FINANCIAL AUDIT OF THE DEPARTMENT OF HUMAN SERVICES STATE OF HAWAII

Fiscal Year Ended June 30, 2009

Submitted by
The Auditor
State of Hawaii

N&K CPAs, Inc.
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March 30, 2010

Ms. Marion Higa, State Auditor
Office of the Auditor
State of Hawaii

Dear Ms. Higa:

This is our report on the financial audit of the Department of Human Services of the State of Hawaii (DHS) as of and for the fiscal year ended June 30, 2009. Our audit was performed in accordance with the terms of our contract with the Office of the Auditor, State of Hawaii and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and the *Compliance Supplement for Single Audits of State and Local Governments.*

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the DHS's basic financial statements as of and for the fiscal year ended June 30, 2009, and to comply with the requirements of OMB Circular A-133, which establishes audit requirements for state and local governments that receive federal financial assistance. More specifically, the objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the DHS's basic financial statements and the schedule of expenditures of federal awards as of and for the fiscal year ended June 30, 2009, in accordance with accounting principles generally accepted in the United States of America.

2. To consider the DHS'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 of the DHS'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 DHS'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 opinion on compliance and to test and report on internal control over compliance.

5. To provide an opinion on the DHS's compliance with applicable laws, regulations, contracts, and grants that could have a direct and material effect on each major 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 OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the DHS for the fiscal year ended June 30, 2009.

ORGANIZATION OF THE REPORT

This report is presented in six parts as follows:

- Part I - The basic financial statements and related notes of the DHS as of and for the fiscal year ended June 30, 2009, and our opinion on the basic financial statements and supplementary information.

- Part II - Our report on internal control over financial reporting and on compliance and other matters.

- Part III - Our report on compliance with requirements applicable to each major program and on internal control over compliance.

- Part IV - The schedule of findings and questioned costs.

- Part V - The summary schedule of prior audit findings.
- Part VI - Corrective action plan as provided the Department of Human Services, State of Hawaii.

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

Sincerely,

N&K CPAs, Inc.

Ron Shiigi
Principal

DEPARTMENT OF HUMAN SERVICES
STATE OF HAWAII

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DEPARTMENT OF HUMAN SERVICES
STATE OF HAWAII

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PART I

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Auditor
State of Hawaii

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Human Services of the State of Hawaii (DHS), as of and for the fiscal year ended June 30, 2009, which collectively comprise the DHS's basic financial statements as listed in the foregoing table of contents. These basic financial statements are the responsibility of the DHS's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements of the DHS are intended to present the financial position and the changes in financial position, where applicable, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the DHS. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2009, and the changes in its financial position, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the DHS, as of June 30, 2009, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparison for the general and special revenue

funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2010, on our consideration of the DHS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the DHS's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

N&K CPAs, Inc.

Honolulu, Hawaii
March 15, 2010

This discussion and analysis of the financial performance of the Department of Human Services (DHS) provides an overview of the financial activities of the DHS for the fiscal year ended June 30, 2009. The intent of this discussion is to allow management to provide an objective and easily readable analysis of the financial activities of the DHS based on currently known facts, decisions, or conditions. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements and other supplementary information.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

Notes to the Basic Financial Statements

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following table presents a condensed government-wide statement of net assets of the DHS as of June 30, 2009 and 2008.

Condensed Statement of Net Assets

	2009	2008
Current assets	$ 227,567,322	$ 206,084,724
Capital assets, net	38,691,111	40,694,125
Total assets	$ 266,258,433	$ 246,778,849
Current liabilities	$ 285,887,788	$ 228,951,037
Non-current liabilities	10,638,729	10,366,228
Total liabilities	296,526,517	239,317,265
Net assets		
Invested in capital assets	38,691,111	40,694,125
Restricted	2,100,110	1,462,028
Unrestricted deficit	(71,059,305)	(34,694,569)
Total net assets (deficit in)	(30,268,084)	7,461,584
Total liabilities and net assets	$ 266,258,433	$ 246,778,849

As noted earlier, an analysis of net assets over time may be a useful indicator of whether a government entity's financial condition is growing stronger or weakening. During the fiscal year ended June 30, 2009, the combined net assets of the DHS decreased by approximately $37.7 million.

The deficit in unrestricted net assets of the DHS was approximately $71 million as of June 30, 2009. This deficit in unrestricted net assets is principally the result of liabilities for program services that were incurred as of June 30, 2009, for which state allotments are not yet available. The largest liability as of June 30, 2009, is the estimated amount of medical assistance service provided as of June 30, 2009, for which the related claims and capitation fees will be processed and paid subsequently. Of the estimated $209.2 million of medical assistance payable, the state share of these costs is approximately $68.3 million. The estimated federal share of these costs to be paid in the future was recorded as intergovernmental revenues in the current fiscal year and is included in the balance due from other governments. In addition to the estimated medical assistance payable, the liability for compensated absences totaling $16.5 million as of June 30, 2009, is not funded by state allotments until the employee uses the earned leave or is paid out upon termination. Therefore, there are no assets currently available to the DHS to pay for these liabilities as of June 30, 2009.

