STATE OF HAWAIʻI
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaiʻi 96813-2917

LESLIE H. KONDO
State Auditor

(808) 587-0800
lao.auditors@hawaii.gov

DEPT. COMM. NO. 473

May 9, 2024

VIA EMAIL

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

VIA EMAIL

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

Re: ***2023 Annual Report***

Dear President Kouchi and Speaker Saiki:

Please find attached a copy of our *2023 Annual Report*, which includes summaries of the performance and financial audit reports that were issued since July 1, 2022.

The report is accessible through our website at:
https://files.hawaii.gov/auditor/Reports/2023/2023AnnualReport.pdf.

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

Very truly yours,

Leslie H. Kondo
State Auditor

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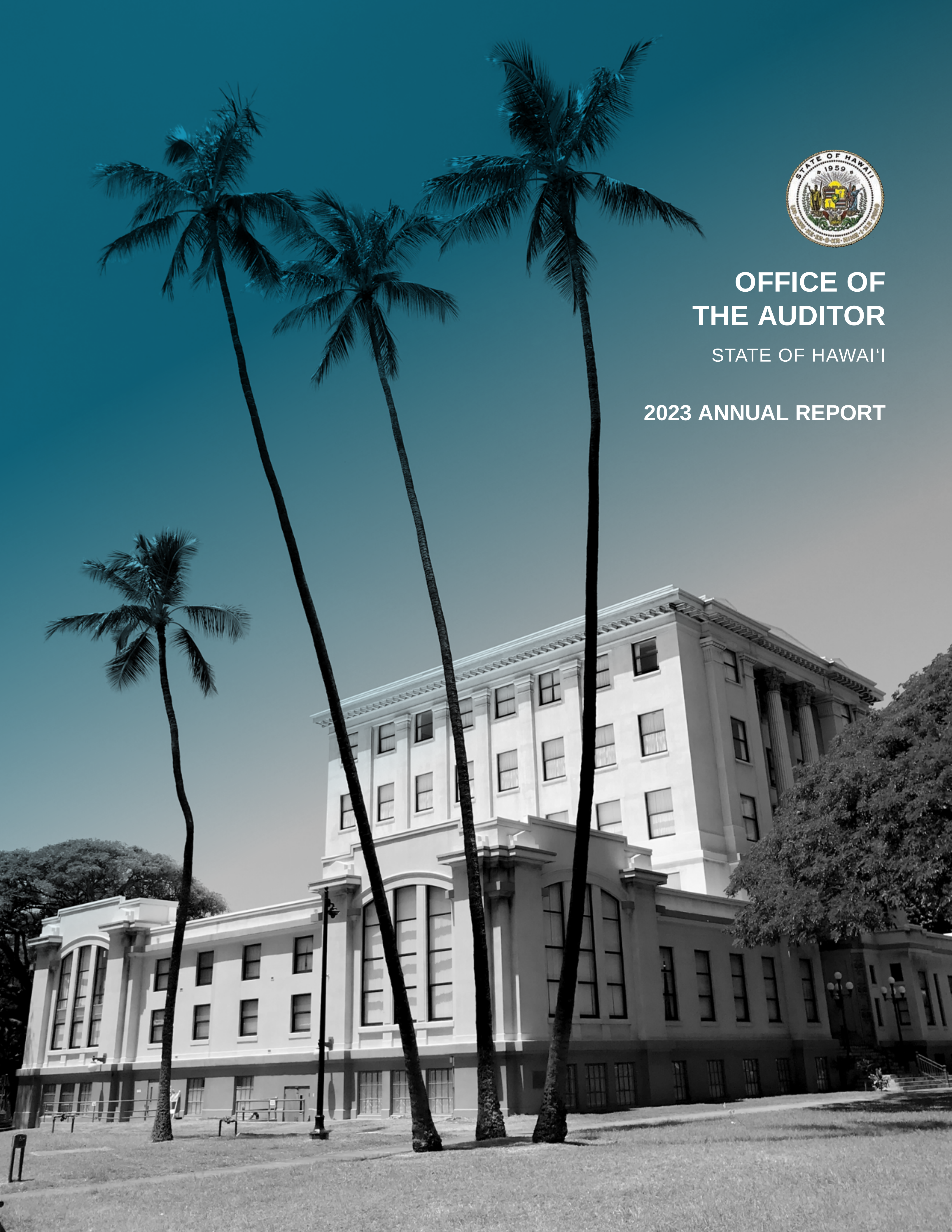
Attachment

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



OFFICE OF THE AUDITOR

STATE OF HAWAIʻI

2023 ANNUAL REPORT

OFFICE OF THE AUDITOR
STATE OF HAWAIʻI

Constitutional Mandate

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

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

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

Our Mission

To improve government through independent and objective analyses.

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

Our Work

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

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

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

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

PHOTO: OFFICE OF THE AUDITOR

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Message from the Auditor

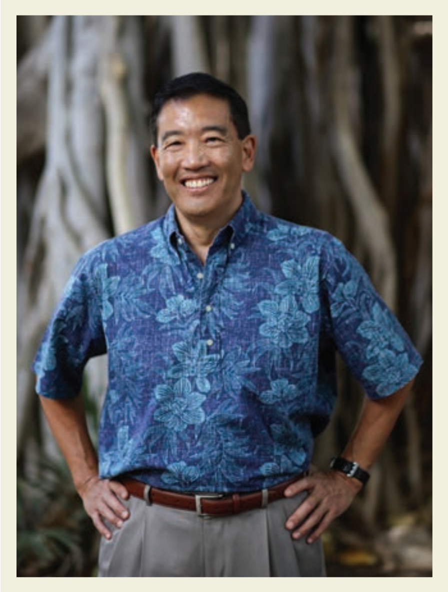

PHOTO: MICHAEL KEANY

WELCOME to this annual report, which highlights the Office of the Auditor's work from July 1, 2022 to December 31, 2023.

This report summarizes a performance audit of the Office of Hawaiian Affairs; a financial and program audit of the Department of Health's Deposit Beverage Container Program; financial audits of 21 agencies and programs; assessments of proposals mandating that health insurers provide medical coverage for early breast cancer screening, various sexual and reproductive health care services, standard fertility preservation services, and pharmacist services; a sunset assessment of the regulation of appraisal management companies; reviews of non-general funds for the Department of Public Safety, the Department of Labor and Industrial Relations, the Department of Agriculture, the Department of Defense, and the Department of Accounting and General Services; reports on specific general excise tax, use tax, and income tax provisions; a follow-up report on our prior audit of the Office of Health Care Assurance's Adult Residential Care Homes Program; and a report on the status of all recommendations made in audits issued from 2018 through 2021. Copies of our reports are available on our website: auditor.hawaii.gov.

Our audit of the Office of Hawaiian Affairs (OHA) examined the agency's Commercial Property and Legacy Land Programs and found that OHA had not established foundational strategies and policies to guide its real estate activities, including two acquisitions totaling $47 million in 2021. We also reported that OHA had not made meaningful progress in developing its Kakaʻako Makai properties for more than a decade and did not adequately oversee stewards of its legacy lands, creating risks that its culturally important properties may be misused.

This work is possible because of the dedicated and hard-working employees of the Office the Auditor. Thank you for the important work you do for the citizens of Hawaiʻi.

Mission of the Office of the Auditor

Improving government through independent and objective analyses.

ILLUSTRATION: ISTOCK.COM

Peer to Peer

Participating in a peer review – whether as a reviewee or a reviewer – is an opportunity to confirm the quality of our work and to learn from experienced performance audit professionals from other states.

A QUESTION WE ARE OCCASIONALLY ASKED is “Who audits the Auditor?” The answer: other working auditors. *Government Auditing Standards* require our office to regularly undergo an external and independent peer review. Every three years, a small team of performance auditors from sister state audit offices examine samples of our reports, as well as the processes that underlie the reports, to determine whether we meet five criteria: (1) Work is professional, independent, and objectively designed and executed; (2) Evidence is competent and reliable; (3) Conclusions are supported; (4) Products are fair and balanced; and (5) Staff are competent to perform work required.

These reviews last a week and are thorough. Our peers go through our files and examine the work papers that support the selected audit reports. They interview analysts who worked on those reports, and they even review our training logs to ensure that Office of the Auditor personnel completed adequate and appropriate continuing professional education required annually by the *Government Auditing Standards*.

Our last peer review was in December 2022, and, like the two other peer reviews during my tenure, we passed with flying colors. While it is an intensive and, to some degree, stressful process, it is a tremendous opportunity to receive feedback about our work from other state audit professionals and to share information with peer reviewers.

Last September, I was fortunate to be part of a peer review team selected to assess the

I am particularly proud of our quality control system, which includes an independent review that requires someone separate from the project team to review the sufficiency and appropriateness of evidence that supports *every sentence of every report* that we issue.

Washington State Legislature's Joint Legislative Audit and Review Committee's (JLARC) compliance with government auditing standards. I was honored to be on the other side of the process and interested in seeing JLARC's operations. JLARC has a reputation for being on the cutting-edge of audit reporting, having converted their audit reports to be entirely web-based. Long story short, instead of a static PDF document attached to a website, each report is a stand-alone website in itself. JLARC also was one of the first offices to assess the effectiveness of its state's tax incentives, which we started doing only a few years ago.

Our office doesn't shrink from technology or innovation, but I couldn't help feeling a bit envious as I learned about JLARC's "next-gen" processes and equipment. However, peer reviewers are focused on processes, and similarities emerged as we started digging into JLARC's audits and talking to those who produced them. I met a staff that is as passionate and dedicated to conducting meaningful audits to improve government as are the professionals in this office. I learned how that office performs similar work and have incorporated some of those procedures into our process.

I left impressed with JLARC and its work. I also returned with the knowledge that we are doing equally great work and, in some respects, do things better than an exceptional audit office. I am particularly proud of our quality control system, which includes an independent review that requires someone separate from the project team to review the sufficiency and appropriateness of evidence that supports *every sentence of every report* that we issue. Ensuring that the audits are based on evidence – sufficient and appropriate – is a cornerstone of our work, requiring manually poring over documents, interviewing relevant personnel, and exercising professional judgement to draw conclusions about the information we've collected. Confirming that every sentence in every report is sufficiently and appropriately supported is painstaking, labor-intensive work. But, it is necessary, and it is where our office excels.

We continue to look for ways to improve our work and to communicate our findings to legislators, agencies, and the public as clearly as possible. With that goal, in 2023, we revised the format of our Special Funds, Revolving Funds, Trust Funds, and Trust Accounts reports to provide information about department funds and trust accounts in a concise table. This year, we are making similar revisions to our tax incentive reports.

