



April 21, 2023

VIA EMAIL

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

VIA EMAIL

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

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

Dear President Kouchi and Speaker Saiki:

The audit report on the financial statements and compliance of the Department of Human Services for the fiscal year ended June 30, 2022, was issued on March 30, 2023. The Office of the Auditor retained Accuity LLP to perform the financial and compliance audit. For your information, we are attaching a copy of the two-page Auditor's Summary of the financial and compliance audit report.

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

https://files.hawaii.gov/auditor/Reports/2022_Audit/DHS2022.pdf; and

https://files.hawaii.gov/auditor/Reports/2022_Audit/DHS_Summary_2022.pdf.

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

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:LYK:emo

Attachment

ec/attach (Auditor's Summary only): Members of the Senate

Members of the House of Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

Auditor's Summary

Financial and Compliance Audit of the Department of Human Services

Financial Statements, Fiscal Year Ended June 30, 2022



PHOTO: DEPARTMENT OF HUMAN SERVICES

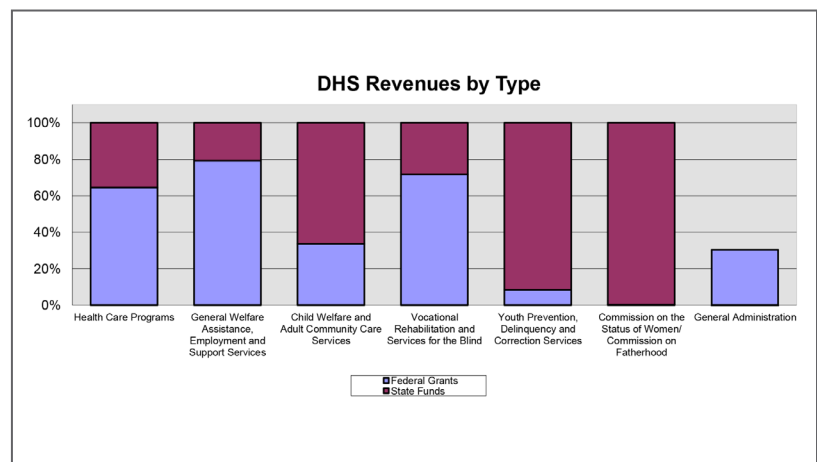
THE PRIMARY PURPOSE of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Human Services, as of and for the fiscal year ended June 30, 2022, and to comply with Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by Accuity LLP.

About the Department

The Department of Human Services (DHS) works to provide benefits and services to individuals and families in need. The majority of DHS' budget is comprised 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 the Commission on Fatherhood.

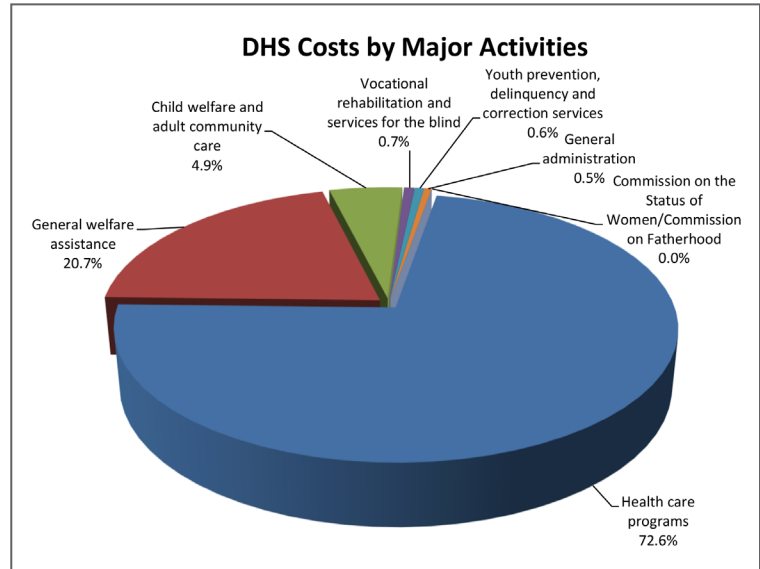
Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2022, DHS reported total revenues of \$5.01 billion and total expenses of \$5.06 billion. Revenues consisted of \$1.42 billion in state allotments, net of lapsed amounts plus non-imposed employee fringe benefits, and \$3.59 billion in operating grants from the federal government. Revenues from these federal grants paid for 70.9 percent of the cost of DHS' activities.



Health care and general welfare assistance programs comprised 68.3 and 27.2 percent, respectively, of the total cost. The following chart presents each major activity as a percentage of the total cost of all DHS activities.

As of June 30, 2022, DHS' total assets of \$505 million included (1) cash of \$223 million, (2) receivables of \$203 million, and (3) net capital assets of \$79 million. Total liabilities of \$377 million included (1) vouchers payable of \$10 million, (2) accrued wages and employee benefits of \$12 million, (3) amounts due to the state general fund of \$188 million, (4) accrued medical assistance payable of \$151 million, and (5) accrued compensated absences of \$16 million.



Auditors' Opinions

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 COVID-19 Pandemic EBT Food Benefits, Child Care and Development Block Grant, and Child Care Development Fund Cluster, which received an unmodified opinion in accordance with the Uniform Guidance.

Findings

THE AUDITORS IDENTIFIED a material weakness in internal control over financial reporting that was required to be reported under *Government Auditing Standards*. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. The material weakness is described on pages 64-65 of the report.

There were 14 material weaknesses in internal control over compliance that were required to be reported in accordance with the *Uniform Guidance*. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. The material weaknesses are described on pages 66-87 and 89-92 of the report.

There were 2 significant deficiencies in internal control over compliance that was required to be reported in accordance with the Uniform Guidance. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. The deficiencies are described on pages 88 and 93-94 of the report.



Link to the complete report:

Financial and Compliance Audit

https://files.hawaii.gov/auditor/Reports/2022_Audit/DHS2022.pdf



Department of Human Services State of Hawaii

Financial and Compliance Audit

June 30, 2022

Submitted by
The Auditor
State of Hawaii



Department of Human Services
State of Hawaii
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June 30, 2022

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PART I
Financial Statements



Report of Independent Auditors

The Auditor
State of Hawaii

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Human Services (the “Department”), as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the Department’s basic financial statements as listed in the index.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

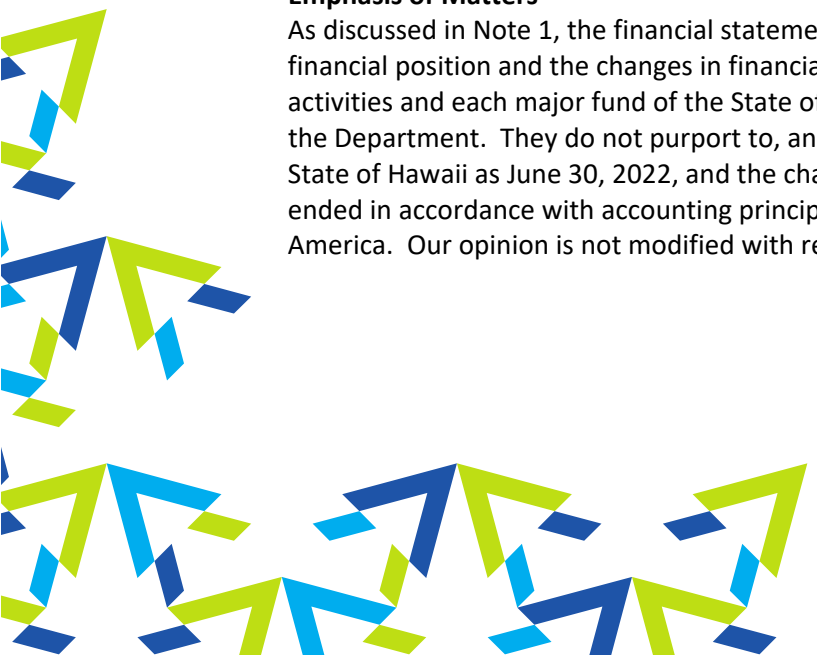
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as June 30, 2022, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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Responsibilities of Management for the Financial Statements

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


In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- 
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 5 through 15 and budgetary comparison schedules for the General Fund and Special Revenue Funds on pages 47 through 50 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department’s basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and are presented for purposes of additional analysis and are not a required part of the basic financial statements. As described in Note 1 to the schedule of expenditures of federal awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2023 on our consideration of the Department’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department’s internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawaii
March 30, 2023

Department of Human Services
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2022

This discussion and analysis of the financial performance of the Department of Human Services (the "Department") provides an overview of the financial activities of the Department for the year ended June 30, 2022. The intent of this discussion is to allow management to provide an objective and easily readable analysis of the financial activities of the Department based on currently known facts, decisions, or conditions. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements and other supplementary information.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

Department of Human Services
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2022

Fund Financial Statements

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

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

- **Governmental funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources and balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government entity's near-term financing requirements. By comparing the governmental fund and government-wide financial statements, readers may better understand the long-term impact of the entity's near-term financing decisions. In order to facilitate a comparison between the governmental fund and government-wide financial statements, a reconciliation between the two is provided following each governmental fund financial statements.
- **Fiduciary fund** – The fiduciary fund of the Department consists of custodial funds for assets held by the Department in its role as custodian until the funds are distributed to the individuals, private organizations, or government agencies to which they belong. These activities are excluded from the government-wide financial statements of the Department because the Department cannot use these assets to finance its operations.

Notes to the Basic Financial Statements

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

Department of Human Services
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2022

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following table presents a condensed government-wide statement of net position of the Department as of June 30, 2022 and 2021.

Summary Schedule of Net Position
June 30, 2022 and 2021

	Governmental Activities		2022 – 2021	
	2022	2021	Increase (Decrease)	Percentage Change
Assets				
Current	\$ 426,151,349	\$ 480,064,324	\$ (53,912,975)	(11.2)%
Capital assets, net	78,938,307	80,074,240	(1,135,933)	(1.4)%
Total assets	\$ 505,089,656	\$ 560,138,564	\$ (55,048,908)	(9.8)%
Liabilities				
Current liabilities	\$ 366,636,593	\$ 371,722,486	\$ (5,085,893)	(1.4)%
Noncurrent liabilities	10,784,199	11,505,230	(721,031)	(6.3)%
Total liabilities	377,420,792	383,227,716	(5,806,924)	(1.5)%
Net position				
Net investment in capital assets	78,938,307	80,074,240	(1,135,933)	(1.4)%
Unrestricted	48,730,557	96,836,608	(48,106,051)	(49.7)%
Total net position	127,668,864	176,910,848	(49,241,984)	(27.8)%
Total liabilities and net position	\$ 505,089,656	\$ 560,138,564	\$ (55,048,908)	(9.8)%

As noted earlier, an analysis of net position over time may be a useful indicator of whether a government entity's financial condition is growing stronger or weakening. During the year ended June 30, 2022, the combined net position of the Department decreased by approximately \$49.2 million.

The unrestricted net position of the Department was approximately \$48.7 million as of June 30, 2022. The largest liabilities as of June 30, 2022 are the federal expenditures incurred but not yet reimbursed by the federal government as of June 30, 2022 and the estimated amount of medical assistance service provided as of June 30, 2022, for which the related claims and capitation fees will be processed and paid subsequent to June 30, 2022. For the unreimbursed federal expenses as of June 30, 2022 of \$115.1 million, the majority is for the medical assistance program, of which \$66.5 million will be received after June 30, 2022. Of the estimated \$151.5 million of medical assistance payable, the State's share of these costs is approximately \$64.1 million. The estimated federal share of these costs to be paid in the future was recorded as intergovernmental revenues in the current fiscal year and is included in the balance due from other governments. In addition to the estimated medical assistance payable, the liability for compensated absences totaling approximately \$15.8 million as of June 30, 2022 is not funded by state allotments until the employee uses the earned leave or is paid out upon termination. Therefore, there are no assets currently available to the Department to pay for these liabilities as of June 30, 2022.

Department of Human Services
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2022

The Department reported a total of approximately \$78.9 million in net position invested in capital assets as of June 30, 2022. Although the Department is not the legal owner of the state buildings that are reported as part of its capital assets, the portion of the state facilities used by the Department are required to be reported as part of its capital assets. The Department uses these capital assets to provide services; consequently, these assets are not available for future spending and the related annual depreciation expense of the cost of these facilities is included in the statement of activities for the year ended June 30, 2022.

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

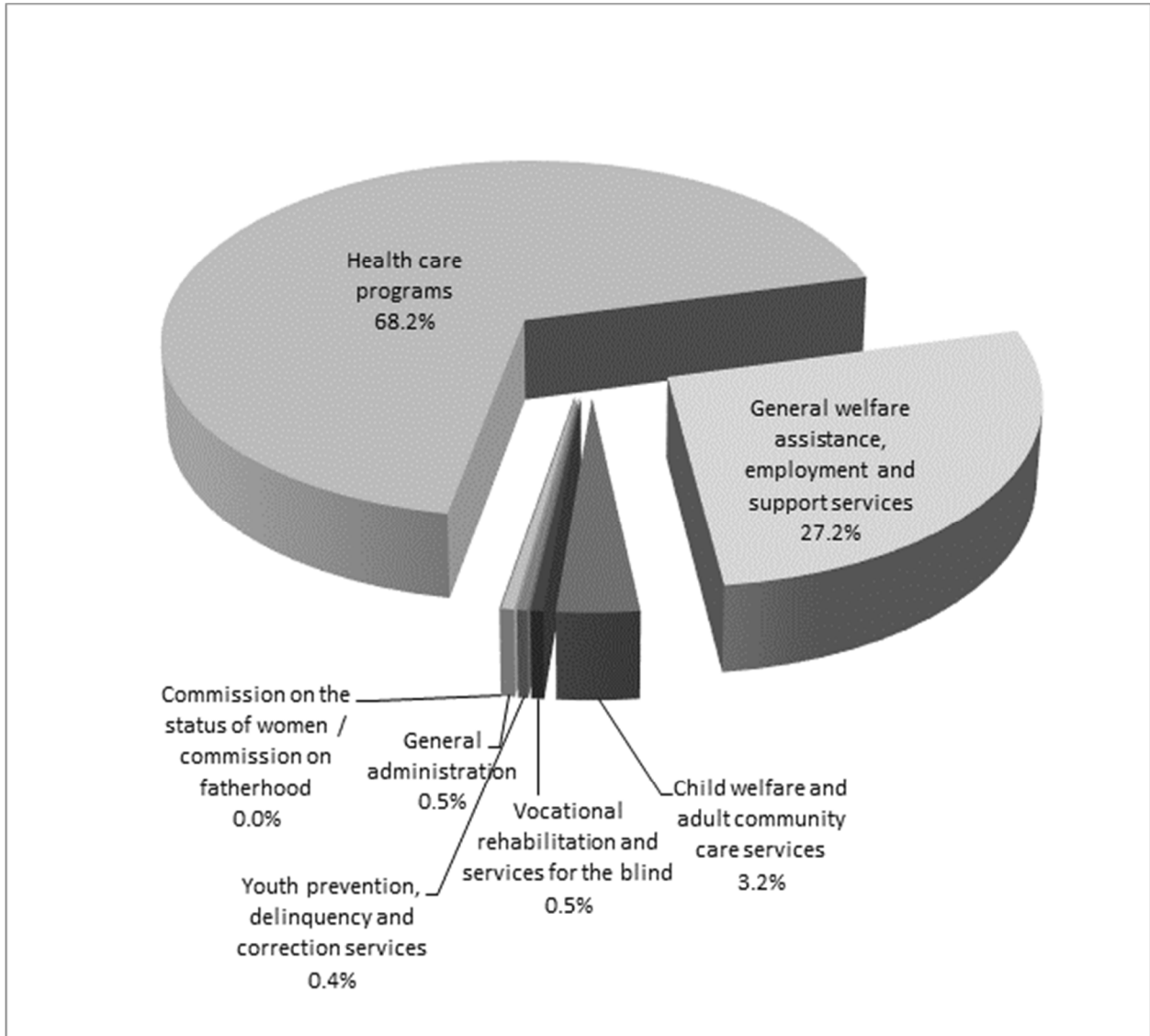
Summary Schedule of Changes in Net Position
Years Ended June 30, 2022 and 2021

	Governmental Activities		2022 – 2021	
	2022	2021	Increase (Decrease)	Percentage Change
Revenues				
Program revenues	\$ 3,590,859,993	\$ 3,309,232,631	\$ 281,627,362	8.5 %
General revenues	<u>1,421,505,722</u>	<u>1,307,413,244</u>	<u>114,092,478</u>	8.7 %
Total revenues	<u>5,012,365,715</u>	<u>4,616,645,875</u>	<u>395,719,840</u>	8.6 %
Expenses				
Health care programs	3,454,746,074	3,110,185,534	344,560,540	11.1 %
General welfare assistance, employment and support services	1,377,452,180	1,317,823,184	59,628,996	4.5 %
Child welfare and adult community care services	163,042,385	166,410,119	(3,367,734)	(2.0)%
General administration	23,201,731	37,645,780	(14,444,049)	(38.4)%
Vocational rehabilitation and services for the blind	23,855,921	25,047,972	(1,192,051)	(4.8)%
Youth prevention, delinquency and correction services	19,099,720	21,712,502	(2,612,782)	(12.0)%
Commission on the status of women / commission on fatherhood	<u>209,688</u>	<u>221,499</u>	<u>(11,811)</u>	(5.3)%
Total expenses	<u>5,061,607,699</u>	<u>4,679,046,590</u>	<u>382,561,109</u>	8.2 %
Net expenses	<u>\$ (49,241,984)</u>	<u>\$ (62,400,715)</u>	<u>\$ 13,158,731</u>	(21.1)%

The total cost of all programs and services was approximately \$5.1 billion, an 8.2% increase from the prior fiscal year. Health care and general welfare assistance programs comprised 68.2% and 27.2%, respectively, of the total costs.

