter 321C, HRS, as a "law without teeth." However, Chapter 321C requires OLA to establish and adopt administrative rules, a power the Legislature conferred to OLA to provide specific direction to agencies and covered entities about their language access plans as well as the processes by which OLA intended to ensure limited English proficient persons have meaningful access to services. OLA had started the rulemaking process sometime in 2016 – a decade after it was created – but the effort ground to a halt in 2018.

Almost 16 years after it was established, OLA remains a partially formed organization, conducting its day-to-day operations without having first established and clarified the organization's direction, duties, and authority. The result: many activities that are nothing more than paper exercises, with questionable purpose and effectiveness and little connection to OLA's statutory role. In addition, we found LARC has not become the "centralized resource" that the

REGARDING THE OFFICE OF LANGUAGE ACCESS:

Almost 16 years after it was established, OLA remains a partially formed organization, conducting its day-to-day operations without having first established and clarified the organization's direction, duties, and authority. The result: many activities that are nothing more than paper exercises, with questionable purpose and effectiveness and little connection to OLA's statutory role.

Legislature determined was needed to grow the pool of language interpreters and translators and address the needs of the State's limited English proficient population. OLA has done little to verify that the self-described interpreters and translators on its roster are qualified to provide competent and accurate services. It has not even defined the terms "qualified," "competent," and "certified" as they relate to the language interpreters and translators it hopes to recruit and retain.

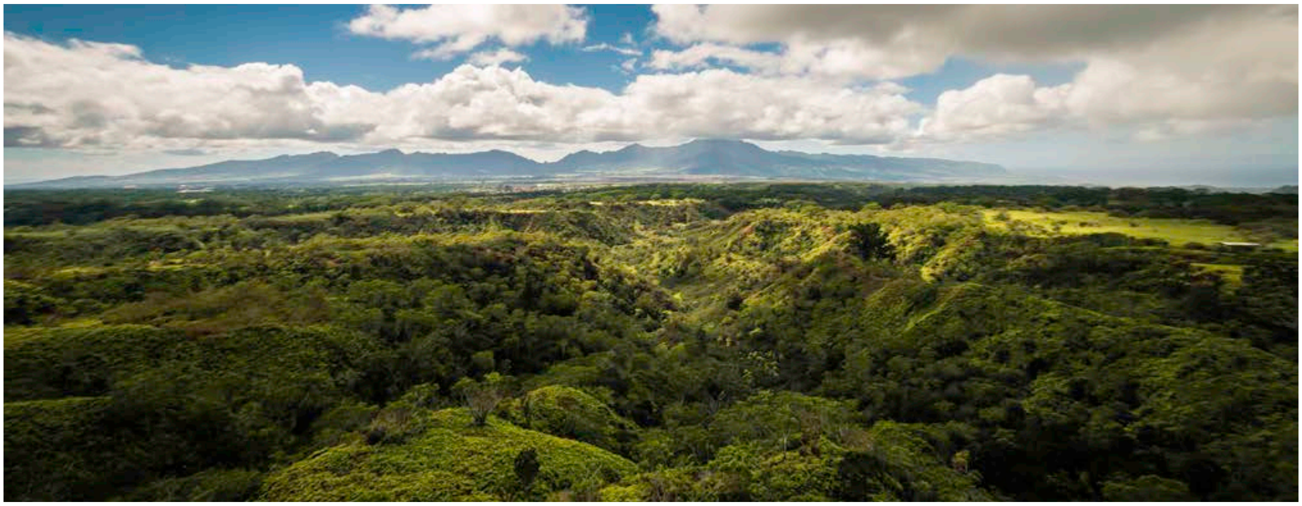


PHOTO:DEPARTMENT OF LAND AND NATURAL RESOURCES

Follow-Up on Recommendations from Report No. 19-01, *Audit of the Department of Land and Natural Resources' Land Conservation Fund*

Report No. 22-11, October 2022

Section 23-7.5, Hawai'i Revised Statutes (HRS), 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 presents the results of our review of 13[1] *recommendations made to the Department of Land and Natural Resources (DLNR) in Report No. 19-01,* Audit of the Department of Land and Natural Resources' Land Conservation Fund*, which was published in January 2019.*

REPORT NO. 19-01 found that DLNR and its Division of Forestry and Wildlife (DOFAW) have struggled to properly manage the Legacy Land Conservation Program, hampering its effectiveness. For example, we found that the program missed fiscal deadlines to create and execute contracts for conservation grant awards, which caused funding for those grants to lapse and triggered a "domino effect" of improperly committing anticipated future appropriations to fund previous awards; the department mistakenly paid a total of nearly $685,000 for state central service fees – a cost the Land Conservation Fund had been statutorily exempt from since 2015; and DLNR had used the Land Conservation Fund to pay the salary of an employee who was doing work unrelated to the Legacy Land Conservation Program. Additionally, the program had not tracked or reported to the Legislature the balances of moneys from the Land Conservation Fund that it transferred to a DLNR trust account.

We also found that DOFAW sought and/or obtained funding from the Land Conservation Fund for its own projects outside of the Legacy Land Conservation Program's grant award process. In those cases, DOFAW acted as an applicant advocating its own projects for funding through the Legacy Land Program grant award process; after the Commission prioritized other applicants' projects in front of its projects, DOFAW acted as advisor to the Land Board on the use of the same limited moneys to fund its projects. We found the practice of reprioritizing, and in some cases substituting its judgment for that of the nine Governor-appointed and Senate-confirmed commissioners, each of whom possesses certain statutorily required professional and cultural expertise, was far less transparent and accountable than the program's grant award process. We found DOFAW's unique role and special relationship with the Land Board conferred an advantage relative to other grant applicants, especially given

[1] In Report No. 19-01, we offered 12 recommendations to the Legacy Land Conservation Program, including 2 separate recommendations that were part of Recommendation No. 3. In this report, we assessed the program's implementation of each part of Recommendation No. 3 separately. For that reason, we report on our review of 13 recommendations.

REGARDING THE DEPARTMENT OF LAND AND NATURAL RESOURCES' LAND CONSERVATION FUND

We also found that DOFAW sought and/or obtained funding from the Land Conservation Fund for its own projects outside of the Legacy Land Conservation Program's grant award process. In those cases, DOFAW acted as an applicant advocating its own projects for funding through the Legacy Land Program grant award process; after the Commission prioritized other applicants' projects in front of its projects, DOFAW acted as advisor to the Land Board on the use of the same limited moneys to fund its projects.

the limited pool of moneys available annually from the Land Conservation Fund.

Our first recommendation called upon the department to prepare and implement a Resource Land Acquisition Plan that complies with Section 173A-3, HRS. We also recommended that the department develop and implement policies and procedures regarding grants, contracts, and projects. Other recommendations were in the areas of fiscal oversight, the need for a centralized filing system, Sunshine laws, and administrative rules.

We found that the department implemented six of the recommendations, partially implemented two of the recommendations, and two recommendations were not implemented and remain open. We additionally found three recommendations were not implemented because the department disagrees with them.

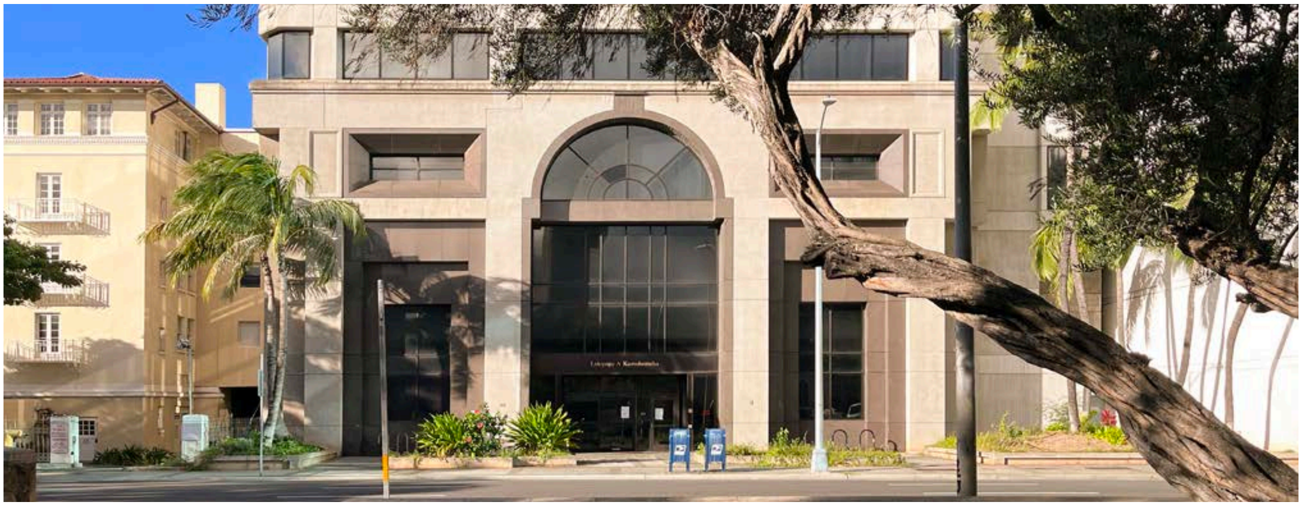


PHOTO: OFFICE OF THE AUDITOR

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

Report No. 22-12, October 2022

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds, once every five years. Although not mandated by statute, we include trust accounts as part of our review. This is our sixth review of the revolving funds, trust funds, and trust accounts of the Department of Human Resources Development (DHRD). It is our second review of its special funds since Section 23-12, HRS, was amended by Act 130, Session Laws of Hawai'i 2013, to include reviews of special funds.