Our next peer review is in 2025, and maybe before then I'll be asked to join a review of another office. In either case, I welcome the opportunity to confirm that our work continues to meet professional standards and to learn from experienced performance audit professionals from other states.

Summary of Reports

July 1, 2022 to December 31, 2023

PHOTO: ISTOCK.COM

Sunrise Analysis: Regulation of Community Health Workers

Report No. 22-08, September 2022

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

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

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

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

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

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

Report No. 22-09, September 2022

Section 23-7.5, Hawai‘i Revised Statutes, requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. In this report, we present the results of our review of 27 recommendations made to the Hawai‘i Tourism Authority (HTA) in Report No. 18-04, Audit of the Hawai‘i Tourism Authority*, which was published in February 2018.*

IN REPORT No. 18-04, we assessed HTA's oversight of its two contracts valued at over $15 million: one with AEG Management HCC, LLC (AEG) to manage, operate, and market the Hawai‘i Convention Center, and the second with the Hawai‘i Visitors and Convention Bureau (HVCB) to market Hawai‘i in the continental United States and Canada. We also examined HTA's procurement of service contracts and its compliance with the statutory limit on its administrative expenses. In all three areas, we found that HTA's autonomy, which included a permanent source of funding and an exemption from the State Procurement Code, facilitated lax oversight, deficient internal controls, and ultimately, less accountability.

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

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

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

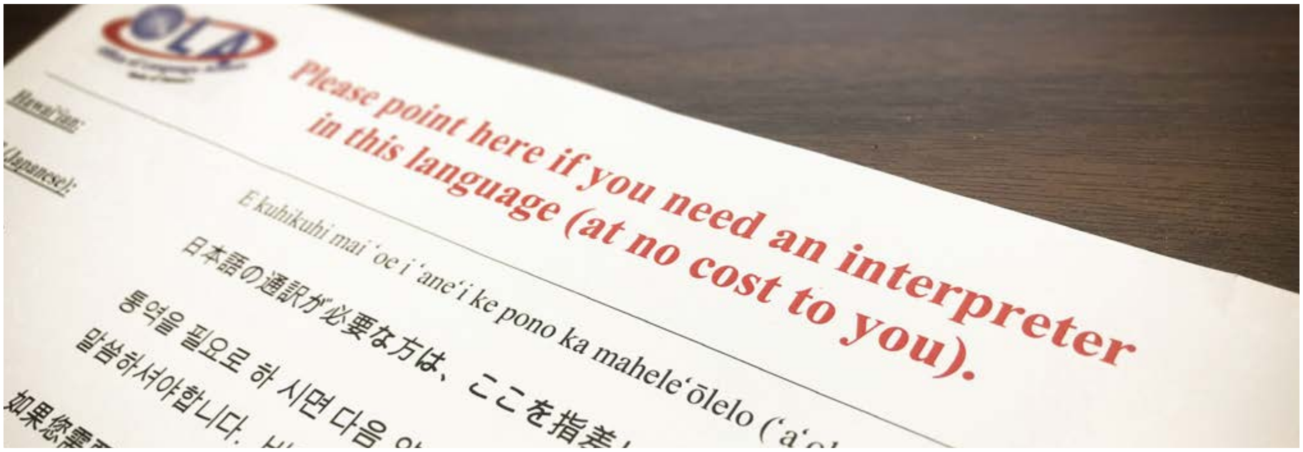

PHOTO: OFFICE OF THE AUDITOR

Audit of the Office of Language Access

Report No. 22-10, October 2022

Our audit of the Office of Language Access (OLA) was conducted pursuant to Article VII, Section 10 of the Hawai'i State Constitution and Section 23-4, Hawai'i Revised Statutes (HRS), which authorizes the Auditor to conduct post-audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions.

IN 2006, the Legislature established the Office of Language Access to address the needs of limited English proficient individuals in Hawai'i and to ensure they have meaningful access to state services, programs, and activities. OLA is responsible for, among other things, ensuring compliance with language access laws by all state offices, including those attached to the legislative and judicial branches of state government, and organizations that receive state funding, which the law refers to as "covered entities."

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

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

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

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

REGARDING THE OFFICE OF LANGUAGE ACCESS:

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

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

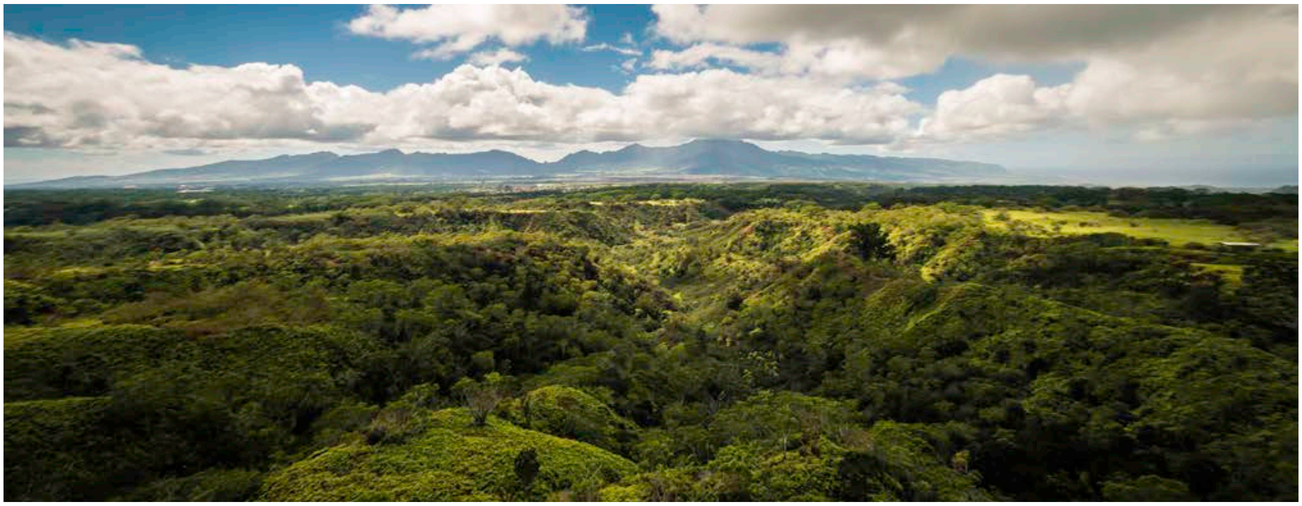

PHOTO:DEPARTMENT OF LAND AND NATURAL RESOURCES

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

Report No. 22-11, October 2022

Section 23-7.5, Hawai'i Revised Statutes (HRS), requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. This report presents the results of our review of 13[1] *recommendations made to the Department of Land and Natural Resources (DLNR) in Report No. 19-01,* Audit of the Department of Land and Natural Resources' Land Conservation Fund*, which was published in January 2019.*

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

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

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

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

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

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

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

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

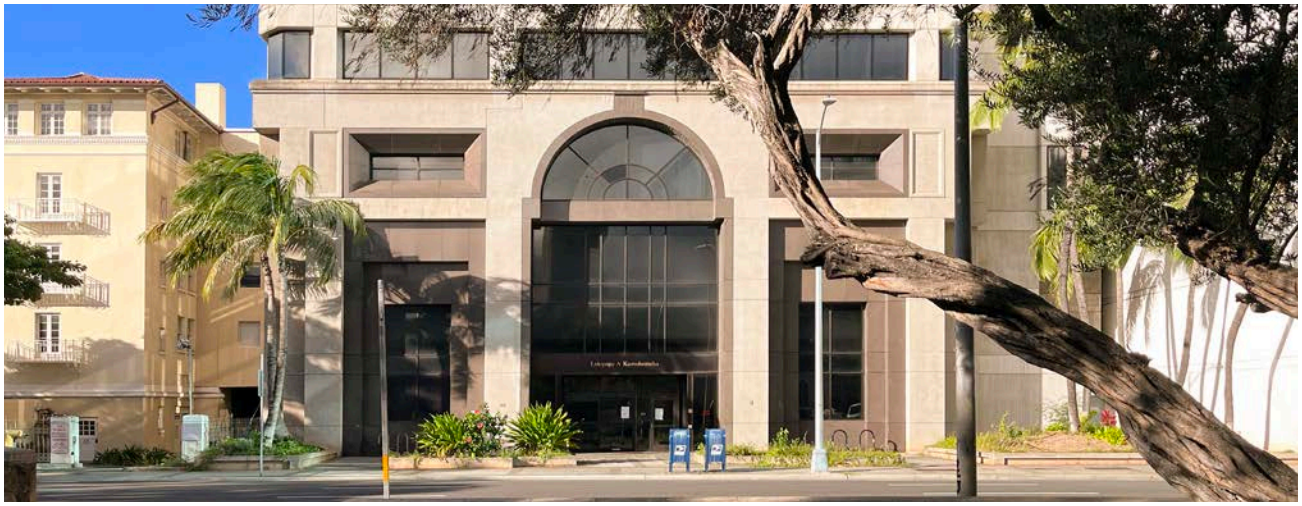

PHOTO: OFFICE OF THE AUDITOR

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

Report No. 22-12, October 2022

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

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

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

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

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

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

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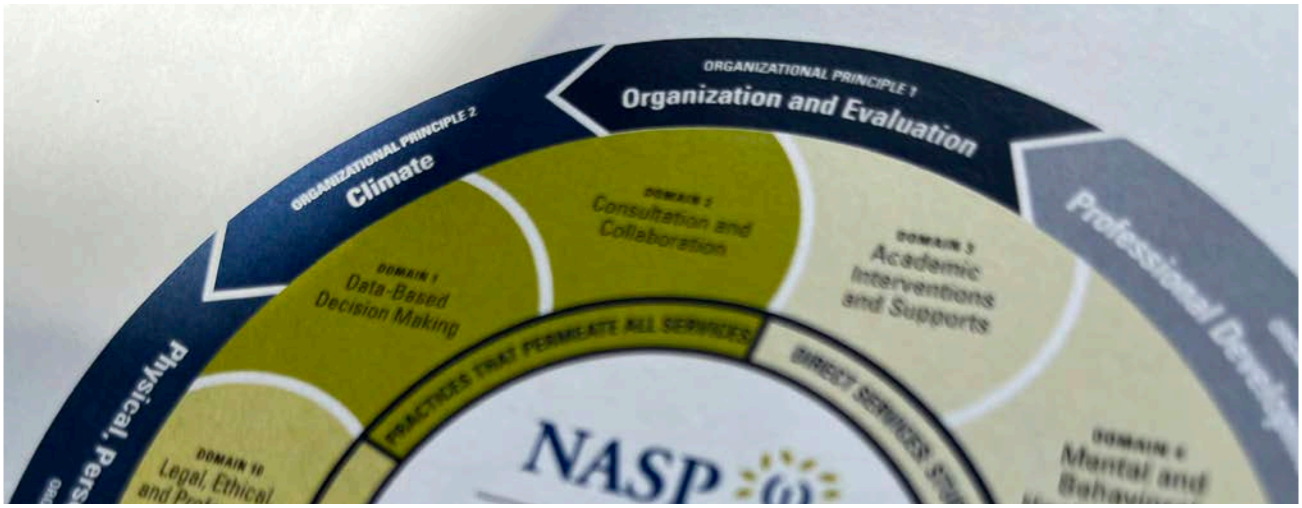


PHOTO: OFFICE OF THE AUDITOR

Sunrise Analysis: Regulation of School Psychologists

Report No. 22-13, November 2022

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

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

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

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

PHOTO: OFFICE OF THE AUDITOR

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

Report No. 22-14, November 2022

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

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

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

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

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

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

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

PHOTO: OFFICE OF THE AUDITOR

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

Report No. 22-15, December 2022

This is a report on the follow-up reviews of state departments and agencies' implementation of audit recommendations contained in audits issued in calendar years 2017–2020. We conducted the follow-ups pursuant to Section 23-7.5, Hawai'i Revised Statutes (HRS), which requires the Auditor to report to the Legislature on each recommendation that the Auditor has made that is more than one year old and that has not been implemented by the audited agency.