**Department of Human Services
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2022**

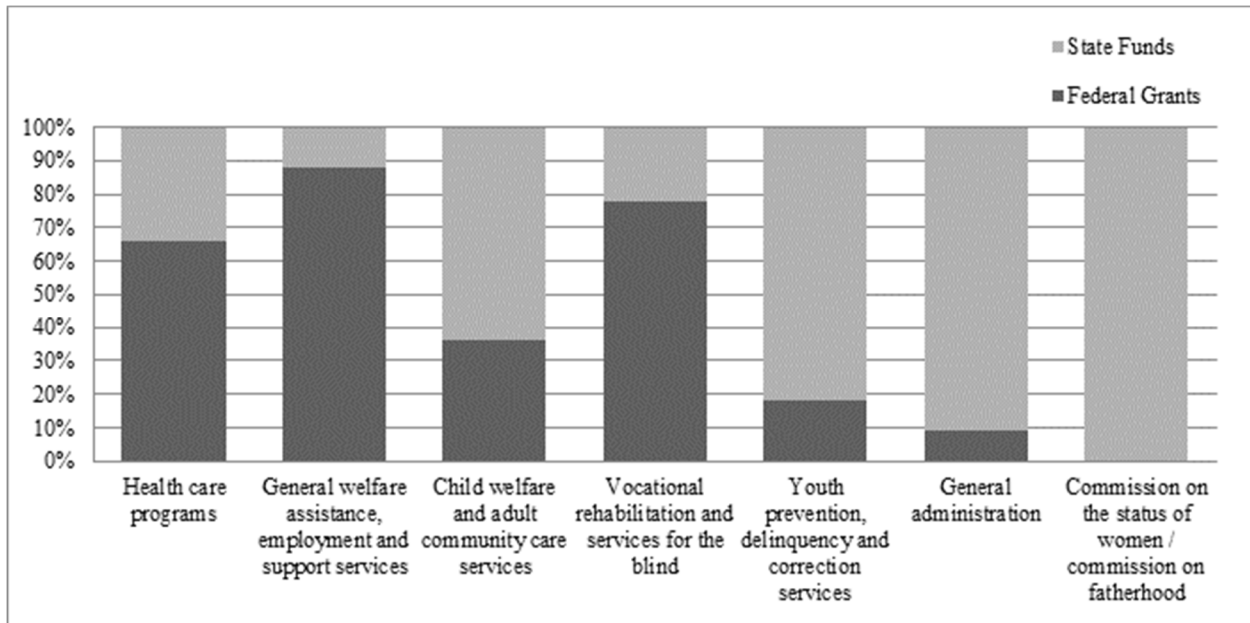
The following chart presents each major activity as a percent of the total cost of all Department activities:



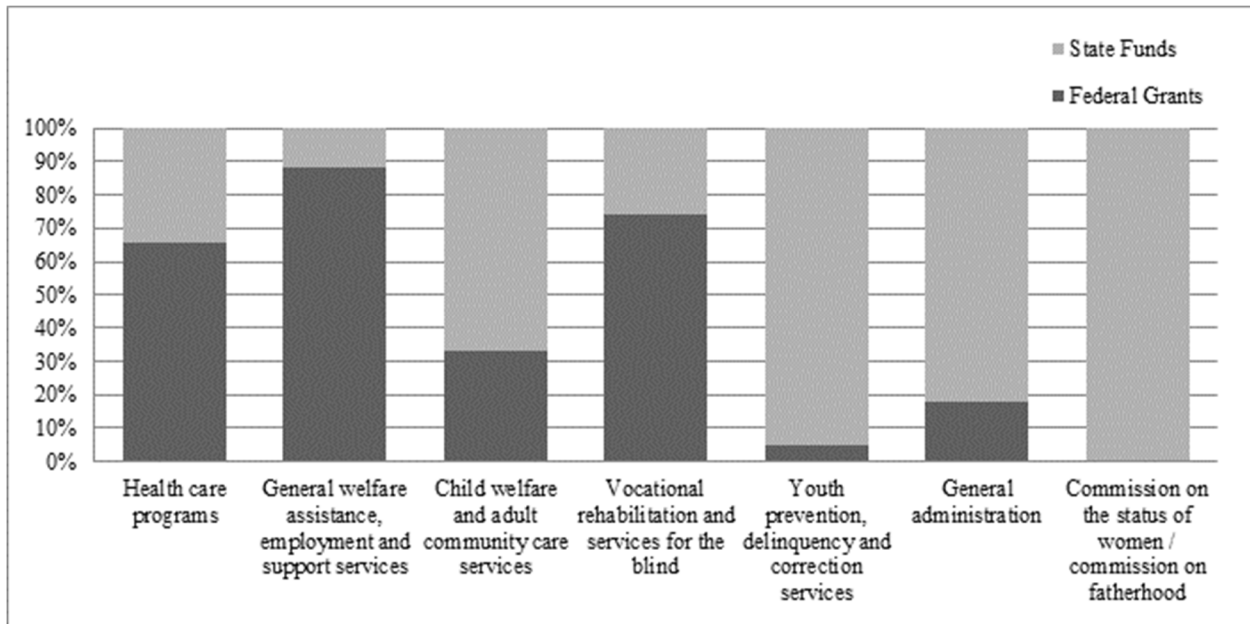
Department of Human Services
State of Hawaii
Management’s Discussion and Analysis (Unaudited)
June 30, 2022

Program revenues consist primarily of operating grants from the federal government. Revenues from these federal grants paid for 70.9% and 70.7% of the cost of all the Department’s activities for the years ended June 30, 2022 and 2021, respectively. The following chart presents the percentage of costs funded by federal grants for each major activity of the Department for the years ended June 30, 2022 and 2021:

Fiscal Year 2022



Fiscal Year 2021



Department of Human Services
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2022

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

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

Total expenditures reported on an accrual basis increased by \$372.7 million or 8.0% over the prior fiscal year. This increase is primarily related to an increase in expenditures for the health care programs and general welfare assistance, employment and support services.

At June 30, 2022, the total governmental fund balance of the Department consisted of a committed and assigned fund balance of approximately \$13.3 million, and \$51.2 million, respectively. The committed fund balance of the special revenue funds totaling \$13.3 million is principally the result of amounts that are limited by the state law for specific use.

The following table presents total revenues and expenditures of the governmental funds of the Department for the years ended June 30, 2022 and 2021:

	Governmental Funds		2022 – 2021	
	2022	2021	Increase (Decrease)	Percentage Change
Revenues				
State-allotted appropriations	\$ 1,391,623,203	\$ 1,275,950,249	\$ 115,672,954	9.1 %
Intergovernmental revenues	3,590,859,993	3,309,232,631	281,627,362	8.5 %
Non-imposed employee fringe benefits	29,882,519	31,462,995	(1,580,476)	(5.0)%
Total revenues	\$ 5,012,365,715	\$ 4,616,645,875	\$ 395,719,840	8.6 %
Expenditures				
Health care programs	\$ 3,451,712,692	\$ 3,107,771,495	\$ 343,941,197	11.1 %
General welfare assistance, employment and support services	1,380,255,844	1,332,760,173	47,495,671	3.6 %
Child welfare and adult community care services	163,797,572	165,221,728	(1,424,156)	(0.9)%
General administration	23,443,842	37,228,257	(13,784,415)	(37.0)%
Vocational rehabilitation and services for the blind	23,554,344	24,347,259	(792,915)	(3.3)%
Youth prevention, delinquency and correction services	18,086,664	20,764,719	(2,678,055)	(12.9)%
Commission on the status of women / commission on fatherhood	202,839	211,340	(8,501)	(4.0)%
Total expenditures	\$ 5,061,053,797	\$ 4,688,304,971	\$ 372,748,826	8.0 %

Department of Human Services
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2022

BUDGETARY ANALYSIS

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

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Expenditures				
Health care programs	\$ 1,126,548,918	\$ 1,115,515,768	\$ 1,063,872,614	\$ 51,643,154
General welfare assistance, employment and support services	142,262,962	139,087,294	127,671,922	11,415,372
Child welfare and adult community care services	109,303,701	108,696,771	101,706,220	6,990,551
Youth prevention, delinquency and correction services	15,504,363	14,959,824	14,117,724	842,100
General administration	11,385,514	11,385,514	12,179,636	(794,122)
Vocational rehabilitation and services for the blind	4,013,195	3,710,265	3,658,939	51,326
Commission on the status of women / commission on fatherhood	169,479	156,686	156,673	13
	<u>\$ 1,409,188,132</u>	<u>\$ 1,393,512,122</u>	<u>\$ 1,323,363,728</u>	<u>\$ 70,148,394</u>

The major differences between the original and final budget are mainly due to the increase in the federal fund participation rate and restrictions.

The majority of the savings for the health care programs were due to the increase in federal participation percentage. Because of the additional sources of funding, the program did not utilize all the budgeted funds. The amounts expended in comparison to the amount budgeted appears favorable.

Department of Human Services
State of Hawaii
Management’s Discussion and Analysis (Unaudited)
June 30, 2022

CAPITAL ASSETS

As of June 30, 2022 and 2021, the cost basis of capital assets, net of accumulated depreciation, used by the Department is presented in the table below. Approximately \$9.5 million of capital assets were added in the year ended June 30, 2022. The major increase in capital assets is due to the recording of capitalized software costs and buildings occupied by the department. Annual depreciation totaling approximately \$9.8 million decreased the net cost basis during the year ended June 30, 2022.

Capital Assets, Net of Depreciation
Years Ended June 30, 2022 and 2021

	2022	2021
Nondepreciable assets		
Software under development	\$ 14,806,463	\$ 14,291,962
Land	<u>1</u>	<u>1</u>
Total nondepreciable assets	14,806,464	14,291,963
Depreciable assets		
Building and improvements	39,219,977	42,056,432
Furniture and equipment	791,402	1,026,543
Motor vehicles	106,795	134,754
Intangible assets – software	<u>24,013,669</u>	<u>22,564,548</u>
Total depreciable assets	<u>64,131,843</u>	<u>65,782,277</u>
Total	<u>\$ 78,938,307</u>	<u>\$ 80,074,240</u>

In addition to the capital assets listed above, the Department leases numerous office facilities from third-party lessors under operating lease arrangements. Those leases for additional space beyond the state facilities listed above as buildings and improvements are necessary to provide program services throughout the State. The related right to use lease asset, lease liability, rent expense, and future minimum lease payments were not material for the year ended June 30, 2022.

ECONOMIC FACTORS (Fiscal Year 2022)

Average monthly financial assistance caseload decreased by 27% from state fiscal year 2021 to 2022, from 14,111 to 10,367 cases. Last year experienced a 29% increase.

Average monthly number of individuals in Hawaii receiving financial assistance decreased by 27% from state fiscal year 2021 to 2022, from 28,442 to 20,763 individuals. Last year experienced a 47% increase.

The average monthly number of individuals in Hawaii receiving Supplemental Nutrition Assistance Program (“SNAP”), formerly known as Food Stamp Program, decreased by 7%, from 190,791 to 178,486 individuals. Last year experienced a 19% increase.

Over the past few fiscal years, the number of individuals receiving SNAP benefits and financial assistance in Hawaii continued to rise due to the COVID-19 pandemic and its effect on the economy. Changes in

**Department of Human Services
State of Hawaii
Management's Discussion and Analysis (Unaudited)
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policy at the national level in response to the COVID-19 pandemic resulted in more individuals eligible for SNAP benefits for the year. By the end of state fiscal 2021, case counts had begun falling in a number of financial assistance programs as the state began to show modest recovery from the pandemic-imposed hardship.

Figure 1

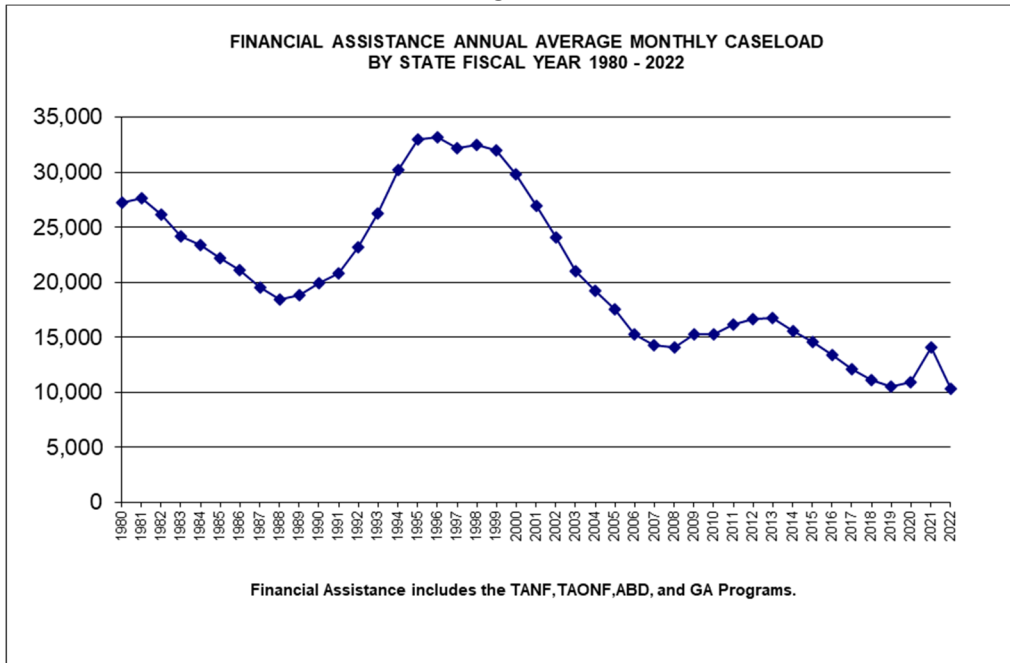
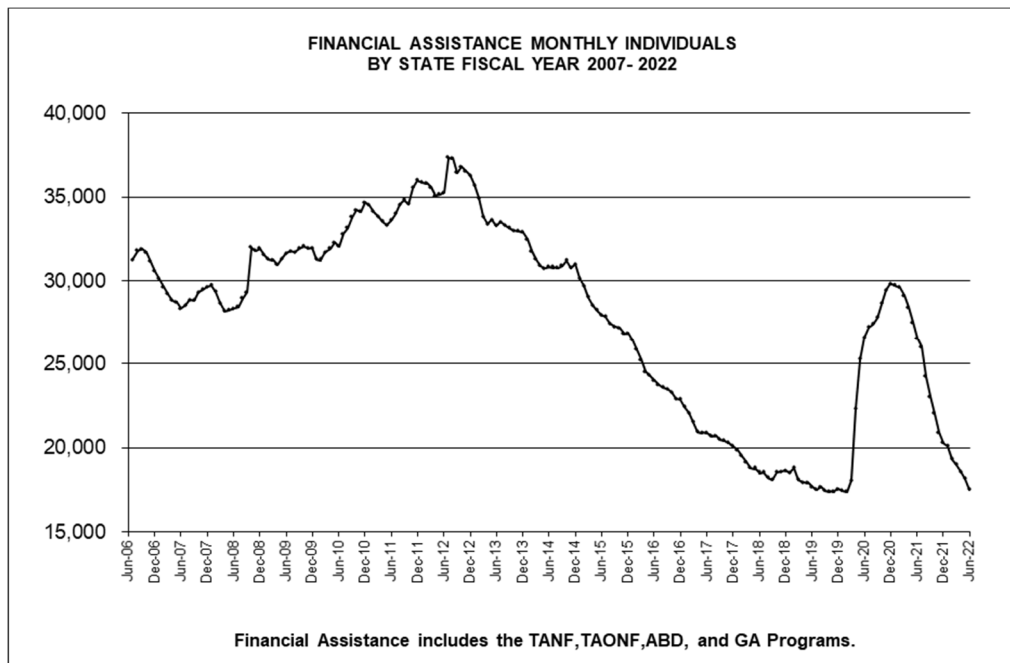
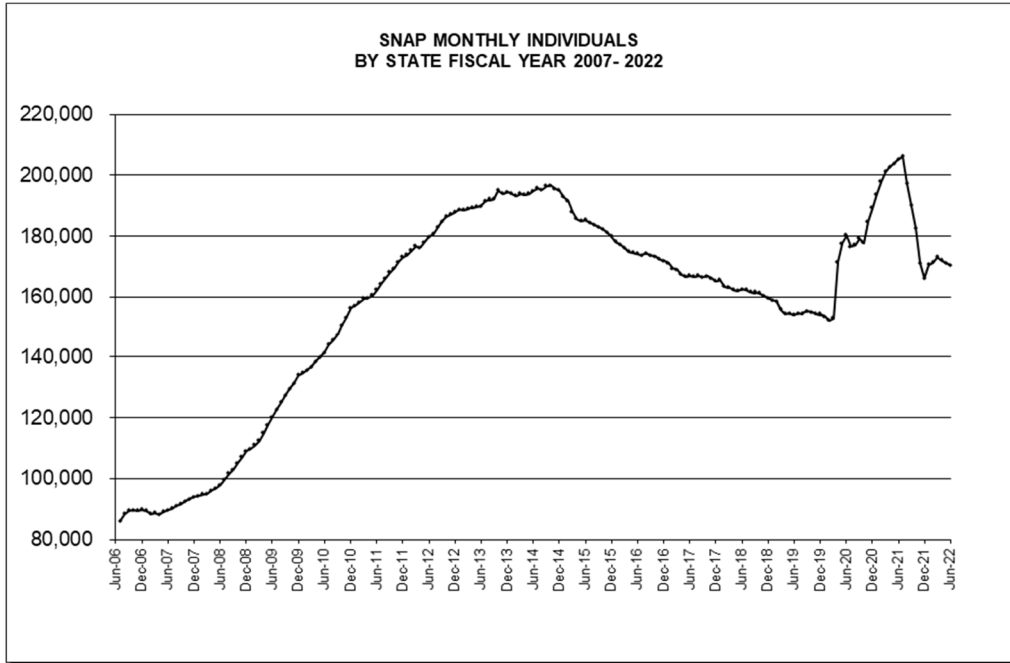


Figure 2



Department of Human Services
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2022

Figure 3



Department of Human Services
State of Hawaii
Statement of Net Position
June 30, 2022

Assets

Current assets

Equity in cash and cash equivalents and investments in State Treasury	\$ 223,226,544
Receivables, net	188,825,781
Due from other governments	14,099,024
Total current assets	<u>426,151,349</u>

Capital assets, net of accumulated depreciation

78,938,307

Total assets

\$ 505,089,656

Liabilities and Net Position

Liabilities

Current liabilities

Vouchers payable	\$ 10,239,860
Accrued wages and employee benefits payable	12,257,417
Due to State of Hawaii General Fund	187,664,264
Accrued medical assistance payable	151,484,052
Accrued compensated absences	4,991,000
Total current liabilities	<u>366,636,593</u>

Accrued compensated absences, less current portion

10,784,199

Total liabilities

377,420,792

Net position

Net investment in capital assets	78,938,307
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Unrestricted	48,730,557
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Total net position	<u>127,668,864</u>
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Total liabilities and net position	<u>\$ 505,089,656</u>
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The accompanying notes are an integral part of these financial statements.

Department of Human Services
State of Hawaii
Statement of Activities
Year Ended June 30, 2022

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	Expenses	Program Revenues		Net Revenue (Expenses) and Change in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Healthcare programs	\$ 3,454,746,074	\$ -	\$ 2,296,134,633	\$ (1,158,611,441)
General welfare assistance, employment and support services	1,377,452,180	-	1,213,468,349	(163,983,831)
Child welfare and adult community care services	163,042,385	-	58,406,587	(104,635,798)
General administration	23,201,731	-	2,194,607	(21,007,124)
Vocational rehabilitation and services for the blind	23,855,921	-	18,521,084	(5,334,837)
Youth prevention, delinquency and correction services	19,099,720	-	2,134,733	(16,964,987)
Commission on the status of women / commission on fatherhood	209,688	-	-	(209,688)
Total governmental activities	<u>\$ 5,061,607,699</u>	<u>\$ -</u>	<u>\$ 3,590,859,993</u>	<u>(1,470,747,706)</u>
General revenues				
State allotments, net of lapsed appropriations				1,391,623,203
Nonimposed employee fringe benefits				29,882,519
Total general revenues				<u>1,421,505,722</u>
Change in net position				(49,241,984)
Net position at July 1, 2021				<u>176,910,848</u>
Net position at June 30, 2022				<u>\$ 127,668,864</u>

The accompanying notes are an integral part of these financial statements.