WE REVIEWED one special fund and two trust funds directly administered by DHRD. Total fund fiscal year-end balances for DHRD amounted to at least $2.1 billion per year during the five-year period reviewed (FY2018 – FY2022).

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

We found the special fund did not meet criteria and should be reclassified to a revolving fund.

We noted that DHRD did not file statutorily required reports relating to funds totaling approximately $2.75 billion. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds.

DHRD concurred with the findings and will take appropriate action to reclassify a special fund that functions more like a revolving fund. DHRD also stated that it will ensure compliance with all reporting requirements.

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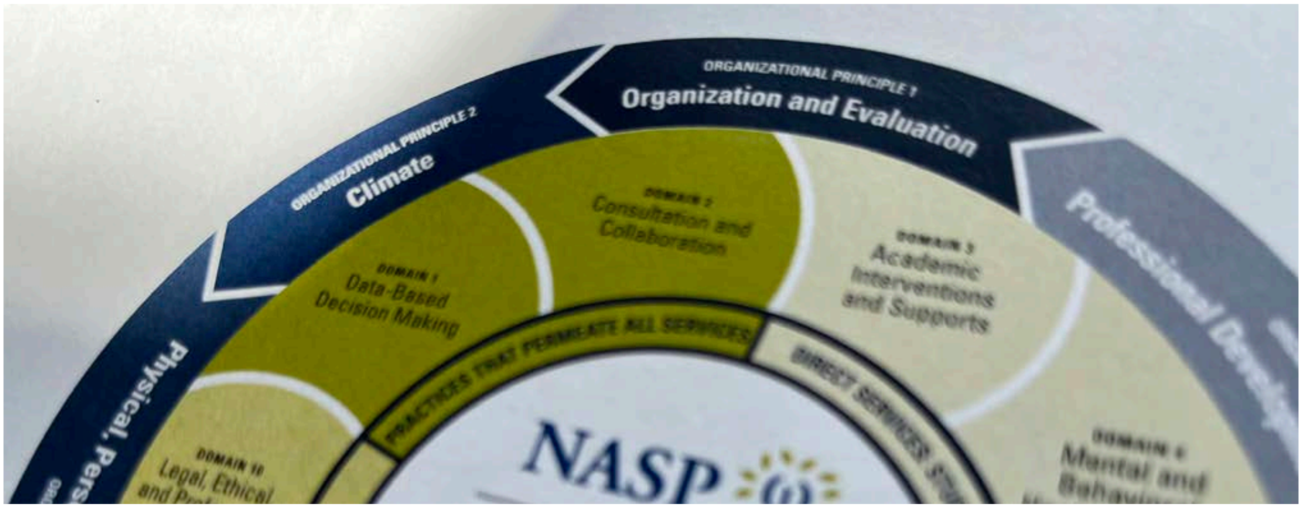


PHOTO: OFFICE OF THE AUDITOR

Sunrise Analysis: Regulation of School Psychologists

Report No. 22-13, November 2022

Senate Concurrent Resolution No. 122, Senate Draft 1 (2022 Regular Session) requests the Office of the Auditor to assess whether the regulation of school psychologists proposed in Senate Bill No. 1274 (2021 Regular Session) is consistent with the State's policy regarding professional regulation and licensing in the Hawai'i Regulatory Licensing Reform Act, Chapter 26H, Hawai'i Revised Statutes (HRS).

WE FOUND Senate Bill No. 1274 does not sufficiently define the practice of school psychology that the Legislature proposes to regulate; it does not describe the work or type of work for which individuals will be required to obtain a state-issued license to perform. Without a clear definition of the practice of school psychology, we were unable to assess the proposed regulation against the criteria in Section 26H-2, HRS.

Without a clear definition of the practice of school psychology, we were unable to assess whether regulation of the profession is necessary to protect the health, safety, or welfare of students, their families, and educators or any of the other criteria that supports the state policy with respect to professional and vocational licensing. We, therefore, were unable to provide the assessment requested in Senate Concurrent Resolution No. 122, Senate Draft 1.

Without a clear definition of the practice of school psychology, we were unable to assess whether regulation of the profession is necessary to protect the health, safety, or welfare of students, their families, and educators or any of the other criteria that supports the state policy with respect to professional and vocational licensing.

PHOTO: OFFICE OF THE AUDITOR

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

Report No. 22-14, November 2022

Section 23-12, Hawai'i Revised Statutes (HRS), 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 of the Department of Taxation (DoTax). It is our second review of its special funds since Section 23-12, HRS, was amended by Act 130, Session Laws of Hawai'i 2013, to include reviews of special funds.

WE REVIEWED four special funds, two trust funds, and seven trust accounts administered by DoTax. DoTax did not have any revolving funds during our review period. Total fund fiscal year-end balances for DoTax amounted to at least $6.6 million per year during the five-year period reviewed (FY2018 – FY2022).

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

We found one special fund, one trust fund, and one trust account did not meet criteria and should be closed or reclassified.

We noted that DoTAX did not file statutorily required reports relating to funds totaling approximately negative $2.3 million. Accurate and complete reporting will greatly improve the Legislature's oversight.

We noted that DoTax did not file statutorily required reports relating to funds totaling approximately negative $2.3 million. Accurate and complete reporting will greatly improve the Legislature's oversight.

DoTax did not believe any revisions to the report were necessary and offered no further comments.

PHOTO: OFFICE OF THE AUDITOR

Report on the Implementation of State Auditor's Recommendations 2017 – 2020

Report No. 22-15, December 2022

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 2017–2020. We conducted the follow-ups pursuant to Section 23-7.5, Hawai'i Revised Statutes (HRS), which requires the Auditor to report to the Legislature on each recommendation that 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 agencies to provide us with the status of their implementation of the recommendations made as part of our audit 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 action on recommendations has been taken. 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 issues from the report that are unrelated to our original recommendations.

From 2017 to 2020, we made 178 audit recommendations. Based on information self-reported by the agencies and information from active reviews, 137 of those recommendations have been partially or fully implemented.

We based our scope and methodology on the United States Government Accountability Office – formerly the General Accounting Office – (GAO) guidelines, published in *How to Get Action on Audit Recommendations* (1991), as well as the *Government Auditing Standards* and Section 23-7.5, HRS.

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. Effective follow-up is essential to realizing the full benefits of audit work.

In 2020, we suspended work on ongoing audits so those auditees could adjust to performing their work remotely and address COVID-19-related issues. During that time, we performed a series of limited scope reviews and financial reporting on pandemic-related issues such as contact tracing, reporting of cases, suspension of tax breaks during difficult fiscal times, and amounts in special and revolving funds. These reports were specifically applicable to the challenges facing our state in 2020, so any recommendations in those reports are not included in our count, and no follow-up of implementation status of recommendations contained in those reports was warranted.

PHOTO: ISTOCK.COM

Proposed Mandatory Health Insurance Coverage for Fertility Preservation Procedures for Cancer Patients

Report No. 22-16, December 2022

Senate Concurrent Resolution No. 241, Senate Draft 1, of the 2022 Legislature, requested the Auditor to assess the social and financial effects of mandating health insurance coverage for "standard fertility preservation services" for insureds who have been diagnosed with cancer that may, or whose treatment may, adversely affect their fertility, as proposed in House Bill No. 2242 (HB 2242) and Senate Bill No. 3308 (SB 3308), both introduced in the Regular Session of 2022. We conducted this assessment in accordance with Sections 23-51 and 23-52, Hawai'i Revised Statutes (HRS).

HB 2242 AND SB 3308 propose to mandate insurance coverage for fertility preservation services where (1) the "insured is diagnosed with a cancer that may, or whose treatment may, adversely affect the fertility of the insured" and (2) the "standard fertility preservation services are deemed reasonably necessary for the insured." HB 2242 and SB 3308 require that both conditions be satisfied to activate the coverage.

To understand the proposed mandatory insurance coverage, we researched the bills' definition of "standard fertility preservation services" and attempted to determine the meaning of the term "reasonably necessary" in the context of the bills. The term "reasonably necessary" is not defined in HB 2242 or SB 3308. While Hawai'i law defines "medical necessity," we did not find a definition of "reasonably necessary" in the HRS chapters that the bills propose to amend, nor in Chapter 432E, HRS, the Patients' Bill of Rights and Responsibilities Act.

We spoke to various medical care provider organizations and health insurance providers for their understanding of the term "reasonably necessary." None of the organizations or insurers were able to define "reasonably necessary." Some of the insurers said "reasonably necessary" is not a commonly used insurance term. Without a clear definition of the term "reasonably necessary," we were unable to determine the extent of the proposed mandated insurance coverage – specifically, when an insured is entitled to coverage for fertility preservation services. Without that understanding, we were unable to assess the social and financial impacts of the proposed mandatory health insurance coverage under Section 23-52, HRS.

To understand the proposed mandatory insurance coverage, we researched the bills' definition of "standard fertility preservation services" and attempted to determine the meaning of the term "reasonably necessary" in the context of the bills. The term "reasonably necessary" is not defined in HB 2242 or SB 3308.

