

April 4, 2025

VIA EMAIL

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

VIA EMAIL

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

RE: Financial and Compliance Audit of the Department of Health

Dear President Kouchi and Speaker Nakamura:

The audit report on the financial statements and compliance of the Department of Health for the fiscal year ended June 30, 2024, was issued on March 28, 2025. The Office of the Auditor retained KMH LLP to perform the financial and compliance audit. For your information, we are attaching a copy of the three-page Auditor's Summary of the financial and compliance audit report.

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

https://files.hawaii.gov/auditor/Reports/2024_Audit/DOH2024.pdf; and

https://files.hawaii.gov/auditor/Reports/2024_Audit/DOH_Summary_2024.pdf.

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

Very truly yours,

A handwritten signature in blue ink, appearing to read "Leslie H. Kondo", is written over a light blue horizontal line.

Leslie H. Kondo
State Auditor

Attachment

cc/attach (Auditor's Summary only): Members of the Senate
Members of the House of Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

Auditor's Summary

Financial and Compliance Audit of the Department of Health

Financial Statements, Fiscal Year Ended June 30, 2024



PHOTO: OFFICE OF THE AUDITOR

THE PRIMARY PURPOSE of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Health, as of and for the fiscal year ended June 30, 2024, and to comply with Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by KMH LLP.

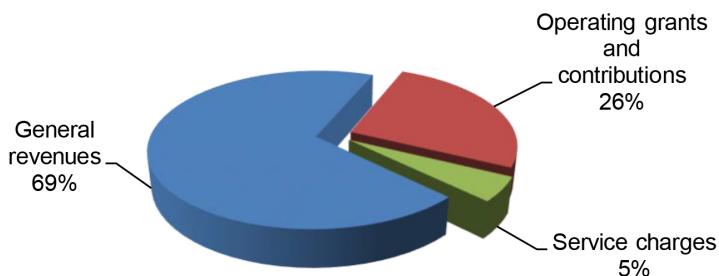
About the Department

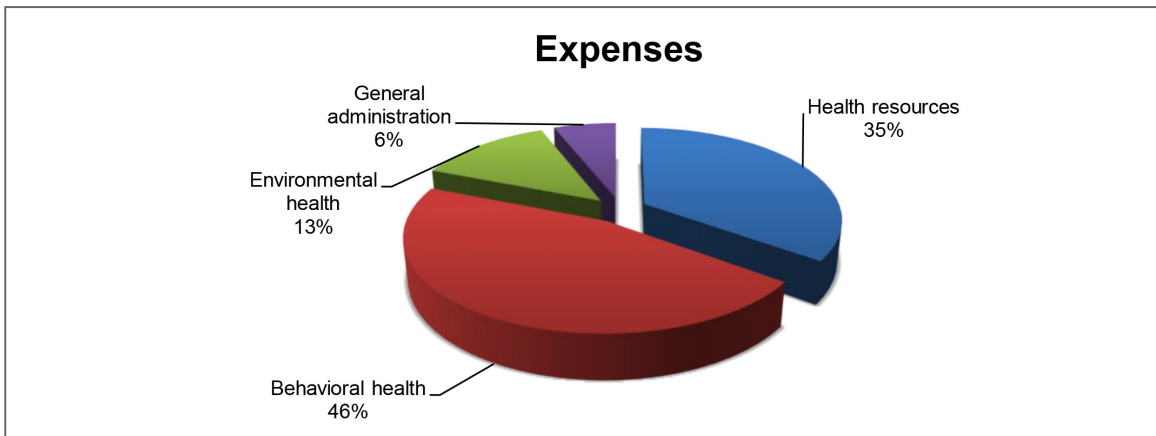
The mission of the Department of Health (DOH) is to protect and improve the health and environment for all people in Hawai'i. DOH administers and oversees statewide personal health services, health promotion and disease prevention, mental health programs, monitoring of the environment, and the enforcement of environmental health laws. It administers federal grants to support the State's health services and programs and is organized into four major administrations: Behavioral Health Services Administration, Health Resources Administration, Environmental Health Administration, and General Administration.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2024, DOH reported total revenues of \$1.04 billion and total expenses of \$1.01 billion, resulting in an increase in net position of \$29.1 million. Revenues included \$719 million from general revenues, \$274.3 million from operating grants and contributions, and \$48.6 million from service charges.

Sources of Revenues





Expenses included \$350 million for health resources, \$461.2 million for behavioral health, \$130.6 million for environmental health, and \$70.9 million for general administration.

As of June 30, 2024, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$1.48 billion. Total assets and deferred outflows of resources of \$1.73 billion included (1) cash of \$599 million, (2) receivables of \$97 million, (3) loans receivable of \$773 million, (4) accrued interest and loan fees of \$3 million, (5) deferred outflows of resources of \$2 million, and (6) net capital assets of \$257.5 million. Total liabilities and deferred inflows of resources totaled \$251 million. DOH's net position of \$1.48 billion is comprised of a restricted amount of \$976 million, of which \$904 million is for loans; an unrestricted amount of \$247 million; and net investment in capital assets of \$257.5 million.

Auditors' Opinions

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 Special Supplemental Nutrition Program for Women, Infants and Children; Substance Abuse and Mental Health Services Projects of Regional and National Significance; Opioid STR; Block Grants for Community Mental Health Services; and Block Grants for Prevention and Treatment of Substance Abuse, which received a qualified opinion in accordance with the *Uniform Guidance*.

Findings

THERE WAS ONE MATERIAL WEAKNESS and one significant deficiency in internal control over financial reporting that was required to be reported under *Government Auditing Standards*.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. The material weakness is described on page 101 of the report.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiency is described on pages 102-103 of the report.

There were six material weaknesses and one significant deficiency in internal control over compliance that were required to be reported in accordance with the *Uniform Guidance*. The material weaknesses are described on pages 106-118 of the report and the significant deficiency is described on pages 104-105 of the report.

A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



[Link to the complete report:](https://files.hawaii.gov/auditor/Reports/2024_Audit/DOH2024.pdf)

Financial and Compliance Audit

https://files.hawaii.gov/auditor/Reports/2024_Audit/DOH2024.pdf

**Department of Health
State of Hawaii**

Financial Statements
June 30, 2024
Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**



A Hawaii Limited Liability Partnership

March 28, 2025

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

Dear Mr. Kondo:

This is our report on the financial audit of the Department of Health, the State of Hawaii (the Department) as of and for the fiscal year ended June 30, 2024. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and Government Auditing Standards, Audits of States, Local Governments, and Non-Profit Organizations.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form opinions on the fairness of the presentation of the Department's basic financial statements as of and for the fiscal year ended June 30, 2024, and to comply with the requirements of the Uniform Guidance. The objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the Department's basic financial statements, including whether the schedule of expenditures of federal awards is fairly stated in relation to the financial statements.
2. To consider the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements.
3. To perform tests on the Department's compliance with laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D and 103F, Hawaii Revised Statutes), that could have a direct and material effect on the determination of financial statement amounts.
4. To consider the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinions on compliance and to test and report on internal control over compliance.
5. To provide a basis for opinions on the Department's compliance with applicable laws, regulations, contracts, and grants that could have a direct and material effect on each major federal program.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Uniform Guidance. The scope of our audit included an examination of the transactions and accounting records of the Department for the fiscal year ended June 30, 2024.

ORGANIZATION OF THE REPORT

This report is presented in six parts as follows:

- Part I – The basic financial statements and related notes to the financial statements of the Department as of and for the fiscal year ended June 30, 2024, and our opinion on the basic financial statements.
- Part II – Our report on internal control over financial reporting and on compliance and other matters.
- Part III – Our report on compliance for each major program and internal control over compliance.
- Part IV – The schedule of findings and questioned costs.
- Part V – The summary schedule of prior audit findings and corrective action plan as provided by the Department.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'James Y. Nakayama', with a stylized flourish at the end.

James Y. Nakayama
Principal

Table of Contents

	Page
PART I FINANCIAL SECTION	
Independent Auditor's Report	7 - 10
Management's Discussion and Analysis	11 - 22
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	23
Statement of Activities	24
Fund Financial Statements	
Balance Sheet - Governmental Funds	25
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	26
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	28
General Fund – Statement of Revenues and Expenditures – Budget and Actual	29
Special Revenue Funds – Statement of Revenues and Expenditures – Budget and Actual	30
Statement of Net Position - Proprietary Funds	31
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	32
Statement of Cash Flows - Proprietary Funds	33
Statement of Fiduciary Net Position – Private-Purpose Trust Fund	34
Statement of Changes in Fiduciary Net Position – Private-Purpose Trust Fund	35
Notes to Basic Financial Statements	36-80
Supplementary Information:	
Schedule of Expenditures of Federal Awards	82-86
Notes to the Schedule of Expenditures of Federal Awards	87

Table of Contents (continued)

	Page
PART II REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	88-90
PART III REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	91-96
PART IV SCHEDULE OF FINDINGS AND QUESTIONED COSTS	97-118
PART V SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN	119-128

PART I
FINANCIAL SECTION



A Hawaii Limited Liability Partnership

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Health, State of Hawaii (the Department), as of and for the fiscal year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2024, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparisons for each major fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position, and, where applicable, its cash flows and budgetary comparisons, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2024, the changes in financial position, or, where applicable, its cash flows and budgetary comparisons, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 11 through 22 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2025 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 28, 2025

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2024

This Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities and performance of the Department of Health, State of Hawaii (the Department) during the fiscal year that ended on June 30, 2024. Please read it in conjunction with the Department's financial statements and the related notes to the basic financial statements (which follow this section). The following is a brief description of the contents of those three sections:

Overview of the Basic Financial Statements

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

Government-Wide Financial Statements

The government-wide financial statements provide information about the Department's overall financial position and results of operations. These statements, which are presented on an accrual basis of accounting, consists of the statement of net position and the statement of activities.

The government-wide statements report information about the Department as a whole using accounting methods similar to those used by private sector companies. The statement of net position provides both short-term and long-term information about the Department's financial position, which assists in assessing the Department's economic condition at the end of the fiscal year. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The government-wide financial statements include two statements:

- The *Statement of Net Position* presents all of the Department's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as "net position." Over time, increases and decreases in the Department's net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.
- The *Statement of Activities* presents information showing how the Department's net position changed during the most recent fiscal year.

The government-wide financial statements of the Department are further divided into two categories:

- *Governmental activities* - The activities in this section are primarily supported by State of Hawaii appropriations, funds from the tobacco settlement, beverage container deposit administrative fees, federal grants, taxes, and other fees.
- *Business-type activities* - These functions normally are intended to recover all or a significant portion of their costs through user's fees and charges to external users. These activities include the Department's two revolving loan funds.

Department of Health

State of Hawaii

Management Discussion and Analysis
June 30, 2024

Fund Financial Statements

The fund financial statements include the Department's: (1) governmental funds, for which activities are funded primarily from appropriations from the State of Hawaii, beverage container deposit program collections, and federal grants and (2) proprietary funds, which consist of revolving loan funds and are reported similar to business activities. The governmental funds are presented on the modified accrual basis of accounting. The proprietary and fiduciary funds are presented on the accrual basis of accounting.

The fund financial statements provide more detailed information about the Department's most significant funds and not the Department as a whole. In these statements, the financial activities of the Department are recorded in individual funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds are reported as a major fund or a non-major (other) fund. The Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

The fund financial statements also include the budgetary comparison statements, which include reconciliations for the general fund and deposit beverage container deposit special fund, comparing the excess of revenues over expenditures presented on a budgetary basis to the excess (deficiency) of revenues over expenditures presented in conformity with U.S. generally accepted accounting principles (GAAP) as presented in the governmental fund financial statements.

To reiterate, the Department has three types of funds:

- *Governmental funds* - Governmental funds are used to account for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources as well as on the balances of expendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate comparison between governmental funds and governmental activities in the government-wide financial statements.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2024

- *Proprietary funds* - Proprietary funds are used to report activities that operate more like those of commercial enterprises. They are known as enterprise funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the government-wide financial statements. The Department uses enterprise funds to account for the operations of its two revolving loan funds each of which are considered to be major funds of the Department.
- *Fiduciary funds* - The fiduciary funds account for net position held in a trustee or agent capacity for others. These funds are not reflected in the government-wide financial statements since these resources are not available to support the Department's programs.

Notes to the Basic Financial Statements

The Notes to Basic Financial Statements section provides additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements follow the basic financial statements.

Government-wide Financial Highlights

The Department's total net position increased from \$1,451.7 million as of June 30, 2023 to \$1,480.8 million as of June 30, 2024, or by approximately \$29.1 million. The total increase in net position was attributed to a decrease in the Department's governmental activities net position of \$3.3 million and an increase in the business-type activities' net position of \$32.4 million during the year.

The Department's governmental activities reported an decrease in net position of approximately \$3.3 million during the year totaling \$576.1 million at June 30, 2024. Note that this is based on the net position at June 30, 2023 of \$579.4 million.

The Department's proprietary funds, consisting of two revolving loan funds, reported an increase in net position of \$32.4 million for fiscal year (FY) 2024. Total net position was \$872.2 million at June 30, 2023 compared to \$904.6 million at June 30, 2024.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2024

Government-Wide Financial Analysis

This section includes condensed government-wide financial information and analysis.

Condensed Statement of Net Position (\$000) June 30,

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Current assets	\$ 554,169	\$ 502,373	\$ 211,509	\$ 194,036	\$ 765,678	\$ 696,409
Capital assets	257,384	239,256	120	216	257,504	239,472
Loans receivable, noncurrent	-	-	706,450	690,981	706,450	690,981
Total assets	811,553	741,629	918,079	885,233	1,729,632	1,626,862
Deferred outflows of resources	-	-	2,139	1,515	2,139	1,515
Current liabilities	206,408	134,423	1,515	592	207,923	135,015
Long term liabilities	28,997	27,783	12,807	12,328	41,804	40,111
Total liabilities	235,405	162,206	14,322	12,920	249,727	175,126
Deferred inflows of resources	-	-	1,284	1,598	1,284	1,598
Net position						
Net investment in capital assets	257,384	239,256	120	216	257,504	239,472
Restricted	71,940	68,758	904,492	872,014	976,432	940,772
Unrestricted	246,824	271,409	-	-	246,824	271,409
Total net position	\$ 576,148	\$ 579,423	\$ 904,612	\$ 872,230	\$ 1,480,760	\$ 1,451,653

As noted earlier, changes in net position may serve over time as a useful indicator of the Department's financial position. As of June 30, 2024, the Department's total net position was approximately \$1,480.8 million.

Department of Health State of Hawaii

Management Discussion and Analysis June 30, 2024

At June 30, 2024, in addition to equity in cash and cash equivalents in the state treasury approximating \$599.1 million, the Department had total loans receivable from county governments in the amount of \$773.0 million arising from its two revolving loan funds. The Department had total liabilities of \$249.7 million at June 30, 2024 of which \$49.0 million relates to accrued wages and employee benefits payable. Approximately \$98.1 million in liabilities relate to vouchers and contracts payable. At June 30, 2024, restricted net position was \$976.4 million. The restrictions arise from legal and contractual agreements.

Condensed Statement of Activities (\$000) June 30,

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Revenue:						
Program revenues:						
Charges for services	\$ 39,250	\$ 41,300	\$ 9,337	\$ 8,784	\$ 48,587	\$ 50,084
Operating grants and contributions	227,289	231,021	46,972	36,389	274,261	267,410
General revenues:						
State appropriated funds	532,121	417,398	-	-	532,121	417,398
Non-imposed fringe benefits	99,770	77,681	-	-	99,770	77,681
Hawaii tobacco settlement special fund	36,075	40,513	-	-	36,075	40,513
Settlement of opioid claims	-	69,531	-	-	-	69,531
Environmental fees and taxes	48,861	51,964	-	-	48,861	51,963
Total revenues	983,366	929,408	56,309	45,173	1,039,675	974,580
Expenditures:						
General administration	70,907	46,272	-	-	70,907	46,272
Environmental health	99,556	76,012	31,029	12,437	130,585	88,449
Behavioral health services	461,202	398,042	-	-	461,202	398,042
Health resources	350,019	304,686	-	-	350,019	304,686
Total expenditures	981,684	825,012	31,029	12,437	1,012,713	837,449
Excess (deficiency) before transfers	1,682	104,396	25,280	32,736	26,962	137,131
Transfers	(4,957)	(29,718)	7,102	7,848	2,145	(21,869)
Change in net position	(3,275)	74,678	32,382	40,584	29,107	115,262
Net position:						
Beginning of year	579,423	504,745	872,230	831,646	1,451,653	1,336,391
End of year	\$ 576,148	\$ 579,423	\$ 904,612	\$ 872,230	\$ 1,480,760	\$1,451,653

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2024

Governmental activities decreased the Department's governmental net position by \$3.3 million in FY 2024, which was a 0.6 percent decrease from FY 2023. The overall decrease in governmental activities is the result of increase in revenues offset by a larger increase in expenditures. Revenues increased by \$54.0 million and expenditures increase by \$156.7 million.