**Department of Human Services
State of Hawaii
Balance Sheet – Governmental Funds
June 30, 2022**

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
Assets				
Equity in cash and cash equivalents and investments in State Treasury	\$ 115,881,090	\$ 46,709,750	\$ 60,635,704	\$ 223,226,544
Receivables, net	13,184,485	174,760,136	881,160	188,825,781
Due from other funds	185,812,239	-	-	185,812,239
Due from other governments	-	5,434,758	8,664,266	14,099,024
Total assets	<u>\$ 314,877,814</u>	<u>\$ 226,904,644</u>	<u>\$ 70,181,130</u>	<u>\$ 611,963,588</u>
Liabilities and Fund Balances				
Liabilities				
Vouchers payable	\$ 5,266,082	\$ -	\$ 4,973,778	\$ 10,239,860
Accrued wages and employee benefits payable	6,642,768	2,275,765	3,338,884	12,257,417
Due to other funds	-	137,156,767	48,655,472	185,812,239
Due to State of Hawaii General Fund	187,664,264	-	-	187,664,264
Accrued medical assistance payable	64,059,678	87,424,374	-	151,484,052
Total liabilities	<u>263,632,792</u>	<u>226,856,906</u>	<u>56,968,134</u>	<u>547,457,832</u>
Fund balances				
Committed	-	47,738	13,212,996	13,260,734
Assigned	51,245,022	-	-	51,245,022
Total fund balances	<u>51,245,022</u>	<u>47,738</u>	<u>13,212,996</u>	<u>64,505,756</u>
Total liabilities and fund balances	<u>\$ 314,877,814</u>	<u>\$ 226,904,644</u>	<u>\$ 70,181,130</u>	<u>\$ 611,963,588</u>

The accompanying notes are an integral part of these financial statements.

Department of Human Services

State of Hawaii

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2022

Total fund balances – governmental funds		\$	64,505,756
Amounts reported for governmental activities in the statement of net position are different because			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. These assets consist of			
Governmental capital assets	\$	307,572,919	
Less: Accumulated depreciation and amortization		<u>(228,634,612)</u>	78,938,307
Accrued compensated absences are not due in the current period and therefore are not reported in the governmental funds.			<u>(15,775,199)</u>
Net position of governmental activities		\$	<u>127,668,864</u>

The accompanying notes are an integral part of these financial statements.

Department of Human Services

State of Hawaii

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended June 30, 2022

	General	Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	Total
Revenues				
State-allotted appropriations	\$ 1,391,623,203	\$ -	\$ -	\$ 1,391,623,203
Intergovernmental revenues	-	2,296,134,631	1,294,725,362	3,590,859,993
Nonimposed employee fringe benefits	29,882,519	-	-	29,882,519
Total revenues	<u>1,421,505,722</u>	<u>2,296,134,631</u>	<u>1,294,725,362</u>	<u>5,012,365,715</u>
Expenditures				
Healthcare programs	1,155,923,743	2,295,788,949	-	3,451,712,692
General welfare assistance, employment and support services	102,008,343	-	1,278,247,501	1,380,255,844
Child welfare and adult community care services	105,247,843	-	58,549,729	163,797,572
General administration	22,166,570	-	1,277,272	23,443,842
Vocational rehabilitation and services for the blind	4,977,786	-	18,576,558	23,554,344
Youth prevention, delinquency and correction services	15,950,444	-	2,136,220	18,086,664
Commission on the status of women/ commission on fatherhood	202,839	-	-	202,839
Total expenditures	<u>1,406,477,568</u>	<u>2,295,788,949</u>	<u>1,358,787,280</u>	<u>5,061,053,797</u>
Excess (deficiency) of revenues over (under) expenditures	<u>15,028,154</u>	<u>345,682</u>	<u>(64,061,918)</u>	<u>(48,688,082)</u>
Other financing sources (uses)				
Transfers in (out)	<u>(69,200,792)</u>	<u>(1,735,944)</u>	<u>70,936,736</u>	<u>-</u>
Total other financing sources (uses)	<u>(69,200,792)</u>	<u>(1,735,944)</u>	<u>70,936,736</u>	<u>-</u>
Net change in fund balances	<u>(54,172,638)</u>	<u>(1,390,262)</u>	<u>6,874,818</u>	<u>(48,688,082)</u>
Fund balances at July 1, 2021	<u>105,417,660</u>	<u>1,438,000</u>	<u>6,338,178</u>	<u>113,193,838</u>
Fund balances at June 30, 2022	<u>\$ 51,245,022</u>	<u>\$ 47,738</u>	<u>\$ 13,212,996</u>	<u>\$ 64,505,756</u>

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The accompanying notes are an integral part of these financial statements.

Department of Human Services

State of Hawaii

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2022**

Net change in fund balances – total governmental funds	\$ (48,688,082)
Amounts reported for governmental activities in the statement of activities are different because	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays less dispositions and others exceeded depreciation during the year.	(1,135,933)
Change in long-term compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>582,031</u>
Change in net position of governmental activities	<u>\$ (49,241,984)</u>

The accompanying notes are an integral part of these financial statements.

Department of Human Services
State of Hawaii
Fiduciary Fund – Statement of Fiduciary Net Position
June 30, 2022

	Custodial Funds
Assets	
Equity in cash and cash equivalents and investments in State Treasury	\$ 784,190
Total assets	<u>\$ 784,190</u>
Liabilities	
Due to individuals	\$ 597,218
Due to others	10,606
Total liabilities	<u>607,824</u>
Net Position	
Restricted	176,366
Total net position	<u>\$ 176,366</u>

The accompanying notes are an integral part of these financial statements.

Department of Human Services
State of Hawaii
Fiduciary Fund – Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2022

	Custodial Funds
Additions	
Custodial collections	\$ 466,742
Total additions	<u>466,742</u>
Deductions	
Custodial disbursements	<u>290,376</u>
Total deductions	<u>290,376</u>
Net increase in fiduciary net position	176,366
Net position	
Beginning of year	<u>-</u>
End of year	<u>\$ 176,366</u>

The accompanying notes are an integral part of these financial statements.

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2022

1. Financial Reporting Entity

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

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

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

Health Care Programs

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

General Welfare Assistance, Employment and Support Services

The Benefit, Employment, and Support Services Division provides monthly benefits to assist eligible clients with such essentials as food, clothing, shelter, emergency assistance, child care, and work support, as well as employment and training to help families attain self-sufficiency. Cash benefits are provided to individuals and families through the Temporary Assistance for Needy Families, Temporary Assistance to Other Needy Families, General Assistance, and Assistance to the Aged, Blind, and Disabled programs, as well as the Low Income House Energy Program and Child Care Connection Hawaii. The Supplemental Nutrition Assistance Program, formerly known as the Food Stamp Program, helps to ensure that no one goes hungry. The First-To-Work, Employment and Training programs provide job readiness, job development, job placement, case management, and other supportive services to ensure that families on public welfare are adequately prepared to end dependency, as well as providing a variety of at-risk youth and family strengthening programs to prevent family dependence. In 2011, the state homeless programs previously administered by the Hawaii Housing Authority, was

transferred to the division. The division's operations are reported in the general, special revenue, and custodial funds.

Child Welfare and Adult Community Care Services

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

Vocational Rehabilitation and Services for the Blind

The Vocational Rehabilitation and Services for the Blind Division administers programs that provide rehabilitation services to assist eligible persons with disabilities to secure employment and to lead full and independent lives. The Vocational Rehabilitation ("VR") program offers vocational evaluation, planning, counseling, treatment, training, job placement, and follow-up services to persons with physical or mental disabilities to enable them to be employed. The economic benefits of the VR programs include increased earnings and purchasing power, increased tax revenues, and decreased dependency on public assistance. The Services to the Blind program, called Ho'opono, enables visually impaired adults to attain maximum vocational functional independence by providing varied services including vocational, counseling, assistive technology, and social and independent living skills training. Persons with visual impairment are also assisted in establishing and operating vending facilities. The Disability Determination program determines eligibility for Social Security Disability Insurance and Supplemental Security Income benefits under the federal Social Security Program. The division's operations are reported in the general, special revenue, and custodial funds.

Youth Prevention, Delinquency, and Correction Services

The Office of Youth Services ("OYS") develops and provides a continuum of services for youth at-risk to prevent delinquency and to reduce recidivism through prevention, rehabilitation, and treatment services. Youths' needs, from prevention to incarceration to aftercare, are addressed through programs such as Youth Services Centers, the Youth Gang Response System, and Ho'okala Adolescent Diversion as alternative to incarceration through immediate intervention

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2022

services; non-residential and in-community aftercare services to prevent further incarceration; and community-based residential services as an alternative to incarceration. OYS also manages and operates the Hawaii Youth Correctional Facility (“HYCF”) to provide safe and secure housing for the most violent and dangerous juvenile offenders. Although a core responsibility of OYS is to manage and operate HYCF, the agency places great emphasis on providing and supporting “front end” prevention, diversion and intervention services. Incarcerated youth are provided counseling, treatment and educational services for redirection and rehabilitation. The division’s operations are reported in the general, special revenue, and custodial funds.

General Administration

General administration includes the six staff offices that support the Department’s administration, operating divisions, and attached agencies. The Administrative Appeals Office (“AAO”) provides administrative due process hearings for three departmental divisions: Benefit, Employment, and Support Services; MED-Quest; and Social Services. The AAO also serves as the rules coordinator for the Department and reviews administrative proceedings for the adoption, modification, or repeal of departmental rules. The AAO is also responsible for establishing a mediation process for the Department. The Fiscal Management Office (“FMO”) provides staff assistance and advisory services for the administrative functions of fiscal management and housekeeping services. The FMO formulates policies and procedures and administers the Department’s central accounting, funds management, client and vendor payment, employee payroll, inventory management, contracting, purchasing, records management, office space allocation, and central mail distribution function. The Audit, Quality Control and Research Office (“AQCRO”) conducts audits, research studies, and reviews of the Department’s internal control systems and financial operations to safeguard the Department’s assets. The AQCRO serves to ensure the Department’s compliance with federal laws and regulations in monitoring the use of federal funds for services and benefits to clients. The Budget, Planning, and Management Office (“BPMO”) conducts studies, analyses, management evaluations, and reviews of departmental programs and operations to ascertain statutory and/or regulatory compliance, appropriate budgetary levels, and achievement of stated goals and objectives. The Office of Information Technology is responsible for the overall administration, planning, direction, management, development, implementation and maintenance of all information technology and information systems processing for the Department statewide. The Personnel Office oversees the personnel programs of the Department, including recruitment, examination, placement, position description, classification and pricing analysis, labor relations, civil rights, employee safety relations, employee training and development, personnel transactions, and maintenance of personnel records. Those operations are reported in the general and special revenue funds.

Commission on the Status of Women

The commission works for equality for women and girls in the State by acting as a catalyst for positive change through advocacy, education, collaboration, and program development. The commission acts as a central clearinghouse and coordinating body for governmental and nongovernmental activities and information relating to the status of women and creates public awareness and understanding of the responsibilities, needs, potential and contributions of

women and their roles in a changing society. The commission's operations are reported in the general fund.

Commission on Fatherhood

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The basic financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department's significant accounting policies are described below.

Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments are reported as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

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

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2022

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Presentation

Government-wide Financial Statements

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

Governmental Fund Financial Statements

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

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

Expenditures generally are recorded when a liability is incurred as under the accrual basis of accounting. Modifications to the accrual basis of accounting include employees' vested vacation and claims, which are recorded as expenditures when utilized or paid. The amount of accumulated vacation and claims reserve are reported only in the government-wide financial statements.

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

Custodial Fund

The financial statements of the custodial fund are reported using the economic resources measurement focus and the accrual basis of accounting.

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2022

Fund Accounting

The financial transactions of the Department are recorded in individual funds that are reported in the fund financial statements and are described in the following sections. Each fund is considered a separate accounting entity. The operations of each are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the Department that are reported in the accompanying fund financial statements have been classified into the following major governmental funds. A description of the governmental funds is as follows:

Governmental Fund Types – The Department reports the following major governmental funds:

- **General Fund** – The general fund is the main operating fund of the Department. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.
- **Special Revenue Funds** – The special revenue funds are used to account and report proceeds of specific revenue sources that are legally restricted or committed to expenditure for specific purposes other than debt service or capital projects. The Special Revenue Funds are as follows:
 - **MED-Quest** – Accounts for the programs related to the healthcare programs of the State.
 - **Human Services** – Accounts for social services programs, which include public welfare and eligibility and disability determinations.
- **Custodial Fund** – The custodial fund accounts for various assets held by the Department pending distributions to individuals, private organizations, other governmental agencies, or other funds.

Equity in Cash and Cash Equivalents and Investment in State Treasury

Cash and cash equivalents consist of amounts held in the State Treasury and cash in banks as discussed in Note 3.

Receivables

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

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2022

Capital Assets

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

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

The State has adopted the following capitalization policy:

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

Leases

The Department has a policy to recognize a lease liability and a right-to-use asset (“lease asset”) in the government-wide financial statements. The Department recognizes lease liabilities with an initial, individual value of \$25,000 or more with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, the Department initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a

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purchase option that the Department has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how the Department determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Department uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Department generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease.
- Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the State is reasonably certain to exercise.

The Department monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported as right-to-use along with other capital assets and lease liabilities are reported with long-term liabilities on the statement of net position.

Compensated Absences

Employees are credited with vacation at the rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net position. There is no liability for unpaid accumulated sick leave since it is not convertible to pay upon termination of employment.

Due to Individuals

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

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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The Department classifies fund balances based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Classifications include:

- **Restricted** – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.
- **Committed** – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature.
- **Assigned** – Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.
- **Unassigned** – Residual balances that are not contained in the other classifications.

When both restricted and unrestricted resources are available for use, generally it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, it is generally the Department's policy that committed amounts be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

Appropriations

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

Operating Grants and Contributions

Federal grants and assistance awards are recorded as due from other governments and intergovernmental revenues when all eligibility requirements have been satisfied.

Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the basic financial statements.

Risk Management

The Department is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; workers' compensation; and acts of terrorism. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss is reasonably estimable.

Use of Estimates

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

Recently Issued Accounting Pronouncements

GASB Statement No. 87

The GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the provisions of the contract. It also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Department adopted GASB Statement No. 87 effective July 1, 2021. The adoption of this Statement did not have a material impact on the Department's financial statements.

GASB Statement No. 92

The GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. The requirements of this statement are effective at multiple periods depending on when certain statements are implemented and were postponed by GASB Statement No. 95 for one year. This Statement did not have a material effect on the Department's financial statements.

GASB Statement No. 94

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to establish the definitions of public-private and public-public partnerships and availability payment arrangements and provide uniform guidance on accounting and financial reporting for transactions that meet those definitions. The requirements of this Statement are effective for periods beginning after June 15, 2022. The Department has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 96

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The Department is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 99

The GASB issued Statement No. 99, *Omnibus*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately, while other requirements are effective for fiscal years beginning after June 15, 2022 and June 15, 2023, respectively. The Department has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 100

The GASB issued Statement No. 100, *Accounting Changes and Error Correction – an amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023. The Department has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 101

The GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this Statement are effective for reporting periods after December 15, 2023. The Department has not determined the effect this Statement will have on its financial statements.

3. Equity in Cash and Cash Equivalents and Investments in State Treasury

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

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

GAAP requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Department. However, as these funds are held in the State investment pool, the Department does not manage its own investments and the types of investments, and related interest rate, credit, and custodial risks are not determinable at the department level. The risk disclosures of the State's cash pool are included in the State's Annual Comprehensive Financial Report ("ACFR") which may be obtained from the Department of Accounting and General Services' ("DAGS") website: <http://ags.hawaii.gov/accounting/annual-financial-reports/>.

Cash and cash equivalents at June 30, 2022 consisted of the following:

Cash in banks	\$ 344,375
Amounts held in the State Treasury	222,882,169
	<u>\$ 223,226,544</u>

4. Receivables

Receivables of the Department, net of allowance for doubtful accounts, consisted of the following on June 30, 2022:

	General	Med-Quest	Human Services	Total
Welfare benefit overpayments	\$ 21,256,713	\$ 2,079,180	\$ 27,531,810	\$ 50,867,703
Drug rebate receivable	-	57,354,738	-	57,354,738
Risk share	-	115,631,491	-	115,631,491
Medicaid providers receivable	9,900,000	-	-	9,900,000
Medicaid assistance receivable	3,276,058	-	-	3,276,058
Social security interim assistance loans	1,001,102	-	-	1,001,102
Other Med-QUEST receivable	-	1,707,362	-	1,707,362
	<u>35,433,873</u>	<u>176,772,771</u>	<u>27,531,810</u>	<u>239,738,454</u>
Less: Allowance for doubtful accounts				
Welfare benefit overpayments	20,576,388	2,012,635	26,650,650	49,239,673
Medicaid providers receivable	1,673,000	-	-	1,673,000
	<u>22,249,388</u>	<u>2,012,635</u>	<u>26,650,650</u>	<u>50,912,673</u>
Receivables, net	<u>\$ 13,184,485</u>	<u>\$ 174,760,136</u>	<u>\$ 881,160</u>	<u>\$ 188,825,781</u>

5. Interfund Receivable and Payable

The general fund had a net receivable due from the special revenue funds of approximately \$185,812,000 as of June 30, 2022, for federal reimbursements of program expenditures. The MED-Quest and Human Services special revenue funds had payables to the general fund of approximately \$137,157,000 and \$48,655,000, respectively, as of June 30, 2022, for federal reimbursement of program expenditures.