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

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

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

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

PHOTO: ISTOCK.COM

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

Report No. 22-16, December 2022

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

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

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

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

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


PHOTO: ISTOCK.COM

Sunset Evaluation: Regulation of Appraisal Management Companies

Report No. 23-01, January 2023

Regulation of appraisal management companies is set to "sunset," or cease, on June 30, 2023. Chapter 26H-5, Hawai'i Revised Statutes (HRS), requires the Auditor to provide an assessment of whether the current regulation complies with the State's policy for professional and vocational licensing as expressed in the Hawai'i Regulatory Licensing Reform Act. The Auditor is also required to assess whether the law establishing the regulatory program should be reenacted, modified, or permitted to expire, and evaluate the effectiveness and efficiency of the regulatory program.

IN REPORT NO. 23-01, we appraised the regulation of appraisal management companies, which is set to cease on June 30, 2023. Our review found that regulation of appraisal management companies is not justified by the Hawai'i Regulatory Licensing Reform Act, noting that appraisal management companies are organizations that assist lenders in retaining appraisers and are not "professions" or "vocations." Furthermore, we concluded that the work performed by appraisal management companies does not reasonably affect the health, safety, or welfare of the consumers they serve and, therefore, does not meet the threshold for regulation.

Although we find the Hawai'i Regulatory Licensing Reform Act does not support regulation, we conclude that public interest likely justifies reenactment of the Appraisal Management Company Registration Program (AMC registration program) codified in Chapter 466L, Hawai'i Revised Statutes (HRS).

Act 118, Session Laws of Hawai'i 2017, codified as Chapter 466L, HRS, established the AMC registration program to conform with the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, P.L. 111-203 (Dodd-Frank Act) requirements related to the regulation of appraisal management companies. The Dodd-Frank Act required, among other things, federal regulatory agencies to establish minimum requirements for state registration and supervision of AMCs. While states were not required to enact appraisal management company registration and supervision, if a state failed to do so by August 10, 2018, certain appraisal management companies would be barred from providing appraisal management services for federally related transactions in the state.

Our review found that regulation of appraisal management companies is not justified by the Hawai'i Regulatory Licensing Reform Act, noting that appraisal management companies are organizations that assist lenders in retaining appraisers and are not "professions" or "vocations."

PHOTO: OFFICE OF THE AUDITOR

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Public Safety

Report No. 23-02, January 2023

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

WE REVIEWED five special funds, three revolving funds, five trust funds, and four trust accounts and concluded three special funds and two trust accounts did not meet criteria and should be closed or reclassified. Total fund fiscal year-end balances for PSD amounted to at least $6.7 million per year during the period reviewed. In FY2022, the special funds, revolving funds, trust funds, and trust accounts collected approximately $24.6 million and spent or transferred approximately $23.1 million. We noted that PSD did not file statutorily required reports for non-general funds totaling approximately $2.96 million and administratively created non-general funds totaling approximately $6.55 million. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds.

We noted that PSD did not file statutorily required reports for non-general funds totaling approximately $2.96 million and administratively created non-general funds totaling approximately $6.55 million. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds.

PSD agreed with our conclusion about its reporting shortfall and reported it had taken corrective action. However, PSD disagreed with our determination that one account and one special fund did not meet criteria for each respective type of fund, stating it "prefers" to maintain the current classifications of both. However, the department did not provide analysis or other information to support the current classifications and we maintain that the funds should be reclassified according to how they are used.

PHOTO: ISTOCK.COM

Study of Proposed Mandatory Health Insurance Coverage for Early Access Breast Cancer Screening

Report No. 23-03, February 2023

We assessed the social and financial impacts of mandating insurance coverage for early access breast cancer screening as proposed in Senate Bill No. 827, Senate Draft 2 (S.B. No. 827, S.D. 2), pursuant to Sections 23-51 and 23-52, Hawai'i Revised Statutes (HRS). Section 23-51, HRS, requires passage of a concurrent resolution requesting an impact assessment by the Auditor before any legislative measure mandating health insurance coverage for a specific health service, disease, or provider can be considered. The 2022 Legislature requested this assessment through House Concurrent Resolution No. 33, Senate Draft 1 (H.C.R. No.33, S.D. 1).

OUR ASSESSMENT focused on the proposal to mandate coverage for a baseline mammogram for average-risk women ages 35 to 39 – five years earlier than state law currently requires. Hawai'i Medical Services Association and Kaiser Permanente, the State's largest insurers, said the early access breast cancer screening proposed in the Senate bill is the only service not already covered under their current health insurance policies.

Several states have enacted laws requiring health insurers to provide baseline mammograms for average-risk women ages 35-39; however, screening for this population is not recommended by any of the major medical organizations we reviewed. The U.S. Preventative Services Task Force guidelines, referred to in both S.B. No. 827, S.D. 2, and H.C.R. No. 33, S.D. 1, recommend mammograms for average-risk women starting at age 50. The American College of Obstetricians and Gynecologists, the American Cancer Society, and the National Comprehensive Cancer Network recommend offering mammography screenings starting at age 40. Published studies and articles generally focus on women 40 and older.

We were unable to determine the level of demand for early access breast cancer screening and found little information on the impact of the proposed coverage on morbidity, mortality, and quality of care. Our surveys of six insurers found that, of the 375,023 women ages 35 and older in 2021, roughly 13 percent were ages 35-39. Health insurers project that mandating the coverage as proposed in the legislation would lead to small increases in total healthcare costs and insurance premiums. If enacted, the required coverage would be a new mandate requiring the State to defray the costs of the additional benefits. In 2021, there were 22,903 Hawai'i residents enrolled in private individual market plans through the State's health insurance marketplace; the number of average-risk women ages 35 to 39 is likely only a relatively small fraction of the total enrollment.

PHOTO: GOOGLE EARTH

Audit of the Office of Hawaiian Affairs

Report No. 23-04, March 2023

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

WE EXAMINED certain OHA activities related to its commercial properties and legacy lands, analyzing OHA's process for identifying and selecting commercial properties to acquire; its development of those properties, including its Kaka'ako Makai lands; and the agency's oversight and management of its legacy lands, which include the Kūkaniloko birthing stones and other culturally and historically significant sites.

We found OHA has not fully developed its Commercial Property and Legacy Land programs, neglecting to establish and adopt foundational strategies and policies to guide its real estate activities. OHA identified the need for real estate "guiding principles" in 2007, yet had no real estate policies, plans, or long-term strategies in place five years later when it became a commercial landowner upon accepting 30 acres of Kaka'ako Makai lands in a 2012 settlement with the State.

Since 2012, OHA has paid three teams of consultants millions of dollars to develop a master plan for the area, efforts that have yielded little more than a campaign to rebrand the property as Hakuone in 2023. Meanwhile, OHA has continued to operate without formal guidance for managing its existing real estate or developing criteria to evaluate potential acquisitions and compare them to other investment opportunities. Nevertheless, in October 2021, OHA purchased two commercial properties for $47 million: 500 N. Nimitz Highway and a partial interest in the adjacent Iwilei Business Center – both close to OHA's headquarters.

The need and importance of official real estate strategies and policies is no longer theoretical as OHA moves to develop these properties. And, if another property "falls into OHA's lap," as OHA described its purchase of the 500 N. Nimitz Highway and Iwilei Business Center properties, OHA needs policies to minimize its risk and to ensure that trustees are fulfilling their fiduciary and statutory duties.

OHA has stated that income from its commercial properties will help maintain the culturally and historically significant lands under its Legacy Land Program. However, we found lax management and oversight have created substantial and unnecessary risk that community stewards will use these cultural jewels in ways that are inconsistent with OHA's intent as well as liability to OHA, and ultimately its beneficiaries.

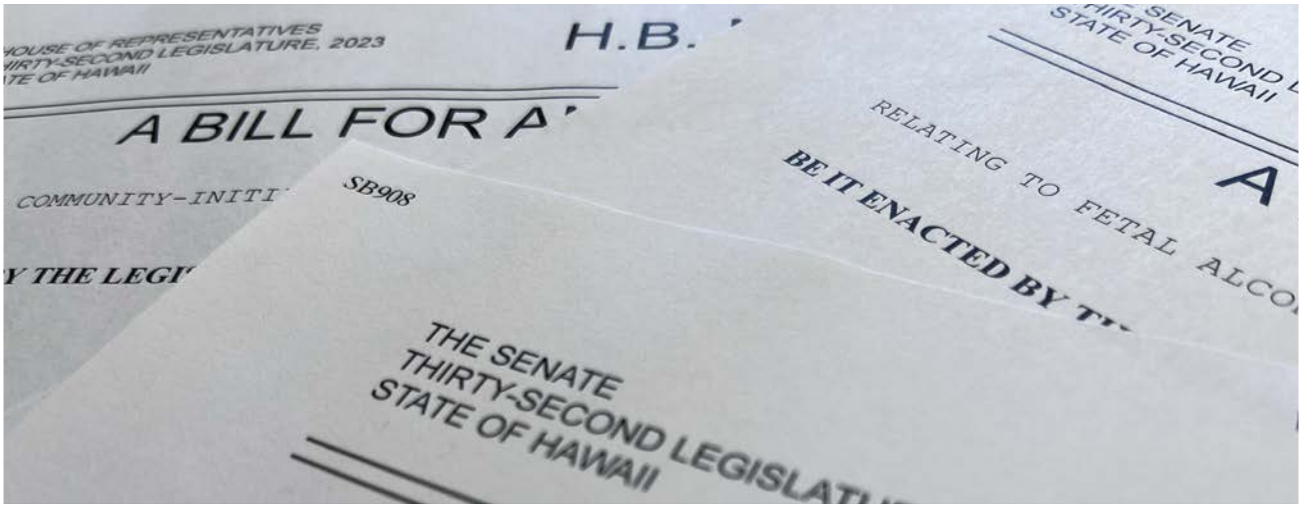


PHOTO: OFFICE OF THE AUDITOR

Analyses of Proposed Special and Revolving Funds 2023

Report No. 23-05, March 2023

This report compiles our analyses of new special and revolving funds proposed by 2023 legislative bills. The analyses were prepared in accordance with Section 23-11, Hawai'i Revised Statutes (HRS), which requires the Auditor to analyze all legislative bills introduced each session that propose to establish new special or revolving funds.