Summary of Financial Audits

July 1, 2021 to December 31, 2022

Summary of Financial Audits

The Office of the Auditor contracts with independent certified public accountants for the financial audits of certain departments, agencies, and programs as well as the State of Hawai‘i’s Annual Comprehensive Financial Report. We strongly support the independent audits of departments, agencies, and programs’ financial statements. Among other things, independent audits provide assurance that their respective financial statements are presented fairly in accordance with generally accepted accounting principles. State departments, agencies, and programs must be accountable for their use of public funds, and the financial audit is one aspect of that accountability.

The following summary includes financial audits completed after July 1, 2021. To give the reader a “bigger picture” of the State’s financial position, we present statewide summaries first; summaries of financial statements for departments and any programs or agencies associated with that department follow.

STATEWIDE AUDITS

Financial Audit of the Annual Comprehensive Financial Report (ACFR) of the State of Hawai‘i Financial Statements, Fiscal Year Ended June 30, 2021

The State of Hawai‘i provides a range of services in the areas of education (both lower and higher), welfare, transportation (including highways, airports, and harbors), health, hospitals, public safety, housing, culture and recreation, economic development, and conservation of natural resources.

The State’s ACFR includes the audited financial statements of the State’s governmental activities (functions of the state that are typically supported by taxes and intergovernmental revenues) and its business-type activities (which rely to a significant extent on fees and charges for support). The State’s business-type activities include the Department of Transportation’s Airports Division, the Department of Transportation’s Harbors Division, and the Unemployment Compensation Fund. These functions are intended to recover all or a significant portion of their costs through user fees and charges. The activities of seven legally separate component units (the Hawai‘i Community Development Authority, the Hawai‘i Health Systems Corporation, the Hawai‘i Housing Finance and Development Corporation, the Hawai‘i Hurricane Relief Fund, the Hawai‘i Public Housing Authority, the Hawai‘i Tourism Authority, and the University of Hawai‘i) are also included.

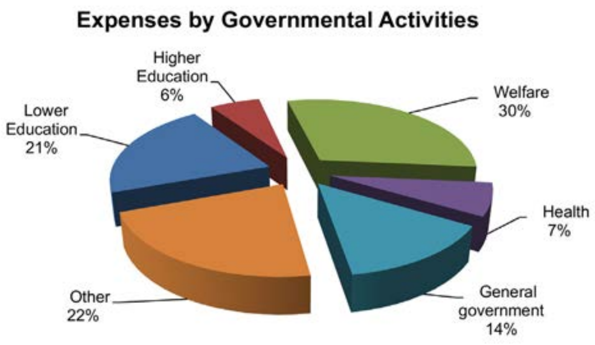
For the fiscal year ended June 30, 2021, total revenues were $17.7 billion and total expenses were $19.3 billion, resulting in a decrease in net position of $1.6 billion. Approximately 43 percent of the State of Hawai‘i’s total revenues came from taxes of $7.7 billion, 47 percent from grants and contributions of $8.3 billion, and 10 percent from charges for various goods and services of $1.7 billion. Total tax revenues of $7.7 billion consisted of general excise taxes of $3.4 billion, net income taxes of $3.3 billion, and other taxes of $1 billion. The largest expenses were for welfare at $4.6 billion, lower education at $3.3 billion, higher education at $1 billion, health at $900 million, and general government at $1.9 billion. Other expenses totaled $7.6 billion.

As of June 30, 2021, total liabilities and deferred inflows of resources of $32.9 billion exceeded total assets and deferred outflows of resources of $28.7 billion, resulting in a negative net position of $4.2 billion. Of this amount, $3.8 billion was for the State’s net investment in capital assets, $4.5 billion was restricted for specific programs, and a negative $12.5 billion was unrestricted assets.

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

Financial Audit of the Annual Comprehensive Financial Report (ACFR) of the State of Hawai‘i Financial Statements, Fiscal Year Ended June 30, 2022

For the fiscal year ended June 30, 2022, total revenues were $18.7 billion and total expenses were $16.3 billion, resulting in an increase in net position of $2.4 billion. Approximately 51 percent of the State of Hawai‘i's total revenues came from taxes of $9.5 billion, 40 percent from grants and contributions of $7.5 billion, and 9 percent from charges for various goods and services of $1.7 billion. Total tax revenues of $9.5 billion consisted of general excise taxes of $3.9 billion, net income taxes of $3.8 billion, and other taxes of $1.8 billion. The largest expenses were for welfare at $4.9 billion, lower education at $3.4 billion, higher education at $900 million, health at $1.1 billion, and general government at $2.3 billion. Other expenses totaled $3.7 billion.



SOURCE: OFFICE OF THE AUDITOR

As of June 30, 2022, total liabilities and deferred inflows of resources of $31.7 billion exceeded total assets and deferred outflows of resources of $29.6 billion, resulting in a negative net position of $2.1 billion. Of this amount, $3.6 billion was for the State's net investment in capital assets, $4.2 billion was restricted for specific programs, and a negative $9.9 billion was unrestricted assets.

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

Single Audit of Federal Financial Assistance Programs of the State of Hawai‘i Financial Statements, Fiscal Year Ended June 30, 2021

Each year, the federal government provides over $400 billion dollars in grants to state and local governments. Single audits provide assurance to the federal government that state agencies and programs receiving federal funds are expending those funds properly and in accordance with federal requirements. This report included the total federal expenditures and findings for the following departments: Labor and Industrial Relations, Budget and Finance, Commerce and Consumer Affairs, Public Safety, Agriculture, Accounting and General Services, Business, Economic Development and Tourism, Land and Natural Resources, Defense, and the Office of the Governor. Federal expenditures for these departments totaled approximately $5.12 billion dollars, an increase of $2.98 billion over FY2020. Federal expenditures and findings for other departments, including the Department of Health and Department of Transportation, are reported in individual single audit reports.

The auditors identified one material weakness and two significant deficiencies in internal controls over financial reporting that are required to be reported in accordance with *Government Auditing Standards*.

The auditors expressed a qualified opinion on certain major programs and identified two material weaknesses and five significant deficiencies over compliance with major federal programs that are required to be reported in accordance with the *Uniform Guidance*.

DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

Financial Audit of the Stadium Authority Financial Statements, Fiscal Year Ended June 30, 2021

The Stadium Authority (Authority) is responsible for the operation, management, and maintenance of Aloha Stadium, located in Honolulu, Hawai‘i. For administrative purposes, the Authority was placed within the State of Hawai‘i’s Department of Accounting and General Services.

For the fiscal year ended June 30, 2021, the Authority reported total revenues of $2.9 million and total expenses of $6.7 million, resulting in a net loss of $3.8 million. Revenues consisted of $2.6 million from rentals from attractions, $100,000 in parking fees, and $200,000 in advertising and other revenues. The Authority’s net loss was partially offset by $9 million in capital contributions, which represents the portion of Aloha Stadium capital improvement costs that were paid by the State of Hawai‘i. However, the Authority also reported an extraordinary item for an impairment loss of $73.3 million related to the existing stadium structure resulting in a decrease in net position of $68.1 million.

Expenses consisted of $200,000 for depreciation, $4.4 million for personnel services, $900,000 for utilities, and $300,000 for repairs and maintenance. Additional expenses totaled $900,000 and included state central services assessments as well as security, professional services, and other costs. And, as of June 30, 2021, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources, resulting in a net position of $18.6 million.

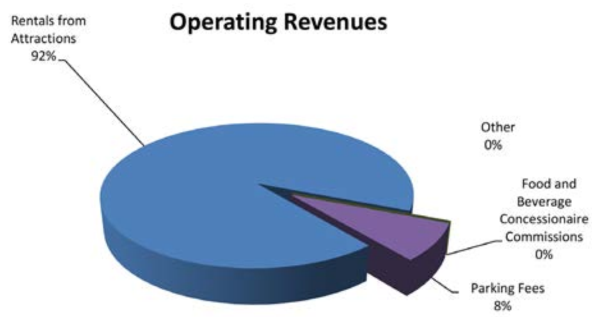
In fiscal year 2021, partly due to the COVID-19 pandemic, the Authority determined that the existing stadium structure experienced a significant and unexpected decline in service utility and determined it will no longer be used for its originally intended purpose of serving as a gathering place for the people of Hawai‘i. Accordingly, the Authority recorded an impairment loss of approximately $73.3 million as of June 30, 2021, which is reported as an extraordinary item in the financial statements and there is no carrying value remaining on the statement of net position for the stadium structure.

The Authority received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Financial and Compliance Audit of the Stadium Authority Financial Statements, Fiscal Year Ended June 30, 2022

For the fiscal year ended June 30, 2022, the Authority reported total revenues of $5.1 million and total expenses of $5.8 million, resulting in a net operating loss of $700,000. Revenues consisted of $4.7 million from rentals from attractions and $400,000 in parking fees and other revenues. The Authority’s net loss was partially offset by $7.3 million in capital contributions, which represents the portion of Aloha Stadium capital improvement costs that were paid by the State of Hawai‘i. In addition, the Authority received Coronavirus State and Local Fiscal Recovery Funds of $2.3 million resulting in an increase in net position of $9 million.