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6. Capital Assets

For the year ended June 30, 2022, capital assets activity for the Department was as follows:

	Balance July 1, 2021	Additions	Disposals	Balance June 30, 2022
Nondepreciable assets				
Software under development	\$ 14,291,962	\$ 514,501	\$ -	\$ 14,806,463
Land	1	-	-	1
Total nondepreciable assets	14,291,963	514,501	-	14,806,464
Depreciable assets				
Building and improvements	88,563,300	546,839	(1,374,146)	87,735,993
Furniture and equipment	35,277,840	80,853	(176,302)	35,182,391
Motor vehicles	1,679,105	44,328	(36,769)	1,686,664
Intangible assets – software	159,882,800	8,278,607	-	168,161,407
Total depreciable assets	285,403,045	8,950,627	(1,587,217)	292,766,455
Less: Accumulated depreciation/amortization for				
Buildings and improvements	46,506,868	2,687,130	(677,982)	48,516,016
Furniture and equipment	34,251,297	260,396	(120,704)	34,390,989
Motor vehicles	1,544,351	72,287	(36,769)	1,579,869
Intangible assets – software	137,318,252	6,829,486	-	144,147,738
Total accumulated depreciation/amortization	219,620,768	9,849,299	(835,455)	228,634,612
Capital assets, net	\$ 80,074,240	\$ (384,171)	\$ (751,762)	\$ 78,938,307

Depreciation expense for the year ended June 30, 2022 was charged to functions/programs of the Department as follows:

	Governmental Activities
Healthcare programs	\$ 7,029,532
Youth prevention, delinquency and correction services	1,020,030
General welfare assistance, employment and support services	896,859
Child welfare and adult community care services	524,996
Vocational rehabilitation and services for the blind	284,739
General administration	86,862
Commission on status of women / commission on fatherhood	6,281
	<u>\$ 9,849,299</u>

7. Leases

The Department leases certain office building spaces under noncancelable operating lease agreements. The leases expire at various dates through 2027. The related right-to-use lease asset, lease liability, rent expense, and future minimum lease payments were not material for the year ended June 30, 2022.

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8. Accrued Compensated Absences

The long-term liability of the Department for governmental activities consisted of accrued compensated absences. The change in the long-term liability during the year ended June 30, 2022 was as follows:

Balance at July 1, 2021	\$ 16,357,230
Additions	7,641,792
Reductions	<u>(8,223,823)</u>
Balance at June 30, 2022	15,775,199
Less: Current portion	<u>(4,991,000)</u>
	<u>\$ 10,784,199</u>

9. Fund Balance

Fund balance constraints by purpose of June 30, 2022 were as follows:

	General	Med-QUEST Special Revenue	Human Services Special Revenue	Total
Committed				
Vocational rehabilitation	\$ -	\$ -	\$ 2,442,569	\$ 2,442,569
Healthcare programs	-	47,738	-	47,738
Child welfare and adult community care services	-	-	1,465,016	1,465,016
General administration	-	-	257,504	257,504
General welfare assistance, employment and support services	-	-	9,015,847	9,015,847
Youth prevention, delinquency and correction services	-	-	28,296	28,296
Commission on the status of women / commission on fatherhood	-	-	3,764	3,764
Total – committed	<u>-</u>	<u>47,738</u>	<u>13,212,996</u>	<u>13,260,734</u>
Assigned				
Human services	<u>51,245,022</u>	-	-	<u>51,245,022</u>
Total fund balances	<u>\$ 51,245,022</u>	<u>\$ 47,738</u>	<u>\$ 13,212,996</u>	<u>\$ 64,505,756</u>

10. Non-imposed Employee Wages and Fringe Benefits

Payroll fringe benefit costs of the Department’s employees that are funded by state appropriations (general fund) are assumed by the State and are not charged to the Department’s operating funds. These costs, totaling approximately \$29,883,000 for the year ended June 30, 2022, have been reported as revenues and expenditures in the general fund of the Department.

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

11. Retirement Benefits

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties, including the Department, are required to be members of the Employees' Retirement System of the State of Hawaii ("ERS"), a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at the ERS website: <http://ers.ehawaii.gov/resources/financials>.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

- Retirement Benefits – General employees’ retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with thirty years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- Death Benefits – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or surviving dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at the time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of member’s accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member’s accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees’ retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member’s contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

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- *Death Benefits* – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member’s contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member’s contributions and accrued interest plus a percentage of the salary earned in the twelve months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees’ retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.
- *Disability and Death Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service are required for ordinary disability.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

Hybrid Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees’ retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with thirty years of credited service are eligible to retire at age 55.
- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

- ***Death Benefits*** – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member’s contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member’s contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

- ***Retirement Benefits*** – General employees’ retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with thirty years of credited service are eligible to retire at age 60.
- ***Disability and Death Benefits*** – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member’s contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2022 was 24% for general employees. The Department’s general fund share of the expense for pension benefits for the year ended June 30, 2022 was paid from the State General Fund and totaled approximately \$13,204,000. The Department’s federal share of pension benefits expense for the year ended June 30, 2022 was approximately \$7,229,000.

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Pursuant to Act 17, SLH 2017, employer contributions from the State and counties increased over four years beginning July 1, 2017. The rate for general employees increased to 24% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Measurement of the actuarial valuation of the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is made for the State as a whole and is not separately computed for the individual State departments and agencies such as the Department. The State allocates the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension only to component units and proprietary funds that are reported separately in the State ACFR. Accordingly, the Department's proportionate share of the State's pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is not reported in the accompanying financial statements.

Additional disclosures and required supplementary information pertaining to the State's net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension can be found in the State's ACFR. The State's ACFR can be obtained at the DAGS' website: <http://hawaii.gov/dags/rpts>.

Postemployment Healthcare and Life Insurance Benefits

Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at <https://eutf.hawaii.gov/reports>. The report may also be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

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

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

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

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the EUTF paid by the Department was approximately \$9,405,000 for the year ended June 30, 2022. The employer is required to make all contributions for members.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Measurement of the actuarial valuation of the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB is made for the State as a whole and is not separately computed for the individual State departments and agencies such as the Department. The State allocates the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB only to component units and proprietary funds that are reported separately in the State ACFR. Accordingly, the Department's proportionate share of the State's OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB are not reported in the accompanying financial statements.

Additional disclosures and required supplementary information pertaining to the State's net OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB can be found in the State's ACFR.

Deferred Compensation Plan

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

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

12. Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State records a liability for risk financing and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with various insurers for property coverage. The limit of loss per occurrence is \$200,000,000, except for terrorism losses, which has a \$100,000,000 per occurrence limit. There are two different types of deductibles for the property coverage. The deductible for losses such as hurricanes, floods, and earthquakes are 3% of the replacement costs to the property subject to a \$1,000,000 per occurrence minimum. The deductible for all other perils such as a fire is \$1,000,000. The deductible for terrorism coverage is \$1,000,000.

Crime Insurance

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

General Liability (Including Tort)

Liability (tort and auto) claims up to \$25,000 are handled by the Risk Management Office. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, employment liability, and employee benefits liability insurance policies in force with a \$5,000,000 self-insured retention per occurrence, including a \$2,500,000 corridor. The annual aggregate limit for general liability occurrence is \$7,500,000 per occurrence. Losses under the deductible amount but over the Risk Management Office authority or over the aggregate limit are typically paid from legislative appropriations of the State's General Fund.

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2022

Cyber Liability Insurance

The State is insured for various types of cyber-related activities with a loss limit of \$5,000,000 with a deductible of \$5,000,000 per claim. This policy includes (with sub-limits) system failure business interruption, dependent business interruption system failure, bricking of hardware, and consequential reputation loss.

Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses up to \$25,000 are administered by the Risk Management Office. The State administers its workers' compensation losses.

At June 30, 2022, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term debt as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The Department's portion of the State's workers' compensation expense was not material for the year ended June 30, 2022.

13. Commitments and Contingencies

Encumbrances

The Department is committed under contracts awarded and orders placed for construction, repairs and maintenance, expenses, supplies, etc. These commitments as of June 30, 2022 were as follows:

Fund	
General	\$ 98,197,068
Human Services	53,302,355
Med-Quest	27,301,220
	<u>\$ 178,800,643</u>

Litigation

The Department has been named as defendant in a number of lawsuits and claims arising in the normal course of operations. A number of claims may possibly result in adverse judgments against the Department. However, such claim amounts cannot be reasonably estimated at this time. Although the Department and its counsel are unable to express opinions as to the outcome of ongoing litigation, it is their opinion that any potential liability arising therefrom will not have a material adverse effect on the financial position of the Department because any judgments against the Department are judgments against the State and would be funded by the legislative appropriation of the State General Fund.

Department of Human Services
State of Hawaii
Notes to Financial Statements
June 30, 2022

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave as of June 30, 2022 was approximately \$38,581,000.

14. Related Party Transactions

The Department had various amounts due to the State of approximately \$187,664,000 as of June 30, 2022, which included federal reimbursements for program expenditures of approximately \$115,273,000, receivables of approximately \$72,221,000, and cash of approximately \$170,000.

15. Transfers

During the year ended June 30, 2022, the General Fund transferred approximately \$70,937,000 to the Human Services Special Revenue Fund for various programs utilizing the Electronic Benefits Transfers System. Approximately \$1,736,000 was transferred from the MED-Quest Special Revenue Fund to the General Fund for administration of the Medicaid program.

**Required Supplementary Information
Other than Management's Discussion
and Analysis (Unaudited)**

Department of Human Services

State of Hawaii

**General Fund – Schedule of Revenues and Expenditures – Budget and Actual
Year Ended June 30, 2022**

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
Revenues				
State allotments	\$ 1,409,188,132	\$ 1,393,512,122	\$ 1,360,501,996	\$ (33,010,126)
Expenditures				
Healthcare programs	1,126,548,918	1,115,515,768	1,063,872,614	51,643,154
General welfare assistance, employment and support services	142,262,962	139,087,294	127,671,922	11,415,372
Child welfare and adult community care services	109,303,701	108,696,771	101,706,220	6,990,551
Youth prevention, delinquency and correction services	15,504,363	14,959,824	14,117,724	842,100
General administration	11,385,514	11,385,514	12,179,636	(794,122)
Vocational rehabilitation and services for the blind	4,013,195	3,710,265	3,658,939	51,326
Commission on the status of women / commission on fatherhood	169,479	156,686	156,673	13
Total expenditures	1,409,188,132	1,393,512,122	1,323,363,728	70,148,394
Excess of revenues over expenditures	\$ -	\$ -	\$ 37,138,268	\$ 37,138,268

Department of Human Services

State of Hawaii

**Special Revenue Funds – Schedule of Revenues and Expenditures – Budget and Actual
Year Ended June 30, 2022**

	Original	Final	Actual on Budgetary Basis		Variance Positive (Negative)
			Med-QUEST Special Revenue Fund	Human Services Special Revenue Fund	
Revenues					
Intergovernmental revenues					
Med-QUEST	\$ 2,276,940,527	\$ 2,276,940,527	\$ 2,316,228,998	\$ -	\$ 39,288,471
Human services	530,676,811	530,178,227	-	501,931,056	(28,247,171)
Total revenues	<u>2,807,617,338</u>	<u>2,807,118,754</u>	<u>2,316,228,998</u>	<u>501,931,056</u>	<u>11,041,300</u>
Expenditures					
Healthcare programs	2,276,940,527	2,276,940,527	2,280,782,645	-	(3,842,118)
General welfare assistance, employment and support services	426,068,319	426,068,319	-	434,641,044	(8,572,725)
Child welfare and adult community care services	73,640,580	73,640,580	-	60,098,453	13,542,127
Vocational rehabilitation and services for the blind	23,718,230	23,219,646	-	18,648,766	4,570,880
Youth prevention, delinquency and correction services	1,948,662	1,948,662	-	2,143,432	(194,770)
Commission on the status of women / commission on fatherhood	5,301,020	5,301,020	-	524,918	4,776,102
Total expenditures	<u>2,807,617,338</u>	<u>2,807,118,754</u>	<u>2,280,782,645</u>	<u>516,056,613</u>	<u>10,279,496</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,446,353</u>	<u>\$ (14,125,557)</u>	<u>\$ 21,320,796</u>

Department of Human Services
State of Hawaii
Notes to Required Supplementary Information
Year Ended June 30, 2022

1. Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures – budget and actual (budgetary basis) are those estimated as compiled by the Council on Revenues and the Director of Finance.

Budgeted expenditures are derived primarily from the General Appropriations Act of 2021 (Act 88, SLH 2021), and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various Session Laws of Hawaii. During July 2022, Act 248 SLH 2022 retroactively amended certain budgeted expenditures from the General Appropriations Act of 2021.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2021 – 2023 biennial budget and executive supplemental budget.

The final legally adopted budgets in the accompanying General Fund and Special Revenue Funds Schedules of Revenues and Expenditures – Budget and Actual (budgetary basis) represent the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between departments generally require legislative authorization. Records and reports reflecting the detailed level of control are maintained by and are available at the Department. During the year ended June 30, 2022, there were no expenditures in excess of available appropriations at the legal level of budgetary control.

To the extent not expended or encumbered, General Fund and Special Revenue Funds appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies, which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund and Special Revenue Funds are presented in the accompanying schedules of revenues and expenditures – budget and actual (budgetary basis). The Department’s annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase orders and contract obligations (basis difference), which is a departure from GAAP.

Department of Human Services
State of Hawaii
Notes to Required Supplementary Information
Year Ended June 30, 2022

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the year ended June 30, 2022:

	General	Med-Quest	Human Services
Excess (deficiency) of revenues over (under) expenditures – actual on a budgetary basis	\$ 37,138,268	\$ 35,446,353	\$ (14,125,557)
Current year’s appropriations encumbered at fiscal year-end	100,783,845	17,177,784	61,344,754
Expenditures for liquidation of prior fiscal year-end encumbrances	(144,073,860)	(38,298,055)	(48,764,734)
Net changes in liabilities	12,801,644	(67,131,874)	(56,968,133)
Net change in accrued medical assistance payable	(29,128,857)	(87,424,374)	-
Accruals related to federal reimbursements for program expenditures	(72,777,829)	160,603,671	104,346,888
Net change in other receivables	8,227,000	66,545	-
Difference for revenues recognized for GAAP purposes	<u>102,057,943</u>	<u>(20,094,368)</u>	<u>(109,895,136)</u>
Excess (deficiency) of revenues over (under) expenditures – GAAP basis	<u>\$ 15,028,154</u>	<u>\$ 345,682</u>	<u>\$ (64,061,918)</u>

Supplementary Information

**Department of Human Services
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Identifier	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services				
Other Programs				
ACL Independent Living State Grants	93.369	—	\$ -	\$ 403,424
ACL Assistive Technology	93.464	—	-	455,502
Promoting Safe and Stable Families	93.556	—	2,087,144	2,087,144
Passed through State Department of Labor and Industrial Relations – Refugee and Entrant Assistance	93.566	2201HIRCMA	-	9,000
COVID-19 – Low-Income Home Energy Assistance	93.568	—	-	929,672
Low-Income Home Energy Assistance	93.568	—	-	4,925,027
Subtotal Low-Income Home Energy Assistance			-	5,854,699
COVID-19 – Chafee Education and Training Vouchers Program	93.599	—	9,235	199,797
Chafee Education and Training Vouchers Program	93.599	—	-	288,510
Subtotal Chafee Education and Training Vouchers Program			9,235	488,307
Children’s Justice Grants in States	93.643	—	68,971	68,971
COVID-19 – Stephanie Tubbs Jones Child Welfare Services Program	93.645	—	-	51,666
Stephanie Tubbs Jones Child Welfare Services Program	93.645	—	1,009,130	1,009,130
Subtotal Stephanie Tubbs Jones Child Welfare Services Program			1,009,130	1,060,796
COVID-19 – Foster Care – Title IV-E	93.658	—	-	372,123
Foster Care – Title IV-E	93.658	—	-	12,894,638
Subtotal Foster Care - Title IV-E			-	13,266,761
COVID-19 – Adoption Assistance	93.659	—	-	1,592,526
Adoption Assistance	93.659	—	-	14,601,606
Subtotal Adoption Assistance			-	16,194,132
COVID-19 – Guardianship Assistance	93.090	—	-	405,729
Guardianship Assistance	93.090	—	-	3,887,431
Subtotal Guardianship Assistance			-	4,293,160
Social Services Block Grant	93.667	—	7,483,347	10,169,884
Child Abuse Prevention and Treatment Act	93.669	—	79,525	164,367
COVID-19 – Family Violence Prevention and Services / Grants for Battered Women’s Shelters – Grants to States and Indian Tribes	93.671	—	783,647	783,647
Family Violence Prevention and Services / Grants for Battered Women’s Shelters – Grants to States and Indian Tribes	93.671	—	199,692	199,692
Subtotal Family Violence Prevention and Services / Grants for Battered Women’s Shelters – Grants to States and Indian Tribes			983,339	983,339
COVID-19 – Chafee Foster Care Independence Program	93.674	—	1,094,896	1,151,926
Chafee Foster Care Independence Program	93.674	—	-	430,989
Subtotal Chafee Foster Care Independence Program			1,094,896	1,582,915
COVID-19 – American Rescue Plan for APS	93.747	—	8,043	8,043
State Children’s Health Insurance Program	93.767	—	-	47,659,738
COVID-19 – Temporary Assistance for Needy Families	93.558	—	-	3,235,200
Temporary Assistance for Needy Families	93.558	—	25,177,918	53,325,045
Subtotal Temporary Assistance for Needy Families			25,177,918	56,560,245
Total Other Programs			38,001,548	161,310,427
Medicaid Cluster				
State Survey and Certification of Health Care Providers and Suppliers	93.777	—	-	833,539
COVID-19 – Medical Assistance Program	93.778	—	-	120,390,806
Medical Assistance Program	93.778	—	-	1,999,654,283
Total Medicaid Cluster			-	2,120,878,628
CCDF Cluster				
COVID-19 – Child Care and Development Block Grant	93.575	—	-	76,080,519
Child Care and Development Block Grant	93.575	—	-	24,437,173
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	—	6,052,042	15,963,917
Total CCDF Cluster			6,052,042	116,481,609
Total – U.S. Department of Health and Human Services			44,053,590	2,398,670,664

(continued)

See accompanying report of independent auditors and notes to the schedule of expenditures of federal awards.

**Department of Human Services
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Identifier	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture				
SNAP Cluster				
Supplemental Nutrition Assistance Program ("SNAP")	10.551	—	-	985,575,432
COVID-19 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	—	-	1,262,029
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	—	1,368,788	26,060,887
Total SNAP Cluster			1,368,788	1,012,898,348
Other Programs				
COVID-19 – Pandemic EBT Food Benefits ("PEBT")	10.542	—	-	35,766,592
COVID-19 – PEBT Grants to States	10.649	—	-	3,245,396
PEBT Grants to States	10.649	—	-	1,173,956
Subtotal PEBT Grants to States			-	4,419,352
Fraud Framework Implementation Grant	10.535	—	-	180,000
Farmer's Market	10.545	—	-	12,960
Total – U.S. Department of Agriculture			1,368,788	1,053,277,252
U.S. Department of Housing and Urban Development				
COVID-19 – Emergency Solutions Grants Program	14.231	—	-	3,542,806
Emergency Solutions Grants Program	14.231	—	-	479,326
Subtotal Emergency Solutions Grants Program			-	4,022,132
COVID-19 – Housing Opportunities for Persons with AIDS	14.241	—	-	8,074
Housing Opportunities for Persons with AIDS	14.241	—	-	303,703
Subtotal Housing Opportunities for Persons with AIDS			-	311,777
Total – U.S. Department of Housing and Urban Development			-	4,333,909
U.S. Department of Justice				
Juvenile Justice and Delinquency Prevention – Allocation to States	16.540	—	215,097	281,422
Passed through State Department of the Attorney General –				
Violence Against Women Formula Grants	16.588	2016-WF-AX-0022	-	16,150
Edward Byrne Memorial Justice Assistance Program	16.738	2020-XT-BX-0005	-	21,531
Total – U.S. Department of Justice			215,097	319,103
U.S. Department of Labor				
Passed through State Department of Labor and Industrial Relations –				
Senior Community Service Employment Program	17.235	PY19-SCSEP-CC-DHS	-	70,569
Total – U.S. Department of Labor			-	70,569
U.S. Department of National and Community Service				
Foster Grandparent/Senior Companion Cluster				
Foster Grandparent Program	94.011	—	-	381,732
Senior Companion Program	94.016	—	-	222,793
Total Foster Grandparent/Senior Companion Cluster			-	604,525
Total – U.S. Department of National and Community Service			-	604,525
Social Security Administration				
Disability Insurance/SSI Cluster				
Social Security – Disability Insurance	96.001	—	-	7,240,539
Total Disability Insurance/SSI Cluster			-	7,240,539
Total – Social Security Administration			-	7,240,539
U.S. Department of the Interior				
Passed through State Governor's Office –				
Economic, Social, Political Developments of the Territories	15.875	Hawaii-CI-2020-1	-	15,798,564
Total – U.S. Department of the Interior			-	15,798,564

(continued)

See accompanying report of independent auditors and notes to the schedule of expenditures of federal awards.