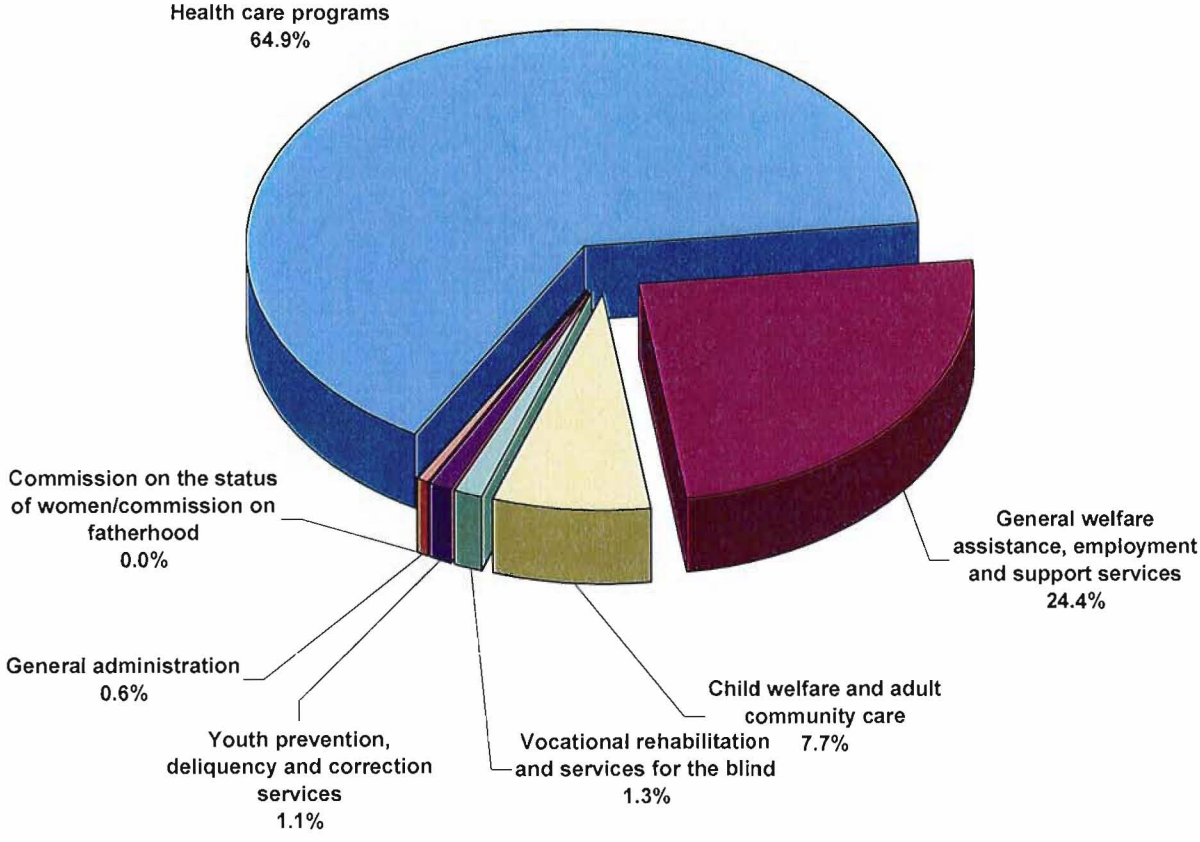
The DHS reported a total of approximately $38.7 million in net assets invested in capital assets as of June 30, 2009. Although the DHS is not the legal owner of the state buildings that are reported as part of its capital assets, the portion of the state facilities used by the DHS are required to be reported as part of its capital assets. The DHS uses these capital assets to provide services; consequently, these assets are not available for future spending and the related annual depreciation expense of the cost of these facilities is included in the statement of activities for the fiscal year ended June 30, 2009.