Revenues of the Department's business-type activities, which increased by \$11.1 million from FY 2023, consist of the Department's environmental loan programs, one for water pollution control and the other for drinking water treatment. These revenues were generated from charges for services, program investment income, and federal assistance program funds as well as state matching funds. Charges for services consist primarily of administration loan fees and interest income on loans related to the Department's two revolving loan programs. The majority of the programs' investment income is from the Department's participation in the State Treasury Investment Pool System.

For the fiscal year ended June 30, 2024, business-type activities increased the Department's net position by \$32.4 million to \$904.6 million as compared to the fiscal year ended June 30, 2023.

Total government-wide expenditures for FY 2024 were \$1,012.7 million of which \$981.7 million was for governmental activities. As compared to FY 2023, total government-wide expenditures were \$837.4 million of which \$825.0 million was for governmental activities. Overall, the Department is organized into four major administrations.

The Department's Behavioral Health Services Administration expended 45.5 percent or \$461.2 million of departmental funds with an increase of \$63.2 million compared to FY 2023. This administration is responsible for providing available and coordinated mental health and substance abuse treatment and prevention programs. Programs within this administration are:

- Adult Mental Health Division (AMHD) that includes the Hawaii State Hospital and Community Mental Health Center Branches;
- Child and Adolescent Mental Health Division which includes seven Family Guidance Centers and the Family Court Liaison Branches;
- Alcohol and Drug Abuse Division which plans for and purchases substance abuse prevention and treatment services for adolescents and adults; and
- Developmental Disabilities Division that services disabled clients in Hawaii while addressing the conditions of the Makin Settlement.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2024

The Department's Health Resources Administration expended 34.6 percent or \$350.0 million of departmental funds with an increase of \$45.3 million compared to FY 2023. Major programs in this administration include:

- Chronic Disease Prevention & Health Promotion Division strives to promote wellness and improve the quality and years of life for Hawaii's people through effective prevention, detection and management of chronic diseases;
- Communicable Disease and Public Health Nursing Division which strives to reduce morbidity and mortality from communicable diseases in Hawaii, to improve the health of individuals and communities, and to support the Medical Marijuana Registry program;
- Disease Outbreak Control Division which provides immunization and disease investigation services as well as provides emergency response to disease outbreaks and potential acts of bioterrorism;
- Emergency Medical Services and Injury Prevention System Branch that includes the State's mandated Emergency Medical Services, which operates the State's emergency ambulance service in the four major counties, and the injury prevention program;
- Family Health Services Division that administers the State's Early Intervention program for children zero to three in compliance with the Federal Individual with Disabilities Education Act, Part C as well as serving children, youth and families through its three branches, namely, Children with Special Health Needs, Maternal and Child Health, and Women, Infants and Children; and
- Office of Health Care Assurance (OHCA) which manages the state licensing and Federal certification of medical and health care facilities, agencies, and services provided throughout the State in order to ensure acceptable standards of care provided and to ensure compliance with State and Federal requirements. OHCA is also responsible for the rollout and management of the Medical Marijuana Dispensaries.

The Department's Environmental Health Administration is responsible for the management of the clean air, clean water, solid and hazardous waste, public health sanitation, vector control, and purity of food and drugs. It expended approximately 12.9 percent or \$130.6 million of the departmental funds with an increase of \$42.1 million expended compared to FY 2023 on a government-wide basis. This administration also manages both the Water Pollution Control Revolving and the Drinking Water Treatment Revolving Loan Funds.

Finally, the Department's General Administration provides the overall leadership and oversight for the Department. It includes administrative support staff, three district health offices, and six administratively attached agencies. This administration expended approximately 7.0 percent or \$70.9 million of the departmental funds with an increase of \$24.6 million expended compared to FY 2023.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2024

Governmental Funds Financial Analysis

The following table presents revenues and expenditures of the governmental funds for FY 2024 and FY 2023 (\$000):

	<u>2024</u>	<u>2023</u>
Revenues:		
State general fund allotments	\$ 532,121	\$ 417,398
Intergovernmental	212,980	223,757
Non-imposed fringe benefits	99,770	77,681
Taxes, fees, fines and other	66,189	65,161
Hawaii tobacco settlement special fund	36,075	40,513
Deposit beverage container deposit special fund	31,184	32,607
Settlement of opioid claims	15,513	12,426
Investment income	8,053	4,840
	<u>1,001,885</u>	<u>874,383</u>
Total revenues	1,001,885	874,383
Expenditures:		
General administration	74,067	51,392
Environmental health	99,432	74,198
Behavioral health services	463,182	387,982
Health resources	351,032	302,141
	<u>987,713</u>	<u>815,713</u>
Total expenditures	987,713	815,713
Excess of revenues over expenditures before transfers	<u>\$ 14,172</u>	<u>\$ 58,670</u>

The governmental funds revenue consist of the Department's general fund, Hawaii tobacco settlement special fund (HTSSF), deposit beverage container deposit special fund (DBCDSF), intergovernmental (federal) funds, taxes, fees, fines, settlement of claims and investment income.

During the fiscal year ended June 30, 2024, general fund revenues were \$624.6 million, including \$99.6 million for fringe benefits paid directly from the State general fund. General fund expenditures were \$653.8 million.

In FY 2024, the DBCDSF earned revenues of \$31.2 million from beverage container deposit administrative fees and unredeemed containers income. Of this amount received, \$23.0 million in expenditures were paid to redemption centers or utilized to fund the program. The fund collected \$49.0 million in deposits from distributors and repaid \$27.4 million in deposits to consumers during FY 2024.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2024

The proprietary funds consist of two funds: Water Pollution Control Revolving Fund (WPCRF) and Drinking Water Treatment Revolving Loan Fund (DWTRLF) and are reported in the government-wide statement of net position and statement of activities as business-type activities.

The WPCRF accounts for federal and state funds used to provide loans to county governments for the construction of wastewater treatment facilities and the repayment of principal, interest and fees from such loans and investment of such monies. During FY 2024, WPCRF received \$22.4 million and \$3.5 million of federal and state funds, respectively. WPCRF also disbursed \$77.1 million in loan proceeds and collected \$47.7 million in principal repayments in FY 2024. As compared to FY 2023, the fund collected \$12.6 million and \$3.9 million in federal and state contributions, respectively, disbursed \$60.1 million in loan proceeds, and collected \$44.6 million in principal payments.

The DWTRLF accounts for federal and state funds used to provide loans and other types of financial assistance to public water systems for drinking water infrastructure and the repayment of principal interest and fees from such loans and the investment of such monies. During FY 2024, DWTRLF received \$19.3 million and \$3.6 million of federal and state funds, respectively. DWTRLF also disbursed \$30.8 million in loan proceeds and collected \$16.1 million in principal repayments in FY 2024. As compared to FY 2023, the DWTRLF collected \$20.5 million and \$4.0 million in federal and state contributions, respectively, disbursed \$30.1 million in loan proceeds, and collected \$14.9 million in principal payments.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2024

Budgetary Analysis

The following budget information relates to the general fund and deposit beverage container deposit special fund for FY 2024:

	Budgeted Amounts (\$000)		Actual on a Budgetary
	Original	Final	Basis (\$000)
General fund			
Revenues	\$ 551,283	\$ 550,834	\$ 528,145
Expenditures			
General administration	45,428	45,428	41,861
Environmental health	28,134	28,134	26,923
Behavioral health	341,236	341,236	330,116
Health resources	136,486	136,036	129,245
Deposit beverage container deposit special fund			
Revenues	71,219	71,219	60,583
Expenditures	71,219	71,219	63,440

The deposit beverage container program recognized revenues on a budgetary basis of \$60.6 million, which is based on the actual number of containers sold. In FY 2023, there were 1,024.3 million containers sold. The amount of containers sold decreased to 969.6 million in FY 2024.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2024

Capital Assets

As of June 30, 2024, the Department's governmental activities had invested approximately \$246.3 million (net of accumulated depreciation) in a broad range of capital assets. See Note 4 to the Department's basic financial statements for a description of capital assets activities for the fiscal year ended June 30, 2024.

Capital Assets Governmental Activities June 30, (\$000)

	<u>2024</u>	<u>2023</u>
Land	\$ 1,018	\$ 1,018
Land improvements	6,826	6,826
Buildings and building improvements	409,166	386,705
Furniture and equipment	34,418	32,899
Right of use asset – buildings	5,686	3,955
Right of use asset – equipment	407	99
Subscription asset	<u>7,634</u>	<u>807</u>
Total	465,155	432,309
Accumulated depreciation	(204,726)	(191,841)
Accumulated amortization	<u>(3,045)</u>	<u>(1,212)</u>
Total capital assets, net	<u>\$ 257,384</u>	<u>\$ 239,256</u>

Currently Known Facts, Decisions, or Conditions

In FY 2024 and 2023, AMHD serviced 11,978 and 7,390 clients, respectively. AMHD's Crisis Line of Hawaii (formerly known as Access Line) continues to provide short term confidential counseling, information about available help, and mobile support services in a crisis. As of July 1, 2020, the Crisis Line of Hawaii has been consolidated with the Behavioral Health Administration's Hawaii CARES program.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2024

In the developmental disabilities program, the number of participants served by the Developmental Disabilities Division (DDD) increased by 100 participants in FY 2024 over FY 2023. In FY 2024, the DDD served 3,504 participants compared to 3,404 in FY 2023.

The number of DDD participants enrolled in the 1915(c) Home and Community-Based Services (HCBS) waiver increased by 41 participants in FY 2024 from FY 2023. In FY 2024, there were 3,009 participants enrolled in the HCBS waiver as compared to 2,968 participants in FY 2023.

Further, the Federal Medical Assistance Percentage (FMAP) increased from 53.64 percent to 56.06 percent effective for the period October 2022 to September 2023. The FMAP increased from 56.06 percent to 58.56 percent for the period October 2023 to September 2024. Due to the COVID-19 pandemic, the Families First Coronavirus Response Act provided an additional FMAP of 6.2 percent increase effective January 1, 2020 until the end of the quarter in which the Public Health Emergency period ends. Additionally, the additional FMAP decreased from 6.2 percent to 5 percent for the period April 2023 to June 2023, 2.5 percent for the period July 2023 to September 2023, and 1.5 percent for October 2023 to December 2023.

And lastly, the WPCRF executed a total of four loan agreements for \$61.5 million during FY 2024. DWTRLF executed a total of nine loan agreements for \$44.4 million during FY 2024.

**Department of Health
State of Hawaii**

Statement of Net Position
June 30, 2024

	Governmental Activities	Business-Type Activities	Total
<u>Assets and Deferred Outflows of Resources</u>			
Current Assets:			
Equity in cash and cash equivalents and investments in State treasury	\$ 460,504,759	\$ 138,581,354	\$ 599,086,113
Receivables:			
Due from State Treasury	-	3,222,639	3,222,639
Due from other State agency	1,870,521	-	1,870,521
Accrued interest and loan fees	738,426	2,610,330	3,348,756
Accounts receivable, net of allowance for doubtful accounts of \$2,024,723	9,236,877	-	9,236,877
Due from Federal government	22,366,142	589,212	22,955,354
Opioid settlement receivable	41,592,190	-	41,592,190
Tobacco settlement receivable	17,860,243	-	17,860,243
Current maturities of loans receivable	-	66,505,938	66,505,938
Total current assets	554,169,158	211,509,473	765,678,631
Loans Receivable, net of current maturities	-	706,449,802	706,449,802
Capital Assets, net of accumulated amortization and depreciation	257,383,718	119,628	257,503,346
Total assets	811,552,876	918,078,903	1,729,631,779
Deferred Outflows of Resources	-	2,139,046	2,139,046
Total assets and deferred outflows of resources	<u>\$ 811,552,876</u>	<u>\$ 920,217,949</u>	<u>\$ 1,731,770,825</u>
<u>Liabilities, Deferred Inflows of Resources, and Net Position</u>			
Current Liabilities:			
Vouchers payable	\$ 97,483,332	\$ 568,697	\$ 98,052,029
Accrued wages and employee benefits payable	48,285,942	749,513	49,035,455
Unearned revenue	14,013,150	-	14,013,150
Accrued vacation, current portion	13,064,912	196,440	13,261,352
Workers' compensation liability	10,069,653	-	10,069,653
Due to other State agencies	17,905,103	-	17,905,103
Beverage container deposits	3,434,351	-	3,434,351
Lease liability, current portion	739,395	-	739,395
Subscription liability	1,312,347	-	1,312,347
Accrued interest liability	99,765	-	99,765
Total current liabilities	206,407,950	1,514,650	207,922,600
Accrued Vacation, net of current portion	20,033,147	438,429	20,471,576
Lease Liability, net of current portion	3,880,171	-	3,880,171
Subscription Liability, net of current portion	5,083,664	-	5,083,664
Net Pension Liability	-	6,911,289	6,911,289
Net Other Postemployment Benefits Liability	-	5,457,049	5,457,049
Total liabilities	235,404,932	14,321,417	249,726,349
Deferred Inflows of Resources	-	1,284,172	1,284,172
Net Position:			
Net investment in capital assets	257,383,718	119,628	257,503,346
Restricted for:			
Loan programs	-	904,492,732	904,492,732
Trust fund programs	16,055,706	-	16,055,706
Medicaid programs	55,884,057	-	55,884,057
Unrestricted	246,824,463	-	246,824,463
Total net position	576,147,944	904,612,360	1,480,760,304
Total liabilities, deferred inflows of resources, and net position	<u>\$ 811,552,876</u>	<u>\$ 920,217,949</u>	<u>\$ 1,731,770,825</u>

See accompanying notes to the basic financial statements.

Department of Health
State of Hawaii

Statement of Activities
For the Fiscal Year Ended June 30, 2024

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General administration	\$ 70,906,863	\$ 3,060,123	\$ 20,749,829	\$ (47,096,911)	\$ -	\$ (47,096,911)
Environmental health administration	99,555,820	9,612,482	16,140,136	(73,803,202)	-	(73,803,202)
Behavioral health services administration	461,202,080	8,154,130	45,347,082	(407,700,868)	-	(407,700,868)
Health resources administration	350,019,583	18,423,357	145,051,785	(186,544,441)	-	(186,544,441)
Total governmental activities	981,684,346	39,250,092	227,288,832	(715,145,422)	-	(715,145,422)
Business-type Activities --						
Environmental Health Loan Programs	31,028,623	9,336,623	46,971,866	-	25,279,866	25,279,866
Total Department	<u>\$ 1,012,712,969</u>	<u>\$ 48,586,715</u>	<u>\$ 274,260,698</u>	<u>(715,145,422)</u>	<u>25,279,866</u>	<u>(689,865,556)</u>
General Revenues:						
State general fund allotments, net				532,121,337	-	532,121,337
Nonimposed employee fringe benefits				99,770,095	-	99,770,095
Hawaii tobacco settlement special fund				36,075,128	-	36,075,128
Tobacco tax				15,599,739	-	15,599,739
Deposit beverage container fee				31,184,261	-	31,184,261
Environmental response tax				1,306,010	-	1,306,010
Advance glass disposal fee				770,703	-	770,703
Total general revenues				716,827,273	-	716,827,273
Net Transfers				(4,956,757)	7,102,000	2,145,243
Change in net position				(3,274,906)	32,381,866	29,106,960
Net Position at July 1, 2023				579,422,850	872,230,494	1,451,653,344
Net Position at June 30, 2024				<u>\$ 576,147,944</u>	<u>\$ 904,612,360</u>	<u>\$ 1,480,760,304</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Balance Sheet – Governmental Funds
June 30, 2024

	General	Deposit Beverage Container Deposit	Coronavirus State Fiscal Recovery Funds – Emergency Medical Service	Opioid Settlement Funds	Other Governmental Funds	Total Governmental Funds
Assets:						
Equity in cash and cash equivalents and investments in State Treasury	\$ 146,528,427	\$ 76,328,171	\$ 117,016	\$ 26,726,078	\$ 210,805,067	\$ 460,504,759
Due from other State agency	-	-	-	-	1,870,521	1,870,521
Accrued interest receivable	-	226,842	-	-	511,584	738,426
Accounts receivable, net of allowance for doubtful accounts of \$2,024,723	-	9,236,877	-	-	-	9,236,877
Opioid settlement receivable	-	-	-	41,592,190	-	41,592,190
Due from Federal government	-	-	-	-	22,366,142	22,366,142
Total assets	<u>\$ 146,528,427</u>	<u>\$ 85,791,890</u>	<u>\$ 117,016</u>	<u>\$ 68,318,268</u>	<u>\$ 235,553,314</u>	<u>\$ 536,308,915</u>
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities:						
Vouchers and contracts payable	\$ 62,474,112	\$ 4,372,821	\$ -	\$ 529,276	\$ 30,107,123	\$ 97,483,332
Accrued wages and employee benefits payable	39,751,875	124,548	-	32,779	8,376,740	48,285,942
Unearned revenue	-	-	117,016	-	13,896,134	14,013,150
Due to other State agencies	44,860	-	-	-	-	44,860
Beverage container deposits	-	3,434,351	-	-	-	3,434,351
Total liabilities	<u>102,270,847</u>	<u>7,931,720</u>	<u>117,016</u>	<u>562,055</u>	<u>52,379,997</u>	<u>163,261,635</u>
Deferred Inflows of Resources --						
Unavailable Revenues	-	-	-	41,592,190	170,768	41,762,958
Fund Balances:						
Restricted:						
Medicaid programs	-	-	-	-	55,884,057	55,884,057
Trust fund programs	-	-	-	-	16,055,706	16,055,706
Committed:						
Behavioral health services	-	-	-	26,164,023	10,526,491	36,690,514
Environmental health	-	-	-	-	30,026,706	30,026,706
General administration	-	-	-	-	16,499,205	16,499,205
Health resources	-	-	-	-	46,605,783	46,605,783
Capital projects activities	-	-	-	-	4,499,962	4,499,962
Tobacco settlement program	-	-	-	-	2,904,639	2,904,639
Deposit beverage container program	-	77,860,170	-	-	-	77,860,170
Assigned:						
Behavioral health services	13,865,828	-	-	-	-	13,865,828
Environmental health	4,618,461	-	-	-	-	4,618,461
General administration	15,251,639	-	-	-	-	15,251,639
Health resources	10,521,652	-	-	-	-	10,521,652
Unassigned	-	-	-	-	-	-
Total fund balances	<u>44,257,580</u>	<u>77,860,170</u>	<u>-</u>	<u>26,164,023</u>	<u>183,002,549</u>	<u>331,284,322</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 146,528,427</u>	<u>\$ 85,791,890</u>	<u>\$ 117,016</u>	<u>\$ 68,318,268</u>	<u>\$ 235,553,314</u>	<u>\$ 536,308,915</u>

See accompanying notes to the basic financial statements.