WE REVIEWED 96 Senate and House bills introduced during the 2023 legislative session proposing 84 new special and revolving funds. None of the bills met criteria for establishing a new fund.

Only about half the money the State spends each year comes from its main financial account, the General Fund, representing a sharp decline from the late 1980s when the General Fund made up about two-thirds of state operating budget outlays. Today, half of the State's expenditures are financed by special, revolving, federal, and trust funds, which hold moneys outside of the General Fund for a specified object or purpose. Between 2008 and 2012, the number of non-general funds and the amount of money contained in them substantially increased, eroding the Legislature's ability to control the State budget through the general fund appropriation process. Further hampering the Legislature's control over the budget process was a 2008 court case. In *Hawai'i Insurers Council v. Linda Lingle, Governor of the State of Hawai'i*, the Hawai'i Supreme Court determined that under only certain conditions could the Legislature "raid" special funds to balance the State budget.

In 2013, the Legislature amended Section 23-11, HRS, after the Auditor recommended changes to stem a trend in the proliferation of special and revolving funds over the past 30 years, such as building new safeguards into the criteria for establishing special funds. For this report, we applied the criteria required by Section 23-11, HRS, to review 96 Senate and House bills introduced during the 2023 legislative session that proposed 84 new special and revolving funds. We determined that none of the proposed special and revolving funds satisfied the criteria established by the Legislature.

For this report, we applied the criteria required by Section 23-11, HRS, to review 96 Senate and House bills introduced during the 2023 legislative session that proposed 84 new special and revolving funds. We determined that none of the proposed special and revolving funds satisfied the criteria established by the Legislature.

PHOTO: OFFICE OF THE AUDITOR

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Labor and Industrial Relations

Report No. 23-06, April 2023

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds, once every five years. Although not mandated by statute, we include trust accounts as part of our review. This is our sixth review of Department of Labor and Industrial Relations' (DLIR) revolving funds, trust funds, and trust accounts. It is our second review of the special funds held by DLIR since Act 130, Session Laws of Hawai'i 2013, amended Section 23-12, HRS, to require review of special funds along with revolving funds and trust funds.

WE REVIEWED six special funds, two revolving funds, four trust funds, and six trust accounts held by DLIR and found two special funds, one revolving fund, and trust funds did not meet criteria for those types of funds and should be closed or reclassified.

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

We noted, and DLIR concurred, that the department did not file statutorily required reports for non-general funds totaling approximately $14.53 million and administratively created non-general funds totaling approximately $17.23 million. DLIR represented that it will appropriate action to reclassify the funds, as the report recommended, and will ensure compliance with all statutory reporting requirements. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds.

We noted, and DLIR concurred, that the department did not file statutorily required reports for non-general funds totaling approximately $14.53 million and administratively created non-general funds totaling approximately $17.23 million.

PHOTO: ISTOCK.COM

Financial and Program Audit of the Department of Health's Deposit Beverage Container Program, June 30, 2022

Report No. 23-07, June 2023

Section 342G-17, Hawai'i Revised Statutes (HRS), requires the Office of the Auditor to conduct a management and financial audit of the Department of Health's (DOH) Deposit Beverage Container Program (Program) in fiscal years ending in even-numbered years. We contracted KMH LLP, a certified public accounting firm, to conduct this financial and program audit for the fiscal year ended June 30, 2022.

OUR PREVIOUS REPORTS to the Legislature repeatedly raised concerns that DOH's reliance on self-reported information from beverage distributors and redemption centers increases the risk of fraud. In 2022, the Legislature passed Act 12, Session Laws of Hawai'i, to compel DOH to develop and implement procedures to verify the accuracy and completeness of data reported by beverage distributors and redemption centers as recommended in the Office of the Auditor's biennial reports.

Act 12 became law just months after we issued our last audit of the Program, too soon to realistically expect DOH to have implemented significant and meaningful changes in place for us to audit. Instead, we asked the department to provide an update on steps it has taken to improve the Program and implement the 2021 audit recommendations. We did not provide commentary on the updates DOH provided, which included excerpts from various action plans and additional status updates. For instance, the department reported it was filling vacant positions, including actively recruiting an inspector to increase the frequency of redemption center inspections. DOH also said it changed redemption center application procedures to require operational plans that incorporate fraud prevention procedures and improve accuracy.

Act 12 did not affect the financial audit portion of this report. For the fiscal year ended June 30, 2022, the Deposit Beverage Container Deposit Special Fund (Fund) reported total revenues of $32.97 million and total expenditures of $27.71 million, resulting in a change in fund balance of $5.26 million. As of June 30, 2022, total assets were $63.15 million and total liabilities were $6.07 million. The Fund received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, the auditors identified a significant deficiency in internal control that merits attention by those charged with governance.

The significant deficiency is reported on page 24 of the report.

PHOTO: ISTOCK.COM

Follow-Up on Recommendations from Report No. 18-18, *Audit of the Office of Health Care Assurance's Adult Residential Care Home Program*

Report No. 23-08, November 2023

Section 23-7.5, Hawai'i Revised Statutes (HRS), requires the Auditor to report to the Legislature annually on each audit recommendation more than one year old that has not been implemented by the audited department or agency. This report presents the results of our review of nine recommendations made to the Office of Health Care Assurance (OHCA) in Report No. 18-18, Audit of the Office of Health Care Assurance's Adult Residential Care Home Program*, which was published in November 2018.*

IN REPORT NO. 18-18, we examined the Office of Health Care Assurance's (OHCA) process for relicensing adult residential care homes (ARCHs) and expanded adult residential care homes (E-ARCHs), which provide residents with a higher level of care. We found OHCA relicensed ARCHs and E-ARCHs without first completing the relicensing process, substituted less rigorous unannounced visits for required annual relicensing inspections, and in some cases issued licenses without inspecting or visiting the facility, as required by law. About half of the 214 care homes we sampled were allowed to operate with expired licensed or licenses that had been reissued before the relicensing process was completed. We further found OHCA had no written guidelines for enforcement if facilities did not or would not comply with quality of care standards, including guidance on how many deficiencies in quality of control standards would disqualify a home from license renewal. The audit reported OHCA did not sanction or fine a single home from 2007 to 2017, even if homes had substantial or repeated deficiencies; the agency's primary objective appeared to support the continued operations of care homes, rather than ensuring the health, safety, and welfare of the facilities' residents.

Of the nine recommendations made in the 2018 audit, we found OHCA has implemented three recommendations, partially implemented four recommendations, did not implement one recommendation, and a recommendation that was not implemented is no longer relevant. Since our audit, OHCA has instituted specific policies and procedures related to inspections, unannounced visits, enforcement, and the online posting of inspection reports. OHCA also completed initial phases of its centralized data management system.

PHOTO: OFFICE OF THE AUDITOR

Report on the Implementation of State Auditor's Recommendations 2018 – 2021

Report No. 23-09, November 2023

This report summarizes follow-up reviews of state departments and agencies' implementation of audit recommendations contained in audits issued in calendar years 2018–2021. We conducted the follow-ups pursuant to Section 23-7.5, Hawai'i Revised Statutes, which requires the Auditor to report to the Legislature on each recommendation that the Auditor has made that is more than one year old and that has not been implemented by the audited agency.

EVERY YEAR, we follow up on recommendations made in our audit reports. One year after we issue an audit, we begin asking agencies to provide us with the implementation status of our recommendations. After two or three years, we conduct a more rigorous follow-up review. Those reviews, which we refer to as "active reviews," include interviewing selected personnel from the agency and examining the agency's relevant policies, procedures, records, and documents to assess whether action on recommendations has been taken. Our efforts are limited to reviewing and reporting on an agency's implementation of recommendations made in the original audit report. We do not explore new issues or revisit issues from the report unrelated to our original recommendations.

From 2018 to 2021, we made 202 audit recommendations. Based on information self-reported by the agencies and information from active reviews, 148 of those recommendations have been partially or fully implemented.

We based our scope and methodology on guidelines published by the United States Government Accountability Office (GAO) – formerly the General Accounting Office – including *How to Get Action on Audit Recommendations* and *Government Auditing Standards*, as well as on Hawai'i Revised Statutes, Section 23-7.5.

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

PHOTO: ISTOCK.COM

Study of Proposed Mandatory Health Insurance Coverage for Various Sexual and Reproductive Health Care Services

Report No. 23-10, November 2023

We assessed the social and financial impacts of mandating insurance coverage for sexual and reproductive health care services as proposed in House Bill No. 1179 (2023 Regular Session), pursuant to Sections 23-51 and 23-52, Hawai'i Revised Statutes (HRS). Section 23-51, HRS, requires passage of a concurrent resolution requesting an impact assessment by the Auditor before any legislative measure mandating health insurance coverage for a specific health service, disease, or provider can be considered. The 2023 Legislature requested this assessment through Senate Concurrent Resolution No. 18, Senate Draft 1, House Draft 1.

CONCERNS ABOUT the federal government's efforts to restrict and repeal the Patient Protection and Affordable Care Act (ACA) and limit access to sexual and reproductive care led the Legislature to consider ensuring "comprehensive coverage for sexual and reproductive health care services, including family planning and abortion, for all people in Hawai'i" during the 2023 session.