**Department of Human Services
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Identifier	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Treasury				
Passed through State Governor's Office – COVID-19 – Coronavirus State and Local Fiscal Recovery Funds	21.027	SLRFP0134	-	1,658,192
Total – U.S. Department of Treasury			-	1,658,192
U.S. Department of Education				
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	—	-	9,228,478
Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind	84.177	—	-	77,730
Supported Employment Services for Individuals with the most Significant Disabilities	84.187	—	-	49,893
Randolph-Sheppard Financial Relief and Restoration Payments	84.426	—	-	498,584
Total – U.S. Department of Education			-	9,854,685
Total expenditures of federal awards			\$ 45,637,475	\$ 3,491,828,002

(concluded)

See accompanying report of independent auditors and notes to the schedule of expenditures of federal awards.

Department of Human Services
State of Hawaii
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Department of Human Services (the "Department") and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Department.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Transfers

Grant awards totaling \$10 million were transferred from Assistance Listing ("AL") No. 93.558, *Temporary Assistance for Needy Families*, to AL No. 93.575, *Child Care and Development Block Grant*.

4. Supplemental Nutrition Assistance Program

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

5. Indirect Cost Rate

The Department has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

See accompanying report of independent auditors.

PART II
Compliance and Internal Control



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

The Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Human Services (the "Department"), as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 30, 2023.


Report on Internal Control over Financial Reporting

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

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

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding No. 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

The Department's Response to Findings

Government Auditing Standards requires the auditors to perform limited procedures on the Department's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

Accuity LLP

Honolulu, Hawaii
March 30, 2023



**Independent Auditors' Report on Compliance
for Each Major Federal Program and on Internal Control
Over Compliance Required by the Uniform Guidance**

The Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the State of Hawaii, Department of Human Services' (the "Department") compliance with the types of compliance requirements identified as subject to audit in the Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2022. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on Assistance Listing ("AL") No. 93.658 and COVID-19 – 93.658, Foster Care – Title IV-E; AL No. 93.659 and COVID-19 – 93.659, Adoption Assistance; AL No. 93.090 and COVID-19 – 93.090, Guardianship Assistance; AL No. 93.767, State Children's Health Insurance Program; AL No. 93.558 and COVID-19 – 93.558, Temporary Assistance for Needy Families; AL No. 93.777, 93.778 and COVID-19 – 93.778, Medicaid Cluster; and AL No. 10.551, 10.561 and COVID-19 – 10.561, SNAP Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on AL No. 93.658 and COVID-19 – 93.658, *Foster Care – Title IV-E*; AL No. 93.659 and COVID-19 – 93.659, *Adoption Assistance*; AL No. 93.090 and COVID-19 – 93.090, *Guardianship Assistance*; AL No. 93.767, *State Children's Health Insurance Program*; AL No. 93.558 and COVID-19 – 93.558, *Temporary Assistance for Needy Families*; AL No. 93.777, 93.778 and COVID-19 – 93.778, *Medicaid Cluster*; and AL No. 10.551, 10.561 and COVID-19 – 10.561, *SNAP Cluster*, for the year ended June 30, 2022.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedules of findings and questioned costs for the year ended June 30, 2022.

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Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors’ Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of the Department’s compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on AL No. 93.658 and COVID-19 – 93.658, Foster Care – Title IV-E; AL No. 93.659 and COVID-19 – 93.659, Adoption Assistance; AL No. 93.090 and COVID-19 – 93.090, Guardianship Assistance; AL No. 93.767, State Children’s Health Insurance Program; AL No. 93.558 and COVID-19 – 93.558, Temporary Assistance for Needy Families; AL No. 93.777, 93.778 and COVID-19 – 93.778, Medicaid Cluster; and AL No. 10.551, 10.561 and COVID-19 – 10.561, SNAP Cluster

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding:

Finding No.	AL No.	Program or Cluster Name	Compliance Requirement
2022-002	93.777, 93.778, & COVID-19 – 93.778	Medicaid Cluster	Special Tests and Provisions
2022-003	93.777, 93.778, & COVID-19 – 93.778	Medicaid Cluster	Special Tests and Provisions
2022-004	93.767	State Children’s Health Insurance Program	Special Tests and Provisions
2022-005	93.767	State Children’s Health Insurance Program	Special Tests and Provisions
2022-006	10.551, 10.561, & COVID-19 – 10.561	SNAP Cluster	Special Tests and Provisions



Finding No.	AL No.	Program or Cluster Name	Compliance Requirement
2022-007	10.551, 10.561, & COVID-19 – 10.561	SNAP Cluster	Special Tests and Provisions
2022-008	93.659 & COVID-19 – 93.659	Adoption Assistance	Eligibility, Activities Allowed or Unallowed, Allowable Cost
2022-009	93.090 & COVID-19 – 93.090	Guardianship Assistance	Eligibility, Activities Allowed or Unallowed, Allowable Cost
2022-010	93.558 & COVID-19 – 93.558	Temporary Assistance for Needy Families	Special Tests and Provisions
2022-011	93.558 & COVID-19 – 93.558	Temporary Assistance for Needy Families	Eligibility
2022-012	93.558 & COVID-19 – 93.558	Temporary Assistance for Needy Families	Special Tests and Provisions
2022-013	93.558 & COVID-19 – 93.558	Temporary Assistance for Needy Families	Reporting
2022-015	93.658 & COVID-19 – 93.658	Foster Care – Title IV-E	Eligibility, Activities Allowed or Unallowed, Allowable Cost
2022-016	93.558 & COVID-19 – 93.558	Temporary Assistance for Needy Families	Reporting


Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Department’s federal programs.

Auditors’ Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Department’s compliance based on our audit. Reasonable assurance



is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Department's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 2022-014 and 2022-017. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditors to perform limited procedures on the Department's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding Nos. 2022-002 through 2022-013, 2022-015 and 2022-016 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding Nos. 2022-014 and 2022-017 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditors to perform limited procedures on the Department's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Accuity LLP

Honolulu, Hawaii
March 30, 2023

Schedule of Findings and Questioned Costs

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued	Unmodified
Internal control over financial reporting	
• Material weaknesses identified?	<u> X </u> yes <u> </u> no
• Significant deficiencies identified?	<u> </u> yes <u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes <u> X </u> no

Federal Awards

Internal control over major programs	
• Material weaknesses identified?	<u> X </u> yes <u> </u> no
• Significant deficiencies identified?	<u> X </u> yes <u> </u> none reported
Type of auditors’ report issued on compliance for major programs	Qualified

A qualified opinion was issued on the Department's compliance with its major federal programs for the year ended June 30, 2022, except for AL No. COVID-19 – 0.542, *COVID-19 Pandemic EBT Food Benefits*, AL No. 93.575 and COVID-19 – 93.575, *Child Care and Development Block Grant*, and AL No. 93.596, *CCDF Cluster*, for which the opinion on compliance was unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<u> X </u> yes <u> </u> no
Dollar threshold used to distinguish between type A and type B program	\$10,475,484
Auditee qualified as low-risk auditee?	<u> </u> yes <u> X </u> no

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Identification of Major Programs

Federal AL Number	Name of Federal Program or Cluster
COVID-19 – 10.542 93.767	COVID-19 – Pandemic EBT Food Benefits (“PEBT”) State Children’s Health Insurance Program
10.551	SNAP Cluster Supplemental Nutrition Assistance Program (“SNAP”)
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
COVID-19 – 10.561	COVID-19 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
93.558	Temporary Assistance for Needy Families Temporary Assistance for Needy Families
COVID-19 – 93.558	COVID-19 – Temporary Assistance for Needy Families
93.090	Guardianship Assistance Guardianship Assistance
COVID-19 – 93.090	COVID-19 – Guardianship Assistance
93.575	CCDF Cluster Child Care and Development Block Grant
COVID-19 – 93.575	COVID-19 Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.658	Foster Care – Title IV-E Foster Care – Title IV-E
COVID-19 – 93.658	COVID-19 – Foster Care – Title IV-E
93.659	Adoption Assistance Adoption Assistance
COVID-19 – 93.659	COVID-19 – Adoption Assistance
93.777	Medicaid Cluster State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program
COVID-19 – 93.778	COVID-19 – Medical Assistance Program

Financial Statement Finding

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

Section II – Financial Statement Finding

Finding No. 2022-001: Preparation of Accrual Basis Financial Statements (Material Weakness)

Condition

We proposed and management accepted several audit adjustments related to the following items:

- Under-accrual of payables due to the Federal government of approximately \$13 million.
- Under-accrual of EBT issuance payments of approximately \$1 billion.
- Understatement of intangible asset additions of approximately \$8.2 million.
- Over-amortization of intangible assets of approximately \$1 million.
- Over-accrual of other transfers out of approximately \$1.4 million.
- Over-accrual of custodial liabilities of approximately \$176,000.

A similar finding was reported in the prior year as Finding No. 2021-001.

Criteria

In accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 34, fund financial statements should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this focus/basis, revenues are recognized only to the extent that they are susceptible to accrual and liabilities are required to be recorded only to the extent that their repayment will require the use of expendable available financial resources. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Effect

Due to untimely submission of information, inadequate review of journal entries, and issues in accounting for capital assets, transfers, and custodial liabilities, audit adjustments were necessary to properly report the fiscal year 2022 financial statements.

Other misstatements identified were not corrected as they were deemed to be immaterial to the financial statements.

Cause and View of Responsible Officials

The deficiencies are due to inefficiencies in the financial statement preparation process, the lack of review, and inadequate staffing within the Fiscal Management Office.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Recommendation

The Department should continue to develop a well-defined, systematic, efficient and orderly process for financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control over financial reporting. The process and its key attributes (e.g., overall timing, methodology, format and frequency of analysis) should be formally documented, approved, communicated to Department staff members, and monitored on a regular basis.

The Department should ensure adequate staffing within the Fiscal Management Office or procure professional services.

Furthermore, individuals who perform reviews of journal entries should be adequately trained to review for proper source codes, appropriations, and object codes being used. The Department should perform a thorough review of post-closing journal entries to ensure all items from various schedules are reflected in the post-closing journal entries. The Department should also ensure internally developed software projects are properly classified, transferred to the proper depreciable asset class when placed into service, or expensed if abandoned or otherwise not capitalized. The Department should ensure capital asset schedules are complete and accurate.

Adherence to these policies and procedures will facilitate the processing of complete, accurate and timely financial information.

Federal Award Findings and Questioned Costs

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

Section III – Federal Award Findings and Questioned Costs

		Questioned Cost								
Finding No. 2022-002	Special Tests and Provisions (Material Weakness)	<u>\$ 2,360,357</u>								
Federal Agency:	U.S. Department of Health and Human Services									
AL Number and Title:	93.777, 93.778, and COVID-19 – 93.778 – <i>Medicaid Cluster</i>									
Award Number and Award Year:	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">2105HIMAP</td> <td style="width: 50%;">2021</td> </tr> <tr> <td>2205HIMAP</td> <td>2022</td> </tr> <tr> <td>2105HIADM</td> <td>2021</td> </tr> <tr> <td>2205HIADMN</td> <td>2022</td> </tr> </table>		2105HIMAP	2021	2205HIMAP	2022	2105HIADM	2021	2205HIADMN	2022
2105HIMAP	2021									
2205HIMAP	2022									
2105HIADM	2021									
2205HIADMN	2022									
Repeat Finding?	Yes									

Condition

During our audit, we selected a non-statistical sample of 60 providers for testing out of a population of approximately 1,800 providers. The providers selected for testing represented approximately \$21 million of payments out of a total payment population of \$223 million. The results of our testing were as follows:

- Four providers where the DHS Form 1139 was not maintained.
- Eight providers where the DHS Form 1139 did not support revalidation within the most recent five-year period.

Criteria

Pursuant to 42 CFR Part 455, subpart E, the Department’s MED-Quest Division is required to screen and enroll providers and obtain certain disclosures in accordance with 42 CFR Part 455, subpart B.

Pursuant to 42 CFR 455.414, the State Medicaid Agency must revalidate the enrollment of all providers regardless of provider type at least every five years.

Pursuant to 42 CFR 455, subpart B, providers are to comply with the requirements of the State Plan, including the disclosure requirement.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

Effect

Failure to follow the established policies and procedures in place over the provider eligibility determination process represents an instance of noncompliance with the requirements of 2 CFR Part 200, resulting in questioned costs.

Cause and View of Responsible Officials

Although the Department has policies and procedures in place requiring the maintenance of required documentation, there was a lack of diligence in complying with the policies and procedures.

Recommendation

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

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

		Questioned Cost								
Finding No. 2022-003:	Special Tests and Provisions (Material Weakness)	<u>\$ -</u>								
Federal Agency:	U.S. Department of Health and Human Services									
AL Number and Title:	93.777, 93.778, and COVID-19 – 93.778 – <i>Medicaid Cluster</i>									
Award Number and Award Year:	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">2105HIMAP</td> <td style="width: 50%;">2021</td> </tr> <tr> <td>2205HIMAP</td> <td>2022</td> </tr> <tr> <td>2105HIADM</td> <td>2021</td> </tr> <tr> <td>2205HIADMN</td> <td>2022</td> </tr> </table>		2105HIMAP	2021	2205HIMAP	2022	2105HIADM	2021	2205HIADMN	2022
2105HIMAP	2021									
2205HIMAP	2022									
2105HIADM	2021									
2205HIADMN	2022									
Repeat Finding?	Yes									

Condition

During our audit, we noted the Department only partially obtained the required audited financial reports and did not conduct or contract an independent audit of the encounter and financial data submitted.

Criteria

Pursuant to 42 CFR 438.3(m), the Department must require managed care organizations (“MCO”), prepaid inpatient health plans (“PIHP”), and prepaid ambulatory health plans (“PAHP”) to submit audited financial reports, conducted in accordance with generally accepted accounting principles and generally accepted auditing standards, specific to its Medicaid contract on an annual basis.

Pursuant to 42 CFR 438.602(e), the Department must periodically, but no less frequently than once every three years, conduct, or contract for the conduct of, an independent audit of the accuracy, truthfulness and completeness of the encounter and financial data submitted by, or on behalf of, each MCO, PIHP, or PAHP.

Effect

Failure to obtain the necessary financial audit reports represents an instance of noncompliance with the requirements of 2 CFR Part 200.

Cause and View of Responsible Officials

Although the Department has policies and procedures in place requiring the maintenance of required documentation, there was a lack of diligence in complying with the policies and procedures.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Recommendation

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

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

		Questioned Cost
Finding No. 2022-004:	Special Tests and Provisions (Material Weakness)	<u>\$ 5,852</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.767 – <i>State Children’s Health Insurance Program</i>	
Award Number and Award Year:	2105HI5022 2022	
Repeat Finding?	Yes	

Condition

During our audit, we selected a non-statistical sample of 60 providers for testing out of a population of approximately 1,800 providers. The providers selected for testing represented approximately \$240,000 of payments out of a total payment population of \$7.2 million. The results of our testing were as follows:

- Four providers where the DHS Form 1139 was not maintained.
- Eight providers where the DHS Form 1139 did not support revalidation within the most recent five-year period.

Criteria

Pursuant to 42 CFR Part 455, subpart E, the Department’s MED-Quest Division is required to screen and enroll providers and obtain certain disclosures in accordance with 42 CFR Part 455, subpart B.

Pursuant to 42 CFR 455.414, the State Medicaid Agency must revalidate the enrollment of all providers regardless of provider type at least every five years.

Pursuant to 42 CFR 455, subpart B, providers are to comply with the requirements of the State Plan, including the disclosure requirement.

Effect

Failure to follow the established policies and procedures in place over the provider eligibility determination process represents an instance of noncompliance with the requirements of 2 CFR Part 200, resulting in questioned costs.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

Cause and View of Responsible Officials

Although the Department has policies and procedures in place requiring the maintenance of required documentation, there was a lack of diligence in complying with the policies and procedures.

Recommendation

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

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

		Questioned Cost
Finding No. 2022-005:	Special Tests and Provisions (Material Weakness)	<u>\$ -</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.767 – <i>State Children’s Health Insurance Program</i>	
Award Number and Award Year:	2105HI5022	2022
Repeat Finding?	Yes	

Condition

During our audit, we noted the Department only partially obtained the required audited financial reports and did not conduct or contract an independent audit of the encounter and financial data submitted.

Criteria

Pursuant to 42 CFR 438.3(m), the Department must require MCOs, PIHPs, and PAHPs to submit audited financial reports, conducted in accordance with generally accepted accounting principles and generally accepted auditing standards, specific to its Medicaid contract on an annual basis.

Pursuant to 42 CFR 438.602(e), the Department must periodically, but no less frequently than once every three years, conduct, or contract for the conduct of, an independent audit of the accuracy, truthfulness and completeness of the encounter and financial data submitted by, or on behalf of, each MCO, PIHP or PAHP.

Effect

Failure to obtain the necessary financial audit reports represents an instance of noncompliance with the requirements of 2 CFR Part 200.

Cause and View of Responsible Officials

Although the Department has policies and procedures in place requiring the maintenance of required documentation, there was a lack of diligence in complying with the policies and procedures.