Expenses consisted of $200,000 for depreciation, $3.2 million for personnel services, $1 million for utilities, and $1 million for repairs and maintenance. Additional expenses totaled $400,000 and included state central services assessments as well as security, professional services, and other costs. As of June 30, 2022, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources, resulting in a net position of $28.6 million.



SOURCE: OFFICE OF THE AUDITOR

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 Authority also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control over financial reporting and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, the auditors identified one material weakness in internal control over financial reporting. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

DEPARTMENT OF AGRICULTURE

Financial Audit of the Agribusiness Development Corporation Financial Statements, Fiscal Year Ended June 30, 2019

The Hawai‘i State Legislature created the Agribusiness Development Corporation (ADC) in 1994 amidst a series of sugar and pineapple plantation closures that lawmakers viewed as “an unprecedented opportunity for the conversion of agriculture into a dynamic growth industry.” Projecting that the downsizing of sugar and pineapple production would free up 75,000 acres of agricultural land and 50 million gallons of water daily over the next decade, the Legislature established ADC as a public corporation tasked with developing an “aggressive and dynamic” agribusiness development program to convert former plantation assets for use by new large-scale commercial enterprises producing the majority of their crops for export. However, instead of leading the state’s agricultural transformation, ADC has become a landowner, managing 4,257 acres of land on Kaua‘i and O‘ahu, as well as the owner-operator of the Waiāhole Water System that transports water from Windward O‘ahu through the Ko‘olau Mountains to Central O‘ahu. ADC was administratively attached to the Hawai‘i Department of Agriculture in fiscal year 2019.

For the fiscal year ended June 30, 2019, ADC reported total revenues of $15.8 million, along with $5 million in transfers from other state departments, and total expenses of $3.9 million resulting in a change in net position of $11.9 million. Revenues consisted of program revenues related to general support for agriculture of $2.1 million, program revenues related to agricultural water development and irrigation services of $900,000, and general revenues of $12.8 million. Total expenses of $3.9 million consisted of $2.8 million for general support for agriculture, $800,000 for agricultural water development and irrigation services, and $300,000 for capital outlay.

Total assets of $128.4 million exceeded total liabilities of $6.4 million, resulting in a net position of $122 million. Total assets included cash and investments of $42 million, net receivables of $400,000, and net capital assets of $86 million. Total liabilities included bonds payable of $5.2 million and other liabilities of $1.2 million.

ADC received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors identified a material weakness in internal controls over financial reporting that was required to be reported under *Government Auditing Standards*.

DEPARTMENT OF BUDGET AND FINANCE

Financial Audit of the Employees' Retirement System of the State of Hawai‘i Financial Statements, Fiscal Year Ended June 30, 2020

The Employees' Retirement System (ERS) administers a pension benefits program for all state and county employees, including teachers, professors, police officers, firefighters, correction officers, judges, and elected officials.

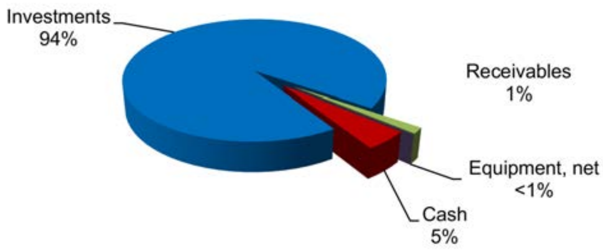
For the fiscal year ended June 30, 2020, ERS reported total net additions of approximately $1.74 billion. Additions consisted of $1.39 billion from contributions and $358 million in net investment income. Total deductions of approximately $1.59 billion consisted of $1.55 billion for benefit payments, $18 million for administrative expenses, and $22 million for refund of member contributions. As of June 30, 2020, assets totaled $18.85 billion and liabilities totaled $1.46 billion, leaving a net position balance of $17.39 billion. Total assets included investments of $17.6 billion, receivables of $250 million, cash of $953 million, and net equipment of $8 million.

ERS received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported 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*.

Financial Audit of the Employees' Retirement System of the State of Hawai‘i Financial Statements, Fiscal Year Ended June 30, 2021

For the fiscal year ended June 30, 2021, ERS reported total net additions of approximately $6.24 billion. Additions consisted of $1.58 billion from contributions and $4.66 billion in net investment income. Total deductions of approximately $1.69 billion consisted of $1.65 billion for benefit payments, $19 million for administrative expenses, and $24 million for refund of member contributions. As of June 30, 2021, assets totaled $23.44 billion and liabilities totaled $1.51 billion, leaving a net position balance of $21.94 billion. Total assets included investments of $21.96 billion, receivables of $354 million, cash of $1.12 billion, and net equipment of $6 million.

$23.44 Billion in Assets



SOURCE: OFFICE OF THE AUDITOR

ERS received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported 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*.

Financial Audit of the Hawai‘i Employer-Union Health Benefits Trust Fund Financial Statements, Fiscal Year Ended June 30, 2021

The Hawai‘i Employer-Union Health Benefits Trust Fund (EUTF) is a state agency that provides eligible State of Hawai‘i and county (Honolulu, Hawai‘i, Maui, and Kaua‘i) employees, retirees, and their eligible dependents with health and life insurance benefits. Active employee healthcare benefits and other postemployment benefits (OPEB) for retirees (including their respective beneficiaries) are reported separately for accounting purposes. EUTF is administratively attached to the State of Hawai‘i Department of Budget and Finance.

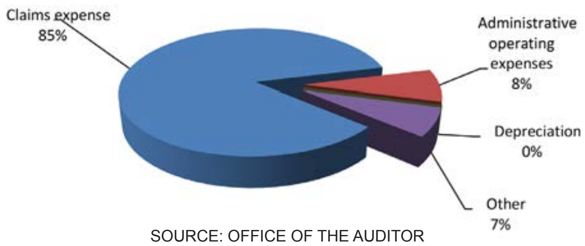
The fund for active employee healthcare benefits. For the fiscal year ended June 30, 2021, revenues totaled $135.8 million and expenses totaled $91.3 million, resulting in net income of $44.5 million. Revenues consisted of premium revenue self-insurance of $96.1 million, experience refunds of $36.5 million, and investment earnings and other revenues of $3.2 million. Expenses consisted of benefit claims expenses of $81.5 million, administrative operating expenses of $9.3 million, depreciation of $100,000, and other operating expenses of $400,000. Assets and deferred outflows of resources totaled $272.3 million and liabilities and deferred inflows of resources totaled $69.4 million, resulting in a net position of $202.9 million.

The OPEB Trust Fund.[1] For the fiscal year ended June 30, 2021, total additions of $2.59 billion included $1.53 billion from employer contributions, $1.1 billion from net investment earnings, and $500,000 from other sources. Total deductions were $497.4 million, resulting in a change of fiduciary net position of $2.09 million. As of June 30, 2021, the OPEB Trust Fund net position balance totaled $6.08 billion. The OPEB Trust Fund held $6.14 billion in assets and $59.7 million in liabilities.

Financial Audit of the Hawai'i Employer-Union Health Benefits Trust Fund Financial Statements, Fiscal Year Ended June 30, 2022

The fund for active employee healthcare benefits. For the fiscal year ended June 30, 2022, revenues totaled $115.5 million and expenses totaled $121 million, resulting in a net loss of $5.5 million. Revenues consisted of premium revenue self-insurance of $97.1 million, experience refunds of $16.1 million, and investment earnings and other revenues of $2.3 million. Expenses consisted of benefit claims expenses of $102.4 million, administrative operating expenses of $9.4 million, depreciation of $500,000, and other operating expenses of $8.7 million. Assets and deferred outflows of resources totaled $266.9 million and liabilities and deferred inflows of resources totaled $69.5 million, resulting in a net position of $197.4 million.

Enterprise Fund Expenses



SOURCE: OFFICE OF THE AUDITOR

The OPEB Trust Fund. For the fiscal year ended June 30, 2022, total additions of $726 million included $845.6 million from employer contributions, $120.4 million from net investment losses, and $800,000 from other sources. Total deductions were $517 million, resulting in a change of fiduciary net position of $209 million. As of June 30, 2022, the OPEB Trust Fund net position balance totaled $6.29 billion. The OPEB Trust Fund held $6.35 billion in assets and $62.2 million in liabilities.

EUTF received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported 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*.

[1] The OPEB Trust Fund was established by the EUTF Board of Trustees in 2013 to receive employer contributions to pre-fund OPEB for retirees and their beneficiaries.

Financial Audit of the Hawai'i Community Development Authority Financial Statements, Fiscal Year Ended June 30, 2021

The Hawai'i Community Development Authority (HCDA) was established in 1976 by Chapter 206E, Hawai'i Revised Statutes, to establish community development plans in community development districts, to determine community development programs and to cooperate with private enterprises and various components of federal, state, and county governments to bring community plans to fruition. HCDA is administratively attached to the Hawai'i Department of Business, Economic Development and Tourism.