Our assessment, based on surveys with major health insurers and independent research into the ACA and Hawai'i's Prepaid Health Care Act, Chapter 393, HRS, found there would be little-to-no social or financial impact should House Bill No. 1179 be enacted. With the exception of a relatively small number of "grandfathered" plans, nearly all of the services, drugs, devices, products, and procedures that would be mandated are already covered by Hawai'i health insurance plans, including those plans available under the ACA.

We note, however, that some plans require cost-sharing by their members in the form of copayments or deductibles for certain treatments, such as family planning and abortion care. House Bill No. 1179 would prohibit an insurer from imposing any cost-sharing requirements for those sexual and reproductive health care services, including copayments, coinsurance, or deductibles. While eliminating the cost-sharing these policies may require could increase insurers' costs, we believe those costs are relatively insignificant to insurers' total costs and any financial impact, if any, will likewise be immaterial.

Our assessment, based on surveys with major health insurers and independent research into the ACA and Hawai'i's Prepaid Health Care Act, Chapter 393, HRS, found there would be little-to-no social or financial impact should House Bill No. 1179 be enacted.

PHOTO: ISTOCK.COM

Study of Proposed Mandatory Health Insurance Coverage for Standard Fertility Preservation Services

Report No. 23-11, November 2023

We assessed the social and financial impacts of mandating insurance coverage for standard fertility preservation services as proposed in Senate Bill No. 1446 (2023 Regular Session), pursuant to Sections 23-51 and 23-52, Hawai‘i Revised Statutes (HRS). Section 23-51, HRS, requires passage of a concurrent resolution requesting an impact assessment by the Auditor before any legislative measure mandating health insurance coverage for a specific health service, disease, or provider can be considered. The 2023 Legislature requested this assessment through House Concurrent Resolution No. 96.

DURING THE 2023 LEGISLATIVE SESSION, lawmakers contemplating mandating insurance coverage for standard fertility preservation services for health insurance policyholders and individuals under 26 years of age who undergo medically necessary treatment that may directly or indirectly cause infertility. House Concurrent Resolution No. 96 further requested the Auditor to assess "the necessity of extending the mandatory health insurance coverage for fertility preservation procedures for the spouse or partner of an insured person who has been diagnosed with cancer or whose cancer treatment may adversely affect the insured person's fertility, to allow the insured person to have a child in the future, and the social and financial effects of extending the mandatory coverage to such spouses or partners."

We had to make numerous and significant assumptions about the Legislature's intent in order to resolve certain ambiguities in both the bill and the concurrent resolution. Among the assumptions we had to make was that any cancer-related medical treatment with a likely side effect of infertility would be covered under the proposed coverage. We also had to assume that coverage would not include the cost of storing cryopreserved material and that coverage had no maximum age for the policyholder. Additionally, Senate Bill No. 1446 specifically excludes a policyholder's spouse from coverage for standard fertility preservation services as defined by Senate Bill No. 1446 if that spouse is aged 26 years or older.

We suggested that if the bill is considered during the upcoming legislative session, the Legislature should consider clarifying those parts of the bill to help insurers as well as the public better understand who, when, and what is covered by the mandate.

PHOTO: ISTOCK.COM

Proposed Mandatory Health Insurance Coverage for Pharmacist Services

Report No. 23-12, November 2023

We assessed the social and financial impacts of mandating insurance coverage for pharmacist services as proposed in Senate Bill No. 165 (2023 Regular Session), pursuant to Sections 23-51 and 23-52, Hawai'i Revised Statutes (HRS). Section 23-51, HRS, requires passage of a concurrent resolution requesting an impact assessment by the Auditor before any legislative measure mandating health insurance coverage for a specific health service, disease, or provider can be considered. The 2023 Legislature requested this assessment through House Concurrent Resolution No. 17, Senate Draft 1, House Draft 1.

DURING THE 2023 LEGISLATIVE SESSION, lawmakers contemplated mandating insurance coverage for pharmacist services due to concerns about a statewide physician shortage. Senate Bill No. 165 notes that pharmacists do more than simply dispense medication, they are skilled at educating patients about checking their blood sugar and ways to avoid and manage hypoglycemia and providing patients with information on how to take medication correctly and various medication utilization techniques.

However, because insurers are not required to provide coverage for services performed by any pharmacists, the proposed coverage is not mandatory, and our office could not perform an assessment of the potential impacts. Our assessment of the impact of the proposed mandatory coverage under the federal Patient Protection and Affordable Care Act (ACA) found policies offered under the ACA currently include coverage for the services proposed in the bill, and likely will not require the State to defray costs if the measure is enacted.

Our assessment of the impact of the proposed mandatory coverage under the federal Patient Protection and Affordable Care Act (ACA) found policies offered under the ACA currently include coverage for the services proposed in the bill, and likely will not require the State to defray costs if the measure is enacted.

PHOTO: DEPARTMENT OF AGRICULTURE

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

Report No. 23-13, December 2023

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds are reviewed once every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our seventh review of the Department of Agriculture's (HDOA) revolving funds, trust funds, and trust accounts. It is our third review of the special funds held by HDOA since Act 130, Session Laws of Hawai'i 2013, amended Section 23-12, HRS, to require review of special funds along with revolving funds and trust funds.

OUR REVIEW of fourteen special funds, seven revolving funds, six trust funds, and six trust accounts of HDOA found five special funds, two revolving funds, and two trust funds did not meet the criteria for special funds, revolving funds, and trust funds, respectively, and should be closed or reclassified.

We noted that HDOA did not file statutorily required reports for non-general funds totaling approximately $1.3 million, administratively created non-general funds totaling approximately $394,000, non-general funds with balances totaling approximately $1.8 million under the program measures reporting requirement, and non-general funds with balances totaling approximately $1.4 million under the cost element reporting requirement. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds.

HDOA concurred with our findings and stated it will ensure compliance with all statutory reporting requirements but noted that certain special and revolving funds that did not meet criteria have clear nexus between fund revenues and the supported programs. However, we maintain our assessment that these funds do not meet criteria because the program they support can be supported through the general fund appropriation process.

We noted that HDOA did not file statutorily required reports for non-general funds totaling approximately $1.3 million, administratively created non-general funds totaling approximately $394,000, non-general funds with balances totaling approximately $1.8 million under the program measures reporting requirement, and non-general funds with balances totaling approximately $1.4 million under the cost element reporting requirement.

PHOTO: ISTOCK.COM

Review of General Excise and Use Tax Provisions Pursuant to Section 23-75, Hawai‘i Revised Statutes

Report No. 23-14, December 2023

Section 23-71 et seq., Hawai‘i Revised Statutes (HRS), requires the Auditor to review Hawai‘i's General Excise Tax (GET) and Use Tax provisions annually, on a 10-year recurring cycle. This report assesses seven exemptions and one exclusion under GET and Use Tax laws.

IN FISCAL YEAR 2022, which ended June 30, 2022, GET and Use Tax revenues accounted for $4 billion, or nearly 38 percent of the State's total tax revenue from all sources. Our review of the tax provisions listed below determined one Use Tax exclusion and three GET exemptions were meeting their stated or inferred purposes, and one GET exemption was not meeting its purpose.

- GET exemption for the loading, transportation, and unloading of agricultural commodities shipped for a producer or produce dealer on one island to a person, firm or organization on another island, Section 237-24.3(1), HRS;
- GET exemption for the loading or unloading of cargo from ships, barges, vessels, or aircraft, including stevedoring services, Section 237-24.3(3)(A), HRS;
- GET exemption for tugboat services, including pilotage fees and fees from the towage of ships, barges, or vessels in and out of state harbors, or from one pier to another, Section 237-24.3(3)(B), HRS;
- GET exemption for the transportation of pilots or governmental officials to offshore vessels; rigging gear; checking freight; standby charges; and use and running of mooring lines, Section 237-24.3(3)(C), HRS;
- Use Tax exclusion for imported oceangoing vehicles used for the interisland public transportation of passengers, Section 238-1, paragraph 7 of "use" definition, HRS;
- Use Tax exemption for imported alcohol and tobacco to be consumed outside Hawai‘i by vessel and airline passengers and crew, Section 238-3(g), HRS;
- Use Tax exemption for imported vessels constructed before July 1, 1969, under the Fisheries New Vessel Construction Loan Program, Section 238-3(h), HRS; and
- GET exemption for shipbuilding and ship repairs rendered to surface vessels federally owned or engaged in interstate or international trade, Section 237-28.1, HRS.

As we explain in the report, making conclusions as to whether purposes are being met is challenging when amounts claimed are not tracked or where no benchmarks or metrics are statutorily set forth to assess whether a provision is achieving its intended purpose.

ILLUSTRATION: ISTOCK.COM

Review of Income Tax Provisions Pursuant to Section 23-94, Hawai‘i Revised Statutes

Report No. 23-15, December 2023

Section 23-91 et seq., Hawai‘i Revised Statutes (HRS), requires the Auditor to review income tax provisions annually, on a five-year recurring cycle. This report assesses eight credits and two exclusions allowable under Hawai‘i's Income Tax laws.

WE REVIEWED ten income tax provisions and determined six accomplish their purposes and one does not. We were unable to determine whether the remaining three provisions achieved the primary purposes for which they were adopted, due to challenges such as a lack of data regarding utilization, an absence of claim tracking, and no statutorily identified benchmarks or metrics in the underlying bills and their legislative histories.

This report reviews the following tax provisions:

- Exclusion of intangible income of trusts with nonresident beneficiaries, Section 235-4.5(a), HRS;
- Exclusion of intangible income of foreign corporations owned by such trusts, Section 235-4.5(b), HRS;
- Credit for taxes paid to another jurisdiction by trusts, Section 235-4.5(c), HRS;
- Credit for taxes paid to another jurisdiction by S corporations, Section 235-129(a), HRS;
- Credit to S corporation shareholders for credits earned by S corporations, Section 235-129(b), HRS;
- Credit for taxes paid to another jurisdiction by individuals, Section 235-55, HRS;
- Credit to shareholders for taxes on undistributed capital gains of regulated investment companies, Section 235-71(c), HRS;
- Credit for commercial fisher fuel taxes, Section 235-110.6, HRS;
- Credit for costs of maintaining Important Agricultural Lands, Section 235-110.93, HRS; and
- Credit for qualified businesses in Enterprise Zones, Section 209E-10, HRS.

We recommend that other state agencies be tasked with performing cost-benefit analyses of the commercial fisher fuel tax credit (Section 235-110.6, HRS) and the Enterprise Zone credit (Section 209E-10, HRS). While independent, objective, and well-suited to conduct performance audits and studies on the effectiveness of agency operations, we do not have ready access to the specialized economic data and other resources necessary to conduct a thorough cost-benefit analysis of either credit.