Recommendation

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

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

		Questioned Cost														
Finding No. 2022-006:	Special Tests and Provisions (Material Weakness)	\$ _____ -														
Federal Agency:	U.S. Department of Agriculture															
AL Number and Title:	10.551, 10.561, and COVID-19 – 10.561 – <i>Supplemental Nutrition and Assistance Program ("SNAP") Cluster</i>															
Award Number and Award Year:	<table border="0" style="width: 100%;"> <tr> <td style="width: 60%;">7HI4004HI</td> <td style="width: 40%;">2021</td> </tr> <tr> <td>7HI400HI4</td> <td>2021</td> </tr> <tr> <td>7HI430HI4</td> <td>2021</td> </tr> <tr> <td>7HI400HI5</td> <td>2021</td> </tr> <tr> <td>7HI430HI5</td> <td>2022</td> </tr> <tr> <td>7HI460HI6</td> <td>2023</td> </tr> <tr> <td>227HIHI7F1003</td> <td>2022</td> </tr> </table>		7HI4004HI	2021	7HI400HI4	2021	7HI430HI4	2021	7HI400HI5	2021	7HI430HI5	2022	7HI460HI6	2023	227HIHI7F1003	2022
7HI4004HI	2021															
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7HI430HI4	2021															
7HI400HI5	2021															
7HI430HI5	2022															
7HI460HI6	2023															
227HIHI7F1003	2022															
Repeat Finding?	Yes															

Condition

During our audit, we selected a non-statistical sample of 60 daily reconciliations for testing and noted 18 instances where variances were not investigated and there was no evidence that a review of the daily reconciliations was performed. The Department’s daily reconciliations identified variances which ranged up to approximately \$9.6 million.

Criteria

Pursuant to 7 CFR 274.4, the Department is required to perform daily reconciliations of all SNAP transactions between the State’s Benefit Account, the U.S. Treasury Department, and all the EBT contractors.

Effect

Failure to resolve the reconciling items resulted in noncompliance with the requirement.

Cause and View of Responsible Officials

There was a lack of diligence in following the Department’s established policies and procedures to ensure compliance with the requirements.

Recommendation

We recommend that the Department develop procedures to ensure that identified variances are resolved and that the reconciliations are reviewed in a timely manner.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

		Questioned Cost														
Finding No. 2022-007:	Special Tests and Provisions (Material Weakness)	<u>\$ 3,609</u>														
Federal Agency:	U.S. Department of Agriculture															
AL Number and Title:	10.551, 10.561, and COVID-19 – 10.561 – <i>Supplemental Nutrition and Assistance Program ("SNAP") Cluster</i>															
Award Number and Award Year:	<table border="0" style="width: 100%;"> <tr><td>7HI4004HI</td><td style="text-align: right;">2021</td></tr> <tr><td>7HI400HI4</td><td style="text-align: right;">2021</td></tr> <tr><td>7HI430HI4</td><td style="text-align: right;">2021</td></tr> <tr><td>7HI400HI5</td><td style="text-align: right;">2021</td></tr> <tr><td>7HI430HI5</td><td style="text-align: right;">2022</td></tr> <tr><td>7HI460HI6</td><td style="text-align: right;">2023</td></tr> <tr><td>227HIHI7F1003</td><td style="text-align: right;">2022</td></tr> </table>		7HI4004HI	2021	7HI400HI4	2021	7HI430HI4	2021	7HI400HI5	2021	7HI430HI5	2022	7HI460HI6	2023	227HIHI7F1003	2022
7HI4004HI	2021															
7HI400HI4	2021															
7HI430HI4	2021															
7HI400HI5	2021															
7HI430HI5	2022															
7HI460HI6	2023															
227HIHI7F1003	2022															
Repeat Finding?	Yes															

Condition

During our audit, we selected a non-statistical sample of 60 participant files which approximated \$50,000 in monthly payments, out of a population of approximately 195,000 participant files which approximated \$986 million in total annual benefit payments, for testing and noted exceptions in three case files as follows:

- One case file where manually entered unearned income and medical expense deduction amounts did not agree with the documentation retained in the participant’s case file.
- Two case files where manually entered income information did not agree with the documentation retained in the respective participant’s case files.

Criteria

Pursuant to 7 CFR 272.10(b)(1)(i), the SNAP system should be efficiently automated to determine eligibility and calculate benefits or validate the eligibility worker’s calculations by processing and storing all case file information necessary for the eligibility determination and benefit computation (including but not limited to all household members’ names, addresses, dates of birth, social security numbers, individual household members’ earned and unearned income by source, deductions, resources and household size).

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

Effect

Participants did not receive the correct amount of benefits they were eligible for, resulting in questioned costs.

Cause and View of Responsible Officials

There was a lack of diligence in following the Department's established policies and procedures to ensure compliance with the requirements.

Recommendation

We recommend the Department emphasize the importance of diligently checking that any information entered manually agrees to the supporting documentation retained in the participant's file. We also recommend the Department consider implementing a secondary review of participant files where information affecting the calculation of benefits is entered manually.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

		Questioned Cost
Finding No. 2022-008:	Eligibility, Activities Allowed or Unallowed, Allowable Cost (Material Weakness)	<u>\$ 21,670</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.659 and COVID-19 – 93.659 – <i>Adoption Assistance</i>	
Award Number and Award Year:	2101HIADPT 2021 2201HIADPT 2022	
Repeat Finding?	Yes	

Condition

We selected a non-statistical sample of 60 case files which approximated \$33,000 in monthly benefit payments, out of a population of approximately 2,500 case files which approximated \$15.4 million in total annual benefit payments, for testing and noted exceptions in 38 case files as follows:

- 19 case files where the initial or modified adoption agreement was missing and therefore did not have any support for the amount of monthly assistance paid.
- 21 case files where the State, Federal Bureau of Investigation, and/or child abuse and neglect clearances were missing.
- Eight case files where the “difficulty of care” determination was missing and therefore did not have any support for the assistance amount paid.
- Eight case files where documentation of a child’s special needs was missing.
- Eight case files where the supporting documentation regarding whether the State determined that the child cannot or should not be returned to the home of his or her parents was missing.
- One case file where documentation of monthly nonrecurring expenses was missing.
- One case file where documentation regarding continuation of monthly subsidy payments after the child’s 18th birthday was missing.
- One case file where the final approval was granted to a household with an individual who was convicted of spousal abuse.
- Five case files where the adoption decree was missing from the case records.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

Criteria

Pursuant to 42 USC 673(a)(3), the amount of the adoption assistance payments to be made shall be determined through agreement between the adoptive parents and the State or local agency administering the program, which shall take into consideration the circumstances of the adopting parents and the needs of the child being adopted, and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement), depending upon changes in such circumstances.

Pursuant to 42 USC 671(a)(20)(A), the State must have procedures for criminal records checks, including a fingerprint-based check of national crime information databases (as defined in 28 USC 534(f)(3)(A)), for any prospective adoptive parent before the adoptive parent may be finally approved for placement of a child.

Pursuant to 42 USC 671(a)(20)(B), the State shall check any child abuse and neglect registry maintained by the State for information on any prospective foster or adoptive parent and on any other adult living in the home of such a prospective parent.

Pursuant to 42 USC 673(a)(2)(A), the State must determine the child to have special needs to be eligible for adoption assistance payments.

Pursuant to 42 USC 673(c)(1), the State must determine whether the child cannot or should not be returned to the home of his or her parents.

Pursuant to 45 CFR 1356.41(a), the amount of the payment made for nonrecurring expenses of adoption shall be determined through the agreement between the adopting parent(s) and the Title IV-E agency administering the program. The agreement must indicate the nature and amount of the nonrecurring expenses to be paid.

Pursuant to 42 USC 673(a)(4)(A), a payment may not be made to a child who has attained 18 years of age, unless the individual is determined to be one with special needs.

Pursuant to 42 USC 671(a)(20)(A)(i), in any case involving a child on whose behalf such payments are to be so made in which a record check reveals a felony conviction for spousal abuse, such final approval shall not be granted.

Pursuant to 42 USC 675(3), the agreement for the adoption subsidy must be signed before the final decree of adoption and contains information concerning the nature of services.

Effect

Failure to follow the established policies and procedures in place over the application process and determination of assistance amount represents an instance of noncompliance with the requirements specified above, resulting in questioned costs.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Cause and View of Responsible Officials

Although the Department has established policies and procedures in place regarding the application process and determination of assistance amount, there was a lack of diligence in complying with the policies and procedures.

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements, including those specified under Criteria above. Additionally, we recommend that the Department diligently comply with its policies and procedures.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

		Questioned Cost
Finding No. 2022-009:	Eligibility, Activities Allowed or Unallowed, Allowable Cost (Material Weakness)	\$ <u>6,553</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.090 and COVID-19 – 93.090 – <i>Guardianship Assistance</i>	
Award Number and Award Year:	2101HIGARD 2021 2201HIGARD 2022	
Repeat Finding?	Yes	

Condition

We selected a non-statistical sample of 60 case files which approximated \$55,000 in monthly benefit payments, out of a population of approximately 380 case files which approximated \$3.9 million in total annual benefit payments, for testing and noted exceptions in 17 case files as follows:

- Seven case files where the initial or modified guardianship/permanency assistance agreement was missing and therefore did not have any support for the amount of monthly assistance paid.
- Four case files where the “difficulty of care” determination was missing and therefore did not have any support for the assistance amount paid.
- One case file where we were unable to determine if a child who attained the age of 14 was consulted regarding the kinship guardianship agreement.
- Three case files where the State, Federal Bureau of Investigation, and/or child abuse and neglect clearances were missing in the case files.
- Two case files where documentation regarding continuation of monthly subsidy payments after the child’s 18th birthday was missing.
- One case file where the supporting documentation regarding whether the State determined that the guardian/permanent custodian has a strong commitment to caring permanently for the child was missing.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Criteria

Pursuant to 42 USC 673(d)(1), an executed kinship guardianship assistance agreement with the prospective relative guardian must include the amount of and any adjustments based on the needs of the child. The "Guardianship/Permanency Assistance Agreement" ("Agreement") is the agreement executed with the relative guardian. The Agreement outlines the terms and conditions for the participants and the Department and includes the total amount of assistance payments. The Agreement may be further supplemented due to difficulties in caring for a child as determined by a caseworker on an as-needed basis and documented on the "Difficulty of Care" worksheet. In the event of an increase or decrease to the amount of the assistance payments, the caseworkers are required to execute a revised Agreement.

Pursuant to 42 USC 673(d)(3)(A), a child is eligible when the state agency determines the following:

- a) With respect to a child who has attained 14 years of age, the child has been consulted regarding the kinship guardianship arrangement.
- b) Eligible for foster care maintenance payments under 42 USC 672 while residing for at least six consecutive months in the home of the prospective relative guardian.
- c) Removed from his or her home pursuant to a voluntary placement agreement or as a result of a judicial determination to the effect that continuation in the home would be contrary to the welfare of the child.

Pursuant to 42 USC 673(a)(4)(A), assistance payments must stop for a child who has attained 18 years of age or greater or 21 years of age if the State determines that the child has a mental or physical handicap.

Pursuant to 42 USC 671(a)(20)(c), any relative guardian must satisfactorily have met a criminal records check, including a fingerprint-based check of national crime information databases (as defined in 28 USC 534(e)(3)(A)), and for checks described in 42 USC 671(a)(20)(B) on any relative guardian and any other adult living in the home of any relative guardian, before the relative guardian may receive kinship guardianship assistance payments on behalf of the child.

Pursuant to 42 USC 673(d)(3)(A)(iii), the Title IV-E agency must determine that the child demonstrates a strong attachment to the prospective relative guardian and the relative guardian has a strong commitment to caring permanently for the child.

Effect

Failure to follow the established policies and procedures in place over the application process and determination of assistance amount represents an instance of noncompliance with the requirements specified above, resulting in questioned costs.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

Cause and View of Responsible Officials

Although the Department has established policies and procedures in place over the application process and determination of assistance amount, there was a lack of diligence in complying with the policies and procedures.

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements, including those specified under the Criteria section above. Additionally, we recommend that the Department diligently comply with its policies and procedures.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

		Questioned Cost
Finding No. 2022-010:	Special Tests and Provisions (Material Weakness)	<u>\$ 5,593</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.558 and COVID-19 – 93.558 – <i>Temporary Assistance for Needy Families</i>	
Award Number and Award Year:	1601HITAN3	2021
	2001HITANF	2021
	2101HITANF	2021
	2201HITANF	2022
	2021G990228	2021
Repeat Finding?	Yes	

Condition

We selected a non-statistical sample of 60 case files for testing and noted 11 instances where the Department’s records did not support the use of the income information obtained through Income Eligibility and Verification System (“IEVS”) to evaluate or re-evaluate the benefit calculation.

Criteria

Pursuant to 45 CFR 205.55, the Department is required to request through the IEVS, wage information, unemployment compensation, Social Security Administration, unearned income, and any other income information.

Effect

Failure to properly use IEVS information to evaluate benefit amounts resulted in potential overpayment of benefits.

Cause and View of Responsible Officials

There was a lack of diligence in following the Department’s established policies and procedures to ensure compliance with the requirements.

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements. Additionally, we recommend that the Department diligently comply with its policies and procedures.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

		Questioned Cost
Finding No. 2022-011:	Eligibility (Material Weakness)	\$ <u>6,209</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.558 and COVID-19 – 93.558 – <i>Temporary Assistance for Needy Families</i>	
Award Number and Award Year:	1601HITAN3	2021
	2001HITANF	2021
	2101HITANF	2021
	2201HITANF	2022
	2021G990228	2021
Repeat Finding?	Yes	

Condition

We selected a non-statistical sample of 60 participant files, representing approximately \$39,000 of benefit payments, out of a population of approximately 8,700 cases, representing approximately \$17.8 million of benefit payments, for testing and noted exceptions in 17 case files as follows:

- Nine case files where eligibility redeterminations were not completed in the timeframe required by the State Plan.
- Seven case files where there was no evidence of a case worker’s signature on the eligibility redetermination form.
- One case file where the interview process was not conducted within the forty-five (45) day timeframe required by the State Plan.

Criteria

The State of Hawaii Temporary Assistance for Needy Families (“TANF”) State Plan states that a review of all eligibility requirements is required every 12 months for all TANF households. The State Plan also states that for the Department to make a decision regarding an applicant’s eligibility, an interview must be conducted with the applicant no later than forty-five (45) days after the application is received. In addition, Administration for Children and Families (“ACF”) program instruction TANF-ACF-PI-2020-01 indicates that States may make program changes but must submit a plan amendment within 30 days of the program changes. The program instruction recommends that the State seek guidance from ACF on whether a particular action is allowable under program requirements.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

Effect

Failure to follow the established procedures in place over the eligibility determination process and to submit the plan amendment or to seek guidance from ACF on whether a particular action is allowable under program requirements, resulted in noncompliance with the requirement and questioned costs.

Cause and View of Responsible Officials

Due to the COVID-19 pandemic, the Department elected to suspend all eligibility redeterminations until July 2021 and the interview process until July 2022. Although program changes are allowed, the Department was not able to submit the amendment to the State Plan until April 2022.

Recommendation

We recommend that the Department work with ACF to determine what remediation actions, if any, are required.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

		Questioned Cost										
Finding No. 2022-012:	Special Tests and Provisions (Material Weakness)	<u>\$ 949</u>										
Federal Agency:	U.S. Department of Health and Human Services											
AL Number and Title:	93.558 and COVID-19 – 93.558 – <i>Temporary Assistance for Needy Families</i>											
Award Number and Award Year:	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">1601HITAN3</td> <td style="width: 50%;">2021</td> </tr> <tr> <td>2001HITANF</td> <td>2021</td> </tr> <tr> <td>2101HITANF</td> <td>2021</td> </tr> <tr> <td>2201HITANF</td> <td>2022</td> </tr> <tr> <td>2021G990228</td> <td>2021</td> </tr> </table>		1601HITAN3	2021	2001HITANF	2021	2101HITANF	2021	2201HITANF	2022	2021G990228	2021
1601HITAN3	2021											
2001HITANF	2021											
2101HITANF	2021											
2201HITANF	2022											
2021G990228	2021											
Repeat Finding?	Yes											

Condition

We selected a non-statistical sample of 14 participant files for testing out of a population of 138 participant files that were initially determined by the Title IV-D agency as not cooperating with the child support enforcement requirements. We noted three files did not contain any correspondence, notices or documentation to indicate whether any follow-up action, up to and including case closure and cessation of benefits, were performed.

Criteria

Pursuant to 45 CFR 264.30, the Title IV-A agency is required to take appropriate action, as defined, if the Title IV-D agency determines that an individual is not cooperating with the child support enforcement requirements.

Effect

Failure to retain documentation to support a determination that appropriate action was taken limits the Department’s ability to demonstrate compliance with the requirement and resulted in questioned costs.

Cause and View of Responsible Officials

There was a lack of diligence in following the Department’s established policies and procedures to ensure compliance with the requirements.

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements. Additionally, we recommend that the Department diligently comply with its policies and procedures.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

Finding No. 2022-013:	Reporting (Material Weakness)	Questioned Cost
		\$ <u> </u> -
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.558 and COVID-19 – 93.558 – <i>Temporary Assistance for Needy Families</i>	
Award Number and Award Year:	1601HITAN3	2021
	2001HITANF	2021
	2101HITANF	2021
	2201HITANF	2022
	2021G990228	2021
Repeat Finding?	Yes	

Condition

During our audit, we tested a non-statistical sample of six subawards and found no evidence that the reporting required by Section 2, *Full Disclosure of Entities Receiving Federal Funding*, of the Federal Funding Accountability and Transparency Act (“FFATA”) was completed for one subaward and five instances of untimely submission.

Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
6	1	5	0	0
Dollar Amount of Tested Transactions	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$2,850,000	\$1,500,000	\$1,350,000	\$0	\$0

Criteria

Section 2, *Full Disclosure of Entities Receiving Federal Funding*, of the FFATA requires an entity to report subcontracts made under federally-awarded contracts by the end of the month following the month in which the prime recipient awards any subgrant greater than or equal to \$30,000.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

Effect

Failure to file required reports reduced transparency on the use of program funds and represents an instance of noncompliance with the requirements of 2 CFR Part 200.

Cause and View of Responsible Officials

There was a lack of diligence in following the Department's established policies and procedures to ensure compliance with the requirements.

Recommendation

We recommend that program management ensure that program personnel are familiar with all award requirements, and that program personnel ensure that required FFATA reports are filed timely.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

		Questioned Cost
Finding No. 2022-014:	Special Tests and Provisions (Significant Deficiency)	\$ _____ -
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.558 and COVID-19 – 93.558 – <i>Temporary Assistance for Needy Families</i>	
Award Number and Award Year:	1601HITAN3	2021
	2001HITANF	2021
	2101HITANF	2021
	2201HITANF	2022
	2021G990228	2021
Repeat Finding?	No	

Condition

During our audit, we selected a non-statistical sample of 60 participants for testing out of a population of approximately 7,900 participants whose work participation activity was reported on the ACF-199. We noted one instance where a work eligible participant complied with their work participation plan, but the Department inaccurately reported the participant as noncompliant.

Criteria

Pursuant to 45 CFR 265.3(b)(1), on a quarterly basis, the Department is required to submit disaggregated information on families receiving TANF benefits, which includes demographic data such as work participation activities.

Effect

Failure to report accurate work participation information limits the Department’s ability to demonstrate compliance with the requirement and could result in noncompliance with the minimum work participation rate requirements.