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

Changes in Net Assets

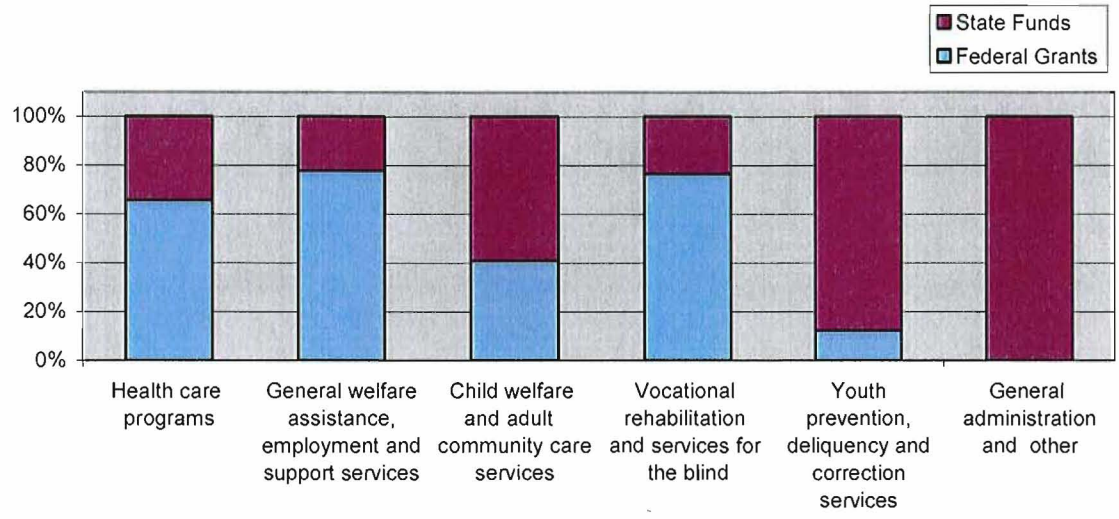
	2009	2008	Percent Change
Revenues			
Program revenues	$ 1,438,627,284	$ 1,127,375,107	27.61 %
General revenues	704,630,309	792,666,479	(11.11) %
Total revenues	2,143,257,593	1,920,041,586	11.63 %
Expenses			
Health care programs	1,416,740,049	1,216,926,710	16.42 %
General welfare assistance, employment and support services	532,569,746	444,635,264	19.80 %
Child welfare and adult community care services	167,333,630	172,630,298	(3.07) %
Vocational rehabilitation and services for the blind	27,593,427	29,098,769	(5.17) %
Youth prevention, deliquency and correction services	24,277,120	22,078,786	9.96 %
General administration	12,362,674	12,068,584	2.44 %
Commission on the status of women/ commission on fatherhood	123,155	175,123	(29.68) %
Total expenses	2,180,999,801	1,897,613,534	14.93 %
Change in net assets, before transfers	$ (37,742,208)	$ 22,428,052	

The total cost of all programs and services was approximately $2.2 billion, a 14.93% increase from the prior fiscal year. Health care and general welfare assistance programs comprised 64.96% and 24.42%, respectively, of the total costs. The following chart presents each major activity as a percent of the total cost of all DHS activities:

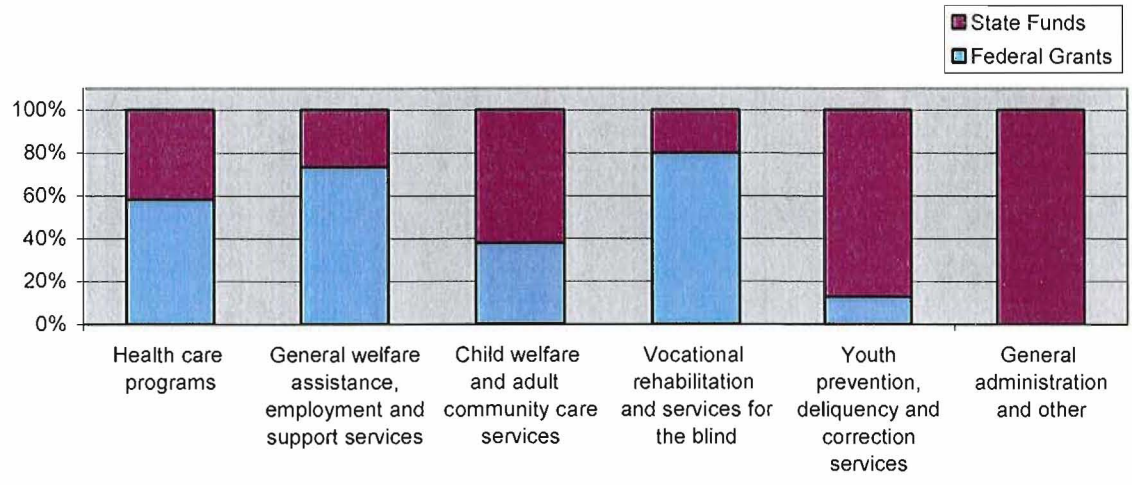


Program revenues consist primarily of operating grants from the federal government. Revenues from these federal grants paid for 66.0% of the cost of all the DHS's activities. The following chart presents the percentage of costs funded by federal grants for each major activity of the DHS for the fiscal years ended June 30, 2009 and 2008:

Fiscal Year 2009



Fiscal Year 2008



FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

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

Total expenditures reported on a modified accrual basis increased by $281.4 million over the prior fiscal year. This increase is primarily related to health care program costs and general welfare assistance, employment and support services costs administered by the DHS which have increased by approximately $199.9 million or 16.4% and $87 million or 19.58%, respectively. In February 2009, the fee for service program was converted to the Ques Expanded Access (QExA) managed care program. Aside from the monthly capitation payments for QExA, the remaining claims for the fee for service program were also processed. Under the QExA program fee for service claims will decrease in future years. The Supplemental Nutrition Assistance Program payments increased for the fiscal year 2009, accounting for the majority of the increase in the general welfare assistance, employment and support services costs.

At June 30, 2009, the total governmental fund balance of the DHS consisted of a deficit in unreserved fund balance of approximately $163.5 million. The deficit in the unreserved fund balance of the general fund totaling $68.9 million is principally comprised of liabilities for program services that were incurred as of June 30, 2009, for which state allotments were not yet available. The deficit in the unreserved fund balance of the special revenue funds totaling $94.6 million is principally the result of encumbrances that were not liabilities as of June 30, 2009, and, therefore, the related intergovernmental revenues were not recorded.