PHOTO: DEPARTMENT OF DEFENSE

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

Report No. 23-16, December 2023

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds are reviewed once every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our third review of the Department of Defense's (DOD) revolving funds, trust funds, and trust accounts. It is our third review of the special funds held by DOD since Act 130, Session Laws of Hawai'i 2013, amended Section 23-12, HRS, to require review of special funds along with revolving funds and trust funds.

OUR REVIEW of one special fund, one revolving fund, five trust funds, and three trust accounts of DOD found one special fund did not meet the criteria for a special fund and should be closed or reclassified.

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

We noted that DOD did not file statutorily required reports for non-general funds totaling approximately $875,000, administratively created non-general funds totaling approximately $12.6 million, and non-general funds with balances totaling approximately $13.5 million under the cost element and program measures reporting requirements. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds.

We noted that DOD did not file statutorily required reports for non-general funds totaling approximately $875,000, administratively created non-general funds totaling approximately $12.6 million, and non-general funds with balances totaling approximately $13.5 million under the cost element and program measures reporting requirements.

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

PHOTO: OFFICE OF THE AUDITOR

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

Report No. 23-17, December 2023

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds are reviewed once every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our seventh review of the Department of Accounting and General Services' (DAGS) revolving funds, trust funds, and trust accounts. It is our third review of the special funds held by DAGS since Act 130, Session Laws of Hawai'i 2013, amended Section 23-12, HRS, to require review of special funds along with revolving funds and trust funds.

OUR REVIEW of seven special funds, five revolving funds, nine trust funds, and twelve trust accounts held by DAGS found one revolving fund, one trust fund, and five trust accounts did not meet the criteria for revolving funds, trust funds, and trust accounts, respectively, and should be closed or reclassified.

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

We noted DAGS did not file statutorily required reports for administratively created non-general funds totaling approximately $118,000, non-general funds with balances totaling approximately $3.96 million under the program measures reporting requirement, and non-general funds with balances totaling approximately $5.4 million under the cost element reporting requirement. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds.

DAGS concurred with most of our findings and stated that it will ensure compliance with all statutory reporting requirements. However, DAGS noted that the revolving fund that did not meet criteria did not have a General Fund appropriation for FY2024 deposited into the fund. DAGS noted the trust fund that did not meet criteria was established as a trust fund by statute and would not be financially self-sustaining if the fund classification changed. We maintain our assessment that these funds do not meet criteria for those types of funds established by the Legislature. The program the revolving fund supports can be supported by the general fund appropriation process and the revenue stream for the trust fund does not meet the definition of a trust fund.

Summary of Financial Audits

July 1, 2022 to December 31, 2023

Summary of 2023 Financial Audits

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

The following summary includes financial audits completed after July 1, 2022. To give the reader a "bigger picture" of the State's financial position, we present statewide summaries first; summaries of financial statements for departments and any programs or agencies associated with that department follow.

STATEWIDE AUDITS

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

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

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

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

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

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

Single Audit of Federal Financial Assistance Programs of the State of Hawai‘i Financial Statements, Fiscal Year Ended June 30, 2022

Each year, the federal government provides over $400 billion dollars in grants to state and local governments. Single audits provide assurance to the federal government that state agencies and programs receiving federal funds are expending those funds properly and in accordance with federal requirements. This report included the total federal expenditures and findings for the following departments: Labor and Industrial Relations; Budget and Finance; Commerce and Consumer Affairs; Public Safety; Agriculture; Accounting and General Services; Business; Economic Development and Tourism; Land and Natural Resources; and Defense; and the Office of the Governor. Federal expenditures for these departments totaled approximately $2.51 billion dollars, a decrease of $2.61 billion over FY2021. Federal expenditures and findings for other departments, including the Department of Health and Department of Transportation, are reported in individual single audit reports.

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

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

DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

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

The Stadium Authority (Authority) is responsible for the operation, management, and maintenance of Aloha Stadium, located in Honolulu, Hawai‘i. For administrative purposes, the Authority is placed within the State of Hawai‘i's Department of Accounting and General Services. Effective July 1, 2022, the Authority is placed within the State of Hawai‘i's Department of Business, Economic Development and Tourism for administrative purposes.

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

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

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

DEPARTMENT OF THE ATTORNEY GENERAL

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

The Department of the Attorney General (AG) administers and renders legal services, including furnishing written legal opinions to the Governor, State Legislature, and the heads of state departments and offices as the Governor may direct; represents the State in all civil actions in which the State is a party; and approves as to legality and form all documents relating to the acquisition of any land or interest in the State. AG's Child Support Enforcement Agency provides assistance to children by locating parents, establishing paternity and support obligations, and enforcing those obligations.

For the fiscal year ended June 30, 2021, AG reported total revenues of $106.3 million and total expenses of $106.7 million, resulting in a decrease in net position of approximately $453,000. Revenues include general revenues of $48.1 million, primarily state appropriations; program revenues consisting of charges for services of $25 million; and operating grants and contributions of $33.2 million. Expenses of $106.7 million consisted of $63.6 million for general administrative and legal services; $20.5 million for child support enforcement; $16 million for crime prevention and justice assistance; and $6.6 million for criminal justice data center activities.

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

DEPARTMENT OF BUDGET AND FINANCE

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

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

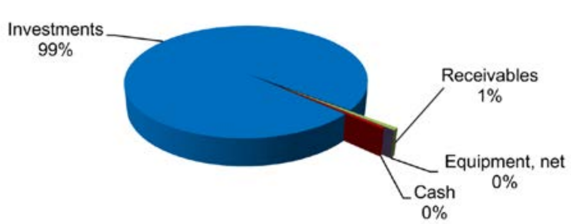
For the fiscal year ended June 30, 2021, ERS reported total net additions of approximately $6.24 billion. Additions consisted of $1.58 billion from contributions and $4.66 billion in net investment income. Total deductions of approximately $1.69 billion consisted of $1.65 billion for benefit payments;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

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

Financial Audit of the Employees' Retirement System of the State of Hawai'i Financial Statements, Fiscal Year Ended June 30, 2022

For the fiscal year ended June 30, 2022, ERS reported total net additions of approximately $1.7 billion. Additions consisted of $1.53 billion from contributions and $165 million in net investment income. Total deductions of approximately $1.78 billion consisted of $1.74 billion for benefit payments; $17 million for administrative expenses; and $24 million for refund of member contributions. As of June 30, 2022, assets totaled $22.73 billion and liabilities totaled $872 million, leaving a net position balance of $21.86 billion. Total assets included investments of $22.47 billion; receivables of $156 million; cash of $99 million; and net equipment of $5 million.

$22.73 Billion in Assets



SOURCE: OFFICE OF THE AUDITOR

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

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

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

The fund for active employee healthcare benefits

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

The OPEB Trust Fund[1]

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

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

held $6.35 billion in assets and $62.2 million in liabilities.

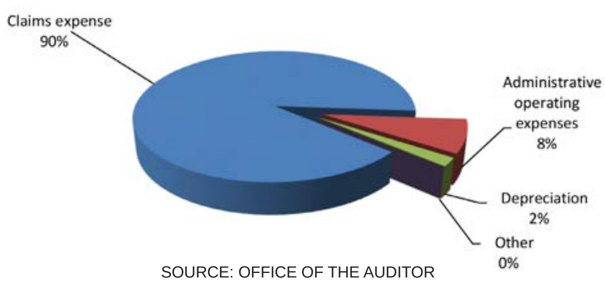
EUTF received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses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

Financial Audit of the Hawai‘i Employer-Union Health Benefits Trust Fund Financial Statements, Fiscal Year Ended June 30, 2023

The fund for active employee healthcare benefits

For the fiscal year ended June 30, 2023, revenues totaled $103.8 million and expenses totaled $104.2 million, resulting in a net loss of $400,000. Revenues consisted of premium revenue self-insurance of $105.1 million, experience refunds of -$11.6 million, and investment earnings and other revenues of $10.3 million. Expenses consisted of benefit claims expenses of $93.5 million, administrative operating expenses of $8.7 million, depreciation of $1.5 million, and other operating expenses of $500,000. Assets and deferred outflows of resources totaled $279 million and liabilities and deferred inflows of resources totaled $82 million, resulting in a net position of $197 million.

Enterprise Fund Expenses



SOURCE: OFFICE OF THE AUDITOR

The OPEB Trust Fund

For the fiscal year ended June 30, 2023, total additions of $1.43 billion, included $1.14 billion from employer contributions, $290 million from net investment earnings, and $1.5 million from other sources. Total deductions were $582.9 million, resulting in a change of fiduciary net position of $849.7 million. As of June 30, 2023, the OPEB Trust Fund net position balance totaled $7.14 billion. The OPEB Trust Fund held $7.26 billion in assets and $121.5 million in liabilities.

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

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM

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

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

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

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

Financial Audit of the Hawai‘i Community Development Authority Financial Statements, Fiscal Year Ended June 30, 2023

For the fiscal year ended June 30, 2023, HCDA reported total revenues of $12.3 million, total expenses of $6.4 million, and net transfers out of $18,000, resulting in an increase in net position of $5.9 million. Revenues consisted of leasing and management activities of $2.9 million, community redevelopment activities of $1.4 million, investment earnings of $800,000, net state appropriations of $1.3 million, and other revenue of $5.9 million. Total assets and deferred outflows of resources of $159.4 million exceeded total liabilities and deferred inflows of resources of $32.1 million resulting in a net position of $127.3 million. Of the net position balance of $127.3 million, $29.9 million is unrestricted and may be used to meet ongoing expenses, $100,000 is restricted for capital projects, and $97.3 million is invested in net capital assets. The agency reported total assets and deferred outflows of resources comprised of net capital assets of $97.9 million, cash of $32.2 million, and receivables, other assets, and deferred outflows of resources of $29.3 million.

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

Special-Purpose Financial Audit of the Hawai‘i Convention Center Financial Statements, Fiscal Year June 30, 2022

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

For the fiscal year ended June 30, 2022, the Center reported total revenues of $7.3 million, total expenses of $12.3 million, and $22.3 million in net contributions from the Hawai‘i Tourism Authority, which resulted in an increase in net assets of $17.25 million. Revenues consisted of $2.4 million from food and beverage; $2.4 million from rental income; $2.4 million from events; and $100,000 from other revenues. Expenses consisted of $5.2 million for personnel services; $3.5 million for building-related expenses; $1.2 million for cost of goods sold; and $2.4 million for other costs.