Department of Health State of Hawaii

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2024

Total Fund Balances - Governmental Funds	\$ 331,284,322
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	257,383,718
Compensated absences reported in the statement of net position do not require the use of current financial resources and therefore are not reported as liabilities in the governmental funds	(33,098,059)
Lease liability, subscription liability and accrued interest liability reported in the statement of net position do not require the use of current financial resources and therefore are not reported as liabilities in the governmental funds	(11,115,342)
Workers' compensation liability reported in the statement of net position does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds	(10,069,653)
Tobacco settlement receivables not collected within 60 days and not available for current financial resources are therefore not reported as a receivable in the governmental funds	17,860,243
Due to other state agencies related to tobacco settlement receivables reported in the statement of net position does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds	(17,860,243)
Revenues and other financing sources not collected within 60 days and not available for current financial resources are therefore reported as deferred inflows of resources - unavailable revenues in the governmental funds	41,762,958
Net Position of Governmental Activities	<u>\$ 576,147,944</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2024

	General	Deposit Beverage Container Deposit	Coronavirus State Fiscal Recovery Funds – Emergency Medical Service	Opioid Settlement Funds	Other Governmental Funds	Total Governmental Funds
Revenues:						
State-allotted appropriations	\$ 525,019,337	\$ -	\$ -	\$ -	\$ 7,102,000	\$ 532,121,337
Intergovernmental	-	-	10,817,731	-	202,162,030	212,979,761
Nonimposed employee fringe benefits	99,627,955	7,390	-	8,369	126,381	99,770,095
Taxes, fees, fines and other	-	-	-	-	66,189,058	66,189,058
Investment income	-	2,379,016	-	-	5,673,415	8,052,431
Hawaii tobacco settlement	-	-	-	-	36,075,128	36,075,128
Settlement of opioid claims	-	-	-	15,513,298	-	15,513,298
Deposit beverage container deposit	-	31,184,261	-	-	-	31,184,261
Total revenues	624,647,292	33,570,667	10,817,731	15,521,667	317,328,012	1,001,885,369
Expenditures:						
General administration	49,813,061	-	-	-	24,253,509	74,066,570
Environmental health	41,491,851	23,033,741	-	-	34,906,632	99,432,224
Behavioral health services	408,672,998	-	-	2,239,972	52,269,105	463,182,075
Health resources	153,854,389	-	10,817,731	-	186,360,045	351,032,165
Total expenditures	653,832,299	23,033,741	10,817,731	2,239,972	297,789,291	987,713,034
Excess of revenues (expenditures) over expenditures (revenues)	(29,185,007)	10,536,926	-	13,281,695	19,538,721	14,172,335
Other Financing Sources (Uses):						
Capitalized leases	2,038,866	-	-	-	-	2,038,866
Capitalized subscription	6,827,079	-	-	-	-	6,827,079
Transfers in	-	-	-	459,991	39,644,024	40,104,015
Transfers out	(6,984,598)	-	-	-	(55,173,623)	(62,158,221)
Total other financing sources (uses)	1,881,347	-	-	459,991	(15,529,599)	(13,188,261)
Net change in fund balances	(27,303,660)	10,536,926	-	13,741,686	4,009,122	984,074
Fund Balances at July 1, 2023	71,561,240	67,323,244	-	-	191,415,764	330,300,248
Change in reporting entity	-	-	-	12,422,337	(12,422,337)	-
Fund Balances at June 30, 2024	\$ 44,257,580	\$ 77,860,170	\$ -	\$ 26,164,023	\$ 183,002,549	\$ 331,284,322

See accompanying notes to the basic financial statements.

Department of Health
State of Hawaii

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2024

Net Change in Fund Balances - Total Governmental Funds \$ 984,074

**Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:**

Governmental funds report capital outlays as expenditures, however, in the
statement of activities, the cost of those assets are allocated over their
estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	15,475,787	
Less current year depreciation expense and other adjustments	<u>(16,474,435)</u>	(998,648)

Transfers in related to capital assets are not financial resources and, therefore, are not reported in the governmental funds.		19,126,113
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Initial recognition of lease liability and subscription liability provides current
financial resources to governmental funds while the repayment of the
principal consumes the current financial resources of governmental funds.
Neither transaction has any effect on the net position. This is the amount
by which the initial recognition of lease liability and subscription liability
exceeds principal payments in the current period.

Initial recognition of lease liability and subscription	(8,865,945)	
Lease and subscription expenditures	<u>1,443,994</u>	(7,421,951)

Decrease in compensated absences reported in the statement of activities do not require the use of current financial resources and therefore not reported as expenditures in the governmental funds.		2,810,123
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Increase in workers' compensation liability reported in the statement of activities do not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds.		(492,932)
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Revenues and other financing sources reported on the statement of activities that do not provide or use current financial resources and are not reported as revenues in the governmental funds. Once the current financial resource is available, revenues and other financing sources are recognized in the governmental funds and eliminated for the statement of activities.		<u>(17,281,685)</u>
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Change in Net Position - Governmental Activities		<u><u>\$ (3,274,906)</u></u>
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See accompanying notes to the basic financial statements.

Department of Health State of Hawaii

General Fund

Statement of Revenues and Expenditures - Budget and Actual

For the Fiscal Year Ended June 30, 2024

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues --				
State allotments	<u>\$ 551,283,794</u>	<u>\$ 550,833,794</u>	<u>\$ 528,145,212</u>	<u>\$ (22,688,582)</u>
Expenditures:				
General administration	45,428,272	45,428,272	41,861,314	3,566,958
Environmental health	28,133,670	28,133,670	26,922,876	1,210,794
Behavioral health services	341,235,502	341,235,502	330,115,569	11,119,933
Health resources	<u>136,486,350</u>	<u>136,036,350</u>	<u>129,245,453</u>	<u>6,790,897</u>
	<u>551,283,794</u>	<u>550,833,794</u>	<u>528,145,212</u>	<u>22,688,582</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Special Revenue Funds
Statement of Revenues and Expenditures - Budget and Actual
For the Fiscal Year Ended June 30, 2024

		Actual on Budgetary Basis				
		Coronavirus State Fiscal Recovery Funds – Emergency Medical Service				Variance Favorable (Unfavorable)
	Original	Final	Deposit Beverage Container Deposit		Opioid Settlement Funds	
Revenues:						
Deposit beverage container deposit	\$ 71,219,367	\$ 71,219,367	\$ 60,582,577	\$ -	\$ -	\$ (10,636,790)
Intergovernmental	-	-	-	-	-	-
Settlement of Opioid claims	-	-	-	-	15,513,298	15,513,298
	<u>71,219,367</u>	<u>71,219,367</u>	<u>60,582,577</u>	<u>-</u>	<u>15,513,298</u>	<u>4,876,508</u>
Expenditures:						
Environmental health --						
Deposit beverage container deposit	71,219,367	71,219,367	63,439,680		-	7,779,687
Health resources --						
Coronavirus state fiscal recovery funds --						
Emergency medical service	-	-	-	-	-	-
Behavioral health services --						
Opioid settlement funds	-	-	-	-	2,237,782	(2,237,782)
	<u>71,219,367</u>	<u>71,219,367</u>	<u>63,439,680</u>	<u>-</u>	<u>2,237,782</u>	<u>5,541,905</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,857,103)</u>	<u>\$ -</u>	<u>\$ 13,275,516</u>	<u>\$ 10,418,413</u>

See accompanying notes to the basic financial statements.

Department of Health
State of Hawaii

Statement of Net Position - Proprietary Funds
June 30, 2024

	Business-type Activities - Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Assets and Deferred Outflows of Resources:			
Current Assets:			
Equity in cash and cash equivalents and investments in State Treasury	\$ 93,894,174	\$ 44,687,180	\$ 138,581,354
Loan fees receivable	1,306,645	686,769	1,993,414
Accrued interest receivable	431,192	185,724	616,916
Due from Federal Government	-	589,212	589,212
Due from State Treasury	2,076,822	1,145,817	3,222,639
Current portion of loans receivable	49,834,028	16,671,910	66,505,938
Total current assets	147,542,861	63,966,612	211,509,473
Loans Receivable, net of current portion	489,906,923	216,542,879	706,449,802
Capital Assets, net of accumulated depreciation	14,935	104,693	119,628
Total assets	637,464,719	280,614,184	918,078,903
Deferred Outflows of Resources	1,379,323	759,723	2,139,046
Total assets and deferred outflows of resources	<u>\$ 638,844,042</u>	<u>\$ 281,373,907</u>	<u>\$ 920,217,949</u>
Liabilities, Deferred Inflows of Resources, and Net Position:			
Current Liabilities--			
Accounts Payable and Other Accrued Liabilities	\$ 578,477	\$ 936,173	\$ 1,514,650
Accrued Vacation, net of current portion	230,764	207,665	438,429
Net Pension Liability	4,190,677	2,720,612	6,911,289
Net Other Postemployment Benefits Liability	3,070,583	2,386,466	5,457,049
Total liabilities	8,070,501	6,250,916	14,321,417
Deferred Inflows of Resources	562,857	721,315	1,284,172
Net Position:			
Net investment in capital assets	14,935	104,693	119,628
Restricted - expendable	630,195,749	274,296,983	904,492,732
Total net position	630,210,684	274,401,676	904,612,360
Total liabilities, deferred inflows of resources, and net position	<u>\$ 638,844,042</u>	<u>\$ 281,373,907</u>	<u>\$ 920,217,949</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
For the Fiscal Year Ended June 30, 2024

	Business-type Activities-Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Operating Revenues:			
Interest income from loans	\$ 1,411,375	\$ 766,092	\$ 2,177,467
Administrative loan fees	4,359,099	2,800,057	7,159,156
Total revenues	5,770,474	3,566,149	9,336,623
Expenses:			
Administrative	3,134,979	1,451,866	4,586,845
State program management	-	1,576,397	1,576,397
Water protection	-	537,993	537,993
Small systems technical assistance	-	224,403	224,403
Principal forgiveness	4,755,900	19,347,085	24,102,985
Total expenses	7,890,879	23,137,744	31,028,623
Operating loss	(2,120,405)	(19,571,595)	(21,692,000)
Nonoperating Revenues:			
Federal contributions	22,445,300	19,305,482	41,750,782
Other interest income	3,428,809	1,747,395	5,176,204
Other income	26,955	17,925	44,880
Total nonoperating revenues	25,901,064	21,070,802	46,971,866
Transfers	3,498,000	3,604,000	7,102,000
Change in net position	27,278,659	5,103,207	32,381,866
Net Position:			
Beginning of year	602,932,025	269,298,469	872,230,494
End of year	\$ 630,210,684	\$ 274,401,676	\$ 904,612,360

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2024

	Business-type Activities - Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Cash Flows from Operating Activities:			
Payments to employees	\$ (2,854,175)	\$ (2,025,440)	\$ (4,879,615)
Payments to vendors	(209,418)	(1,220,160)	(1,429,578)
Net cash used in operating activities	(3,063,593)	(3,245,600)	(6,309,193)
Cash Flows from Noncapital Financing Activities:			
State contributions	3,498,000	3,604,000	7,102,000
Federal contributions	22,445,300	19,035,304	41,480,604
Net cash provided by noncapital financing activities	25,943,300	22,639,304	48,582,604
Cash Flows from Capital and Related Financing Activities--			
Purchase of Equipment	-	(40,243)	(40,243)
Cash Flows from Investing Activities:			
Principal repayments on loans	47,687,030	16,131,115	63,818,145
Disbursement of loan proceeds	(77,097,768)	(30,795,252)	(107,893,020)
Interest income from loans	1,390,402	763,493	2,153,895
Administrative loan fees	4,193,029	2,787,286	6,980,315
Other interest income	2,967,642	1,403,393	4,371,035
Net cash used in investing activities	(20,859,665)	(9,709,965)	(30,569,630)
Net increase in cash	2,020,042	9,643,496	11,663,538
Equity in Cash and Cash Equivalents and Investments in State Treasury:			
Beginning of year	91,874,132	35,043,684	126,917,816
End of year	\$ 93,894,174	\$ 44,687,180	\$ 138,581,354
Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities:			
Operating loss	\$ (2,120,405)	\$ (19,571,595)	\$ (21,692,000)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense	53,792	82,532	136,324
Principal forgiveness	4,755,900	19,347,085	24,102,985
Interest income from loans	(1,411,375)	(766,092)	(2,177,467)
Administrative loan fees	(4,359,099)	(2,800,057)	(7,159,156)
Non-imposed fringe benefits	26,955	17,925	44,880
Change in assets, deferred outflows, liabilities, and deferred inflows:			
Due from State Treasury	(638)	(27,948)	(28,586)
Accounts payable and other accrued liabilities	294,401	738,872	1,033,273
Net deferred outflows/inflows of resources	(569,667)	(368,568)	(938,235)
Net pension liability	293,797	117,818	411,615
Net other postemployment benefits liability	(27,254)	(15,572)	(42,826)
Net cash used in operating activities	\$ (3,063,593)	\$ (3,245,600)	\$ (6,309,193)

See accompanying notes to the basic financial statements.

Department of Health
State of Hawaii

Statement of Fiduciary Net Position - Private-Purpose Trust Fund
June 30, 2024

	Opioid Settlement Fund
Assets:	
Equity in cash and cash equivalents and investments in State treasury	\$ 3,582,016
Opioid settlement receivable	<u>7,339,798</u>
Total assets	<u><u>\$ 10,921,814</u></u>
 Liabilities and Net Position	
Liabilities --	
Benefits Payable to Other Governments	<u>\$ 478,400</u>
 Net Position --	
Held in Trust for Other Governments	<u>10,443,414</u>
Total liabilities and net position	<u><u>\$ 10,921,814</u></u>

See accompanying notes to the basic financial statements.

Department of Health
State of Hawaii

Statement of Changes in Fiduciary Net Position - Private-Purpose Trust Fund
For the Fiscal Year Ended June 30, 2024

	Opioid Settlement Fund
Deductions --	
Intergovernmental Payments	<u>\$ 478,400</u>
Net changes in net position	<u>(478,400)</u>
Net Position at July 1, 2023	<u>10,921,814</u>
Net Position at June 30, 2024	<u><u>\$ 10,443,414</u></u>

See accompanying notes to the basic financial statements.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies

a. Financial Reporting Entity

The State of Hawaii, Department of Health (the Department), 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. Federal grants received to support the State's health services and programs are administered by the Department.

The accompanying financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) prescribed by the Governmental Accounting Standards Board (GASB).

The Department is part of the executive branch of the State of Hawaii (State). The financial statements of the Department are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2023, and the changes in its financial position and cash flows, and budgetary comparisons, where applicable, for the year then ended in conformity with GAAP. The State Comptroller maintains the central accounts for all State funds and publishes the State's Annual Comprehensive Financial Report (ACFR), which includes the Department's financial activities.