Reservations of governmental fund balances for encumbrances totaled approximately $111.1 million at June 30, 2009. Reservations of governmental fund balances indicate the amount of resources that are not available for new spending because it has been reserved to liquidate purchase and contractual commitments.

The following table presents total revenues and expenditures of the governmental funds of the DHS for the fiscal years ended June 30, 2009 and 2008:

	2009	2008	Percent Change
REVENUES			
State allotted appropriations	$ 679,001,321	$ 769,603,784	(11.77) %
Intergovernmental revenues	1,438,627,284	1,127,375,107	27.61 %
Non-imposed employee fringe benefits	25,628,988	23,062,695	11.13 %
Total	$ 2,143,257,593	$ 1,920,041,586	11.63 %

	2009	2008	Percent Change
EXPENDITURES			
Health care programs	$ 1,416,591,781	$ 1,216,613,055	16.44 %
General welfare assistance, employment and support services	531,588,459	444,530,029	19.58 %
Child welfare and adult community care services	166,620,741	172,981,946	(3.68) %
Vocational rehabilitation and services for the blind	27,426,109	28,950,428	(5.27) %
Youth prevention, delinquency and correction services	23,608,972	21,306,524	10.81 %
General administration	12,365,069	12,332,501	0.26 %
Commission on the status of women/ commission on fatherhood	123,155	175,123	(29.68) %
Total	$ 2,178,324,286	$ 1,896,889,606	14.84 %

BUDGETARY ANALYSIS

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

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Health care programs	$ 566,458,872	$ 486,984,224	$ 403,621,376	$ 83,362,848
General welfare assistance, employment and support services	118,149,930	118,149,930	113,748,254	4,401,676
Child welfare and adult community care services	99,189,767	96,588,198	93,265,043	3,323,155
Youth prevention, delinquency and correction services	17,588,347	17,858,347	17,202,359	655,988
General administration	4,894,274	9,535,401	9,215,583	319,818
Vocational rehabilitation and services for the blind	4,085,181	4,118,261	4,048,372	69,889
Commission on the status of women/ commission on fatherhood	158,079	158,079	119,168	38,911
	$ 810,524,450	$ 733,392,440	$ 641,220,155	$ 92,172,285

The differences between the original and final budget for the individual programs were due to intrafund transfers.

Planned expenditures for May and June 2009 of approximately $83.4 million for the health care programs were deferred and lapsed to the State Treasury. Thus the amounts expended in comparison to the amounts budgeted appear favorable.

CAPITAL ASSETS

As of June 30, 2009 and 2008, the cost basis of capital assets, net of accumulated depreciation, used by the DHS are presented in the table below. Approximately $1.7 million of capital assets were added in the fiscal year ended June 30, 2009. Annual depreciation totaling approximately $2.7 million decreased the net cost basis during the fiscal year ended June 30, 2009.

Capital Assets, Net of Depreciation

	2009	2008
State office buildings and improvements	$ 15,844,457	$ 15,937,021
Buildings and improvements for the Office of Youth Services	11,805,623	13,331,354
Total buildings and improvements	27,650,080	29,268,375
Furniture, equipment and vehicles	11,041,025	11,425,744
Nondepreciable land	6	6
Total	$ 38,691,111	$ 40,694,125

In addition to the capital assets listed above, the DHS leases numerous office facilities from third-party lessors under operating lease arrangements. Those leases for additional space beyond the state facilities listed above as buildings and improvements are necessary to provide program services throughout the State.

ECONOMIC FACTORS

The DHS has three primary types of welfare assistance programs: (1) financial assistance in the form of cash benefits; (2) food stamp assistance that is also delivered in the form of cash benefits; and (3) medical assistance in the form of Medicaid fee-for-service coverage or managed care medical coverage under the Quest program. Individuals, couples and families may be eligible for one or all of these forms of assistance. However, eligibility for one program does not automatically make an individual/family eligible for other programs. The DHS tracks eligible individuals, couples or families as a single case (caseload).

The average monthly financial assistance caseload was in a steady downward trend over the past ten years starting in 1998. Then, in fiscal year 2009, caseload started to increase over the previous fiscal year (see figure 1). More recently, the number of individuals receiving financial assistance in Hawaii has trended flat on a month-to-month basis from January to December 2009 (see figure 2). A total of 31,978 individuals were receiving financial assistance in December 2009 as compared to 31,945 in the same month in 2008. The economic downturn nationally has negatively impacted Hawaii's economy which is dominated by tourism and is highly dependent on revenue from visitor expenditures. Hawaii, like many other states, faces challenges of high unemployment, layoffs, and reduced work hours for its residents. Future trends in the number of individuals receiving financial assistance will depend on the pace and timing of economic recovery both locally and at the national level.