For the fiscal year ended June 30, 2021, HCDA reported total revenues of $7.6 million and total expenses of $6.5 million, resulting in an increase in net position of $1.1 million. Revenues consisted of leasing and management activities of $1.9 million, community redevelopment activities of $2.2 million, investment earnings of $300,000, net state appropriations of $2.8 million, and other revenue of $500,000. Total assets and deferred outflows of resources of $140.2 million exceeded total liabilities and deferred inflows of resources of $20.2 million, resulting in a net position of $120 million. Of the net position balance of $120 million, $23.3 million is unrestricted and may be used to meet ongoing expenses, $2.6 million is restricted for capital projects, and $94.1 million is invested in net capital assets. The agency reported total assets and deferred outflows of resources comprised of net capital assets of $94.1 million, cash of $27.5 million, and receivables, other assets, and deferred outflows of resources of $18.6 million.

The June 30, 2020 fund balance/net position was restated to correct errors made in the prior period related to an understatement of liabilities of $88,000 and an overstatement of net capital assets of $46.2 million.

HCDA received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no significant deficiencies in internal control over financial reporting that would have required reporting under *Government Auditing Standards*. However, the auditors identified two material weaknesses related to the prior period adjustments noted above.

Financial Audit of the Hawai'i Community Development Authority Financial Statements, Fiscal Year Ended June 30, 2022

For the fiscal year ended June 30, 2022, HCDA reported total revenues of $9.7 million and total expenses of $7.8 million, and net transfers out of $500,000, resulting in an increase in net position of $1.4 million. Revenues consisted of leasing and management activities of $2.5 million, community redevelopment activities of $4.9 million, investment earnings of $300,000, net state appropriations of $700,000, and other revenue of $1.3 million. Total assets and deferred outflows of resources of $153.8 million exceeded total liabilities and deferred inflows of resources of $32.4 million, resulting in a net position of $121.4 million. Of the net position balance of $121.4 million, $28.6 million is unrestricted and may be used to meet ongoing expenses, $100,000 is restricted for capital projects, and $92.7 million is invested in net capital assets. The agency reported total assets and deferred outflows of resources comprised of net capital assets of $93.4 million, cash of $30.6 million, and receivables, other assets, and deferred outflows of resources of $29.8 million.

HCDA received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no material weaknesses in internal control over financial reporting that would have required reporting under *Government Auditing Standards*. However, the auditors identified one significant deficiency.

Special-Purpose Financial Audit of the Hawai‘i Convention Center Financial Statements, Eighteen-Month Period From January 1, 2020 to June 30, 2021

The Hawai‘i Convention Center (Center) offers approximately 350,000 square feet of rentable space, including 51 meeting rooms, for events including conventions and trade shows, public shows, and spectator events. The Hawai‘i Tourism Authority (HTA) is responsible for its operation, management, and maintenance and it is reported as a special revenue fund of HTA. HTA is placed within the Department of Business, Economic Development and Tourism for administrative purposes.

In December 2020, the Center changed its fiscal year-end from December 31 to June 30; therefore, the financial statements cover the eighteen-month period from January 1, 2020 to June 30, 2021. For the eighteen-month period from January 1, 2020 to June 30, 2021, the Center reported total revenues of \$9.8 million, total expenses of \$14.3 million, and \$500,000 in net contributions from HTA, which resulted in a decrease in net assets of \$5 million. Revenues consisted of \$2.6 million from food and beverage, \$3.7 million from rental income, \$3.4 million from events, and \$100,000 from other revenues. Expenses consisted of \$7.4 million for personnel services, \$4 million for building-related expenses, \$1.1 million for cost of goods sold, and \$1.8 million for other costs.

As of June 30, 2021, the Center’s total assets of \$24.4 million were comprised of cash of \$19.1 million, amounts due from HTA of \$4.4 million, accounts receivable of \$800,000, and other assets of \$100,000. Total liabilities of \$3.9 million were comprised of accounts payable of \$900,000, amounts due to HTA of \$300,000, advance deposits of \$2.1 million, and other liabilities of \$600,000.

The Center received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with the management agreement between the HTA and ASM Global, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Financial and Compliance Audit of the Hawai‘i Housing Finance and Development Corporation Financial Statements, Fiscal Year Ended June 30, 2021

The mission of the Hawai‘i Housing Finance and Development Corporation (HHFDC) is to increase the supply of workforce and affordable homes by providing tools and resources to facilitate housing development, such as housing tax credits, low-interest construction loans, equity gap loans, and developable land and expedited land use approvals. The agency is administratively attached to the Hawai‘i Department of Business, Economic Development and Tourism.

HHFDC has two types of funds – governmental funds and proprietary funds. HHFDC’s governmental funds for the fiscal year ended June 30, 2021 include the General Fund, the HOME Investment Partnership Program, the Housing Trust Fund Program, the General Obligation Bond Fund, Coronavirus Relief Fund Program, Rental Assistance and Mediation Program, and the Tax Credit Assistance Program Fund.

HHFDC’s proprietary funds operate similarly to business-type activities and are used to account for those activities for which the intent of management is to recover (primarily through user charges) the cost of providing services to customers. HHFDC’s proprietary funds include the Rental Housing Revolving Fund, the Dwelling Unit Revolving Fund, the Single Family Mortgage Purchase Revenue Bond Fund, the Housing Finance Revolving Fund, and several other non-major enterprise funds.

For the fiscal year ended June 30, 2021, HHFDC reported total program revenues of \$131.2 million and total program expenses of \$103.7 million. In addition, HHFDC reported state allotted appropriations, net of lapses, of \$300.7 million and a gain on sale of capital assets of \$31.7 million for the fiscal year ended June 30, 2021. Together with program revenues and expenses, this resulted in an overall increase in net position of $359.8 million. As of June 30, 2021, the agency reported total assets and deferred outflows of resources of $1.6 billion, comprised of cash of $659.9 million, investments of $29.4 million, notes and loans receivable of $724.1 million, moneys due from the State of $4.6 million, net capital assets of $93.4 million, and other assets and deferred outflows of resources of $89.1 million. The agency reported total liabilities and deferred inflows of resources of $96.2 million, comprised of revenue bonds payable of $8.5 million, unearned income of $21.2 million, estimated future costs of development of $35.2 million, moneys due to other state departments of $400,000, and other liabilities and deferred inflows of resources of $30.9 million.

HHFDC received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. HHFDC also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported 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 that are required to be reported under the *Uniform Guidance*.

Financial Audit of Hawai‘i Tourism Authority Financial Statements, Fiscal Year Ended June 30, 2021

The Hawai‘i Tourism Authority (HTA) is responsible for developing and implementing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of its marketing plan and its progress toward achieving the agency's strategic plan goals. HTA is also responsible for the Hawai‘i Convention Center. The primary source of funding for HTA's operations is the Transient Accommodations Tax (TAT) collected by the State.

HTA is governed by a board of directors comprised of 12 voting members, each of whom is appointed by the Governor. HTA is placed within the Department of Business, Economic Development and Tourism for administrative purposes.

For the fiscal year ended June 30, 2021, HTA reported total revenues of $46.1 million and total expenses of $49.2 million. Revenues consisted of $38 million from TAT, $5.8 million from charges for services, and interest and other revenues of $2.3 million. Total expenses of $49.2 million consisted of $36.4 million for contracts, $7.9 million for depreciation, and $4.9 million for payroll, administrative, and other expenses.

SOURCE: OFFICE OF THE AUDITOR

Total assets and deferred outflows of resources of $320.3 million exceeded total liabilities and deferred inflows of resources of $13.5 million, resulting in a net position of $306.8 million. Total assets and deferred outflows of resources included cash of $104.6 million, land and net capital assets of $192.9 million, and other assets and deferred outflows of resources of $22.8 million.

HTA received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported 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 EDUCATION

Financial and Compliance Audit of the Department of Education Financial Statements, Fiscal Year Ended June 30, 2021

The Department of Education (DOE) administers the statewide system of public schools and public libraries. DOE is also responsible for administering state laws regarding regulation of private school operations through a program of inspection and licensing and the professional certification of all teachers for every academic and noncollege type of school. Federal grants received to support public school and public library programs are administered by DOE on a statewide basis.

For the fiscal year ended June 30, 2021, DOE reported total revenues of $3.31 billion and total expenses of $3.08 billion, resulting in an increase in net position of $231 million. Total revenues of $3.31 billion consisted of $2.15 billion in state-allotted appropriations, net of lapsed funds, $733 million in non-imposed employee wages and fringe benefits, $388 million in operating grants and contributions, $2 million in capital grants and contributions, and $38 million in charges for services. Total expenses of $3.08 billion consisted of $2.89 billion for school-related costs, $88 million for state and school complex area administration, $48 million for public libraries, and $58 million for capital outlay.

DOE received an unmodified opinion that its 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*. There were no material weaknesses in internal control over financial reporting that were required to be reported under *Government Auditing Standards*. However, the auditors identified 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, the auditors identified instances of noncompliance which are required to be reported in accordance with the *Uniform Guidance*.

DEPARTMENT OF HAWAIIAN HOME LANDS

Financial and Compliance Audit of the Department of Hawaiian Home Lands Financial Statements, Fiscal Year Ended June 30, 2021

The Hawaiian Homes Commission Act sets aside certain public lands as Hawaiian home lands to be utilized for the benefit of native Hawaiians. These public lands are managed by the Department of Hawaiian Home Lands (DHHL), a state agency headed by the Hawaiian Homes Commission, whose primary responsibilities are to serve its beneficiaries and to manage this extensive land trust. DHHL provides direct benefits to native Hawaiians in the form of 99-year homestead leases at $1 per year for residential, agricultural, or pastoral purposes, and financial assistance through direct loans, insured loans, or loan guarantees for home purchase, construction, home replacement, or repair. In addition to administering the homesteading program, DHHL leases trust lands not in homestead use at market value and issues revocable permits, licenses, and rights-of-entry. Its financial statements include the public trusts controlled by the Hawaiian Homes Commission.

