OVERVIEW

THE AUDITOR
STATE OF HAWAII

Financial Audit of the Department of Human Services

Summary

Together with the certified public accounting firm of KPMG Peat Marwick (KPMG), we conducted a financial audit of the Department of Human Services for the fiscal year July 1, 1992 to June 30, 1993.

The magnitude of the deficiencies we found reflects an overall failure of stewardship by DHS management. We found serious deficiencies in the department's recording of accounting transactions and in its internal controls. KPMG had to declare an exception to the fair presentation of the financial statements because it was unable to determine if expenditures are being properly reported.

KPMG found material weaknesses in the department's controls for financial management. To cover recurring cash shortages, the department repeatedly and deliberately circumvented state laws and fiscal controls. The department was in noncompliance with laws when it (1) paid for expenditures of certain programs with moneys appropriated for other programs, (2) transferred federal funds from one federal financial assistance program to another, and (3) paid for program expenditures with federal moneys that should have lapsed to the State's general fund. DHS charged at least $23 million to the wrong appropriations in FY1992-93. It transferred about $8.3 million from the Medicaid program to cover shortfalls in the AFDC program, and it had $34.5 million in federal funds that should have lapsed to the general fund.

We also found that the department's inability to track and recover welfare overpayments is appalling—particularly since the problem has been pointed out to the department in audit reports going back to 1990. We found that the department has also been remiss in claiming federal reimbursements. In addition, the department had not performed bank reconciliations for 56 different welfare imprest accounts, has inappropriately encumbered funds for future use, maintains "old" encumbrances and unnecessary encumbrances, and is not performing federally required contractor performance reviews on a timely basis. Other problems were found in the Medicaid budget, in the controls over income maintenance programs and computer data, and in several other aspects of the internal control structure and its operation.

Recommendations and Responses

To correct these deficiencies will demand a concerted effort at the very top levels of the department and state government. We recommend that the governor charge the director of human services, the comptroller, and the director of finance with the responsibility for ensuring that the department adheres to stated budgeting and accounting requirements on allotments, charging of appropriations, lapsing, and encumbrances. We also recommend that the director of human services appoint a task force to develop a plan to address the deficiencies uncovered in this audit. The plan should set priorities for implementation of corrective measures and timetables for implementation. Further, we recommend that the Legislature require the director of human services to report on the status of its plan 30 days prior to the adjournment of the 1994 legislative session and to submit a status report 20 days prior to the convening of the Regular Session of 1995.

The department generally concurs with our findings and recommendations. It states that it stopped improperly charging appropriations to other programs after receiving the governor's letter dated June 30, 1993. Based on our observations and representations made by DHS personnel, we believe that the practice still continues. DHS contends that its accounting department has now identified all of these transactions and, had time permitted, KPMG would not have had to declare an exception to the financial statements. The department misses the point—the point is that because of the department's intentional override of controls over its expenditure classifications, its records could not reasonably be verified during the audit. The department does not agree with our findings and recommendations relating to controls over income maintenance programs. It believes that the controls in place are sufficient for its purposes and says that it is not necessary to photocopy all documents reviewed for eligibility. Again, the department misses the point. Our finding is that documentation of the review is not standardized. A standard checklist of documents reviewed would suffice. The department also believes that controls exercised over the HAWI system at ICSD are sufficient; it relies on ICSD to help maintain security over the system. We believe the additional safeguards available should be used.

The governor has directed the director of finance and the state comptroller to work with the director of human services in addressing the problems noted. The director of finance believes that DHS has discontinued the practice of mischarging program expenditures and will be working with the other departments to address and correct problems noted. The state comptroller also is involved in these efforts and will work to help correct procedural problems.

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