Act 262, Session Laws of Hawaii of 1996, established the Hawaii Health Systems Corporation (HHSC) as a public body corporate and politic and an instrumentality and agency of the State. HHSC consists of the state hospitals and was created to provide quality health care for all of the people in the State. HHSC commenced operations on July 1, 1996 and is administratively attached to the Department. However, HHSC is a component unit of the State and not the Department. HHSC's stand-alone financial statements are included in the State's ACFR but are not included in the Department's basic financial statements.

On July 7, 2021, Act 212, SLH 2021, was passed to commence the transfer of Oahu Regional Health Care System in its entirety from HHSC to the Department. Act 212 requires the transfer to be completed no later than December 31, 2022. On June 27, 2022, Act 150, SLH 2022 was passed, which extended the transfer date to December 31, 2025. There was no impact to the net position of the Department at June 30, 2024.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

b. Government-wide Financial Statements

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

Certain eliminations have been made as prescribed by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, related to interfund activities, receivables, and payables. All internal balances have been eliminated except those representing balances between governmental and business-type activities, which are presented as internal balances and eliminated in the total department column when applicable. In the statement of activities, those transactions between governmental and business-type activities have not been eliminated. In addition, the fiduciary funds account for net position held in a trustee or agent capacity for others. These funds are not reflected in the government-wide financial statements since these resources are not available to support the Department's programs.

c. Fund Financial Statements

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

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

c. Fund Financial Statements (continued)

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

The proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the proprietary funds are interest income and administrative loan fees on loans made to county governments. Federal grants, state matching funds and interest income from sources other than loans are reported as nonoperating revenues. Principal forgiveness for loans are reported as operating expenses.

A description of the funds administered by the Department is as follows:

General Fund - The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund presented is a part of the State's General Fund and is limited to only those appropriations and obligations of the Department.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds) and are included in Other Governmental Funds in the fund financial statements.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

c. Fund Financial Statements (continued)

The Department accounts for governmental fund balances in accordance with GASB Statement No. 54 (GASBS 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASBS 54's hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

Nonspendable fund balance - amounts that are not in spendable form (such as inventory) or are required to be maintained intact;

Restricted - amounts constrained to specific purposes by their providers (such as creditors, grantors or other governments) through constitutional provisions, or by enabling legislation;

Committed - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint;

Assigned - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the government delegates the authority;

Unassigned - amounts that are available for any purpose; positive amounts are reported only in the general fund.

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

c. Fund Financial Statements (continued)

Proprietary Funds (Business-Type Activities)

Enterprise Funds - Enterprise funds are used to account for the activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to customers or where sound financial management dictates that periodic determination of results of operations are appropriate.

Fiduciary Funds

Private-Purpose Trust Funds – Private-purpose trust funds are used to account for assets administered by the Department through a trust agreement or equivalent arrangement.

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

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

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

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

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

e. Due from Other State Agency

Receivables due from other State agency consist of reimbursements from the Department of Human Services (DHS) for Medicaid payments that the Department makes to providers of health services. The Department is responsible to pay the State portion of the Medicaid claims, and DHS reimburses the Department for the Federal portion of the claims. The receivable of approximately \$1,870,000 is comprised of various Medicaid rehabilitation option claims.

Payments made to providers and received from DHS for the Federal portion of the Medicaid claims are classified as expenditures and transfers in, respectively, for financial statement purposes.

f. Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately \$1.4 billion over a 27-year period. The Department is responsible for administering the Hawaii Tobacco Settlement Special Fund (HTSSF). The Department of Budget and Finance receives all tobacco settlement monies. The annual tobacco settlement monies are then transferred to the Department. Subsequently, the Department allocates and appropriates 100 percent of the funds to other State agencies and other entities in accordance with Act 118, Sessions Laws of Hawaii (SLH) 2015. The Department receives annual payments on April 15 of each year for tobacco settlements earned for the preceding calendar year.

The Department recognized approximately \$36.1 million in tobacco settlement revenues during the year ended June 30, 2024. In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Department has recorded a tobacco settlement receivable for \$17.9 million in the statement of net position representing tobacco settlements earned for the period January 1, 2024 through June 30, 2024.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

g. Opioid Settlement

The State and its political subdivisions (the Counties) are currently participating in national opioid settlements against pharmaceutical distributors and manufacturers related to their role in the opioid epidemic. As part of the opioid settlement agreement, a portion of the funds received must be used to support any of a wide variety of strategies to fight the opioid crisis. The State also entered into a Memorandum of Agreement (MOA) with the Counties which allocates the settlement funds between the State and the Counties, establishes an advisory council to provide guidance on how the State's portion should be utilized and instructs how the Counties' funds are to be utilized. As there are cases ongoing, future opioid litigation may result in additional agreements or judgments, or suspension and reduction of payments, and each agreement or judgment may have unique terms governing payment timing and duration.

On October 21, 2022, the State entered into three settlement agreements in which the State and counties will receive approximately \$81.8 million, with approximately \$69.5 million allocated to the State, to be paid over 18 years. In the year of settlement, the Department recorded settlement opioid claim revenue of \$69.5 million. For the year ended June 30, 2024, the Department received approximately \$15.5 million and has an opioid settlement receivable of \$41.6 million in the statement of net position.

The Department acts in a trustee or agent capacity for funds held for the Counties. The funds held for the Counties are recorded in the Opioid Settlement Fund, a fiduciary fund, and is reported outside the government-wide financial statements. As of June 30, 2024, the Opioid Settlement Fund has recorded an opioid settlement receivable of approximately \$7.3 million and benefits payable to other governments of approximately \$478,000 in the statement of fiduciary net position.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

h. Loans Receivable

Loans made to counties are funded by federal capitalization grants, State matching funds, repayments and investment interest income. Loan funds are disbursed to local agencies as they expend for the purposes of the loan and request reimbursement from the proprietary funds. Interest is calculated from the date that funds are advanced. After the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period. Certain capitalization grants allow for portions of loans to be forgiven upon satisfaction of certain requirements.

i. Administrative Loan Fees

The Department has implemented an administrative loan fee program to pay for the proprietary fund's administration, including employee salaries and benefits. The proprietary funds apply an administrative fee to all loans as provided for in Chapter 11-65 of the Hawaii Administrative Rules.

j. Capital Assets

Capital assets, which include buildings, furniture, and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and in the proprietary funds' financial statements. Capital assets are defined by the Department as those assets with estimated useful lives greater than one year and with an acquisition cost greater than:

	Minimum Capitalization Amount
Land	All
Land improvements	\$ 100,000
Buildings and improvements	100,000
Furniture and equipment	5,000
Motor vehicles	5,000

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

j. Capital Assets (continued)

Such assets are recorded at historical cost if purchased or constructed. Donated assets are recorded at estimated fair value at the time received. Depreciation expense is recorded in the government-wide and proprietary funds' financial statements using the straight-line method over the estimated useful lives of the assets. Generally, the useful lives (in years) are as follows:

	Governmental-Type Activities	Business-Type Activities
Land improvements	15 years	5-100 years
Buildings and improvements	30 years	5-100 years
Furniture and equipment	7 years	1-25 years
Motor vehicles	5 years	5-10 years

k. Unearned Revenue

Unearned revenues at the government-wide level and fund level arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Department has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and balance sheet, and revenue is recognized. Unearned revenues at June 30, 2024 consisted primarily of Federal grant funds for which all requirements had not yet been met.

l. Due to Other State Agencies

Payables to other State agencies consists majority of funds allocated to other State agencies in accordance with the HTSSF of approximately \$17.9 million as of June 30, 2024.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

m. Beverage Container Deposits and Container Fees

Deposits of \$0.05 are made by distributors to the deposit beverage container deposit special fund (DBCDSF) for each qualifying container sold. The DBCDSF maintains all deposits until the redemption centers claim reimbursement for the deposits paid to consumers. The DBCDSF maintains the deposits that are expected to be redeemed. In addition, deposits of \$0.01 are made by the distributors to the DBCDSF for each qualifying container as a container fee.

Amounts paid to consumers are based on containers redeemed or a predetermined weight per type of container redeemed (i.e., aluminum, mixed plastics, etc.). These weights are determined based on the mix of containers redeemed and are reviewed when necessary. Management adjusts the deposit liability balance and unredeemed deposit revenue recognized based on the amount of deposits refunded in the first three months of the subsequent fiscal year related to deposits collected prior to year end. Deposits not refunded within the first three months of the subsequent fiscal year are recognized as revenue for the previous year.

According to Hawaii Revised Statutes (HRS) 342G-104, any funds that accumulate in the DBCDSF shall be retained by the fund unless determined to be in excess by the Legislature.

n. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The following is a breakdown of deferred outflows of resources and deferred inflows of resources as of June 30, 2024:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions	\$ 1,263,717	\$ (416,131)
Related to Other Postemployment Benefits	875,329	(868,041)
	<u>\$ 2,139,046</u>	<u>\$ (1,284,172)</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

o. Accrued Vacation

Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarters working days for each month of service up to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Accrued vacation also includes compensatory time, as compensatory time is convertible to pay upon termination of employment. As accrued vacation does not require the use of current financial resources, it is not reported in the governmental funds balance sheet.

p. Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the State's Employees' Retirement System (ERS). At June 30, 2024, accumulated sick leave was approximately \$75.8 million.

q. Intrafund and Interfund Transactions

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

r. Use of Estimates

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

s. Leases

The Department has a policy to recognize a lease liability and a right-to-use lease asset (lease asset) in the government-wide financial statements. The Department recognizes lease liabilities with an initial, individual value of \$100,000 or more for land and building and \$25,000 or more with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, the Department initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the Department has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

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

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

The Department monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability. Lease assets are reported as right to use along with other capital assets and lease liabilities are reported with long-term liabilities on the statement of net position.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

t. Subscription Based Information Technology Arrangements (SBITA)

The Department has a policy to recognize a subscription liability and a right-to-use subscription asset (subscription asset) in the government-wide financial statements and its proprietary fund financial statements. The Department recognizes subscription liabilities with an initial, individual value of \$500,000 or more with a subscription term greater than one year. Variable payments based on future performance of the Department or, usage of the underlying information technology (IT) asset, or number of user seats are not included in the measurement of the subscription liability, rather, those variable payments are recognized as outflows of resources (expenses) in the period the obligation for those payments is incurred.

At the commencement of a SBITA, the Department initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. Subscription assets are recorded at the amount of the initial measurement of the subscription liabilities, plus any payments made to the SBITA vendor before the commencement of the subscription term and capitalizable initial implementation cost, less any incentives received from the SBITA vendor at or before the commencement of the subscription term.

Costs associated with a SBITA, other than the subscription payments, are accounted for as follows:

- **Preliminary Project Stage:** Outlays are expensed as incurred.
- **Initial Implementation Stage:** Outlays are capitalized as an addition to the subscription asset.
- **Operation and Additional Implementation Stage:** Outlays are expensed as incurred unless they meet specific capitalization criteria.

Subscription assets are reported in capital assets and subscription liabilities are reported with long-term liabilities on the statement of net position. Subscription assets are amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT asset, unless the subscription contains a purchase option that the Department has determined is reasonably certain of being exercised. In this case, the subscription asset is amortized over the useful life of the underlying IT asset.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

t. Subscription Based Information Technology Arrangements (SBITA) (continued)

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

- The Department uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the Department generally uses its estimated incremental borrowing rate as the discount rate for SBITA.
- The subscription term includes the noncancellable period of the SBITA. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the Department is reasonably certain to exercise.
- The Department monitors changes in circumstances that would require a remeasurement of its subscription liability.

u. Encumbrances

Encumbrance accounting, under which purchase orders and contractual commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Although appropriations generally lapse at year end, open encumbrances are reported as reservations of fund balances because the commitments will be honored when the goods or services are received. Encumbrances do not constitute expenditures or liabilities.

v. Use of Restricted and Unrestricted Net Position

When an expense is incurred for which both restricted and unrestricted net position is available, the Department's policy is to apply restricted net position first.

w. Nonmonetary Transactions

The Department receives noncash awards for one of its federally funded programs. The Department expended approximately \$19.3 million in vaccines during the fiscal year ended June 30, 2024 and recorded intergovernmental revenues for other governmental funds of the same amount in the accompanying basic financial statements.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

x. Administrative Costs

DAGS assesses the Department's special funds centralized and administrative service fees, which are recorded as direct expenditures in the Department's funds. The DBCDSF is exempt from paying the central service fee assessed by DAGS under Act 228, SLH 2013.

y. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

z. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

aa. Recently Adopted Accounting Pronouncement

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

aa. Recently Adopted Accounting Pronouncement (continued)

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

Effective July 1, 2023, the Department made a change in reporting entity to report Opioid Settlement Funds as a major fund, which was previously reported as Other Governmental Funds. This change affected the beginning fund balance of the respective funds.

ab. New Accounting Pronouncements

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023. The Department has not yet determined the effect this Statement will have on its financial statements.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of government financial statements with information about risks related to the government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2024. The Department has not yet determined the effect this Statement will have on its financial statements.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

1. Organization and Summary of Significant Accounting Policies (continued)

ab. New Accounting Pronouncements (continued)

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this Statement are effective for periods beginning after June 15, 2025. The Department has not yet determined the effect this Statement will have on its financial statements.

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The primary objective of this Statement is to improve users of government financial statement with essential information about certain types of capital assets. The requirements of this Statement are effective for periods beginning after June 15, 2025. The Department has not yet determined the effect this Statement will have on its financial statements.

2. Budgeting and Budgetary Control

The Department follows these procedures in establishing the budgetary data reflected in the basic financial statements:

The Budget - Not less than 20 days before the State Legislature convenes in every odd-numbered year, the Governor submits to the State Legislature, and to each member thereof, a budget which contains the program and budget recommendation of the Governor for the succeeding biennium. The budget in general contains: the State program structure; statements of statewide objectives; financial requirements for the next biennium to carry out the recommended programs; a summary of State receipts and revenues in the last completed fiscal year; a revised estimate for the fiscal year in progress; and an estimate for the succeeding biennium.

Legislative Review - The State Legislature considers the Governor's proposed program and financial plan and budget, evaluates alternatives to the Governor's recommendations, adopts programs, and determines the State budget. It may, from time to time, request the Department of Budget and Finance and any agency to conduct such analysis of programs and finances as will assist in determining the State's program and financial plan and budget.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

2. Budgeting and Budgetary Control (continued)

Program Execution - Except as limited by policy decisions of the Governor, appropriations by the State Legislature, and other provisions of law, the agencies responsible for the programs administer the programs and are responsible for their proper management. The appropriations by the State Legislature for a biennium are allocated between the two fiscal years of the biennium in the manner provided in the budget or appropriations act and as further prescribed by the Director of Finance. No appropriation transfers or changes between programs or agencies can be made without legislative authorization. Authorized transfers or changes, when made, should be reported to the State Legislature.

Budgetary control is maintained at the appropriation line item level established in the appropriation acts. Budgets are adopted for the Department's funds and are prepared on the cash basis of accounting, except for the encumbrance of purchase orders and contract obligations (basis difference), which is a basis of accounting other than GAAP.

Since budgetary basis differs from GAAP, budget and actual amounts in the budgetary comparison statements are presented on the budgetary basis. A reconciliation of revenues over expenditures (expenditures over revenues) on a budgetary basis at June 30, 2024, to excess of revenues over expenditures presented in conformity with GAAP follows:

	General	Deposit Beverage Container Deposit	Coronavirus State Fiscal Recovery Funds - Emergency Medical Service	Opioid Settlement Fund
Excess of revenues (under) expenditures and other sources (uses) - actual on a budgetary basis	\$ -	\$ (2,857,103)	\$ -	\$ 13,275,516
Current year's appropriations encumbered at June 30, 2024	42,254,894	31,695,416	-	568,234
Expenditures for liquidation of prior fiscal year encumbrances	(176,672,824)	(22,243,409)	(10,817,731)	-
Accruals and other adjustments	114,054,008	3,942,022	10,817,731	(562,055)
Transfers	(6,939,738)	-	-	459,991
Net change in fund balances - GAAP basis	<u>\$ (27,303,660)</u>	<u>\$ 10,536,926</u>	<u>\$ -</u>	<u>\$ 13,741,686</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

3. Loans Receivable

At June 30, 2024, the proprietary funds loans receivable consisted of loans to county governmental units for the water pollution control and drinking water treatment programs. The loans require annual, semi-annual or quarterly payments, including interest at 0.00% to 2.13%, commencing not later than one year after project completion, notice to proceed, final loan disbursement, or three years after loan agreement date. Final payment is due not later than twenty years after project completion. During the year ended June 30, 2024, approximately \$24.1 million in loans was forgiven. All loans and advances forgiven were in accordance with required conditions. Accrued interest receivable on the loans amounted to approximately \$617,000 at June 30, 2024.