The number of individuals in Hawaii receiving Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamp Program, benefits have been on a steep upward trend from 88,171 in April 2007, to 134,021 in December 2009 which is an increase of 45,850 individuals or 51%. Just in the past twelve months from December 2008 to the same month in 2009, individuals receiving SNAP benefits have increased by 25,049 or 23%. The increase in individuals receiving SNAP benefits is attributed to Hawaii's declining economy and high unemployment rates. The increase can also be attributed to additional funding for state SNAP programs provided by the American Recovery and Reinvestment Act of 2009 (ARRA).

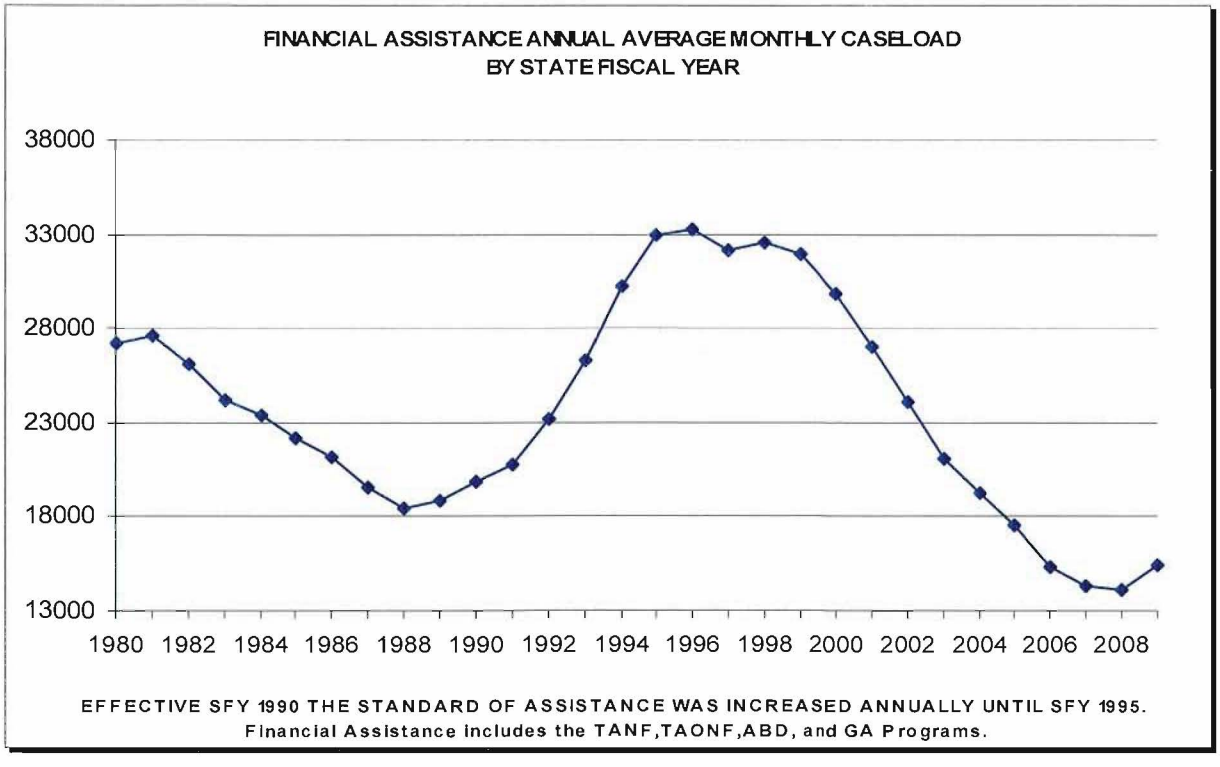


Figure 2.