As of June 30, 2022, the Center's total assets of $42.3 million were comprised of cash of $12.5 million; amounts due from Hawai‘i Tourism Authority of $29.3 million; accounts receivable of $400,000; and other assets of $100,000. Total liabilities of $4.6 million were comprised of accounts payable of $1.8 million; amounts due to Hawai‘i Tourism Authority of $300,000; advance deposits of $2 million; and other liabilities of $500,000.

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

Financial and Compliance Audit of the Hawai‘i Housing Finance and Development Corporation Financial Statements, Fiscal Year Ended June 30, 2022

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

HHFDC has two types of funds – governmental funds and proprietary funds. HHFDC's governmental funds for the fiscal year ended June 30, 2022 include the General Fund, the General Obligation Bond Fund, the HOME Investment Partnership Program, the Housing Trust Fund Program, and the Homeowners Assistance Fund Program.

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

For the fiscal year ended June 30, 2022, HHFDC reported total program revenues of $72.4 million and total program expenses of $25.7 million. In addition, HHFDC reported state-allotted appropriations, net of lapses, of $65 million and a loss on disposal of capital assets of $6.4 million for the fiscal year ended June 30, 2022. Together with program revenues and expenses, this resulted in an overall increase in net position of $105.3 million. As of June 30, 2022, the agency reported total assets and deferred outflows of resources of $1.7 billion, comprised of cash of $650.2 million, investments of $22.2 million, notes and loans receivable of $800.4 million, moneys due from the state of $42.8 million, net capital assets of $94.3 million, and other assets and deferred outflows of resources of $108.7 million. The agency reported total liabilities and deferred inflows of resources of $109.1 million, comprised of revenue bonds payable of $4.3 million, unearned income of $20.9 million, estimated future costs of development of $29.6 million, moneys due to other state departments of $22.8 million, and other liabilities and deferred inflows of resources of $31.5 million.

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

Financial and Compliance Audit of Hawai‘i Tourism Authority Financial Statements, Fiscal Year Ended June 30, 2022

The Hawai‘i Tourism Authority (HTA) is responsible for developing and implementing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of its marketing plan and its progress toward achieving the agency's strategic plan goals. HTA is also responsible for the Hawai‘i Convention Center. The primary source of funding for HTA's operations is the Transient Accommodations Tax (TAT) collected by the State. HTA is governed by a board of directors comprised of 12 voting members, each of whom is appointed by the Governor. HTA is placed within the Department of Business, Economic Development and Tourism for administrative purposes.

For the fiscal year ended June 30, 2022, HTA reported total revenues of $36.4 million, along with $5 million in transfers from other state departments, and total expenses of $82.5 million. Revenues consisted of $18.6 million from federal grants, $11 million from TAT, $5.3 million from charges for services, and interest and other revenues of $1.5 million. Total expenses of $82.5 million consisted of $70.2 million for contracts, $8.6 million for depreciation, and $3.7 million for payroll, administrative, and other expenses.

Total assets and deferred outflows of resources of $340.8 million exceeded total liabilities and deferred inflows of resources of $80.1 million, resulting in a net position of $260.7 million. Total assets and deferred outflows of resources included cash of $116.7 million, land and net capital assets of $188 million, and other assets and deferred outflows of resources of $36.1 million.

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

Financial Audit of the Stadium Authority Financial Statements, Fiscal Year Ended June 30, 2023

The Stadium Authority (Authority) is responsible for the operation, management, and maintenance of Aloha Stadium, located in Honolulu, Hawai‘i. Effective July 1, 2022, the Authority is placed within the State of Hawai‘i's Department of Business, Economic Development and Tourism for administrative purposes.

For the fiscal year ended June 30, 2023, the Authority reported total revenues of $6.5 million and total expenses of $7.7 million, resulting in a net operating loss of $1.2 million. Revenues consisted of $5.8 million from rentals from attractions and $700,000 in parking fees and other revenues. The Authority's net loss was partially offset by $3.4 million in capital contributions, which represents the portion of Aloha Stadium capital improvement costs that were paid by the State of Hawai‘i. In addition, the Authority received net transfers of $300,000 resulting in an increase in net position of $2.5 million.

Expenses consisted of $200,000 for depreciation, $2.6 million for personnel services, $700,000 for utilities, and $3.3 million for initial direct costs for a public-private partnership. Additional expenses totaled $900,000 and included state central services assessments as well as security, professional services, repairs and maintenance, and other costs. As of June 30, 2023, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources, resulting in a net position of $12.8 million.

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

DEPARTMENT OF EDUCATION

Financial and Compliance Audit of the Department of Education Financial Statements, Fiscal Year Ended June 30, 2022

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

For the fiscal year ended June 30, 2022, DOE reported total revenues of $3.57 billion and total expenses of $3.28 billion, resulting in an increase in net position of $290 million. Total revenues of $3.57 billion consisted of $2.22 billion in state-allotted appropriations, net of lapsed funds, $727.4 million in non-imposed employee wages and fringe benefits, $551.2 million in operating grants and contributions, $2.2 million in capital grants and contributions, $45.3 million in charges for services, $25.2 million in lease financing, and $800,000 in other income. Total expenses of $3.28 billion consisted of $3.11 billion for school-related costs, $57.2 million for state and school complex area administration, $48.4 million for public libraries, and $73 million for capital outlay.

DOE received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOE also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no material weaknesses in internal controls over financial reporting that were required to be reported under *Government Auditing Standards*. However, the auditors identified a significant deficiency that is required to be reported under *Government Auditing Standards*. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*. However, the auditors identified instances of noncompliance which are required to be reported in accordance with the *Uniform Guidance*.

DEPARTMENT OF HAWAIIAN HOME LANDS

Financial and Compliance Audit of the Department of Hawaiian Home Lands Financial Statements, Fiscal Year Ended June 30, 2022

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

For the fiscal year ended June 30, 2022, DHHL's total revenues exceeded total expenses by $45.9 million. Revenues totaled $113.8 million and consisted of program revenue of $52 million and state appropriations, transfers, and adjustments of $61.8 million. Expenses totaled $67.9 million. Program revenues were comprised of interest income (approximately 11 percent), grants and contributions (36 percent), revenue from the general lease program (50 percent), and other sources (3 percent).

As of June 30, 2022, total assets of $1.31 billion exceeded total liabilities of $375 million, resulting in a net position balance of $932 million. Total assets included net capital assets of $470 million, cash of $432 million, loans receivable of $89 million, and other assets and deferred outflows of resources of $316 million. Loans receivable consisted of 1,295 loans made to native Hawaiian lessees for the purposes specified in the Hawaiian Homes Commission Act. Loans are for a maximum amount of approximately $453,000 and for a maximum term of 40 years. Interest rates on outstanding loans range up to 10 percent. Total liabilities included bonds and lease liabilities totaling $39 million and temporary deposits payable and other liabilities of $336 million.

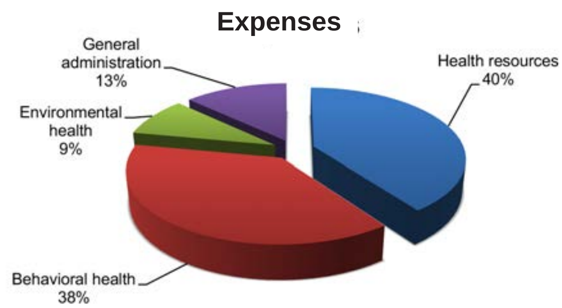
DHHL received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DHHL also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*.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

DEPARTMENT OF HEALTH

Financial and Compliance Audit of the Department of Health Financial Statements, Fiscal Year Ended June 30, 2022

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

For the fiscal year ended June 30, 2022, DOH reported total revenues of $1.01 billion and total expenses of $960.6 million, resulting in an increase in net position of $53 million. Revenues included $645.5 million from general revenues, $322.3 million from operating grants and contributions, and $45.8 million from service charges. Expenses included $381.8 million for health resources, $364.4 million for behavioral health, $85.2 million for environmental health, and $129.2 million for general administration.



SOURCE: OFFICE OF THE AUDITOR

DOH received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOH received an unmodified opinion on its compliance for all major federal programs, except for Block Grants for Community Mental Health Services, Rural Health Research Centers, Mental Health Disaster Assistance and Emergency Mental Health, and Substance Abuse and Mental Health Services, which received a qualified opinion in accordance with the *Uniform Guidance*. There were no material weaknesses in internal control over financial reporting that were required to be reported under *Government Auditing Standards*. However, the auditors identified two significant deficiencies that are required to be reported under *Government Auditing Standards*. There were six material weaknesses and one significant deficiency in internal control over compliance that are required to be reported in accordance with the *Uniform Guidance*.

Financial Audit of the Department of Health, Deposit Beverage Container Deposit Special Fund Financial Statements, Fiscal Year Ended June 30, 2022

For the fiscal year ended June 30, 2022, the Deposit Beverage Container Deposit Special Fund (Fund) reported total revenues of $32.97 million and total expenditures of $27.71 million, resulting in a change in fund balance of $5.26 million. Total revenues consisted of deposit beverage container fees of $10.21 million, unredeemed deposits of $22.52 million, and interest income and other of $245,000. Total expenditures consisted of handling and redemption fees of $26.15 million, operating expenditures of $1.54 million, and administrative expenditures of $30,000.

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

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

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

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

The Revolving Fund received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles, and an unqualified opinion on its compliance with the Drinking Water State Revolving Funds Program. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and no findings that were considered material weaknesses in internal control over compliance with the Program.

Financial and Compliance Audit of the Department of Health, Drinking Water Treatment Revolving Loan Fund Financial Statements, Fiscal Year Ended June 30, 2023

For the fiscal year ended June 30, 2023, the Revolving Fund reported total revenues of $28.9 million and total operating expenses of $7.5 million, resulting in a change in net position of $21.4 million. Total revenues consisted of administrative loan fees of $2.6 million, federal contributions of $20.5 million, state contributions of $4 million, and other income of $1.8 million. Total expenses consisted of administrative expenses of $1.4 million, state program management of $900,000, water protection of $400,000, and other expenses of $4.8 million. Total assets and deferred outflows of resources were $611.2 million and total liabilities and deferred inflows of resources were $8.2 million. Total assets were comprised of cash and cash equivalents of $91.9 million, loans receivable of $515.1 million, and other assets and deferred outflows of resources of $4.2 million

The Revolving Fund received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles, and an unqualified opinion on its compliance with the Drinking Water State Revolving Funds Program. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* and no findings that were considered material weaknesses in internal control over compliance with the Program.