The following is a schedule of principal payments due on loans for projects completed or in progress as of June 30, 2024:

<u>Year ending June 30,</u>	
2025	\$ 66,505,938
2026	66,872,089
2027	64,173,416
2028	55,820,852
2029	53,251,613
2030-2034	238,300,818
2035-2039	177,515,862
2040-2045	<u>50,515,152</u>
	<u><u>\$ 772,955,740</u></u>

As of June 30, 2024, the Department's proprietary funds were committed under existing loan agreements to the following counties:

	<u>Water Pollution Control Revolving Fund</u>	<u>Drinking Water Treatment Revolving Loan Fund</u>	<u>Total</u>
County of Kauai	\$ 17,500,000	\$ 5,000,000	\$ 22,500,000
County of Hawaii	9,350,000	-	9,350,000
City and County of Honolulu	-	5,610,000	5,610,000
Private Water Systems	-	1,906,870	1,906,870
County of Maui	-	1,502,403	1,502,403
	<u><u>\$ 26,850,000</u></u>	<u><u>\$ 14,019,273</u></u>	<u><u>\$ 40,869,273</u></u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

4. Capital Assets

Capital asset activity for governmental and business-type activities for the year ended June 30, 2024 was as follows:

	Balance July 1, 2023	Additions	Disposals	Balance June 30, 2024
Governmental Type Activities:				
Depreciable Assets:				
Land improvements	\$ 6,826,189	\$ -	\$ -	\$ 6,826,189
Building and improvements	386,704,623	22,461,637	-	409,166,260
Furniture and equipment	32,899,276	3,274,318	(1,755,911)	34,417,683
Total depreciable assets	426,430,088	25,735,955	(1,755,911)	450,410,132
Less Accumulated Depreciation:				
Land improvements	(3,216,048)	(212,851)	-	(3,428,899)
Building and improvements	(161,734,002)	(11,662,063)	-	(173,396,065)
Furniture and equipment	(26,890,620)	(2,309,568)	1,299,049	(27,901,139)
Total accumulated depreciation	(191,840,670)	(14,184,482)	1,299,049	(204,726,103)
Non-Depreciable Assets:				
Land	1,018,080	-	-	1,018,080
Amortizable Right-To-Use Assets:				
Building	3,954,906	1,730,780	-	5,685,686
Equipment	99,189	308,086	-	407,275
Subscription	806,660	6,827,079	-	7,633,739
Total amortizable right-to-use assets	4,860,755	8,865,945	-	13,726,700
Less Accumulated Amortization:				
Building	(646,146)	(814,441)	-	(1,460,587)
Equipment	(28,080)	(153,627)	-	(181,707)
Subscription	(537,774)	(865,023)	-	(1,402,797)
Total accumulated amortization	(1,212,000)	(1,833,091)	-	(3,045,091)
Governmental activities capital assets, net	<u>\$ 239,256,253</u>	<u>\$ 18,584,327</u>	<u>\$ (456,862)</u>	<u>\$ 257,383,718</u>
Business Type Activities				
Depreciable Assets:				
Furniture and equipment	\$ 3,569,740	\$ 40,242	\$ -	\$ 3,609,982
Less Accumulated Depreciation:				
Furniture and equipment	(3,354,030)	(136,324)	-	(3,490,354)
Business activities capital assets, net	<u>215,710</u>	<u>(96,082)</u>	<u>-</u>	<u>119,628</u>
Total Department capital assets, net	<u>\$ 239,471,963</u>	<u>\$ 18,488,245</u>	<u>\$ (456,862)</u>	<u>\$ 257,503,346</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

4. Capital Assets (continued)

Current period depreciation and amortization expense was charged to functions as follows:

	Governmental Activities	Business-Type Activities	Total
General administration	\$ 3,483,063	\$ -	\$ 3,483,063
Environmental health	1,399,701	136,324	1,536,025
Behavioral health	7,501,379	-	7,501,379
Health resources	3,633,430	-	3,633,430
Total	<u>\$ 16,017,573</u>	<u>\$ 136,324</u>	<u>\$ 16,153,897</u>

5. Accrued Vacation

The changes to the accrued vacation liability during the year ended June 30, 2024 were as follows:

	Governmental Activities	Business-Type Activities	Total
Balance at July 1, 2023	\$ 35,908,182	\$ 497,671	\$ 36,405,853
Increase	15,085,341	353,671	15,439,012
Decrease	<u>(17,895,464)</u>	<u>(216,473)</u>	<u>(18,111,937)</u>
Balance at June 30, 2024	33,098,059	634,869	33,732,928
Less: Current Portion	<u>13,064,912</u>	<u>196,440</u>	<u>13,261,352</u>
Noncurrent Portion	<u>\$ 20,033,147</u>	<u>\$ 438,429</u>	<u>\$ 20,471,576</u>

6. Beverage Container Deposits

The changes to the beverage container deposit liability during the year ended June 30, 2024 were as follows:

Balance as of July 1, 2023	\$ 2,572,405
Increase: Deposits received from distributors	49,024,940
Decrease: Payments made to recycling centers, net of refunds	(27,351,889)
Decrease: Unredeemed deposits recognized as revenue	<u>(20,811,105)</u>
Balance as of June 30, 2024	<u>\$ 3,434,351</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

7. Non-imposed Employee Fringe Benefits

Non-imposed employee fringe benefits related to general and State special fund salaries are funded by the State. These costs, totaling approximately \$99.8 million for the fiscal year ended June 30, 2024, have been reported as revenues and expenditures of the Department's general and State special revenue funds.

Payroll fringe benefit costs related to Federally-funded salaries are not funded by the State and are recorded as expenditures in the Federal special revenue funds.

8. Temporary Hazard Pay

The State entered into multiple settlement agreements regarding the Temporary Hazard Pay (THP) with certain unions for periods covering dates in March 2020 through March 2022, for those employees who performed essential functions during COVID-19 pandemic. Total accrued payroll for the fiscal year ended June 30, 2024, related to THP was approximately \$31.1 million.

Act 049, SLH 2024 provided emergency appropriations for public employment cost items and cost adjustments for employees of certain collective bargaining units. Effective July 1, 2024, the State appropriated a total of \$458.8 million as a result of a negotiated settlement for employees who met certain requirements during the COVID-19 pandemic.

As of March 28, 2025, the State continues to negotiate with the remaining unions, and it was not practical to estimate the total liability owed to eligible employees.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans

a. Employees' Retirement System

i. Plan Description

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

ii. Benefits Provided

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

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

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

Noncontributory Class

Retirement Benefits - General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

Death Benefits - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

Contributory Plan for Employees Hired Prior to July 1, 2012

Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and fire fighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump-sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Plan for Employees Hired After June 30, 2012

Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60. Police officers and fire fighters with 25 years of credited service are eligible to retire at age 55, provided the last five years is service credited in these occupations.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

Disability and Death Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

For police officers and firefighters, ordinary disability benefits are 1.75% of average final compensation for each year of service and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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

Hybrid Plan for Employees Hired Prior to July 1, 2012

Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

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

Hybrid Plan for Employees Hired After June 30, 2012

Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

Disability and Death Benefits - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

iii. Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2024 were 41% for police officers and firefighters and 24% for all other employees. Contributions to the pension plan from the Department were \$671,653 for the fiscal year ended June 30, 2024.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

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

At June 30, 2024, the Department reported a liability of \$6,911,289 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. The Department's proportion of the net pension liability was based on an allocation of the State's net pension liability based on the proportionate share of qualified payroll. At June 30, 2023, the Department's proportion of the State share was 0.09%, which decrease by 0.01% from its proportion measured as of June 30, 2022.

There were no changes in actuarial assumptions as of June 30, 2022 to June 30, 2023. There were no changes between the measurement date, June 30, 2023, and the reporting date, June 30, 2024, that are expected to have a significant effect on the proportionate share of the net pension liability.

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

iv. Net Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources, Related to Pensions (continued)

For the year ended June 30, 2024, the Department recognized pension expense of \$641,472. At June 30, 2024, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 62,832	\$ (4,887)
Changes in assumptions	85,335	(72,522)
Net difference between projected and actual earnings on pension plan investments	390,154	(327,712)
Changes in proportion and difference between Department contributions and proportionate share of contributions	53,743	(11,010)
Department contributions subsequent to the measurement date	671,653	-
	<u>\$ 1,263,717</u>	<u>\$ (416,131)</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

iv. Net Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources, Related to Pensions (continued)

The \$671,653 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal year ending June 30,</u>	
2025	\$ (17,241)
2026	(14,368)
2027	(51,877)
2028	181,275
2029	78,144
	<u>\$ 175,933</u>

v. Actuarial Assumptions

The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the Employees' Retirement System of the State of Hawaii on August 8, 2022, based on the 2021 Experience Study for the five-year period from July 1, 2016 through June 30, 2021:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return	7.00% per year, compounded annually including inflation

There were no changes to ad hoc postemployment benefits including cost of living allowances.

Post-retirement mortality rates are based on the 2022 Public Retirees of Hawaii mortality table with full generational projections in future years. Pre-retirement mortality rates are based on multiples of the Pub-2010 mortality table based on the occupation of the member.

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

v. Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments was determined using a “top down approach” of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as “re-sampling with a replacement” that directly keys in on specific plan-level risk factors as stipulated by the ERS Board of Trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns plus inflation) by the target asset allocation percentage. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Classes	Strategic Class Weights	Long-Term Expected Geometric Rate of Return
Broad growth		
Private equity	13.5%	10.0%
Global equity	20.0%	7.9%
Low volatility equity	4.0%	7.1%
Global options	4.0%	5.8%
Credit	6.0%	8.0%
Core real estate	6.0%	6.0%
Non-core real estate	4.5%	7.9%
Timber/agriculture/infrastructure	5.0%	7.2%
Diversifying strategies		
TIPS	2.0%	3.2%
Global macro	4.0%	6.0%
Reinsurance	4.0%	7.0%
Alternative risk premia	8.0%	5.0%
Long Treasuries	5.0%	3.8%
Intermediate government	4.0%	3.2%
Systematic trend following	10.0%	4.7%
	<u>100.0%</u>	

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

v. Actuarial Assumptions (continued)

Discount Rate - The discount rate used to measure the net pension liability was 7.00%, consistent with the rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Department's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Department's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net pension liability	\$ 9,200,979	\$ 6,911,289	\$ 5,015,033

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

vi. Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at <http://www.ers.hawaii.gov/resources/financials>.

The State's comprehensive annual financial report contains further disclosures related to the State's proportionate share of the net pension liability and employer pension contributions.

vii. Payables to the Pension Plan

At June 30, 2024, there was no payable to the ERS.

b. Deferred Compensation Plan

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

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but has the duty of due care that would be required of an ordinary prudent investor.

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits

i. Plan Description

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

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

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

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

Department of Health

State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

i. Plan Description (continued)

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

ii. Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Department was \$638,131 for the fiscal year ended June 30, 2024. The employer is required to make all contributions for members.

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

At June 30, 2024, the Department reported a liability of \$5,457,049 for its proportionate share of net OPEB liability of the State. The net OPEB liability was measured as of July 1, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The State's proportion of the net OPEB liability was based on a projection of the State's long-term share of contributions to the EUTF relative to projected contributions of all participants, actuarially determined. The Department's proportion of the net OPEB liability was based on an allocation of the State's net OPEB liability based on the proportionate share of qualified payroll. At June 30, 2023, the Department's proportion of the State's share was 0.03%, which decreased by 0.02% from its proportion measured as of June 30, 2022.

There were no changes in assumptions between the measurement date, July 1, 2023, and the reporting date, June 30, 2024, that are expected to have a significant effect on the proportionate share of the net OPEB liability.

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

iii. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

For the year ended June 30, 2024, the Department recognized OPEB expense of \$99,273. At June 30, 2024, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (739,368)
Changes in assumptions	31,966	(128,673)
Net difference between projected and actual earnings on investments	204,824	-
Department contributions subsequent to the measurement date	638,539	-
	<u>\$ 875,329</u>	<u>\$ (868,041)</u>

The \$638,539 reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal year ending June 30,</u>	
2025	\$ (194,120)
2026	(204,048)
2027	(130,967)
2028	(94,255)
2029	(7,861)
	<u>\$ (631,251)</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

iv. Actuarial Assumptions

The total OPEB liability in the July 1, 2023 actuarial valuation was determined using the following actuarial methods and assumptions adopted by the EUTF's Board of Trustees on January 9, 2023, based on the experience study covering the five-year period June 30, 2021 as conducted for the ERS:

Inflation	2.50%
Salary increases	3.75% to 6.75% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates:	
PPO*	Initial rate of 6.30% declining to a rate of 4.25% after 21 years.
HMO*	Initial rate of 6.30% declining to a rate of 4.25% after 21 years.
Contribution	Initial rate of 5.00% declining to a rate of 4.25% after 21 years.
Dental	4.00%
Vision	2.50%
Life insurance	0.00%

*Blended rates for medical and prescription drug

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

iv. Actuarial Assumptions (continued)

Asset Class	Target Allocation	Long-term Expected Rate of Return
Private equity	15.0%	10.0%
U.S. microcap	3.0%	8.7%
Global equity	27.5%	7.6%
Global options	0.0%	4.9%
Real assets	12.0%	4.3%
Private credit	10.0%	7.8%
TIPS	5.0%	2.0%
Long Treasuries	5.5%	2.4%
Reinsurance	5.0%	3.4%
Alternative risk premia	5.0%	3.3%
Trend following	10.0%	2.1%
Tail risk/ Long volatility	2.0%	-1.1%
	<u>100.0%</u>	

v. Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00%. Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on the EUTF's investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

vi. Changes in Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement date, July 1, 2023.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balance	\$ 7,433,461	\$ 1,933,586	\$ 5,499,875
Service cost	78,476	-	78,476
Interest on the total OPEB liability	268,698	-	268,698
Difference between expected and actual experience	(26,435)	-	(26,435)
Changes of assumptions	-	-	-
Employer contributions	-	298,131	(298,131)
Net investment income	-	65,258	(65,258)
Benefit payments	(149,438)	(149,438)	-
Administrative expense	-	(93)	93
Other	-	269	(269)
Net changes	171,301	214,127	(42,826)
Ending balance	\$ 7,604,762	\$ 2,147,713	\$ 5,457,049

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

vii. Sensitivity of the Department's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Department's proportionate share of the net OPEB liability calculated using the discount rate of 7.00%, as well as what the Department's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net OPEB liability	\$ 6,823,942	\$ 5,457,049	\$ 4,366,035

viii. Sensitivity of the Department's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the Department's proportionate share of the net OPEB liability calculated using the assumed healthcare cost trend rates, as well as what the Department's proportionate share of the net OPEB liability would be if it were calculated using the trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Department's proportionate share of the net OPEB liability	\$ 4,236,843	\$ 5,457,049	\$ 7,018,867

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

ix. OPEB Plan Fiduciary Net Position

The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. The EUTF's complete financial statements are available at <http://eutf.hawaii.gov/reports/>.

x. Payables to the OPEB Plan

At June 30, 2024, there was no payable to the EUTF.

xi. Required Supplementary Information and Disclosures

The State's ACFR includes the required footnote disclosures and supplementary information on the State's OPEB plan.

Department of Health **State of Hawaii**

Notes to Basic Financial Statements
June 30, 2024

10. Commitments and Contingencies

a. Leases

The Department has entered into leases for building space and equipment use. The terms of the agreements range from 1 to 14 years through fiscal year 2038. The calculated interest rates range from 2.87% to 5.35%. Principal and interest payment to maturity are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 739,395	\$ 191,923	\$ 931,318
2026	496,784	164,252	661,036
2027	458,147	142,904	601,051
2028	481,138	121,045	602,183
2029	457,957	98,524	556,481
2030-2034	1,456,861	249,460	1,706,321
2035-2038	529,284	44,552	573,836
	<u>\$ 4,619,566</u>	<u>\$ 1,012,660</u>	<u>\$ 5,632,226</u>

b. SBITA

The Department has entered into a subscription agreement. The remaining term of the agreements range from 0 to 6 years through fiscal year 2030. The calculated interest rates range 3.93% from 3.93% to 5.11%. Principal and interest payments to maturity are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 1,312,347	\$ 301,022	\$ 1,613,369
2026	1,172,461	235,474	1,407,935
2027	1,283,637	165,900	1,449,537
2028	987,812	104,068	1,091,880
2029	1,073,524	50,403	1,123,927
2030	566,230	3,766	569,996
	<u>\$ 6,396,011</u>	<u>\$ 860,633</u>	<u>\$ 7,256,644</u>

Department of Health State of Hawaii

Notes to Basic Financial Statements
June 30, 2024

10. Commitments and Contingencies (continued)

c. Insurance Coverage

The State maintains certain insurance coverage to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2024, the State recorded estimated losses for workers' compensation, automobile, and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund.