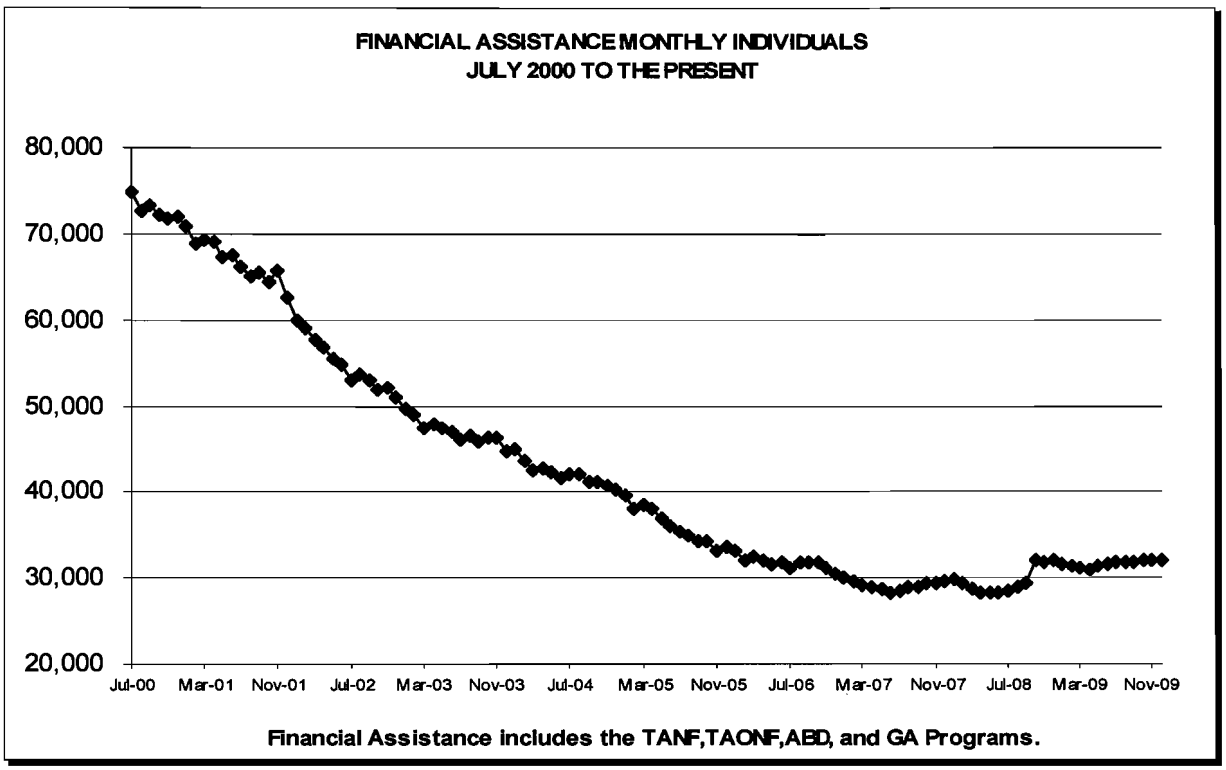
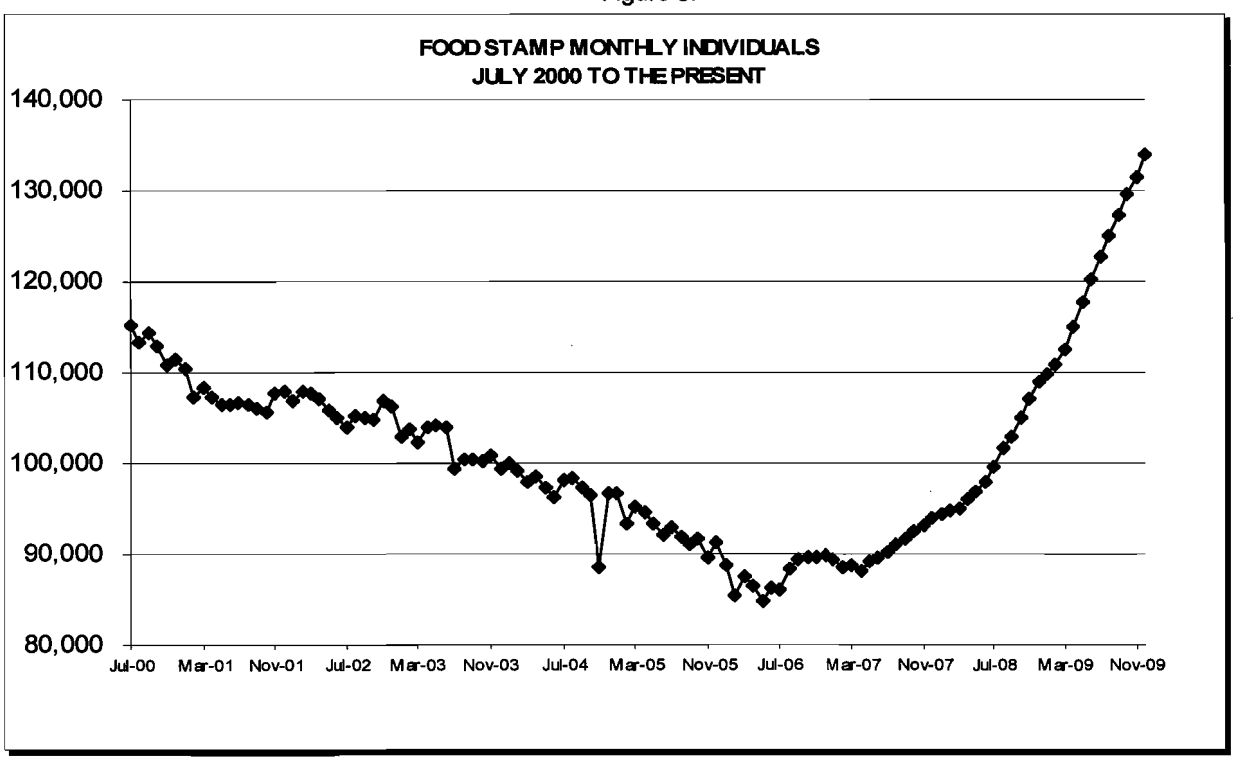


Figure 3.