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

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

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

The Revolving Fund received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles, and an unqualified opinion on its compliance with federal statutes, regulations, and terms and conditions of federal awards that apply to the Environmental Protection Agency Audit Guide for Clean Water and

Drinking Water State Revolving Fund Programs. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and no findings that were considered material weaknesses in internal control over compliance with the Program.

Financial and Compliance Audit of the Department of Health, Water Pollution Control Revolving Fund Financial Statements, Fiscal Year Ended June 30, 2023

For the fiscal year ended June 30, 2023, the Revolving Fund reported total revenues of $24.1 million and total operating expenses of $5 million, resulting in an increase in net position of $19.1 million. Total revenues consisted of administrative loan fees of $4 million, interest income of $1.4 million, state contributions of $3.9 million, federal contributions of $12.6 million, and other income of $2.2 million. Total expenses of $5 million consisted of administrative expenses of $3.4 million and other expenses of $1.6 million. Total assets and deferred outflows of resources were $611.2 million and total liabilities and deferred inflows of resources were $8.2 million. Total assets were comprised of cash and cash equivalents of $91.9 million, loans receivable of $515.1 million, and other assets and deferred outflows of resources of $4.2 million.

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

DEPARTMENT OF HUMAN SERVICES

Financial and Compliance Audit of the Department of Human Services Financial Statements, Fiscal Year Ended June 30, 2022

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

For the fiscal year ended June 30, 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.

As of June 30, 2022, DHS' total assets of $505 million included cash of $223 million, receivables of $203 million, and net capital assets of $79 million. Total liabilities of $377 million included vouchers payable of $10 million, accrued wages and employee benefits of $12 million, amounts due to the state General Fund of

$188 million, accrued medical assistance payable of $151 million, and accrued compensated absences of $16 million.

DHS received an unmodified opinion that its financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles. DHS received a qualified opinion on its compliance for all major federal programs, except for 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*. The auditors identified a material weakness in internal control over financial reporting that was required to be reported under *Government Auditing Standards*. There were 14 material weaknesses in internal control over compliance that were required to be reported in accordance with the *Uniform Guidance*. There were 2 significant deficiencies in internal control over compliance that were required to be reported in accordance with the *Uniform Guidance*.

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

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

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

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

Financial Audit of the Hawai‘i Public Housing Authority Financial Statements, Fiscal Year Ended June 30, 2023

For the fiscal year ended June 30, 2023, HPHA reported total revenues of $204.5 million and total expenses of $195.2 million, resulting in an increase in net position of $9.3 million. Total revenues of $204.5 million consisted of $29 million in charges for services and other revenues, $148.3 million in operating grants and contributions, $7.3 million in capital grants and contributions, $19.4 million in State allotted appropriations, net of lapsed funds, and $500,000 in other non-program revenue. Total expenses of $195.2 million consisted of $108 million for the rental housing assistance program, $73.3 million for the rental assistance program, $11.5 million for the housing development program, and $2.4 million for other costs.

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

DEPARTMENT OF TRANSPORTATION

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

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

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

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

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

Financial and Compliance Audit of the Department of Transportation, Administration Division Financial Statements, Fiscal Year Ended June 30, 2023

For the fiscal year ended June 30, 2023, DOT–Administration reported total revenues of $43.7 million, total expenses of $35.1 million, and net transfers of $8.8 million, resulting in a decrease in net position of $200,000. Revenues consisted of $24 million from assessments, $17.3 million from federal grants, and $2.4 million from other revenue sources. Total expenses of $35.1 million consisted of $9.8 million for operating grants and $25.3 million for administration.

Total assets of $51 million were comprised of cash of $21.4 million, accounts receivable of $23.4 million, and net capital assets of $6.2 million. Liabilities totaled $41 million, including a $1.4 million Aloha Tower Development Corporation note payable to the Harbors Division.

DOT–Administration received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

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

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

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

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

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

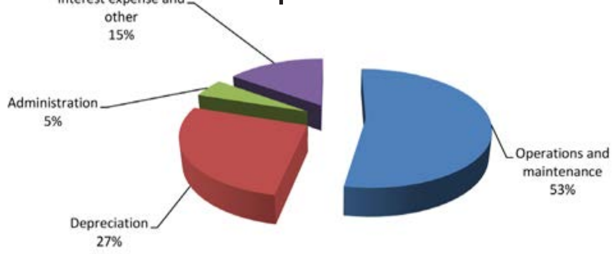
DOT–Airports received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. There were no reported deficiencies in internal control and no instances of noncompliance or other matters that required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

Financial Audit of the Department of Transportation, Airports Division Financial Statements, Fiscal Year Ended June 30, 2023

For the fiscal year ended June 30, 2023, DOT–Airports reported total revenues of $773.7 million and total expenses of $649.6 million, resulting in an increase in net position of $124.1 million. Revenues consisted of $183 million in concession fees, $98.2 million in landing fees, $197.4 million in rentals, $114.5 million in facility charges, $121.4 million in federal operating and capital grants, and $59.2 million in interest and other revenues. Total expenses of $649.6 million consisted of $332.7 million for operations and maintenance, $188.2 million in depreciation, $26.1 million for administration, and $102.6 million in interest and other expenses.

As of June 30, 2023, the department reported total assets and deferred outflows of resources of $6.25 billion, comprised of cash of $1.31 billion, investments of $232 million, net capital assets of $4.07 billion, and $638 million in receivables, other assets, and deferred outflows of resources. Total liabilities and deferred inflows of resources totaled $3.54 billion, which includes $1.9 billion in airports system revenue bonds, $157 million in lease revenue certificates of participation, $403 million in customer facility charge revenue bonds, and $1.09 billion in other liabilities and deferred inflows of resources.

Expenses



SOURCE: OFFICE OF THE AUDITOR

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

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

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

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

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

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

Financial Audit of the Department of Transportation, Harbors Division Financial Statements, Fiscal Year Ended June 30, 2023

For the fiscal year ended June 30, 2023, DOT–Harbors reported total revenues of $229.5 million, total expenses of $118.1 million, and capital contributions of $29,000 from federal grants restricted for capital asset acquisition and facility development, resulting in an increase in net position of $111.4 million. Total revenues consisted of $178.4 million in services, $36.1 million in leases, $12.5 million in interest income, and $2.5 million in other revenues. Total expenses consisted of $38.2 million in depreciation, $25.2 million in harbor operations, $11.2 million in interest, $28.3 million for personnel, and $15.2 million in administration and other costs.

The department reported total assets and deferred outflows of resources of $1.96 billion, comprised of cash and cash equivalents of $631.9 million, receivables of $84.4 million, net capital assets of $1.23 billion, and other assets and deferred outflows of resources of $21 million. Total liabilities and deferred inflows of resources totaled $604.8 million, comprised of $377.3 million in revenue bonds payable and related accrued interest payable, $11 million in general obligation bonds payable, $21.6 million in financed purchase obligation and related accrued interest payable, $5.2 million due to other State agencies, $27.6 million in accounts and contracts payable, and $162.1 billion in other liabilities and deferred inflows of resources.

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

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

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

For the fiscal year ended June 30, 2022, DOT–Highways reported total revenues of $568.2 million and total expenses of $573.7 million, resulting in a decrease in net position of $5.5 million. Revenues consisted of $243.3 million in tax collections; $259 million in grants and contributions primarily from the Federal Highway Administration; $56 million in charges for services; and $9.9 million in investment income and other revenues. Expenses consisted of $138.2 million for operations and maintenance; $209.3 million in depreciation; $207.6 million for administration and other expenses; and $18.6 million in interest.

Total assets and deferred outflows of resources of $5.52 billion were comprised of (1) cash and investments of $545.3 million; (2) net capital assets of $4.92 billion; and (3) $55.4 million in other assets and deferred outflows of resources. Total liabilities of $782.6 million included $608.9 million in revenue bonds and $173.7 million in other liabilities. DOT–Highways has numerous capital projects ongoing statewide; construction in progress totaled $302.5 million at the end of the fiscal year.

DOT–Highways received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOT–Highways also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There was one material weakness and one significant deficiency in internal controls over financial reporting that were required to be reported under *Government Auditing Standards*. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*. However, the auditors identified two significant deficiencies in internal control over compliance.

Financial and Compliance Audit of the Oʻahu Metropolitan Planning Organization Financial Statements, Fiscal Year Ended June 30, 2022

Federal highway and transit statutes require urbanized areas greater than 50,000 in population to designate a metropolitan planning organization as a condition for spending federal highway or transit funds. Oʻahu Metropolitan Planning Organization (OahuMPO) is the designated metropolitan planning organization for the island of Oʻahu. Federal Transit Administration Grants are made to OahuMPO through the Department of Transportation's Statewide Transportation Planning Office. The agency serves as the decision-making body responsible for carrying out continuing, comprehensive, and cooperative transportation planning and programming for the island of Oʻahu. For the fiscal year ended June 30, 2022, OahuMPO reported total revenues of approximately $3.8 million and total expenses of approximately $3.8 million, resulting in minimal change in net position. Revenues consisted of $2.9 million from federal grants and $889,000 in contributions from the State of Hawaiʻi and City and County of Honolulu. Total expenses consisted of $133,000 for transportation forecasting and long-range planning; $2.2 million for short-range transportation system and demand management planning; $12,000 for transportation monitoring and analysis; and $1.4 million for program coordination and administration.

OahuMPO received an unmodified opinion that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. OahuMPO received an unqualified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*. There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that are considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

Office of the Auditor Appropriations and Expenditures on a Budgetary Basis for the Fiscal Year Ended June 30, 2023

Appropriations

Act 2, SLH 2022 (Operations)	$3,213,380
Act 2, SLH 2022 (Special Studies)	150,000
Act 2, SLH 2022 (Audit Revolving Fund)	2,800,000
Act 2, SLH 2022 (Accrued Vacation Payments)	68,106
	$6,231,486

Expenditures

Staff salaries	$2,068,107
Vacation payments	1,742
Contractual services (operational)	31,057
Other expenses	147,725
Special studies	0
Contractual services (Audit Revolving Fund)	2,800,000
	5,048,631

Excess of Appropriation over Expenditures

Act 2, SLH 2022 (operations)	$966,491
Act 2, SLH 2022 (special studies)	150,000
Act 2, SLH 2022 (Audit Revolving Fund)	0
Act 2, SLH 2022 (Accrued Vacation Payments)	66,364
	$1,182,855

OFFICE OF THE AUDITOR
STATE OF HAWAIʻI

Kekūanāoʻa Building
465 S. King St., Room 500
Honolulu, Hawaiʻi 96813

Phone: (808) 587-0800
Fax: (808) 587-0830

E-mail: LAO.auditors@hawaii.gov
Website: https://auditor.hawaii.gov