The Department's portion of the State's workers' compensation expenditures for the year ended June 30, 2024 were approximately \$604,000 and \$32,000 for the general fund and other funds, respectively.

d. Litigation

The Department is a party to various legal proceedings, the outcome of which, in the opinion of management, will not have a material adverse effect on the Department's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State's General Fund.

SUPPLEMENTARY INFORMATION

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2024

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services				
Direct Programs:				
Special Programs for the Aging - Title VII Chapter 3	468	93.041	\$ -	\$ 41,345
Special Programs for the Aging - Title VII Chapter 2	468	93.042	-	107,304
Special Programs for the Aging - Title III Part D:				
COVID 19 Special Programs for the Aging - Title III Part D	401	93.043	124,142	124,142
Special Programs for the Aging - Title III Part D	401	93.043	55,504	55,504
Subtotal Special Programs for the Aging - Title III Part D			179,646	179,646
Aging Cluster:				
COVID 19 Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers	401	93.044	867,212	867,212
Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers	401	93.044	1,761,359	1,856,438
Subtotal Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers			2,628,571	2,723,650
COVID 19 Special Programs for the Aging - Title III Part C - Nutrition Services:				
Special Programs for the Aging - Title III Part C - Nutrition Services	401	93.045	912,421	912,421
Special Programs for the Aging - Title III Part C - Nutrition Services:				
Special Programs for the Aging - Title III Part C - Nutrition Services	401	93.045	2,957,627	3,380,827
Subtotal Special Programs for the Aging - Title III Part C - Nutrition Services			3,870,048	4,293,248
Nutrition Services Incentive Program	406	93.053	674,011	674,011
Subtotal Aging Cluster			* 7,172,630	7,690,909
Special Programs for the Aging - Title IV and Title II - Discretionary Projects	405	93.048	299,769	521,305
National Family Caregiver Support, Title III, Part E:				
COVID 19 National Family Caregiver Support, Title III, Part E	401	93.052	172,394	172,394
National Family Caregiver Support, Title III, Part E	401	93.052	824,417	824,417
Subtotal National Family Caregiver Support, Title III, Part E			996,811	996,811
Public Health Emergency Preparedness	1297	93.069	*	5,292,856
Medicare Enrollment Assistance Program	765, 766, 767	93.071	-	160,449
Affordable Care Act (ACA) Personal Responsibility Education Program	613	93.092	61,116	113,856
Food and Drug Administration Research	493, 494, 710	93.103	-	349,144
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	430	93.104	1,493,377	2,957,987
Maternal and Child Health Federal Consolidated Programs:				
COVID 19 Maternal and Child Health Federal Consolidated Programs	220	93.110	113,110	295,245
Maternal and Child Health Federal Consolidated Programs	Various	93.110	535,419	843,647
Subtotal Maternal and Child Health Federal Consolidated Programs			648,529	1,138,892
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	247	93.116	-	1,098,059
Emergency Medical Services for Children	670	93.127	-	177,398
Cooperative Agreements to States/Territories for the				
Coordination and Development of Primary Care Offices	298	93.130	29,702	188,078

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2024

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Injury Prevention and Control Research and State and Community Based Programs	Various	93.136	\$ 182,538	\$ 2,335,175
Projects for Assistance in Transition from Homelessness	34208, 35208	93.150	94,688	94,688
COVID 19 Rural Health Research Centers	579	93.155	178,482	178,482
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	780	93.197	1,123	409,251
Hospitalization and Care of Hansen's Disease	264	93.215	-	864,346
State Rural Hospital Flexibility Program	415	93.241	426,648	636,165
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	Various	93.243	* 1,084,775	2,295,889
Universal Newborn Hearing Screening	416	93.251	104,724	120,476
Immunization Cooperative Agreements:				
COVID 19 Immunization Cooperative Agreements	Various	93.268	-	4,435,936
Immunization Cooperative Agreements	457	93.268	-	2,213,431
Subtotal Immunization Cooperative Agreements			* -	6,649,367
Adult Viral Hepatitis Prevention and Control	397	93.270	-	178,764
Small Rural Hospital Improvement Grant Program	454	93.301	112,295	112,295
Racial and Ethnic Approaches to Community Health	762	93.304	-	7,598
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	301	93.314	36,019	154,947
Epidemiology and Laboratory Capacity for Infectious Diseases:				
COVID 19 Epidemiology and Laboratory Capacity for Infectious Diseases	various	93.323	-	22,340,922
Epidemiology and Laboratory Capacity for Infectious Diseases	various	93.323	-	2,760,527
Subtotal Epidemiology and Laboratory Capacity for Infectious Diseases			* -	25,101,449
State Health Insurance Assistance Program	403	93.324	111,622	394,484
BOLD Public Health Program	773	93.334	120,940	174,630
Behavioral Risk Factor Surveillance System	747	93.336	-	613,726
COVID 19 Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	576, 706	93.354	-	3,908,927
Public Health Emergency Response: Cooperative Agreement for Emergency Response Public Health Crisis Response	527	93.354	-	60,534
Subtotal Public Health Emergency Response: Cooperative Agreement for Emergency Response Public Health Crisis Response			* -	3,969,461
National and State Tobacco Control Program	772	93.387	-	1,119,718
COVID 19 National Initiative to Address COVID-19 Health Disparities Among Populations at High-Risk and Underserved, Including Racial and Ethnic Minority Populations and Rural Communities	357, 358	93.391	-	8,548,272
Improving Food Security, Access to Save Physical Activity, and Social Connectedness	235	93.421	-	3,421
Improving the Health of Americans Through Prevention and Management of Diabetes and Heart Disease and Stroke	657, 702	93.426	-	976,207
Well-Integrated Screening and Evaluation for Women Across the Nation	239	93.436	-	53,393
COVID 19 Community Health Workers for COVID Response and Resilient Communities (CCR)	487	93.495	-	1,626,076
Community-Based Child Abuse Prevention Grants				
COVID 19 Community-Based Child Abuse Prevention Grants	408	93.590	400,206	411,829
Community-Based Child Abuse Prevention Grants	270, 408	93.590	397,888	558,596
Subtotal Community-Based Child Abuse Prevention Grants			798,094	970,425

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2024

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Developmental Disabilities Basic Support and Advocacy Grants				
COVID 19 Developmental Disabilities Basic Support and Advocacy Grants	373	93.630	\$ -	\$ 9,773
Developmental Disabilities Basic Support and Advocacy Grants	240	93.630	-	693,740
Subtotal Developmental Disabilities Basic Support and Advocacy Grants			-	703,513
COVID 19 Emergency Grants to Address Mental and Substance Use Disorders				
During COVID-19	519	93.665	98,585	98,585
Maui County Certified Community Behavioral Health Clinic Planning, Development and Implementation	286	93.696	-	1,418,544
Elder Abuse Prevention Intervention Program	468	93.747	-	12,390
Medicaid Cluster:				
COVID 19 State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	386	93.777	-	44,282
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	221, 380, 742	93.777	-	3,520,224
Medical Assistance Program	662	93.778	-	606,125
Subtotal Medicaid Cluster			*	-
				4,170,631
Opioid STR	891	93.788	*	4,574,814
Paul Coverdell National Acute Stroke Program	396	93.810	-	396,784
Maternal, Infant and Early Childhood Home Visiting Grant Program:				
COVID 19 Maternal, Infant and Early Childhood Home Visiting Grant Program	409, 605	93.870	459,303	459,303
Maternal, Infant and Early Childhood Home Visiting Grant Program	602	93.870	2,627,911	3,317,675
Subtotal Maternal, Infant and Early Childhood Home Visiting Grant Program			3,087,214	3,776,978
National Bioterrorism Hospital Preparedness Program				
COVID 19 National Bioterrorism Hospital Preparedness Program	499	93.889	-	9,070
National Bioterrorism Hospital Preparedness Program	435	93.889	878,869	1,088,997
Subtotal National Bioterrorism Hospital Preparedness Program			878,869	1,098,067
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	448	93.898	-	885,555
Grants to States for Operation of Offices of Rural Health	299	93.913	49,987	231,145
HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)	293	93.917	2,153,815	2,153,815
HIV Prevention Activities - Health Department Based	266	93.940	-	1,033,421
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	319	93.946	-	175,804
Block Grants for Community Mental Health Services:				
COVID 19 Block Grants for Community Mental Health Services	201	93.958	-	3,912,612
Block Grants for Community Mental Health Services	various	93.958	4,754,849	3,837,486
Subtotal Block Grants for Community Mental Health Services			*	4,754,849
				7,750,098
Block Grants for Prevention and Treatment of Substance Abuse				
COVID 19 Block Grants for Prevention and Treatment of Substance Abuse	347, 952	93.959	7,654,069	7,654,069
Block Grants for Prevention and Treatment of Substance Abuse	various	93.959	7,576,101	7,631,608
Subtotal Block Grants for Prevention and Treatment of Substance Abuse			*	15,230,170
				15,285,677
Strengthening U.S. Public Health Infrastructure, Workforce and Data Systems	588	93.967	-	493,096
Preventive Health Services - Sexually Transmitted Diseases Control Grants	256, 268	93.977	-	676,171
Mental Health Disaster Assistance and Emergency Mental Health	363	93.982	-	262,030
Advancing Health Equity for Priority Populations with or at Risk for Diabetes in Hawaii	655	93.988	-	243,617
Preventive Health and Health Services Block Grant	41203, 42203	93.991	-	888,441
Maternal and Child Health Services Block Grant to the States Improvement	41201, 42201	93.994	124,798	2,410,617

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2024

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Transformation Transfer Initiative	242	93.UNKNOWN	\$ -	\$ 28,600
VSCP Data & VSCP Special Projects	285	93.UNKNOWN	-	360,016
Hawaii State Mental Health Data Infrastructure Contract for Quality Improvement	318	93.UNKNOWN	-	91,649
Drug and Alcohol Services Information System	371	93.UNKNOWN	5,750	51,449
Prospective Comparison of TST vs. IGRAs	626	93.UNKNOWN	-	402,821
US FDA Tobacco Retail Inspection Contract/Hawaii State Enforcement	633	93.UNKNOWN	282,322	394,764
Total Department of Health and Human Services Programs			45,374,701	129,539,191
Department of Agriculture				
Direct Programs:				
Plant and Animal Disease, Pest Control, and Animal Care	599, 740	10.025	-	139,969
Special Supplemental Nutrition Program for Women, Infants and Children	275, 295, 550	10.557	* 3,903,162	31,515,069
WIC Grants to States (WGS)	395, 550	10.578	19,433	137,551
Total Department of Agriculture Programs			3,922,595	31,792,589
Department of Defense				
Direct Program--				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	245	12.113	-	469,169
Total Department of Defense Programs			-	469,169
Environmental Protection Agency				
Direct Programs:				
Air Pollution Control Program Support	233	66.001	-	1,011,507
Surveys, Studies, Research, Investigations, Demonstrations and				
Special Purpose Activities Relating to the Clean Air Act	294	66.034	-	17,309
Diesel Emissions Reduction Act State Grants	233	66.040	-	1,148,427
Multipurpose Grants to States and Tribes	667	66.204	-	10,000
Water Pollution Control State, Interstate, and Tribal Program				
Support	231, 601	66.419	-	2,151,717
State Public Water System Supervision	232	66.432	-	535,561
Reduction of Lead in Drinking Water	272	66.443	-	161,486
Water Quality Management Planning	16284	66.454	-	166,194
Capitalization Grants for Clean Water State Revolving Funds	various	66.458	* 22,445,300	22,445,300
Nonpoint Source Implementation Grants	9290	66.460	-	1,318,595
Capitalization Grants for Drinking Water State Revolving Funds	various	66.468	* 17,344,958	17,344,958
Beach Monitoring and Notification Program	8291	66.472	-	293,582
Performance Partnership Grants	330	66.605	-	167,350
Environmental Information Exchange Network Grant Program				
and Related Assistance	570	66.608	-	340,000
Toxic Substances Compliance Monitoring Cooperative Agreements	243	66.701	-	373
Hazardous Waste Management State Program Support	230	66.801	-	481,724
Superfund State, Political Subdivision, and Indian Tribe Site-				
Specific Cooperative Agreements	394	66.802	-	278,715
Underground Storage Tanks Prevention, Detection and				
Compliance Program	339	66.804	-	211,024
Leaking Underground Storage Tank Trust Fund Corrective Action Program	258	66.805	-	489,236
State and Tribal Response Program Grants	360, 362	66.817	-	1,063,002
Total Environmental Protection Agency Programs			39,790,258	49,636,060

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2024

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Education				
Direct Program--				
Special Education - Grants for Infants and Families	213	84.181A	\$ 132,723	\$ 1,823,516
COVID 19 Special Education - Grants for Infants and Families	269	84.181X	401,524	545,273
Subtotal Special Education - Grants for Infants and Families			534,247	2,368,789
Total Department of Education Programs			534,247	2,368,789
Department of Treasury				
Passed-through from the State of Hawaii--				
COVID-19 Coronavirus State Fiscal Recovery Fund	various	21.027	* 1,044,553	22,744,098
Total Department of Treasury Programs			1,044,553	22,744,098
Department of Homeland Security				
Direct Program--				
Crisis Counseling Immediate Services - Maui Wildfires	438	97.032	-	296,155
Total Department of Homeland Security Programs			-	296,155
Food and Drug Administration				
Direct Program--				
Hawaii's FERN Microbiology Laboratory's Role in Keeping Human Food Products Safe	740	99.103	-	43,691
Total Food and Drug Administration Programs			-	43,691
Department of Justice				
Direct Program--				
Second Chance Act Reentry Initiative	480	16.812	-	7,698
Total Department of Justice Programs			-	7,698
Total Expenditures of Federal Awards			\$ 90,666,354	\$ 236,897,440

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule

Department of Health State of Hawaii

Notes to the Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2024

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the State of Hawaii, Department of Health (the Department) under programs of the federal government for the fiscal year ended June 30, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, change in net position, or cash flows of the Department.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

3. Loans Outstanding

The Department had the following loan balances outstanding at June 30, 2024. Loans made during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards.

Program Title	ALN	Amount Outstanding
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 44,310,996
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 25,751,369

4. Noncash Awards

The Department also receives noncash awards for the Immunization Cooperative Agreements Program. The Department expended approximately \$3,800,000 in vaccines for the Immunization Cooperative Agreements Program for the fiscal year ended June 30, 2024.

5. Indirect Cost Rate

The Department has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

PART II

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



A Hawaii Limited Liability Partnership

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

Independent Auditor's Report

Office of the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (the Department), as of and for the fiscal year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 28, 2025.

Report on Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2024-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2024-002 to 2024-003 to be significant deficiencies.

Report on Compliance and Other Matters

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

Department's Response to Findings

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

Purpose of this Report

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

KMH LLP

KMH LLP

Honolulu, Hawaii

March 28, 2025

PART III

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



A Hawaii Limited Liability Partnership

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

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the State of Hawaii, Department of Health's (the Department's) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2024. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on Major Federal Programs Identified in the Table Below

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal programs identified in the table below for the year ended June 30, 2024.

Assistance Listing Number	Name of Federal Program
10.557	Special Supplemental Nutrition Program for Woman, Infants and Children
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance
93.788	Opioid STR
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2024.

Basis for Qualified and Unmodified Opinions

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

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

Matters Giving Rise to Qualified Opinion on Major Federal Programs Identified in Table Below

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

Finding No.	Assistance Listing Number	Name of Federal Program	Compliance Requirement
2024-004	10.557	Special Supplemental Nutrition Program for Woman, Infants and Children	Cash Management
2024-005	93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	Reporting
2024-006	93.788	Opioid STR	Reporting
2024-007	93.958	Block Grants for Community Mental Health Services	Matching, Level of Effort, Earmarking
2024-008	93.958	Block Grants for Community Mental Health Services	Subrecipient Monitoring
2024-009	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Reporting

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

Responsibilities of Management for Compliance

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

Auditor's Responsibility for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

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

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

Other Matters

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

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2024-004 through 2024-009 to be material weaknesses.

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

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

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 28, 2025

PART IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

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

Type of auditor’s report issued on compliance for major federal programs: Unmodified for all major federal programs except for Special Supplemental Nutrition Program for Woman, Infants and Children, Substance Abuse and Mental Health Services – Projects of Regional and National Significance, Opioid STR, Block Grants for Community Mental Health Services and Block Grants for Prevention and Treatment of Substance Abuse, which were qualified.