Department of Human Services
State of Hawaii
STATEMENT OF NET ASSETS
June 30, 2009

ASSETS

Cash and cash equivalents	$	53,694,530
Receivables		7,965,202
Due from other governments		165,907,590
Total current assets		227,567,322
Capital assets, net of accumulated depreciation		38,691,111
Total assets	$	266,258,433

LIABILITIES

Vouchers payable	$	9,242,818
Accrued wages and employee benefits payable		9,883,962
Due to State general fund		2,090,992
Due to other state agencies		49,540,016
Accrued medical assistance payable		209,230,000
Accrued compensated absences		5,900,000
Total current liabilities		285,887,788
Accrued compensated absences, less current portion		10,638,729
Total liabilities		296,526,517

NET ASSETS

Invested in capital assets, net of related debt		38,691,111
Restricted		2,100,110
Unrestricted (deficit)		(71,059,305)
Total net assets		(30,268,084)
Total liabilities and net assets	$	266,258,433

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets
Governmental activities:				
Health care programs	$ 1,416,740,049	$ --	$ 932,044,704	$ (484,695,345)
General welfare assistance, employment and support services	532,569,746	--	414,216,915	(118,352,831)
Child welfare and adult community care services	167,333,630	--	68,334,137	(98,999,493)
Vocational rehabilitation and services for the blind	27,593,427	--	21,111,106	(6,482,321)
Youth prevention, delinquency and correction services	24,277,120	--	2,920,422	(21,356,698)
General administration	12,362,674	--	--	(12,362,674)
Commission on the status of women / commission on fatherhood	123,155	--	--	(123,155)
Total governmental activities	$ 2,180,999,801	$ --	$ 1,438,627,284	$ (742,372,517)

General revenues:	
State allotments, net of lapsed appropriations	679,001,321
Nonimposed employee fringe benefits	25,628,988
Total general revenues	704,630,309
Transfers	12,540
Change in net assets	(37,729,668)
Net assets at July 1, 2008	7,461,584
Deficit in net assets at June 30, 2009	$ (30,268,084)

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

	General	Med-Quest Special Revenue Fund	Human Services Special Revenue Fund	Total
ASSETS				
Cash and cash equivalents	$ 23,608,724	$ 4,131,176	$ 25,954,630	$ 53,694,530
Receivables	3,267,497	3,613,455	1,084,250	7,965,202
Due from other funds	263,915	--	--	263,915
Due from State general fund	--	21,711,072	--	21,711,072
Due from other governments	--	161,833,656	4,073,934	165,907,590
Total assets	$ 27,140,136	$ 191,289,359	$ 31,112,814	$ 249,542,309
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Vouchers payable	$ 4,808,657	$ 573,288	$ 3,860,873	$ 9,242,818
Accrued wages and employee benefits payable	5,805,232	901,886	3,176,844	9,883,962
Due to other funds	--	--	21,974,987	21,974,987
Due to other state agencies	675,831	48,864,185	--	49,540,016
Due to State general fund	2,090,992	--	--	2,090,992
Accrued medical assistance payable	68,280,000	140,950,000	--	209,230,000
Total liabilities	81,660,712	191,289,359	29,012,704	301,962,775
FUND BALANCES				
Reserved for encumbrances	14,409,444	66,741,495	29,918,893	111,069,832
Unreserved	(68,930,020)	(66,741,495)	(27,818,783)	(163,490,298)
Total fund balances (deficit)	(54,520,576)	--	2,100,110	(52,420,466)
Total liabilities and fund balances	$ 27,140,136	$ 191,289,359	$ 31,112,814	$ 249,542,309

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2009

Total deficit in fund balances - governmental funds		$ (52,420,466)
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Capital Assets		
Governmental capital assets	$ 88,874,998	
Less accumulated depreciation	(50,183,887)	38,691,111
Accrued compensated absences are not due in the current period and therefore are not reported in the governmental funds.		(16,538,729)
Deficit in net assets of governmental activities		$ (30,268,084)

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Fiscal Year Ended June 30, 2009

	General	Med-Quest Special Revenue Fund	Human Services Special Revenue Fund	Total
REVENUES				
State-allotted appropriations	$ 679,001,321	$ --	$ --	$ 679,001,321
Intergovernmental	--	932,044,704	506,582,580	1,438,627,284
Nonimposed employee fringe benefits	25,628,988	--	--	25,628,988
	704,630,309	932,044,704	506,582,580	2,143,257,593
EXPENDITURES				
Health care programs	484,547,077	932,044,704	--	1,416,591,781
General welfare assistance, employment and support services	117,359,023	--	414,229,436	531,588,459
Child welfare and adult community care services	98,803,886	--	67,816,855	166,620,741
Vocational rehabilitation and services for the blind	6,435,784	--	20,990,325	27,426,109
Youth prevention, delinquency and correction services	20,688,550	--	2,920,422	23,608,972
General administration	12,365,069	--	--	12,365,069
Commission on the status of women/ commission on fatherhood	123,155	--	--	123,155
	740,322,544	932,044,704	505,957,038	2,178,324,286
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(35,692,235)	--	625,542	(35,066,693)
OTHER FINANCING SOURCES				
Transfers in	--	--	12,540	12,540
NET CHANGE IN FUND BALANCES	(35,692,235)	--	638,082	(35,054,153)
FUND BALANCES (DEFICIT) AT JULY 1, 2008	(18,828,341)	--	1,462,028	(17,366,313)
FUND BALANCES (DEFICIT) AT JUNE 30, 2009	$ (54,520,576)	$ --	$ 2,100,110	$ (52,420,466)