For the fiscal year ended June 30, 2021, DHHL's total expenses exceeded total revenues by $11.4 million. Revenues totaled $53.3 million and consisted of program revenue of $33.8 million and state appropriations, transfers, and adjustments of $19.5 million. Expenses totaled $64.7 million. Program revenues were comprised of interest income (approximately 16 percent), grants and contributions (24 percent), revenue from the general lease program (53 percent), and other sources (8 percent).

As of June 30, 2021, total assets of $984 million exceeded total liabilities of $98 million, resulting in a net position balance of $886 million. Total assets included net capital assets of $467 million, cash of $385 million, loans receivable of $92 million, and other assets and deferred outflows of resources of $40 million. Loans receivable consisted of 1,320 loans made to native Hawaiian lessees for the purposes specified in the Hawaiian Homes Commission Act. Loans are for a maximum amount of approximately $453,000 and for a maximum term of 40 years. Interest rates on outstanding loans range up to 10 percent. Total liabilities included bonds and capital lease obligations totaling $43 million and temporary deposits payable and other liabilities of $55 million.

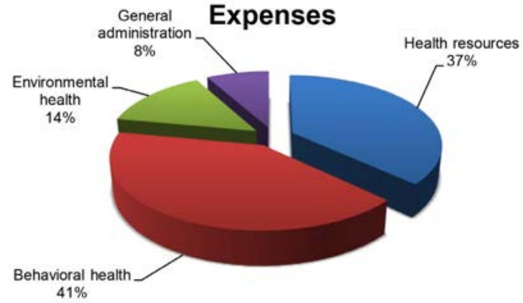
DHHL received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DHHL also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control over financial reporting that are 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 are considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

DEPARTMENT OF HEALTH

Financial and Compliance Audit of the Department of Health Financial Statements, Fiscal Year Ended June 30, 2021

The Department of Health (DOH) administers and oversees statewide personal health services, health promotion and disease prevention, mental health programs, monitoring of the environment, and the enforcement of environmental health laws. DOH also administers federal grants to support the State's health services and programs.

For the fiscal year ended June 30, 2021, DOH reported total revenues of $1.03 billion and total expenses of $914 million, resulting in an increase in net position of $114.2 million. Revenues included $809.2 million from general revenues, $171.3 million from operating grants and contributions, and $47.7 million from service charges. Expenses included $336.1 million for health resources, $375.2 million for behavioral health, $128 million for environmental health, and $74.7 million for general administration.



SOURCE: OFFICE OF THE AUDITOR

DOH received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOH received an unmodified opinion on its compliance for all major federal programs, except for Block Grants for Community Mental Health Services and Special Supplemental Nutrition Program for Women, Infants and Children, which received a qualified opinion in accordance with the *Uniform Guidance*. There was one material weakness and two significant deficiencies in internal control over financial reporting that are required to be reported under *Government Auditing Standards*. There were four material weaknesses in internal control over compliance that are required to be reported in accordance with the *Uniform Guidance*.

Financial Audit of the Department of Health, Deposit Beverage Container Deposit Special Fund Financial Statements, Fiscal Year Ended June 30, 2020

For the fiscal year ended June 30, 2020, the Deposit Beverage Container Deposit Special Fund (Fund) reported total revenues of $27.66 million and total expenditures of $21.94 million, resulting in a change in fund balance of $5.72 million. Total revenues consisted of deposit beverage container fees of $7.92 million, unredeemed deposits of $18.86 million, and interest income of $870,000. Total expenditures consisted of handling and redemption fees of $20.71 million, operating expenditures of $1.17 million, and administrative expenditures of $50,000.

The Fund received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported 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*. However, the auditors identified a significant deficiency in internal control.

Financial and Compliance Audit of the Department of Health, Drinking Water Treatment Revolving Loan Fund Financial Statements, Fiscal Year Ended June 30, 2021

The Safe Drinking Water Act was originally passed by Congress in 1974 to protect public health by regulating the nation's public drinking water supply. The law was amended in 1996 to provide funding for water system improvements. In 1997, the Hawai'i State Legislature established the Drinking Water Treatment Revolving Loan Fund (Revolving Fund) to receive federal capitalization grants from the U.S. Environmental Protection Agency. The Revolving Fund is used to provide loans in perpetuity to public drinking water systems for construction of drinking water treatment facilities. Such loans may be at or below market interest rates and must be fully amortized within twenty years. The Revolving Fund is administered by the State of Hawai'i Department of Health's Environmental Management Division, Safe Drinking Water Branch.

For the fiscal year ended June 30, 2021, the Revolving Fund reported total revenues of $17.1 million and total operating expenses of $4.2 million, resulting in a change in net position of $12.9 million. Total revenues consisted of administrative loan fees of $2.5 million, federal contributions of $11.6 million, state contributions of $2.2 million, and other income of $800,000. Total expenses consisted of administrative expenses of $1.7 million, state program management of $700,000, water protection of $800,000, and other expenses of $1.1 million.

The Revolving Fund received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles, and an unqualified opinion on its compliance with the Drinking Water State Revolving Funds Program. There were no reported 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*, and no findings that were considered material weaknesses in internal control over compliance with the Program.

Financial and Compliance Audit of the Department of Health, Drinking Water Treatment Revolving Loan Fund Financial Statements, Fiscal Year Ended June 30, 2022

For the fiscal year ended June 30, 2022, the Revolving Fund reported total revenues of $16.4 million and total operating expenses of $4.9 million, resulting in a change in net position of $11.5 million. Total revenues consisted of administrative loan fees of $2.5 million, federal contributions of $10.7 million, state contributions of $2.2 million, and other income of $1 million. Total expenses consisted of administrative expenses of $1.3 million, state program management of $700,000, water protection of $600,000, and other expenses of $2.3 million.

The Revolving Fund received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles, and an unqualified opinion on its compliance with the Drinking Water State Revolving Funds Program.

There were no reported 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*, and no findings that were considered material weaknesses in internal control over compliance with the Program.

Financial and Compliance Audit of the Department of Health, Water Pollution Control Revolving Fund Financial Statements, Fiscal Year Ended June 30, 2021

From 1989 to 1994, the State of Hawai‘i has received more than $72 million in State Revolving Fund (SRF) capitalization grants from the U.S. Environmental Protection Agency (EPA) under the federal Clean Water Act of 1987. Although the Act expired on September 30, 1995, the State continues to receive SRF capitalization grants annually from the EPA and, to date, has been awarded over $342 million. Funds are administered by the State Water Pollution Control Revolving Fund (Revolving Fund), which provides loans in perpetuity to county and state agencies for the construction of wastewater treatment facilities and for non-point source projects.

For the fiscal year ended June 30, 2021, the Revolving Fund reported total revenues of $20 million and total operating expenses of $2.9 million, resulting in an increase in net position of $17.1 million. Total revenues consisted of administrative loan fees of $3.2 million, interest income of $1.4 million, state contributions of $2.5 million, federal contributions of $12.3 million, and other income of $600,000. Total expenses of $2.9 million consisted solely of administrative expenses. Total assets and deferred outflows of resources were $575.4 million and total liabilities and deferred inflows of resources were $8.6 million. Total assets were comprised of cash and cash equivalents of $87.1 million, loans receivable of $485.2 million, and other assets and deferred outflows of resources of $3.1 million.

The Revolving Fund received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles, and an unqualified opinion on its compliance with federal statutes, regulations, and terms and conditions of federal awards that apply to the Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs. There were no reported 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*, and no findings that were considered material weaknesses in internal control over compliance with the Program.

Financial and Compliance Audit of the Department of Health, Water Pollution Control Revolving Fund Financial Statements, Fiscal Year Ended June 30, 2022

For the fiscal year ended June 30, 2022, the Revolving Fund reported total revenues of $20.7 million and total operating expenses of $3.7 million, resulting in an increase in net position of $17 million. Total revenues consisted of administrative loan fees of $3.7 million, interest income of $1.4 million, state contributions of $2.5 million, federal contributions of $12.3 million, and other income of $900,000. Total expenses of $3.7 million consisted of administrative expenses of $2.8 million and other expenses of $900,000. Total assets and deferred outflows of resources were $592 million and total liabilities and deferred inflows of resources were $8.2 million. Total assets were comprised of cash and cash equivalents of $87.5 million, loans receivable of $501.1 million, and other assets and deferred outflows of resources of $3.4 million.

The Revolving Fund received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles, and an unqualified opinion on its compliance with federal statutes, regulations, and terms and conditions of federal awards that apply to the Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs. There were no reported 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*, and no findings that were considered material weaknesses in internal control over compliance with the Program.