Cause and View of Responsible Officials

There was a lack of diligence in following the Department’s established policies and procedures to ensure compliance with the requirements.

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements. Additionally, we recommend that the Department diligently comply with its policies and procedures.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

		Questioned Cost
Finding No. 2022-015:	Eligibility, Activities Allowed or Unallowed, Allowable Cost (Material Weakness)	\$ <u>4,920</u>
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.658 and COVID-19 – 93.658 – <i>Foster Care – Title IV-E</i>	
Award Number and Award Year:	2101HIFOST 2021 2201HIFOST 2022	
Repeat Finding?	No	

Condition

We selected a non-statistical sample of 40 case files which approximated \$32,000 in monthly benefit payments, out of a population of approximately 981 case files which approximated \$4.89 million in total annual benefit payments, for testing and noted exceptions in 13 case files as follows:

- Three case files where the Police Protective Custody form or Voluntary Foster Custody Agreement were missing and therefore did not support whether the child was removed as part of a voluntary placement agreement or judicial determination.
- Three case files where the State, Federal Bureau of Investigation, and/or child abuse and neglect clearances were missing.
- Seven case files where the “difficulty of care” determination was missing and therefore did not support the assistance amount paid.
- Two case files where the “Certificate of Approval” was missing and therefore did not support whether the prospective foster parents were licensed.

Criteria

Pursuant to 42 USC 672(a)(2), the State must determine whether the removal and foster care placement of a child was in accordance with a voluntary placement agreement or judicial determination.

Pursuant to 42 USC 675(4)(A), the foster care maintenance payments should cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, and a child’s personal incidentals.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

Pursuant to 42 USC 672(c)(1)(A), a foster family home means the home of an individual family that is licensed or approved by the State in which it is situated as a foster family home that meets the standards established for the licensing or approval.

Pursuant to 42 USC 671(a)(20)(A), any prospective foster parent must satisfactorily have met a criminal records check, including a fingerprint-based check of national crime information databases, before the foster parent may be finally approved for placement of a child.

Effect

Failure to follow the established policies and procedures in place over the application process and determination of assistance amount represent instances of noncompliance with the requirements above, resulting in questioned costs.

Cause and View of Responsible Officials

Although the Department has established policies and procedures in place regarding the application process and determination of assistance amount, there was a lack of diligence in complying with the policies and procedures.

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements, including those specified under the Criteria section above. Additionally, we recommend that the Department diligently comply with its policies and procedures.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

		Questioned Cost										
Finding No. 2022-016:	Reporting (Material Weakness)	<u>\$ -</u>										
Federal Agency:	U.S. Department of Health and Human Services											
AL Number and Title:	93.558 and COVID-19 – 93.558 – <i>Temporary Assistance for Needy Families</i>											
Award Number and Award Year:	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">1601HITAN3</td> <td style="width: 50%;">2021</td> </tr> <tr> <td>2001HITANF</td> <td>2021</td> </tr> <tr> <td>2101HITANF</td> <td>2021</td> </tr> <tr> <td>2201HITANF</td> <td>2022</td> </tr> <tr> <td>2021G990228</td> <td>2021</td> </tr> </table>		1601HITAN3	2021	2001HITANF	2021	2101HITANF	2021	2201HITANF	2022	2021G990228	2021
1601HITAN3	2021											
2001HITANF	2021											
2101HITANF	2021											
2201HITANF	2022											
2021G990228	2021											
Repeat Finding?	No											

Condition

The Department achieved a two-parent work participation rate of 12.4%, which is below the federally mandated rate of 15.7%, calculated by subtracting the caseload reduction credit of 74.3% from the base 90.0%.

Criteria

Pursuant to 45 CFR 261.23, a State must achieve a 90% minimum two-parent participation rate minus any caseload reduction credit to which it is entitled.

Pursuant to 45 CFR 261.40(a)(2)(i), the minimum two-parent participation rate the State must meet decreases by the number of percentage points the prior-year two-parent caseload, including two-parent cases receiving assistance under a separate State program, fell in comparison to the FY 2005 two-parent caseload, including two-parent cases receiving assistance under a separate State program.

Effect

Failure to meet the minimum two-parent work participation rate may result in a reduction in the amount of State family assistance grants received.

Cause and View of Responsible Officials

There was a lack of diligence in following the Department’s established policies and procedures to ensure compliance with the requirements.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements. Additionally, we recommend that the Department diligently comply with its policies and procedures.

**Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

		Questioned Cost														
Finding No. 2022-017:	Special Tests and Provisions (Significant Deficiency)	\$ _____ -														
Federal Agency:	U.S. Department of Agriculture															
AL Number and Title:	10.551, 10.561, and COVID-19 – 10.561 – <i>Supplemental Nutrition and Assistance Program ("SNAP") Cluster</i>															
Award Number and Award Year:	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">7HI4004HI</td> <td style="width: 50%;">2021</td> </tr> <tr> <td>7HI400HI4</td> <td>2021</td> </tr> <tr> <td>7HI430HI4</td> <td>2021</td> </tr> <tr> <td>7HI400HI5</td> <td>2021</td> </tr> <tr> <td>7HI430HI5</td> <td>2022</td> </tr> <tr> <td>7HI460HI6</td> <td>2023</td> </tr> <tr> <td>227HIHI7F1003</td> <td>2022</td> </tr> </table>		7HI4004HI	2021	7HI400HI4	2021	7HI430HI4	2021	7HI400HI5	2021	7HI430HI5	2022	7HI460HI6	2023	227HIHI7F1003	2022
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7HI400HI5	2021															
7HI430HI5	2022															
7HI460HI6	2023															
227HIHI7F1003	2022															
Repeat Finding?	Yes															

Condition

During our audit, we selected a non-statistical sample of four processing centers out of the Department’s 21 processing centers and noted that supervisor reviews performed over DHS Form 1494, DHS Form 1495, and/or DHS Form 1050 were not maintained at one processing center.

Criteria

Pursuant to 7 CFR 274.8(b)(3), the Department is required to ensure there are storage and control measures to control blank unissued electronic benefit transfer (“EBT”) cards. To address this requirement, the Department has adopted a policy that requires (1) monthly or quarterly review of the DHS Form 1494, Bulk Inventory Control Log; (2) daily or weekly review of the DHS Form 1495, Hawaii EBT Card Daily Control Log; and (3) monthly review of the DHS Form 1050, EBT Card Destruction Control Log.

Effect

Documentation of supervisor approval of the review over the DHS Form 1494, DHS Form 1495, and/or DHS Form 1050 was not maintained at one processing center, increasing the risk of noncompliance with the requirement.

Cause and View of Responsible Officials

Although the Department has policies and procedures in place regarding reviews, the policies and procedures do not explicitly require a supervisor sign off documenting their review resulting in the inconsistent application and documentation of supervisor reviews.

Department of Human Services
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Recommendation

We recommend that program management ensure that program personnel are familiar with all grant requirements, including compliance with 2 CFR Part 200. Additionally, we recommend that the Department modify their policies and procedures to explicitly require supervisor sign-offs documenting their review.

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA



CATHY BETTS
DIRECTOR
KA LUNA HO'OKELE

JOSEPH CAMPOS II
DEPUTY DIRECTOR
KA HOPE LUNA HO'OKELE

STATE OF HAWAII
KA MOKU'ĀINA O HAWAI'I
DEPARTMENT OF HUMAN SERVICES
KA 'OIHANA MĀLAMA LAWELAWE KANAKA
Office of the Director
P. O. Box 339
Honolulu, Hawaii 96809-0339

AQCRO 23.001

March 30, 2023

Mr. Donn Nakamura, Audit Partner
Accuity LLP
999 Bishop Street
Suite 1900
Honolulu, Hawaii 96813

Dear Mr. Nakamura:

In accordance with 2 CFR 200.511(c), we have enclosed the Department of Human Services' views of responsible officials and corrective action plans related to the State Fiscal Year (SFY) 2022 audit report findings and recommendations.

If you have any questions regarding these corrective action plans or need assistance in other areas of the SFY 2022 audit, please contact Vickie Edu, Chief Auditor, at (808) 586-4878.

Sincerely,

Cathy Betts
Director

Enclosure

Summary Schedule of Prior Audit Findings

**Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2022**

Finding	Description	Type	Status		Current Year Finding
			Resolved	Unresolved	
2021-001	Preparation of Accrual Basis Financial Statements	Material Weakness		X	2022-001
2021-002	Special Tests and Provisions – U.S. Department of Health and Human Services, Medicaid Cluster	Material Weakness	X		
2021-003	Special Tests and Provisions – U.S. Department of Health and Human Services, Medicaid Cluster	Material Weakness		X	2022-002
2021-004	Special Tests and Provisions – U.S. Department of Health and Human Services, Medicaid Cluster	Material Weakness		X	2022-003
2021-005	Reporting – U.S. Department of Education, Rehabilitation Services – Vocational Rehabilitation Grants to States	Material Weakness		X	
2021-006	Special Tests and Provisions – U.S. Department of Health and Human Services, State Children’s Health Insurance Program	Material Weakness		X	2022-004
2021-007	Special Tests and Provisions – U.S. Department of Health and Human Services, State Children’s Health Insurance Program	Material Weakness		X	2022-005
2021-008	Special Tests and Provisions – U.S. Department of Health and Human Services, Children’s Health Insurance Program	Material Weakness	X		

**Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2022**

Finding	Description	Type	Status		Current Year Finding
			Resolved	Unresolved	
2021-009	Subrecipient Monitoring – U.S. Department of Agriculture, Supplemental Nutrition and Assistance Program Cluster	Material Weakness	X		
2021-010	Special Tests and Provisions – U.S. Department of Agriculture, Supplemental Nutrition and Assistance Cluster	Material Weakness		X	2022-006
2021-011	Eligibility, Activities Allowed or Unallowed, Allowable Cost – U.S. Department of Health and Human Services, Adoption Assistance	Material Weakness		X	2022-008
2021-012	Eligibility, Activities Allowed or Unallowed, Allowable Cost – U.S. Department of Health and Human Services, Guardianship Assistance	Material Weakness		X	2022-009
2021-013	Special Tests and Provisions – U.S. Department of Health and Human Services, Temporary Assistance for Needy Families	Material Weakness		X	2022-010
2021-014	Eligibility – U.S. Department of Health and Human Services, Temporary Assistance for Needy Families	Material Weakness		X	2022-011
2021-015	Special Tests and Provisions – U.S. Department of Health and Human Services, Temporary Assistance for Needy Families	Material Weakness		X	2022-012

**Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2022**

Finding	Description	Type	Status		Current Year Finding
			Resolved	Unresolved	
2021-016	Reporting – U.S. Department of Health and Human Services, Temporary Assistance for Needy Families	Material Weakness		X	2022-013
2021-017	Special Tests and Provisions – U.S. Department of Agriculture, Supplemental Nutrition and Assistance Program Cluster	Likely Questioned Costs are greater than \$25,000		X	2022-007
2021-018	Special Tests and Provisions – U.S. Department of Agriculture, Supplemental Nutrition and Assistance Program Cluster	Significant Deficiency		X	2022-017

Department of Human Services
State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2022

Corrective Actions Taken for Unresolved Findings

Finding No. 2021-001: Internal Control Over Financial Reporting

The Department continues to evaluate the process related to identification and recording of accruals. As a current year finding (Finding No. 2022-001) is reported, Finding No. 2021-001 will not be carried forward.

Finding No. 2021-003: Special Tests and Provisions

Corrective actions were taken in fiscal year 2022 to mitigate a number of the previously reported deficiencies; however, corrective action is still ongoing. As a current year finding (Finding No. 2022-002) is reported, Finding No. 2021-003 will not be carried forward.

Finding No. 2021-004: Special Tests and Provisions

In fiscal year 2022, the MED-Quest division has contracted a third-party vendor to assist with compliance of the requirements; however, corrective action is still ongoing. As a current year finding (Finding No. 2022-003) is reported, Finding No. 2021-004 will not be carried forward.

Finding No. 2021-005: Reporting

The Division of Vocational Rehabilitation continues to improve its internal controls to comply with reporting requirements.

Finding No. 2021-006: Special Tests and Provisions

Corrective actions were taken in fiscal year 2022 to mitigate a number of the previously reported deficiencies; however, corrective action is still ongoing. As a current year finding (Finding No. 2022-004) is reported, Finding No. 2021-006 will not be carried forward.

Finding No. 2021-007: Special Tests and Provisions

In fiscal year 2022, the MED-Quest division has contracted a third-party vendor to assist with compliance of the requirements; however, corrective action is still ongoing. As a current year finding (Finding No. 2022-005) is reported, Finding No. 2021-007 will not be carried forward.

Finding No. 2021-010: Special Tests and Provisions

No corrective action was taken in fiscal year 2022. As a current year finding (Finding No. 2022-006) is reported, Finding No. 2021-010 will not be carried forward.

Finding No. 2021-011: Eligibility, Activities Allowed or Unallowed, Allowable Cost

Corrective actions were taken in fiscal year 2022; however, corrective action is still ongoing. As a current year finding (Finding No. 2022-008) is reported, Finding No. 2021-011 will not be carried forward.

Finding No. 2021-012: Eligibility, Activities Allowed or Unallowed, Allowable Cost

Corrective actions were taken in fiscal year 2022; however, corrective action is still ongoing. As a current year finding (Finding No. 2022-009) is reported, Finding No. 2021-012 will not be carried forward.

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Finding No. 2021-013: Special Tests and Provisions

No corrective action was taken in fiscal year 2022. As a current year finding (Finding No. 2022-010) is reported, Finding No. 2021-013 will not be carried forward.

Finding No. 2021-014: Eligibility

No corrective action was taken in fiscal year 2022. As a current year finding (Finding No. 2022-011) is reported, Finding No. 2021-014 will not be carried forward.

Finding No. 2021-015: Special Tests and Provisions

Corrective actions were taken in fiscal year 2022 to mitigate a number of the previously reported deficiencies; however, corrective action is still ongoing. As a current year finding (Finding No. 2022-012) is reported, Finding No. 2021-015 will not be carried forward.

Finding No. 2021-016: Reporting

No corrective action was taken in fiscal year 2022. As a current year finding (Finding No. 2022-013) is reported, Finding No. 2021-016 will not be carried forward.

Finding No. 2021-017: Special Tests and Provisions

No corrective action was taken in fiscal year 2022. As a current year finding (Finding No. 2022-007) is reported, Finding No. 2021-017 will not be carried forward.

Finding No. 2021-018: Special Tests and Provisions

The Electronic Benefit Transfer Office continues to improve its internal controls to comply with requirements; however, corrective action is still ongoing. As a current year finding (Finding No. 2022-017) is reported, Finding No. 2021-018 will not be carried forward.

Corrective Action Plan

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Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
2022-001	<p>Views of Responsible Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: We will be procuring professional services to assist with the journal entries and financial statements.</p> <p>Expected Completion Date: June 30, 2023</p> <p>Responding Official(s): Derek Oshiro, Fiscal Management Office Chief Accountant and Eric Nouchi, Med-QUEST Division Finance Officer</p>
2022-002	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The conversion to the HOKU online provider enrollment system in 2020, the staffing and workload impacts of the COVID-19 public health emergency, and the inability to fill key provider enrollment section positions have combined to tax the ability of the Department to come into compliance with the stated criteria. These factors have created backlogs in the processing turnaround time for new provider enrollment applications that have been submitted by providers and are waiting for processing by the Department. These factors have also hampered the Department’s efforts to timely outreach with providers who are at/over the five-year revalidation threshold.</p> <p>The Department was able to fill the section administrator position for the provider enrollment section in June 2022, and also fill a key contract specialist position in August 2022. The Department entered into a new provider enrollment staff augmentation contract with Maximus effective January 1, 2023, and initial vendor performance has been promising. New provider enrollment processing time has been reduced to no more than ten days for certain provider types, and Maximus is on track to eliminate the existing provider enrollment application backlog by the third quarter of 2023. The Department is expecting these changes to result in full compliance with the stated criteria by the end of 2023.</p> <p>Completion Date: December 31, 2023</p> <p>Responding Official(s): Jon Fujii, Med-QUEST Division Health Care Services Branch Administrator</p>

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2022-003	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Department has identified a gap in training and education, that caused a failure to enforce the contract requirement for plans to submit audited financial statements pursuant to 42 CFR 438.3(m). Training and education will be scheduled over the next few months.</p> <p>The Department has engaged with a vendor to perform an audit of the managed care organizations’ medical loss ratio information pursuant to 42 CFR 438.602(e). This work began on July 1, 2022 and is currently on-going.</p> <p>Completion Date: June 30, 2023</p> <p>Responding Official(s): Eric Nouchi, Med-QUEST Division Finance Officer and Jon Fujii, Med-QUEST Division Health Care Services Branch Administrator</p>
2022-004	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The conversion to the HOKU online provider enrollment system in 2020 and the COVID-19 public health emergency have both taxed the ability of the Department to enroll and re-validate the Hawaii Medicaid providers. These factors have created backlogs in the processing turnaround time for new provider enrollment applications that have been submitted by providers and are waiting for processing by the Department. These factors have also hampered the Department’s efforts to timely outreach with providers who are at/over the five-year revalidation threshold.</p> <p>The Department entered into a new provider enrollment staff augmentation contract with Maximus effective January 1, 2023, and initial vendor performance has been promising. New provider enrollment processing time has been reduced to no more than ten days for certain provider types, and Maximus is on track to eliminate the existing provider enrollment application backlog by the third quarter of 2023. The Department is expecting these changes to result in full compliance with the stated criteria by the end of 2023.</p> <p>Completion Date: December 31, 2023</p> <p>Responding Official(s): Jon Fujii, Med-QUEST Division Health Care Services Branch Administrator</p>

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2022-005	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Department has identified a gap in training and education, that caused a failure to enforce the contract requirement for plans to submit audited financial statements pursuant to 42 CFR 438.3(m). Training and education will be scheduled over the next few months.</p> <p>The Department has engaged with a vendor to perform an audit of the managed care organizations’ medical loss ratio information pursuant to 42 CFR 438.602(e). This work began on July 1, 2022 and is currently on-going.</p> <p>Completion Date: June 30, 2023</p> <p>Responding Official(s): Eric Nouchi, Med-QUEST Division Finance Officer and Jon Fujii, Med-QUEST Division Health Care Services Branch Administrator</p>
2022-006	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: The Fiscal Management Office (FMO) put in a request with the Office of Information and Technology (OIT) to create additional reports to identify the discrepancies with the daily reconciliation. OIT was unable to produce the additional reports that were requested; therefore, FMO is currently working with OIT to produce a report that will give us the necessary information.</p> <p>Completion Date: December 31, 2023</p> <p>Responding Official(s): Joey Wong, Fiscal Management Office Accountant</p>
2022-007	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Remind eligibility staff to ensure that verification submitted by the household and filed in household’s electronic case folder (ECF) along with documentation on cases through DHS 1006 and/or case notes are consistent with what is processed and recorded in the eligibility system - HAWI, and that processing is completed according to Supplemental Nutrition and Assistance Program (SNAP) policy to ensure that households are receiving the maximum amount of benefits they are eligible to receive. The SNAP office would also coordinate with the Staff Development Office to put an extra emphasis on this area when conducting SNAP basic training to new eligibility workers.</p>