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

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

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

Identification of major federal programs:

Assistance Listing Number	Name of Federal Program or Cluster
Department of Health & Human Services	
Aging Cluster:	
93.044	Special Programs for Aging – Title III Part B – Grants for Supportive Services and Senior Centers
93.045	Special Programs for Aging – Title III Part C – Nutrition Services
93.053	Nutrition Services Incentive Program
93.069	Public Health Emergency Preparedness
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance
93.268	Immunization Cooperative Agreements
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases
93.354	Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response
Medicaid Cluster:	
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program
93.788	Opioid STR
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse
Environmental Protection Agency	
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
Department of Treasury	
21.027	Coronavirus State Fiscal Recovery Fund
Department of Agriculture	
10.557	Special Supplemental Nutrition Program for Woman, Infants and Children

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2024

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

Dollar threshold used to distinguish between type A and type B
programs:

\$3,000,000

Auditee qualified as low-risk auditee?

☐ Yes

☒ No

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

Section II – Financial Statement Findings

Finding No.: 2024-001 Vouchers Payable Accrual – Deposit Beverage Container Deposit Fund

Type of Finding: Material Weakness

Criteria: In accordance with Governmental Accounting Standard Board (GASB) Statement No. 34, fund financial statements should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this focus/basis expenditures should be recognized in the period in which the fund liability is incurred.

Condition: During our audit, it was determined that there were additional vouchers payable that were not recorded, which resulted in Deposit Beverage Container Deposit Fund's (the Fund's) fund balance being overstated. We proposed and management accepted an adjustment of approximately \$733,000 to increase vouchers payable and expenditures. The adjustment was recorded in the Fund's financial statements as of June 30, 2024.

Context: Expenditures that were incurred but not paid by year-end are accrued. Management is responsible for reviewing accruals to ensure they are complete and accurate. The error noted above was detected during the audit when unusual variances were noted for expenditures.

Cause: Management was not diligent in identifying outstanding accruals.

Effect: The lack of diligence in review increases the risk of material misstatements as demonstrated by the results of this year's audit.

Identification as a Repeat Finding, if applicable: Not Applicable

Recommendation: We recommend that management perform a more diligent review of its accruals.

Views of Responsible Officials: Client agrees with finding, and the unabridged version of their response can be found in the Corrective Action Plan issued by the Department.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

Section II – Financial Statement Findings (continued)

Finding No.: 2024-002 Reliance on Third Party Certifications

Type of Finding: Significant Deficiency

Criteria: Section 342G-105, HRS, states that payment of the deposit beverage container fee and deposits shall be made monthly, based on inventory reports of the deposit beverage distributors. All deposit beverage distributors shall submit to the Department documentation in sufficient detail that identifies the net number of deposit beverage containers sold, donated, or transferred, by container size and type.

In addition, Section 342G-110, HRS, specifies that the deposit on each filled deposit beverage container shall be paid by the beverage distributor, who manufactures or imports beverages in deposit beverage containers. Beverage distributors shall also pay a deposit beverage container fee and register with the State.

Section 342G-119, HRS, specifies that the Department shall pay certified redemption centers handling fees and deposit refunds based on collection reports submitted by the redemption centers. The redemption reports include the number or weight of deposit beverage containers of each material type accepted at the redemption center for the reporting period; the amount of refunds paid out by material type; the number or weight of deposit beverage containers of each material type transported out of state or to a permitted recycling facility; and copies of out-of-state transport and weight receipts or acceptance receipts from permitted recycling facilities. Additionally, Section 11-282-47, Hawaii Administrative Rules, states that the Department shall pay certified redemption centers handling fees and refund values based on reports submitted by the redemption centers to the Department.

Section 342G-103, HRS, requires all beverage distributors operating within the State to register with the Department and maintain records reflecting the manufacture of their beverages in deposit beverage containers as well as the importation and exportation of deposit beverage containers. The records shall be made available, upon request, for inspection by the Department.

Similarly Section 342G-121, HRS, requires distributors and redemption centers to make their records available upon request by the Department, a duly authorized agent of the Department, or the Office of the Auditor.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

Section II – Financial Statement Findings (continued)

Condition: The Deposit Beverage Container Program (Program) receives beverage container deposits and container fees from distributors and refunds deposits and pays handling fees to redemption centers based on certified information. The Program does not have procedures or processes in place to validate the information being provided by redemption centers and distributors and relies solely on their certifications.

Context and Cause: As noted below, this is a recurring finding. The Department is still in progress with its corrective action plans.

Effect: Overreliance on the self-reporting by distributors and redemption centers may result in underpayments on deposits and the related container fees received by the Department to administer the program, overpayments of deposit refunds and handling fees to redemption centers, and an overstated redemption rate. An overstated redemption rate could result in a misstatement in the Department's financial statements, as well as higher container fees for consumers to support the program.

The Program could mitigate the risk of fraud (underpayments by distributors and overpayments to redemption centers) by implementing a systematic process for monitoring the activities of and reports submitted by distributors and redemption centers. According to management, the Program has been unable to establish a systematic monitoring process due to insufficient staff positions and turnover.

Identification as a Repeat Finding, if applicable: See finding 2023-003 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend that the Program perform the following: (1) develop a risk-based process to select distributor and redemption center reports submitted to the Program to audit on a periodic basis; (2) summarize the results of distributor and redemption center audits and assess whether enforcement actions should be considered to ensure amounts that are being reported are appropriate; and (3) modify the Program requirements in order to increase distributors' accountability for information provided to the Program.

Views of Responsible Officials: Client agrees with finding, and the unabridged version of their response can be found in the Corrective Action Plan issued by the Department.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

Section II – Financial Statement Findings (continued)

Finding No.: 2024-003 Schedule of Expenditures of Federal Awards (SEFA) Preparation

Type of Finding: Significant Deficiency

Criteria: The Office of Management and Budget (OMB) issued Uniform Guidance, which requires nonfederal entities that expend \$750,000 or more in federal awards a year to have a Single Audit conducted on its federal award programs and SEFA. 2 CFR 200.510(b) states "the auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended... At a minimum, the schedule must...(4) include the total amount provided to subrecipients from each Federal program..."

Condition: During the audit, we proposed and the Department recorded an adjustment to increase the total amount provided to subrecipients originally provided by \$4,235,410 for Block Grants for Community Mental Health Services (Assistance Listing Number 93.958).

Context: Due to the diversity and number of Federal programs, the Administrative Services Office ("ASO") relies on program heads to properly identify and classify Federal expenditures and expenditures passed through to subrecipients. Program heads and personnel are required to submit total Federal expenditures and the portion of those Federal expenditures that are passed through to subrecipients to ASO for final financial reporting.

Cause: Incorrect amount in the SEFA was primarily caused by a lack of verification of final program expenditures passed through to subrecipients at the program level. In this instance, there was a lack of understanding of the definition of a subrecipient versus a contractor at the program level.

Effect: The lack of verification and understanding resulted in inaccurate expenditures passed through to subrecipients being reported in the SEFA.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2024

Section II – Financial Statement Findings (continued)

Identification as a Repeat Finding, if applicable: See finding 2023-004 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend that the Department be more diligent in following their process of compiling, verifying and reconciling the Schedule of Expenditures of Federal Awards, including the amounts reported as passed through to subrecipients.

Views of Responsible Officials: Client agrees with finding, and the unabridged version of their response can be found in the Corrective Action Plan issued by the Department.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

Section III – Federal Award Findings and Questioned Costs

Finding No.: 2024-004	Cash Management
Federal Agency:	Department of Agriculture
Assistance Listing No.:	10.557
Requirement:	Cash Management
Type of Finding:	Material Noncompliance and Material Weakness
Program:	Special Supplemental Nutrition Program for Woman, Infants, and Children
Federal award no. and year:	7HI700HI7 10/01/2022 – 09/30/2023 10/01/2023 – 09/30/2024 7HI700HI1 10/01/2020 – 09/30/2023 10/01/2022 – 09/30/2025

Criteria: The federal award program noted above is not subject to the Treasury-State Cash Management Improvement Act agreement and, as such, is subject to 2 CFR 200.305(b), which states:

“The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity for direct program or project costs and the proportionate share of any allowable indirect costs. The non-Federal entity must make timely payment to contractors in accordance with the contract provisions.”

2 CFR section 200.303 requires that non-federal entities receiving federal awards establish and maintain internal control over the federal awards that provides reasonable assurance that the non-federal entity is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.

The State of Hawaii, Department of Budget and Finance has determined and communicated in Finance Memorandum 20-02 that their standard for an “administratively feasible time period” was 21 calendar days.

Condition: During the testing of the Department’s cash management procedures, it was determined that eight out of sixty payments tested were not distributed within 21 days of the draw down of funds. For the items tested, the time elapsed between draw down and payment ranged from 22 to 44 days.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

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

Context: During the fiscal year ended June 30, 2024, the program expended \$9,608,301 (excluding food expenditures).

Cause: The Department draws down federal funds that will be needed based on the expenditures that must be paid. However, since deposits must be posted prior to the processing of payments or disbursing of the funds, it is difficult for the Department to disburse federal funds in accordance with 2 CFR 200.305 (b). Also, the State's payment process requires all State departments to process payments through DAGS resulting in processing delays.

Effect: Noncompliance with federal regulations could result in a loss of funding that may jeopardize the operations of the Department's federally funded programs.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: See finding 2023-011 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend that the Department work with DAGS and the Department of Budget and Finance to ensure compliance with established standard and timely disbursement of federal funds in accordance with 2 CFR 200.305(b).

Views of Responsible Officials: Client agrees with finding, and the unabridged version of their response can be found in the Corrective Action Plan issued by the Department.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

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

Finding No.: 2024-005
Federal Agency: Department of Health and Human Services (DHHS)
Assistance Listing No.: 93.243
Requirement: Reporting
Type of Finding: Material Noncompliance and Material Weakness
Program: Substance Abuse and Mental Health Services - Projects of Regional and National Significance
Federal award no. and year: 5H79SP081001-05 09/30/22 – 03/29/24
6H79SP083658-01 09/30/23 – 09/29/24

Criteria: Under 2 CFR Appendix A to Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). For subaward information, recipients of grants or cooperative agreements are required to report no later than the end of the month following the month in which the obligation was made.

Condition: We noted the program did not report first-tier subawards of \$30,000 or more to FSRS.

Context: During the audit, we were informed by Department personnel that required information on first-tier subawards of \$30,000 or more were not reported to FSRS, a requirement that is included in the program's notice of awards. The following table summarizes our findings:

Transactions Tested	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
9	9	9	-	-
Dollar Amount of Tested Transactions	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$1,191,773	\$1,191,773	\$1,191,773	-	-

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

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

Cause: Due to the timing of when the program was made aware of the prior year finding and the fiscal year end, there was insufficient time to properly implement corrective action. Based on inquiry with Department personnel, we noted that the failure to report first-tier subawards to FSRS was caused by a lack of time and inadequate understanding of FSRS due dates and reporting requirements.

Effect: Failure to report first-tier subawards of \$30,000 or more to FSRS results in noncompliance with the reporting requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: See finding 2023-005 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend program management complete the implementation of the policies and procedures related to reporting subawards to FSRS to ensure compliance with Federal requirements.

Views of Responsible Officials: Client agrees with finding, and the unabridged version of their response can be found in the Corrective Action Plan issued by the Department.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

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

Finding No.:	2024-006	Reporting
Federal Agency:		Department of Health and Human Services (DHHS)
Assistance Listing No.:		93.788
Requirement:		Reporting
Type of Finding:		Material Noncompliance and Material Weakness
Program:		Opioid STR
Federal award no. and year:	6H79TI083293-02	09/30/21 – 09/29/23
	6H79TI085722-01	09/30/22 – 09/29/23
	6H79TI085722-02	09/30/23 – 09/29/24

Criteria: Under 2 CFR Appendix A to Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). For subaward information, recipients of grants or cooperative agreements are required to report no later than the end of the month following the month in which the obligation was made.

2 CFR Section 200.327 states that “(financial) information must be collected with the frequency required by the terms and conditions of the Federal award, but no less frequently than annually nor more frequently than quarterly except in unusual circumstances.” Under this reporting requirement, the program must submit a Federal Financial Report (FFR) within 90 days after the close of the statutory grant period.

Condition: We noted the program did not report first-tier subawards of \$30,000 or more to FSRS. We further noted that one FFR was not timely submitted.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

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

Context: During the audit, we were informed by Department personnel that required information on first-tier subawards of \$30,000 or more were not reported to FSRS, a requirement that is included in the program’s notice of awards. The following table summarizes our findings:

Transactions Tested	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
24	24	24	-	-
Dollar Amount of Tested Transactions	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$3,891,933	\$3,891,933	\$3,891,933	-	-

The program was required to submit one FFR during the year. During the audit, we noted that the FFR was submitted 138 days after the close of the statutory grant period.

Cause: Due to the timing of when the program was made aware of the prior year finding and the fiscal year end, there was insufficient time to properly implement corrective action. Based on inquiry with Department personnel, we noted that the failure to report first-tier subawards to FSRS was caused by a lack of time and inadequate understanding of FSRS due dates and reporting requirements.

In addition, we noted that the delay in submitting the FFRs was caused by a lack of personnel available to monitor reporting requirements and complete reporting requirements timely.

Effect: Failure to report first-tier subawards of \$30,000 or more and failure to timely submit FFRs results in noncompliance with the reporting requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: See finding 2023-007 included in the Summary Schedule of Prior Audit Findings.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2024

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

Recommendation: We recommend program management be more diligent in following Federal deadlines and grant agreements in order to ensure compliance with Federal requirements. We also recommend program management complete the implementation of the policies and procedures related to reporting subawards to FSRS to ensure compliance with Federal requirements.

Views of Responsible Officials: Client agrees with finding, and the unabridged version of their response can be found in the Corrective Action Plan issued by the Department.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

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

Finding No.: 2024-007	Earmarking	
Federal Agency:	Department of Health and Human Services (DHHS)	
Assistance Listing No.:	93.958	
Requirement:	Matching, Level of Effort, Earmarking	
Type of Finding:	Material Noncompliance and Material Weakness	
Program:	Block Grants for Community Mental Health Services	
Federal award no. and year:	1B09SM083952-01	03/15/21 – 11/14/24
	1B09SM085353-01	09/01/21 – 09/30/25
	1B09SM085881-01	09/01/21 – 09/30/25
	6B09SM086003-01	10/01/21 – 09/30/23
	6B09SM083952-01	03/15/21 – 03/14/24
	6B09SM087354-01	10/01/22 – 09/30/24

Criteria: 42 USC 300x-9c states that “a state shall expend not less than 10 percent of grant funds for carrying out evidence-based programs that address the needs of individuals with early serious mental illness, including psychotic disorders, regardless of the age of the individual at onset.”

42 USC 300x states that “a state shall expend at least 5 percent of grant funds to support evidence-based programs that address the crisis care needs of individuals with serious mental illnesses (SMI) and children with serious emotional disturbances (SED), which may include individuals experiencing mental health crises demonstrating serious mental illness or serious emotional disturbance, as applicable.

Condition: We noted that the earmarking requirement was not met.

Context: The State shall expend not less than 10 percent of grant funds for carrying out evidence-based programs that address the needs of individuals with early serious mental illness, including psychotic disorders, regardless of the age of the individual at onset. Evidence-based programs are interventions that are guided by the best research evidence with practice-based expertise, cultural competence, and the values of the persons receiving the services that promote individual-level or population-level outcomes. Instead of expending 10 percent of the amount received for a fiscal year, a state may elect to expend not less than 20 percent of such amount by the end of the succeeding fiscal year.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2024

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

During the audit, we noted that the program expended \$145,953 of grant funds for carrying out evidence-based programs, which was \$629,057 less than the required amount.

Cause: Based on further inquiry with Department personnel, we noted that the failure to meet earmarking requirements is due to the lack of adequate personnel.

Effect: Failure to meet the required earmarking results in noncompliance with the Earmarking requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: Not applicable

Recommendation: We recommend program management be more diligent in monitoring earmarking requirements.

Views of Responsible Officials: Client agrees with finding, and the unabridged version of their response can be found in the Corrective Action Plan issued by the Department.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

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

Finding No.: 2024-008	Subrecipient Monitoring	
Federal Agency:	Department of Health and Human Services (DHHS)	
Assistance Listing No.:	93.958	
Requirement:	Subrecipient Monitoring	
Type of Finding:	Material Noncompliance and Material Weakness	
Program:	Block Grants for Community Mental Health Services	
Federal award no. and year:	1B09SM083952-01	03/15/21 – 11/14/24
	1B09SM085353-01	09/01/21 – 09/30/25
	1B09SM085881-01	09/01/21 – 09/30/25
	6B09SM086003-01	10/01/21 – 09/30/23
	6B09SM083952-01	03/15/21 – 03/14/24
	6B09SM087354-01	10/01/22 – 09/30/24

Criteria: In accordance with 2 CFR section 200.331, all pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. In addition, all pass-through entities must evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring. To ensure compliance with the Federal requirements, the program has documented monitoring policies and procedures.

Condition: The program did not comply with its documented monitoring procedures, which includes performing on-site visits, desk reviews and/or conducting monthly progress meetings and obtaining and reviewing single audit reports for subrecipients that expend more than \$750,000 of Federal funds.