DEPARTMENT OF HUMAN SERVICES

Financial and Compliance Audit of the Department of Human Services Financial Statements, Fiscal Year Ended June 30, 2021

The Department of Human Services (DHS) works to provide benefits and services to individuals and families in need. The majority of DHS' budget is composed of federal funds. DHS' mission is to direct its funds toward protecting and helping those least able to care for themselves and to provide services designed toward achieving self-sufficiency for clients as quickly as possible. Activities include health care programs; general welfare assistance, employment and support services; child welfare and adult community care services; vocational rehabilitation and services for the blind; youth prevention, delinquency and correction services; and general administration. Attached programs include the Commission on the Status of Women and Commission on Fatherhood.

For the fiscal year ended June 30, 2021, DHS reported total revenues of $4.62 billion and total expenses of $4.66 billion. Revenues consisted of $1.31 billion in state allotments, net of lapsed amounts plus non-imposed employee fringe benefits, and $3.31 billion in operating grants from the federal government. Revenues from these federal grants paid for 70.7 percent of the cost of DHS' activities. Health care and general welfare assistance programs comprised 66.5 and 28.2 percent, respectively, of the total costs.

As of June 30, 2021, DHS' total assets of $560 million included cash of $257 million, receivables of $223 million, and net capital assets of $80 million. Total liabilities of $383 million included vouchers payable of $28 million, accrued wages and employee benefits of $20 million, amounts due to the state general fund of $218 million, accrued medical assistance payable of $101 million, and accrued compensated absences of $16 million.

DHS received an unmodified opinion that its financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles. DHS received a qualified opinion on its compliance for all major federal programs, except for Coronavirus Relief Fund and Pandemic EBT Food Benefits, which received an unmodified opinion in accordance with the *Uniform Guidance*. The auditors identified a material weakness in internal control over financial reporting that was required to be reported under *Government Auditing Standards*. There were 15 material weaknesses and one significant deficiency in internal control over compliance that were required to be reported in accordance with the *Uniform Guidance*. There was one finding of known questioned costs when likely questioned costs are greater than $25,000 that were required to be reported in accordance with the *Uniform Guidance*.

Financial and Compliance Audit of the Hawai‘i Public Housing Authority Financial Statements, Fiscal Year Ended June 30, 2021

The mission of the Hawai‘i Public Housing Authority (HPHA) is to provide safe, decent, and sanitary dwellings for low- and moderate-income residents of Hawai‘i and to operate its housing programs in accordance with federal and state laws and regulations. The agency is administratively attached to the Hawai‘i Department of Human Services.

For the fiscal year ended June 30, 2021, HPHA reported total revenues of $178 million and total expenses of $187 million, resulting in an increase in net position of $9 million. Total revenues of $178 million consisted of $25 million in charges for services and other revenues, $119 million in operating grants and contributions, $6 million in capital grants and contributions, and $28 million in state-allotted appropriations, net of lapsed funds. Total expenses of $187 million consisted of $91 million for the rental housing assistance program, $80 million for the rental assistance program, $11 million for the housing development program, and $5 million for other costs.

HPHA received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. HPHA also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported 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*, and no findings that were considered material weaknesses in internal control over compliance that are required to be reported under the *Uniform Guidance*.

Financial Audit of the Hawai‘i Public Housing Authority Financial Statements, Fiscal Year Ended June 30, 2022

For the fiscal year ended June 30, 2022, HPHA reported total revenues of $189 million and total expenses of $183 million, resulting in an increase in net position of $6 million. Total revenues of $189 million consisted of $28 million in charges for services and other revenues, $135 million in operating grants and contributions, $4 million in capital grants and contributions, and $22 million in state-allotted appropriations, net of lapsed funds. Total expenses of $183 million consisted of $98 million for the rental housing assistance program, $71 million for the rental assistance program, $11 million for the housing development program, and $3 million for other costs.

HPHA received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported 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 LAND AND NATURAL RESOURCES

Financial Audit of the Department of Land and Natural Resources Financial Statements, Fiscal Year Ended June 30, 2020

The Department of Land and Natural Resources (DLNR) manages, administers, and exercises control over public lands, water resources, minerals, and all other interests therein and exercises such powers of disposition as authorized by law. DLNR also manages and administers the State’s parks, historical sites, forests, forest reserves, fisheries, wildlife sanctuaries, game management areas, public hunting areas, and natural area reserves. DLNR is headed by the Board of Land and Natural Resources.

For the fiscal year ended June 30, 2020, DLNR reported total revenues and transfers of $187.8 million and total expenses of $182.5 million, resulting in an increase in net position of $5.3 million. Revenues consisted of $70.4 million from state appropriations, net of lapses, $49.8 million from charges for services, $27.5 million from operating grants and contributions, $21 million from non-imposed employee fringe benefits, $2.2 million from capital grants, and $14.7 million from taxes, interest, and other income. Total transfers in amounted to $2.2 million. Total expenses of $182.5 million consisted of $72.5 million for environmental protection, $64 million for cultural and recreation, $13.4 million for economic development, $22.1 million for government-wide support, $6.9 million for individual rights, and $3.6 million for public safety.

Total assets of $834.4 million exceeded total liabilities of $77.7 million by $756.7 million. Total assets included cash of $295.7 million, receivables of $2.9 million, and land and net capital assets of $535.8 million. Total liabilities included vouchers and accrued payables of $30.5 million, amounts due to the State of $10.9 million, general obligation bonds payable of $32.9 million, and unearned revenues of $3.4 million.

DLNR received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The auditors identified four material weaknesses in internal control over financial reporting that are required to be reported in accordance with *Government Auditing Standards*. There were no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DEPARTMENT OF TRANSPORTATION

Financial and Compliance Audit of the Department of Transportation, Administration Division Financial Statements, Fiscal Year Ended June 30, 2021

Four divisions (Airports, Harbors, Highways, and Administration) make up the State's Department of Transportation. The Administration Division (DOT–Administration) consists of the Office of the Director of Transportation, the Statewide Transportation Planning Office, and Departmental Staff Services Offices. Collectively, these offices provide overall administrative support for the Department of Transportation. The financial statements for the division reflect the financial activities of DOT–Administration and the Aloha Tower Development Corporation, which is attached to the Department for administrative purposes. DOT–Administration receives a percentage of the Airports, Harbors, and Highways Divisions' state-allotted appropriations to cover general administration expenses. The Department's Statewide Transportation Planning Office administers certain Federal Transit Administration and Federal Highway Administration grants.

For the fiscal year ended June 30, 2021, DOT–Administration reported total revenues of $43.5 million, total expenses of $41 million, and transfers to other DOT divisions of $6 million, resulting in a decrease in net position of $3.5 million. The transfers relate to unencumbered cash balances related to assessment revenues from those divisions. Revenues consisted of $19.3 million from assessments, $22.9 million from federal grants, and $1.3 million from other revenue sources. Total expenses of $41 million consisted of $11.1 million for operating grants and $29.9 million for administration.

Total assets of $20.3 million were comprised of cash of $16.2 million, accounts receivable of $2.7 million, and net capital assets of $1.4 million. Liabilities totaled $14.1 million, including a $1.8 million Aloha Tower Development Corporation note payable to the Harbors Division.

DOT–Administration received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOT–Administration also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported 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*.

Financial and Compliance Audit of the Department of Transportation, Administration Division Financial Statements, Fiscal Year Ended June 30, 2022

For the fiscal year ended June 30, 2022, DOT–Administration reported total revenues of $53.4 million, total expenses of $51.2 million, and net transfers of $1.9 million, resulting in an increase in net position of $4.1 million. Revenues consisted of $23 million from assessments, $29.1 million from federal grants, and $1.3 million from other revenue sources. Total expenses of $51.2 million consisted of $10.4 million for operating grants and $40.8 million for administration.

Total assets of $54.8 million were comprised of cash of $16.1 million, accounts receivable of $32.1 million, and net capital assets of $6.6 million. Liabilities totaled $44.6 million, including a $1.5 million Aloha Tower Development Corporation note payable to the Harbors Division.

DOT–Administration received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOT–Administration also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported 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*.

Financial and Compliance Audit of the Department of Transportation, Airports Division Financial Statements, Fiscal Year Ended June 30, 2021

The Department of Transportation, Airports Division (DOT–Airports) operates and maintains 15 airports at various locations throughout the State of Hawaiʻi as a single integrated system for management and financial purposes. Daniel K. Inouye International Airport is the principal airport in the airports system, providing facilities for interisland flights, domestic overseas flights, and international flights to destinations in the Pacific Rim. DOT–Airports is authorized to impose and collect rates and charges for the airports system services and properties to generate revenues to fund operating expenses. The Capital Improvements Program is primarily funded by airports system revenue bonds and lease revenue certificates of participation issued by DOT–Airports, federal grants, passenger facility charges, customer facility charges, and DOT–Airports revenues.

For the fiscal year ended June 30, 2021, DOT–Airports reported total revenues of $540 million and total expenses of $604 million, resulting in a decrease in net position of $64 million. Revenues consisted of $59 million in concession fees, $62 million in landing fees, $152 million in rentals, $49 million in facility charges, $201 million in federal operating and capital grants, and $17 million in interest and other revenues. Total expenses of $604 million consisted of $345 million for operations and maintenance, $158 million in depreciation, $14 million for administration, and $87 million in interest and other expenses.