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	<p>Completion Date: September 30, 2023</p> <p>Responding Official(s): Manuel Banasihan, Benefit, Employment, and Support Services Division Supplemental Nutrition and Assistance Program Administrator</p>
2022-008	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned:</p> <ol style="list-style-type: none"> 1. Child Welfare Service (CWS) will make a note in each specific case record identified in this audit explaining the audit findings, and <ul style="list-style-type: none"> • secure current modified adoption agreements for the twenty-one (21) missing documents; • locate missing clearances for the twenty-one cases (21) or re-run them if not located; <p style="margin-left: 40px;">Please note: <i>Not all clearances are secured prior to placement; Federal Bureau of Investigations (FBI) clearances come later and are NOT required prior to placement in a “provisionally licensed” home.</i></p> • document the need precipitating Difficulty of Care (DOC) determination for the eight (8) records, showing how DOC was calculated; <ol style="list-style-type: none"> i. ensure that the written Adoption Assistance Agreement (AAA) matches the calculations and amount in the payment system or update/modify the AAA as appropriate. • secure documentation of child’s special needs for the eight cases, noting categorical eligibility qualification as special needs for children adopted from foster care; <p style="margin-left: 40px;">Note: <i>Hawaii is in the process of developing its new Comprehensive Child Welfare Information System (CCWIS) and plans to use this system to automatically code children in foster care as meeting the eligibility criteria for special needs.</i></p> • secure a copy of the court order which specified that the child should not be returned home, i.e. the order containing the “contrary to the child’s welfare” language for the eight cases; • document monthly non-recurring expenses in the missing case; • document the reason for continuation of monthly subsidy payments after the child’s eighteenth birthday in one case; • research/review and document why final approval was granted to a household with an individual who was convicted of spousal abuse. <ol style="list-style-type: none"> i. If review determines that AAA was inappropriately authorized, provide family with an adverse action notice

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	<ul style="list-style-type: none"> ii. discontinuing the adoption assistance (AA) and explaining the appeals process; <ul style="list-style-type: none"> • although adoption assistance is an incentive program with payment beginning prior to the finalization of an adoption, secure a copy of the five missing adoption decrees. <p style="margin-left: 40px;">Note: <i>The adoption decree is NOT required for payment as the AAA must be entered into prior to the finalization of an adoption.</i></p> <p>2. The identified errors and the related corrective action steps proposed above will be reviewed by CWS Administrators, staff supervisors, and the Management Information Compliance Unit (MICU) within ninety days to ensure missing documentation has been secured and/or properly noted in record.</p> <ul style="list-style-type: none"> • Additionally, the MICU will complete a random AA audit review approximately six months later. <ul style="list-style-type: none"> i. MICU will share random audit findings with CWS Administrators. ii. CWS Administrators will take corrective action based on MICU audit findings. <p>3. CWS supervisors and Social Services Division (SSD) Staff Development Specialists will ensure that line staff are familiar with these policies and procedures through individual supervision meetings and work product review.</p> <ul style="list-style-type: none"> • Staff with errors identified in this audit, consistent errors identified during individual supervision meetings or through work product review will: <ul style="list-style-type: none"> i. be given coaching/supervisory support to correctly complete documentation. ii. be required to participate in refresher training on Title IV-E Foster Custody, which is offered three times a year with participation documented by Staff Development Office. iii. During this review between the supervisor and the staff, documentation in the case file, as well as Child Protective Services System (CPSS) coding and payments, will be examined for completeness and consistency. iv. Needed corrections will be made to the documents and/or CPSS, as identified in the monthly reviews. <p>4. In consultation with the Department of Accounting and General Services (DAGS), CWS will develop and implement a new AAA form which identifies payment amounts by age, informing families of the progression. This will eliminate the need for a new agreement when a child moves from one payment category to another, as they age.</p>

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	<ul style="list-style-type: none"> • Should the standard AA amounts change, an addendum to this universal agreement will be sent to families noting the change(s). • Once a new AAA form has been created, the Staff Development Office will update the AA training module to include this new form and offer the updated training in the regular training rotation. <p>5. At the next Management Leadership Team meeting, CWS Branch Administrators will share with staff the results of this audit, explaining the direct correlation between documentation (or lack thereof) and financial penalties to the State.</p> <p>6. As CWS implements this corrective action plan and monitors the results, the action steps proposed in one through five may be modified, based on input from CWS Administrators and/or focus/exploration groups with line staff who complete this documentation.</p> <p>Completion Date: May 31, 2023</p> <p>Responding Official(s): Kisha C. Raby, Social Services Division Program Development Administrator; Elladine Olevao, Social Services Division Child Welfare Social Services Manager; and Carolina Anagaran, Social Services Division Administrative Officer</p>
2022-009	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned:</p> <ol style="list-style-type: none"> 1. Child Welfare Service (CWS) will make a note in each specific case record identified in this audit explaining the audit findings, and secure missing/incomplete eligibility documents for cases identified in the audit. 2. The identified errors and the related corrective action step above will be reviewed by CWS Administrators, staff supervisors, and the Management Information Compliance Unit (MICU) within ninety days to ensure missing documentation has been secured and properly noted in record. <ul style="list-style-type: none"> • Additionally, the MICU will complete a random Guardianship Agreement audit review approximately six months later. <ol style="list-style-type: none"> i. MICU will share random audit findings with CWS Administrators. ii. CWS Administrators will take corrective action based on MICU audit findings. 3. CWS supervisors will ensure that line staff are familiar with these policies and procedures and monitor through individual supervision meetings and work product review. <ul style="list-style-type: none"> • Staff with errors identified in this audit, during individual supervision meetings or through work product review will:

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	<ul style="list-style-type: none"> i. be given coaching/supervisory support to correctly complete documentation. ii. be required to participate in refresher training on Title IV-E Foster Custody, which is offered three times a year with participation documented by Staff Development Office. <ul style="list-style-type: none"> • All staff who manages payment-only cases will review a quarter of their cases each month with their supervisor, during monthly supervision meetings. <ul style="list-style-type: none"> i. Each month, a different quarter of their cases will be reviewed, so that all cases are reviewed three times a year. ii. During this review between the supervisor and the staff, documentation in the case file, as well as Child Protective Services System (CPSS) coding and payments, will be examined for completeness and consistency. iii. Needed corrections will be made to the documents and/or CPSS, as identified in the monthly reviews. iv. If a supervisor notices consistent errors by a staff member in Guardianship Agreement documentation, they shall refer the staff to the Staff Development Office for refresher training. v. The supervisor shall document which cases were reviewed each month. <p>4. At the next Management Leadership Team meeting, CWS Branch Administrators will share with staff the results of this audit, explaining the direct correlation between documentation (or lack thereof) and financial penalties to the State.</p> <ul style="list-style-type: none"> • Reminder conversations about this audit and the importance of following current policies and procedures will be held during CWS weekly huddles. <p>5. As CWS implements this corrective action plan and monitors the results, the action steps proposed in one through four may be modified based on input from CWS Administrators and/or focus/exploration groups with line staff who complete this documentation.</p> <p>Completion Date: May 31, 2023</p> <p>Responding Official(s): Kisha C. Raby, Social Services Division Program Development Administrator; Elladine Olevao, Social Services Division Child Welfare Social Services Manager; and Carolina Anagaran, Social Services Division Administrative Officer</p>

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2022-010	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: It was noted in the Corrective Action Plan, in response to the State fiscal year 2021 audit finding, the DHS 1006 form, “Eligibility Documentation” (formerly titled “Interview Documentation”), was revised to require the eligibility staff to notate the date the Income Eligibility and Verification System (IEVS) query was completed, the findings and what information were used for eligibility determination. However, for most of the State fiscal year 2022, the interview requirement for new applicants and annual recertifications for recipients were waived; therefore, the DHS 1006 form was not utilized.</p> <p>Form DHS 1006 will be revised further to create IEVS query fields specifically under Section IX – Temporary Assistance for Needy Families (TANF) Requirements, and a policy clarification will be issued to remind staff of the IEVS query requirement and instructions on how to complete the DHS 1006 form.</p> <p>Completion Date: September 30, 2023</p> <p>Responding Official(s): Catherine Scardino, Benefit, Employment, and Support Services Division Temporary Assistance for Needy Families Program Administrator</p>
2022-011	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Administration for Children and Families (ACF) will be notified in writing, within the required timeframe, if additional amendments will be or are made to the current Temporary Assistance for Needy Families State Plan.</p> <p>Completion Date: On-going</p> <p>Responding Official(s): Catherine Scardino, Benefit, Employment, and Support Services Division Temporary Assistance for Needy Families Program Administrator</p>
2022-012	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action, however, notes the following:</p> <p>Based on my review of the selected cases, particularly the cases that were properly closed due to non-compliance with child support requirements, I found that the Processing Centers received hard-copy notifications from the Child Support Enforcement Agency (CSEA). The two cases indicated as having no closure notices, there were no hard-copy notifications found in the clients’ electronic case files. The referrals to CSEA are done through an interface between the HAWI and CSEA's KEIKI systems. When a recipient is determined non-compliant by CSEA, the information is</p>

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	<p>sent via the interface from KEIKI to HAWI in the form of a system-generated alert. This process worked well when application processing and maintenance of recipient cases were done in a case management method (e.g. each eligibility worker assigned to process applications and/or maintain a caseload of active cases). This method, eligibility workers would manage their caseloads and check for incoming alerts for cases assigned to them; these alerts would include the CSEA non-compliant alerts coming from KEIKI system. Workers were able to take appropriate and timely action in response to the alerts received. However, necessary changes were made to how applications and active cases are managed. The division stopped the case management method and converted to "task-oriented" processing statewide. Workers are no longer assigned to caseloads but are assigned to "tasks" such as processing applications, incoming documents/verifications, reported changes, six-month review and annual recertifications, etc. A case is not reviewed and worked in HAWI until a worker is prompted to do so, e.g. six-month review, annual recertification, change was reported by the household, or when a document pertaining to a case is received by the Processing Center such as hard-copy notice sent from CSEA indicating a client did not comply with child support requirements. When any one of these occur, then the worker who is assigned to that task will check for alerts for the case. Aside from that, recipient cases are not reviewed. So how the "alerts" were developed in HAWI no longer works for the way we currently process applications and maintain cases. We are unable to modify the HAWI system because we are currently developing a new eligibility system that will replace HAWI.</p> <p>Corrective Action Taken or Planned: We created an ad hoc report to identify Temporary Assistance for Needy Families Program (TANF) recipient cases that received the HAWI alert, "REASON [Numeric Code]: CLIENT FAILED TO COOPERATE W/CSEA ON [mmdyyy]" generated by the interface with the KEIKI system. The report identifies cases by Case Number, Case Name, and assigned Processing Center. The program office will disseminate the list to the Processing Centers to take appropriate and timely action. The ad hoc report will be requested from the Department's Office of Information and Technology (OIT) and disseminated on a monthly basis.</p> <p>Completion Date: On-going</p> <p>Responding Official(s): Catherine Scardino, Benefit, Employment, and Support Services Division Temporary Assistance for Needy Families Program Administrator</p>

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2022-013	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned: Federal-funded contracts will be entered into the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) in a timely manner.</p> <p>Completion Date: On-going</p> <p>Responding Official(s): Catherine Scardino, Benefit, Employment, and Support Services Division Temporary Assistance for Needy Families Program Administrator</p>
2022-014	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action, however, notes the following:</p> <p>Several jobs are run each month following the report month, to extract client data from the HAWI (eligibility data) and HANA (work participation data) systems to create the ACF-199 Temporary Assistance for Needy Families (TANF) Data Reports. Each report month of the ACF-199 Reports is created monthly then compiled and submitted following the end of each report quarter. If changes are made to any client data in the HAWI or HANA systems after the creation of each report month, the changes will not be captured and will not reflect on the ACF-199 Quarter Reports submitted to Administration for Children and Families (ACF).</p> <p>Corrective Action Taken or Planned: A rerun of the ACF-199 Report will be scheduled every November/December, following the end of each federal fiscal year, to create a final report and submit by the annual reporting deadline of December 31st. This will capture any client data changes made after each report month's job run.</p> <p>Completion Date: Beginning November/December 2023 (for final FFY 2023 reports) and annually thereafter.</p> <p>Responding Official(s): Catherine Scardino, Benefit, Employment, and Support Services Division Temporary Assistance for Needy Families Program Administrator</p>

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2022-015	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action.</p> <p>Corrective Action Taken or Planned:</p> <ol style="list-style-type: none"> 1. Child Welfare Service (CWS) will make a note in each specific case record identified in this audit explaining the audit findings, and secure missing/incomplete eligibility documents for cases identified in the audit. 2. The identified errors and the related corrective action step above will be reviewed by CWS Administrators, staff supervisors, and Management Information Compliance Unit (MICU) within ninety days to ensure missing documentation has been secured and properly noted in record. <ul style="list-style-type: none"> • Additionally, the MICU will complete a random Title IV-E Foster Custody payments audit review approximately six months later. <ol style="list-style-type: none"> i. MICU will share random audit findings with CWS Administrators. ii. CWS Administrators will take corrective action based on MICU audit findings. 3. CWS supervisors will ensure that line staff (especially those responsible for Licensing and Placements) are familiar with these policies and procedures and monitor through individual supervision meetings and work product review. <ul style="list-style-type: none"> • Staff with errors identified in this audit, during individual supervision meetings or through work product review will: <ol style="list-style-type: none"> i. be given coaching/supervisory support to correctly complete documentation, ii. be required to participate in refresher training on Title IV-E Foster Custody, which is offered three times a year with participation documented by Staff Development Office. • All staff who manages Title IV-E Foster Custody payments will review a quarter of their cases each month with their supervisor, during monthly supervision meetings. <ol style="list-style-type: none"> i. Each month, a different quarter of their cases will be reviewed, always starting with the newest cases. ii. During this review between the supervisor and the staff, documentation in the case file, as well as Child Protective Services System (CPSS) coding and payments, will be examined for completeness and consistency. iii. Needed corrections will be made to the documents and/or CPSS, as identified in the monthly reviews. iv. If a supervisor notices consistent errors by a staff member in Title IV-E Foster Custody payments documentation, they shall refer the staff to the Staff Development Office for refresher training.

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	<p style="text-align: center;">v. The supervisor shall document which cases were reviewed each month.</p> <ul style="list-style-type: none"> • All licensing staff shall review a quarter of their cases every month with their supervisor, during monthly supervision meetings. <ul style="list-style-type: none"> i. Each month, a different quarter of their cases will be reviewed, always starting with the newest cases. ii. During this review between the supervisor and the staff, documentation (including all background clearances) in the case file will be examined for timeliness and completeness. iii. Needed corrections will be made to the documents and/or new documents added, as identified in the monthly reviews. iv. If a supervisor notices consistent errors by a staff member in Title IV-E Foster Custody payments documentation, they shall refer the staff to the Staff Development Office for refresher training. v. The supervisor shall document which cases were reviewed each month. <p>4. At the next Management Leadership Team meeting, CWS Branch Administrators will share with staff the results of this audit, explaining the direct correlation between documentation (or lack thereof) and financial penalties to the State.</p> <ul style="list-style-type: none"> • Reminder conversations about this audit and the importance of following current policies and procedures will be held during CWS weekly huddles. <p>5. As CWS implements this corrective action plan and monitors the results, the action steps proposed in one through four may be modified based on input from CWS Administrators and/or focus/exploration groups with line staff who complete this documentation.</p> <p>Completion Date: On-going</p> <p>Responding Official(s): Kisha C. Raby, Social Services Division Program Development Administrator; Elladine Olevao, Social Services Division Child Welfare Social Services Manager; and Carolina Anagaran, Social Services Division Administrative Officer</p>

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 For the State Fiscal Year Ended June 30, 2022

Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
2022-016	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action, however, notes the following:</p> <p>Pursuant to 45 CFR 262.5, the Department submitted a letter to the Administration for Children and Families (ACF), dated November 21, 2022, to request consideration for reasonable cause for not meeting the fiscal year 2021 Two-Parent Work Participation Rate. The ACF confirmed receipt of the Department’s request on November 28, 2022. Determination and decision from ACF is currently pending.</p> <p>Corrective Action Taken or Planned: The work participation requirement under the Upfront Universal Engagement (UFUE), described in sections 17-656.1-8.4 and 17-794.1-36, Hawaii Administrative Rules, were reinstated effective June 2022. Applicants are required to fulfill the work participation requirements, described in the rules, as a condition of Temporary Assistance for Needy Families (TANF) eligibility. The upfront work participation provides applicants with job readiness training, new or updated resume, and job search assistance. The upfront participation requirement has shown success in preparing parents/relative caregivers with work program engagement prior to June 2022 and the upfront participation requirements were waived because there was an increased need for financial assistance during the pandemic.</p> <p>In 2022, the TANF program office established quarterly collaborative meetings with the work program unit supervisors statewide. The meetings are structured with specific components:</p> <ol style="list-style-type: none"> 1. Share information and resources from community-based organizations that service families with dependent children; 2. Provide program updates such as policy changes and projects; 3. Activities that involve collaboration amongst attendees (e.g. discussions on topics relating to TANF recipient families, staff who work directly with families, and program implementation); and 4. Summary of the collaborative activity and next steps. <p>The quarterly meetings provide an avenue for the program office and unit supervisors to discuss challenges that work program staff encounter when working with participants; to develop strategies on engaging new participants and re-engaging those who have been in the work program, particularly during this period of transition following the pandemic; and identify any needs that families may have that the work program is unable to provide. The quarterly collaborative meetings will continue in 2023 and will be conducted on an on-going basis.</p> <p>Completion Date: On-going</p> <p>Responding Official(s): Catherine Scardino, Benefit, Employment, and Support Services Division Temporary Assistance for Needy Families Program Administrator</p>

State of Hawaii
 Department of Human Services
 Corrective Action Plans for Findings and Recommendations
 For the State Fiscal Year Ended June 30, 2022

Finding	Views of Responding Officials, Corrective Action Plans, Expected Completion Date, Responding Officials
2022-017	<p>Views of Responding Officials: The Department agrees with the finding and will implement corrective action, however, disagrees with the recommendation in that policies and procedures have already been implemented to require supervisor sign-offs documenting their review.</p> <p>Corrective Action Taken or Planned: Forms and instructions for forms DHS 1494, 1495, and 1050 were updated in March 2022 as a recommendation from the last audit to add an additional column on these forms for the Supervisor/Auditor to date and initial the form to indicate an audit took place. Will ensure all staff members are familiar with all grant requirements, including compliance with 2 CFR Part 200.</p> <p>Completion Date: March 2023</p> <p>Responding Official(s): Sabrina Young, Benefit, Employment, and Support Services Division Electronic Benefit Transfer Project Manager</p>