Context: Of a total 10 subrecipient contracts, we selected three contracts based on a non-statistical sample. We noted that for one of the three contracts selected, the required monitoring procedures were not performed.

Of the 10 subrecipient contracts, the program was required to obtain and review a single audit report for one subrecipient that expended more than \$750,000 during the year. We noted that the program did not obtain and review a single audit report for the subrecipient.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2024

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

Cause: Based on further inquiry with Department personnel, we noted that there was a lack of diligence in following the documented monitoring procedures.

Effect: Failure to follow a subrecipient monitoring policy that meets the requirements in 2 CFR section 200.331 results in noncompliance with the subrecipient monitoring requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: Not applicable

Recommendation: We recommend that program management follow its documented monitoring procedures for all subrecipient contracts.

Views of Responsible Officials: Client agrees with finding, and the unabridged version of their response can be found in the Corrective Action Plan issued by the Department.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

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

Finding No.: 2024-009	Reporting
Federal Agency:	Department of Health and Human Services (DHHS)
Assistance Listing No.:	93.959
Requirement:	Reporting
Type of Finding:	Material Noncompliance and Material Weakness
Program:	Block Grants for Prevention & Treatment of Substance Abuse
Federal award no. and year:	6B08TI083500-01 03/15/21 – 03/14/25
	1B08TI083943-01 09/01/21 – 09/30/25
	1B08TI084582-01 09/01/21 – 09/30/25
	6B08TI084646-01 10/01/21 – 09/30/23
	6B08TI085808-01 10/01/22 – 09/30/24

Criteria: Under 2 CFR Appendix A to Part 170, recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). For subaward information, recipients of grants or cooperative agreements are required to report no later than the end of the month following the month in which the obligation was made.

Condition: We noted the program did not report first-tier subawards of \$30,000 or more to FSRS.

Context: During the audit, we were informed by Department personnel that required information on first-tier subawards of \$30,000 or more were not reported to FSRS, a requirement that is included in the program’s notice of awards. The following table summarizes our findings:

Transactions Tested	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
21	21	21	-	-
Dollar Amount of Tested Transactions	Subaward not Reported	Report not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$8,805,593	\$8,805,593	\$8,805,593	-	-

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2024

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

Cause: Due to the timing of when the program was made aware of the prior year finding and the fiscal year end, there was insufficient time to properly implement corrective action. Based on inquiry with Department personnel, we noted that the failure to report first-tier subawards to FSRS was caused by a lack of time and inadequate understanding of FSRS due dates and reporting requirements.

Effect: Failure to report first-tier subawards of \$30,000 or more to FSRS results in noncompliance with the reporting requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: See finding 2023-010 included in the Summary Schedule of Prior Audit Findings.

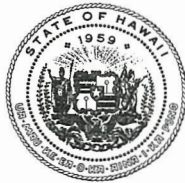
Recommendation: We recommend program management complete the implementation of the policies and procedures related to reporting subawards to FSRS to ensure compliance with Federal requirements.

Views of Responsible Officials: Client agrees with finding, and the unabridged version of their response can be found in the Corrective Action Plan issued by the Department.

PART V

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
AND CORRECTIVE ACTION PLAN**

JOSH GREEN, M.D.
GOVERNOR OF HAWAII
KE KIA'ĀINA O KA MOKU'ĀINA 'O HAWAII



KENNETH S. FINK, MD, MGA, MPH
DIRECTOR OF HEALTH
KA LUNA HO'OKELE

STATE OF HAWAII
DEPARTMENT OF HEALTH
KA 'OIHANA OLAKINO
P. O. BOX 3378
HONOLULU, HI 96801-3378

In reply, please refer to:
File:

ASO-F25-257

March 28, 2025

Mr. Leslie H. Kondo, State Auditor
Office of the Auditor, State of Hawaii
465 S. King Street, Suite 500
Honolulu, Hawaii 96813

Subject: Response to Draft Report "Financial Audit of the Department of Health,
State of Hawaii, for Fiscal Year Ended June 30, 2024".

Dear Mr. Kondo,

Attached are the Department of Health's comments of the audit findings for the above-mentioned
audit of the Department of Health.

We appreciate the opportunity to comment on the report.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ken Fink", with a stylized flourish at the end.

Kenneth S. Fink, MD, MGA, MPH
Director of Health

Attachment

State of Hawaii
Department of Health
Summary Schedule of Prior Audit Findings
For the State Fiscal Year Ended June 30, 2024

Identifying Number: 2023-001 – Opioid Settlement Accrual – Material Weakness

Audit Finding: National opioid settlement agreement receivables were not recorded.

Status: Corrected.

Identifying Number: 2023-002 – Adoption of Governmental Accounting Standards Board Statement No. 96 - Subscription-Based Technology Arrangements – Significant Deficiency

Audit Finding: Subscription-Based Information Technology Arrangement (SBITA) was not properly evaluated, which resulted in SBITA of approximately \$807,000 not being recognized.

Status: Corrected.

Identifying Number: 2023-003 – Reliance on Third Party Certifications – Significant Deficiency

Audit Finding: The Deposit Beverage Container Program does not have procedures or processes in place to validate the information being provided by redemption centers and distributors and relies solely on their certifications

Status: Not corrected. Refer to finding 2024-002.

Corrective Action Taken: The Office of Solid Waste Management (OSWM) will continue to carry out activities that were prior to the 2022 audit's conclusion and were noted in the Correct Action Plan. These include continuing Certified Redemption Center (CRC) inspections to track volumes of redeemed containers at an increased frequency. Data from these inspections is cross checked with CRC redemption reimbursement claims to ensure the accuracy of the claims.

Deposit Beverage Container (DBC) accounts will also continue to reconcile the weight of redeemed material claimed by CRC's with trucking load tickets, shipping Bills of Lading and receipts from independent recycling facilities to ensure accuracy of submitted data.

Regarding DBC distributors, the OSWM will begin implementation of a program that will require distributors to have adequate internal control processes in place to ensure accurate reporting and payments and will additionally require the submittal of independent audits of their reports and payments.

Identifying Number: 2023-004 – Schedule of Expenditures of Federal Awards (SEFA) Preparation – Significant Deficiency

Audit Finding: Incorrectly reporting expenditures passed through to subrecipients at the program level (HTH131 and HTH590).

Status: Not corrected. Refer to finding 2024-003.

Corrective Action Taken: The Immunization Program recognizes the importance of thorough monitoring and tracking of financial expenditures of federal awards. To help resolve this finding, the program has hired a Grant Manager to assist the program accountant to monitor, track, and verify program expenditures so the correct amounts are reported accurately to ASO. In addition, the program is actively engaged in hiring an Account Clerk position to also assist the monitoring, tracking, and verifying of program expenditures.

The Chronic Disease Prevention and Health Promotion Division (CDPHPD) received clarification on the definition of “subrecipient” versus “prime” recipient and will ensure to apply this for future SEFA reporting submissions. To ensure compliance with Federal requirements, the CDPHPD will also implement additional safeguard internal controls in reviewing and verifying the SEFA by providing the data downloaded from the Financial Accounting and Management Information System (FAMIS) to generate the SEFA as supporting documents to the Administrative Officer and CDPHPD Administrator for final review and approval.

Identifying Number: 2023-005 – ALN 93.243 Substance Abuse and Mental Health Services Reporting – Noncompliance and Material Weakness

Audit Finding: Substance Abuse and Mental Health Services - FSRS were not timely submitted and/or key data elements did not agree to the source documents.

Status: Not corrected. Refer to finding 2024-005.

Corrective Action Taken: ADAD will adopt a procedure to implement timely reporting of the first-tier subawards of \$30,000 or more Federal Funding Accountability and Transparency Act (FSRS) no later than the end of the month following the month in which the obligation (indicated by the start date of the new contract) is made.

Identifying Number: 2023-006 – ALN 93.268 Immunization Cooperative Agreements Reporting – Noncompliance and Material Weakness

Audit Finding: FFRs were not timely submitted.

Status: Corrected.

Identifying Number: 2023-007 – ALN 93.788 Opioid STR Reporting – Noncompliance and Material Weakness

Audit Finding: Opioid STR - FSRS were not timely submitted and/or key data elements did not agree to the source documents.

Status: Not corrected. Refer to finding 2024-006.

Corrective Action Taken: ADAD will create a procedure to implement timely reporting of the first-tier subawards of \$30,000 or more Federal Funding Accountability and Transparency Act (FSRS) no later than the end of the month following the month in which the obligation (indicated by the start date of the new contract) is made. Upon notification of the contract and/or contract modification, the Administrative Officer will submit and update the FSRS report until the vacant Administrative Specialist position is filled.

Identifying Number: 2023-008 – ALN 93.958 Block Grants for Community Mental Health Services Level of Effort – Noncompliance and Material Weakness

Audit Finding: Maintenance of effort requirement was not met.

Status: Corrected.

Identifying Number: 2023-009 – ALN 93.958 Block Grants for Community Mental Health Services Reporting – Noncompliance and Material Weakness

Audit Finding: FSRS were not timely submitted and/or key data elements did not agree to the source documents.

Status: Corrected.

Identifying Number: 2023-010 – ALN 93.959 Block Grants for Prevention & Treatment of Substance Abuse Reporting – Noncompliance and Material Weakness

Audit Finding: Failure to accurately and timely report First tier subawards to FSRS results in noncompliance with the reporting requirement.

Status: Not corrected. Refer to finding 2024-009.

Corrective Action Taken: ADAD will create a procedure to implement timely reporting of the first-tier subawards of \$30,000 or more Federal Funding Accountability and Transparency Act (FSRS) no later than the end of the month following the month in which the obligation (indicated by the start date of the new contract) is made. Upon notification of the contract and/or contract modification, the Administrative Officer will submit and update the FSRS report until the vacant Administrative Specialist position is filled.

Identifying Number: 2023-011 – ALN 10.557 Special Supplemental Nutrition Program for Woman, Infants, and Children Cash Management – Significant Deficiency

Audit Finding: During the testing of the Department's cash management procedures, it was determined that two out of sixty payments tested were not distributed within 21 days of the draw down of funds. For the items tested, the time elapsed between draw down and payment ranged to 28 to 57 days.

Status: Not corrected. Refer to finding 2024-004.

Corrective Action Taken: The accountant draws cash from ASAP. After drawing federal funds, the accountant sends the TDR to Budget and Finance (B&F) Treasury Management Section. B&F verifies the deposit and validates the TDR.

Accountant will check Datamart daily to ensure funds are correctly posted in Datamart one day after B&F validates the TDR. The accountant will also check DataMart daily to ensure adequate funds are available when invoice payments checks are processed.

For payroll and indirect expenses, and DHO invoice expenditures and PCard transactions the accountant draws and estimated amount two days before the payroll cycle ends to be sure funds are available in Datamart. The accountant checks the balance in Datamart daily.

Department of Health
Corrective Action Plan Updates for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2024

Page(s), Finding	Corrective Action Plans Update, Status, Responding Official
<p>P101 2024-001</p>	<p><u>Vouchers Payable Accrual – Deposit Beverage Container Deposit Fund</u> Voucher payables were not recorded resulting in balance overstatement.</p> <p><u>Corrective Action Plan:</u> The program will conduct a thorough review and develop a clear documentation/report for voucher payable accruals, payment process and internal control.</p> <p><u>Implementation Date:</u> April 1, 2025</p> <p><u>Responding Official:</u> Lane Otsu, Acting Solid Waste Coordinator, Solid Waste and Hazardous Branch, Office of Solid Waste Management</p>
<p>P102-103 2024-002</p>	<p><u>Reliance of Third Party Certifications</u> The Deposit Beverage Container Program does not have procedures or processes in place to validate the information being provided by redemption centers and distributors and relies solely on their certificates.</p> <p><u>Corrective Action Plan:</u> The program has notified all distributors of the requirement to submit audits as required by Hawaii Revised Statute (HRS) §342G-121.5. The audits are to be done for every odd number year with the first audit covering State fiscal year 2024-2025 that is due by September 30, 2025.</p> <p>While payments to certified redemption centers are based on certified documents from the redemption centers, they are also based on documentation from receiving end markets and periodic Department of Health inspections tracking movement of material.</p> <p>HRS §342G-121.5 requires the program to conduct periodic audits of redemption centers. The program is currently taking part in a request for proposals to procure auditing services to implement this requirement. Redemption center audits will begin after a contractor is selected. Based on the audit results, the program will assess whether enforcement actions are necessary and will also assess the need for modifying program requirements to increase distributors accountability.</p> <p><u>Implementation Date:</u> April 1, 2025</p> <p><u>Responding Official:</u> Lane Otsu, Acting Solid Waste Coordinator, Solid Waste and Hazardous Branch, Office of Solid Waste Management</p>

Department of Health
Corrective Action Plan Updates for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2024

<p>P104-105 2024-003</p>	<p><u>Schedule of Expenditures of Federal Awards (SEFA) Preparation</u> Incorrectly reporting of expenditures passed through to subrecipients at the program level</p> <p><u>Corrective Action Plan:</u> CAMHD will be more diligent in following their process of compiling, verifying and reconciling the Schedule of Expenditures of Federal Awards to minimize discrepancies in the future.</p> <p><u>Implementation Date:</u> July 1, 2025</p> <p><u>Responding Official:</u> Keli, Acquaro, Administrator, Child & Adolescent Mental Health Division</p>
<p>P106-107 2024-004</p>	<p><u>Reporting – Cash Management</u> During the testing of the Department's cash management procedures, it was determined that eight out of sixty payments tested were not distributed within 21 days of the draw down of funds. For the items tested, the time elapsed between draw down and payment ranged from 22 to 44 days.</p> <p><u>Corrective Action Plan:</u> WIC has developed a Quality Control Plan, procedures and a workflow to ensure invoices are timely released to ASO-Fiscal for processing.</p> <p><u>Implementation Date:</u> April 1, 2025</p> <p><u>Responding Official:</u> Melanie Murakami, WIC Branch Chief</p>
<p>P108-109 2024-005</p>	<p><u>Reporting - FSRS</u> Substance Abuse and Mental Health Services – FSRS were not timely submitted resulting in noncompliance with the reporting requirement.</p> <p><u>Corrective Action Plan:</u> Complete the implementation of the policies and procedures relating to the reporting of subawards to the new FSRS system to comply with the Federal reporting requirements.</p> <p><u>Implementation Date:</u> April 1, 2025</p> <p><u>Responding Official:</u> John Valera and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division</p>

Department of Health
Corrective Action Plan Updates for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2024

<p>P110-112 2024-006</p>	<p><u>Reporting - FSRS</u> Opioid STR – FSRS were not timely submitted resulting in noncompliance with the reporting requirement.</p> <p><u>Corrective Action Plan:</u> ADAD will meet with the program staff to complete the implementation of the policies and procedures relating to the reporting of subawards to the new FSRS system to comply with the Federal reporting requirements.</p> <p><u>Implementation Date:</u> July 1, 2025</p> <p><u>Responding Official:</u> John Valera and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division</p>
<p>P113-114 2024-007</p>	<p><u>Earmarking</u> Earmarking requirement was not met.</p> <p><u>Corrective Action Plan:</u> State Procurement rules occasionally make it difficult to spend the earmark by the deadline. In the future, the committee that governs these earmarks will be more proactive about monitoring planned procurements to ensure they are moving through the process so funds can be spent. In addition, vacancies contributed to falling short of the earmarking requirement, since those personnel funds were not spent. Vacancies will be monitored quarterly for re-allocation opportunities, and workforce development strategies will be developed and implemented to address shortages.</p> <p><u>Implementation Date:</u> July 1, 2025</p> <p><u>Responding Official:</u> Keli, Acquaro, Administrator, Child & Adolescent Mental Health Division</p>
<p>P115-116 2024-008</p>	<p><u>Subrecipient Monitoring</u> Non-compliance with its inconsistent documented monitoring procedures.</p> <p><u>Corrective Action Plan:</u> AMHD will review and revise their monitoring procedures to ensure that subrecipient expenditures are monitored and single audit reports are reviewed, as applicable.</p> <p><u>Implementation Date:</u> July 1, 2025</p> <p><u>Responding Official:</u> Chanel Daluddung, Performance, Information, Evaluation and Research Branch Chief, Adult Mental Health Division</p>

Department of Health
Corrective Action Plan Updates for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2024

P117-118 2024-009	<p><u>Reporting - FSRS</u> Block Grants for Prevention & Treatment of Substance Abuse – FSRS were not timely submitted resulting in noncompliance with the reporting requirement.</p> <p><u>Corrective Action Plan:</u> ADAD will meet with the program staff to complete the implementation of the policies and procedures relating to the reporting of subawards to the new FSRS system to comply with the Federal reporting requirements.</p> <p><u>Implementation Date:</u> July 1, 2025</p> <p><u>Responding Official:</u> John Valera and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division</p>
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