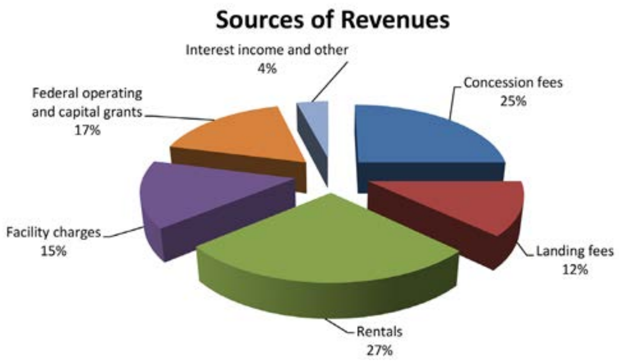
As of June 30, 2021, the department reported total assets and deferred outflows of resources of $5.45 billion, comprised of cash of $1.04 billion, investments of $240 million, net capital assets of $3.97 billion, and $197 million in receivables, other assets, and deferred outflows of resources. Total liabilities and deferred inflows of resources totaled $2.92 billion, which includes $1.66 billion in airports system revenue bonds, $1.23 billion in other liabilities and deferred inflows of resources, and $22 million in special facility revenue bonds.

DOT–Airports received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOT–Airports also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control and no instances of noncompliance or other matters that required reporting. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

Financial Audit of the Department of Transportation, Airports Division Financial Statements, Fiscal Year Ended June 30, 2022

For the fiscal year ended June 30, 2022, DOT–Airports reported total revenues of $666 million and total expenses of $623 million, resulting in an increase in net position of $43 million. Revenues consisted of $169 million in concession fees, $81 million in landing fees, $179 million in rentals, $99 million in facility charges, $111 million in federal operating and capital grants, and $27 million in interest and other revenues. Total expenses of $623 million consisted of $330 million for operations and maintenance, $167 million in depreciation, $29 million for administration, and $97 million in interest and other expenses.

As of June 30, 2022, the department reported total assets and deferred outflows of resources of $6.14 billion, comprised of cash of $1.28 billion, investments of $229 million, net capital assets of $4 billion, and $633 million in receivables, other assets, and deferred outflows of resources. Total liabilities and deferred inflows of resources totaled $3.57 billion, which includes $1.91 billion in airports system revenue bonds and $1.66 billion in other liabilities and deferred inflows of resources.



SOURCE: OFFICE OF THE AUDITOR

DOT–Airports received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control and no instances of noncompliance or other matters that required reporting.

Financial Audit of the Department of Transportation, Harbors Division Financial Statements, Fiscal Year Ended June 30, 2021

The Department of Transportation, Harbors Division (DOT–Harbors) is responsible for the statewide system of commercial harbors, which consists of ten harbors on six islands. The system plays a vital role in Hawai‘i’s economy, as the harbors serve as the primary means for goods to enter and exit the State of Hawai‘i. Hawai‘i imports approximately 80 percent of what it consumes, the majority of which enters the state through the commercial harbors system. DOT–Harbors operations are self-sustaining. The Department of Transportation is authorized to impose and collect rates and charges for use of the harbors system and its properties to generate revenues to fund operating expenses. Capital improvements are funded by the revenue and proceeds from the issuance of harbor system revenue bonds.

For the fiscal year ended June 30, 2021, DOT–Harbors reported total revenues of $183.7 million, total expenses of $109 million, and capital contributions of $6.2 million from federal grants restricted for capital asset acquisition and facility development, resulting in an increase in net position of $80.9 million. Total revenues consisted of $153.9 million in services, $26.9 million in rentals, $1.7 million in interest income, and $1.2 million in other revenues. Total expenses consisted of $40.2 million in depreciation, $16.6 million in harbor operations, $13.1 million in interest and bond costs, $25.8 million for personnel, and $13.3 million in administration and other costs.

The department reported total assets and deferred outflows of resources of $1.73 billion, comprised of cash and cash equivalents of $619.1 million, receivables of $21.2 million, net capital assets of $1.08 billion, and other assets and deferred outflows of resources of $11.1 million. Total liabilities and deferred inflows of resources totaled $580.1 million, comprised of $420.7 million in revenue bonds payable and related accrued interest payable, $16.2 million in general obligation bonds payable, $24 million in capital lease obligation and related accrued interest payable, $8 million due to other state agencies, $23.8 million in accounts and contracts payable, and $87.4 million in other liabilities and deferred inflows of resources.

DOT–Harbors received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported 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*.

Financial Audit of the Department of Transportation, Harbors Division Financial Statements, Fiscal Year Ended June 30, 2022

For the fiscal year ended June 30, 2022, DOT–Harbors reported total revenues of $206.1 million, total expenses of $112.4 million, and capital contributions of $200,000 from federal grants restricted for capital asset acquisition and facility development, resulting in an increase in net position of $93.9 million. Total revenues consisted of $168.7 million in services, $34.1 million in leases, $2.5 million in interest income, and $800,000 in other revenues. Total expenses consisted of $38.4 million in depreciation, $18.1 million in harbor operations, $11 million in interest, $30.6 million for personnel, and $14.3 million in administration and other costs.

The department reported total assets and deferred outflows of resources of $1.87 billion, comprised of cash and cash equivalents of $607.7 million, receivables of $85.2 million, net capital assets of $1.15 billion, and other assets and deferred outflows of resources of $23.2 million. Total liabilities and deferred inflows of resources totaled $623 million, comprised of $401.7 million in revenue bonds payable and related accrued interest payable, $13.7 million in general obligation bonds payable, $22.8 million in financed purchase obligation and related accrued interest payable, $3.1 million due to other state agencies, $18.9 million in accounts and contracts payable, and $162.8 billion in other liabilities and deferred inflows of resources.

DOT–Harbors received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported 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*.

Financial and Compliance Audit of the Department of Transportation, Highways Division Financial Statements, Fiscal Year Ended June 30, 2021

The mission of the Department of Transportation, Highways Division (DOT–Highways), is to provide a safe, efficient, and sustainable State Highway System that ensures the mobility of people and goods within the state. The division is charged with maximizing available resources to provide, maintain, and operate ground transportation facilities and support services that promote economic vitality and livability in Hawai‘i. The Department also works with the Statewide Transportation Planning Office on innovative and diverse approaches to congestion management.

For the fiscal year ended June 30, 2021, DOT–Highways reported total revenues of $494 million and total expenses of $525 million, resulting in a decrease in net position of $31 million. Revenues consisted of $188 million in tax collections, $239 million in grants and contributions primarily from the Federal Highway Administration, $58 million in charges for services, and $9 million in investment income and other revenues. Expenses consisted of $125 million for operations and maintenance, $211 million in depreciation, $168 million for administration and other expenses, and $21 million in interest.

Total assets and deferred outflows of resources of $5.55 billion were comprised of cash and investments of $547 million, net capital assets of $4.95 billion, and $50 million in other assets and deferred outflows of resources. Total liabilities of $807 million included $646 million in revenue bonds and $161 million in other liabilities. DOT–Highways has numerous capital projects ongoing statewide; construction in progress totaled $213 million at the end of the fiscal year.

DOT–Highways received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOT–Highways also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There was one material weakness and one significant deficiency in internal controls over financial reporting that were 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, the auditors identified two significant deficiencies in internal control over compliance.

Financial and Compliance Audit of the O‘ahu Metropolitan Planning Organization Financial Statements, Fiscal Year Ended June 30, 2021

Federal highway and transit statutes require urbanized areas greater than 50,000 in population to designate a metropolitan planning organization as a condition for spending federal highway or transit funds. O‘ahu Metropolitan Planning Organization (OahuMPO) is the designated metropolitan planning organization for the island of O‘ahu. Federal Transit Administration Grants are made to OahuMPO through the Department of Transportation’s Statewide Transportation Planning Office. The agency serves as the decision-making body responsible for carrying out continuing, comprehensive, and cooperative transportation planning and programming for the island of O‘ahu.

For the fiscal year ended June 30, 2021, OahuMPO reported total revenues of approximately $3.1 million and total expenses of approximately $3.1 million, resulting in minimal change in net position. Revenues consisted of $2.5 million from federal grants and $618,000 in contributions from the State of Hawai‘i and City and County of Honolulu.

Total expenses consisted of $26,000 for transportation forecasting and long-range planning, $1.4 million for short-range transportation system and demand management planning, $75,000 for transportation monitoring and analysis, $22,000 for emergency management, and $1.6 million for program coordination and administration.

OahuMPO received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. OahuMPO received an unqualified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported 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 are considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

Office of the Auditor Appropriations and Expenditures on a Budgetary Basis for the Fiscal Year Ended June 30, 2022

Appropriations

Act 2, SLH 2021 (Operations)	$2,953,122
Act 2, SLH 2021 (Special Studies)	138,000
Act 2, SLH 2021 (Audit Revolving Fund)	2,800,000
Act 2, SLH 2021 (Accrued Vacation Payments)	68,106
	$5,959,228

Expenditures

Staff salaries	$1,905,748
Vacation payments	0
Contractual services (operational)	13,769
Other expenses	77,087
Special studies	0
Contractual services (Audit Revolving Fund)	2,800,000
	4,796,604

Excess of Appropriation over Expenditures

Act 2, SLH 2021 (operations)	$956,518
Act 2, SLH 2021 (special studies)	138,000
Act 2, SLH 2021 (Audit Revolving Fund)	0
Act 2, SLH 2021 (Accrued Vacation Payments)	68,106
	$1,162,624

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