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2009

Net change in fund balances - total governmental funds		$ (35,054,153)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures, however, in the statement of activities the cost of those assets are depreciated over their estimated useful lives as depreciation expense.		
Expenditures for capital assets	$ 722,927	
Less current year depreciation and other changes	(2,725,941)	(2,003,014)
Change in long-term compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(672,501)
Change in net assets of governmental activities		$ (37,729,668)

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND
Fiscal Year Ended June 30, 2009

	Original	Final	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
State allotments	$ 810,524,450	$ 733,392,440	$ 679,001,321	$ (54,391,119)
EXPENDITURES				
Health care programs	566,458,872	486,984,224	403,621,376	83,362,848
General welfare assistance, employment and support services	118,149,930	118,149,930	113,748,254	4,401,676
Child welfare and adult community care services	99,189,767	96,588,198	93,265,043	3,323,155
Youth prevention, delinquency and correction services	17,588,347	17,858,347	17,202,359	655,988
General administration	4,894,274	9,535,401	9,215,583	319,818
Vocational rehabilitation and services for the blind	4,085,181	4,118,261	4,048,372	69,889
Commission on the status of women / commission on fatherhood	158,079	158,079	119,168	38,911
	810,524,450	733,392,440	641,220,155	92,172,285
EXCESS OF REVENUES OVER EXPENDITURES	$ --	$ --	$ 37,781,166	$ 37,781,166

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS
Fiscal Year Ended June 30, 2009

			Actual on Budgetary Basis		
	Original	Final	Med-Quest Special Revenue Fund	Human Services Special Revenue Fund	Variance Favorable (Unfavorable)
REVENUES					
Intergovernmental revenues					
Med-Quest	$ 894,688,790	$ 894,688,790	$ 897,549,922	$ –	$ 2,861,132
Human services	273,828,313	273,828,313	–	247,339,631	(26,488,682)
	1,168,517,103	1,168,517,103	897,549,922	247,339,631	(23,627,550)
EXPENDITURES					
Health care programs	894,688,790	894,688,790	907,218,020	–	(12,529,230)
General welfare assistance, employment and support services	173,531,542	173,531,542	–	151,864,862	21,666,680
Child welfare and adult community care services	67,897,960	67,897,960	–	61,125,727	6,772,233
Vocational rehabilitation and services for the blind	25,334,748	25,334,748	–	20,412,276	4,922,472
Youth prevention, delinquency and correction services	5,182,601	5,182,601	–	3,595,300	1,587,301
General administration	1,881,462	1,881,462	–	1,858,962	22,500
	1,168,517,103	1,168,517,103	907,218,020	238,857,127	22,441,956
Excess of revenues over (under) expenditures	–	–	(9,668,098)	8,482,504	(1,185,594)
OTHER FINANCING SOURCES (USES)					
Transfers in	–	–	–	5,803,251	5,803,251
Transfers out	–	–	(5,790,711)	–	(5,790,711)
	–	–	(5,790,711)	5,803,251	12,540
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	$ –	$ –	$ (15,458,809)	$ 14,285,755	$ (1,173,054)

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
June 30, 2009

	Agency Funds	Private Purpose Trust Funds
ASSETS		
Cash	$ 1,263,272	$ 11,089
Total assets	$ 1,263,272	$ 11,089
LIABILITIES		
Due to individuals	$ 912,491	$ --
Due to others	350,781	--
Total liabilities	$ 1,263,272	--
Net assets - held in trust		$ 11,089

See accompanying notes to the basic financial statements.

Department of Human Services
State of Hawaii
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
Fiscal Year Ended June 30, 2009

	Private Purpose Trust Funds
ADDITIONS	
Donations	$ 95
Total additions	95
DEDUCTIONS	
Other	--
Total deductions	--
CHANGE IN NET ASSETS	95
Net assets at July 1, 2008	10,994
Net assets at June 30, 2009	$ 11,089

NOTE A - FINANCIAL REPORTING ENTITY

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

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

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

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

General Welfare Assistance, Employment and Support Services: The Benefit, Employment and Support Services Division provides monthly benefits to assist eligible clients with such essentials as food, clothing, shelter, emergency assistance, child care, and work support, as well as employment and training to help families attain self-sufficiency. Cash benefits are provided to individuals and families through the Temporary Assistance to Needy Families, Temporary Assistance to Other Needy Families, General Assistance, and Assistance to the Aged, Blind, and Disabled programs, as well as the Low Income Home Energy Program and Child Care Connection Hawaii. The Food Stamp program helps to ensure that no one goes hungry. The First-To-Work, Food Stamp Employment and Empowerment Hawaii Work programs provide job readiness, job development, job placement, case management, and other supportive services to ensure that families on public welfare are adequately prepared to end dependency, as well as providing a variety of at-risk youth and family strengthening programs to prevent family dependence. The Division's operations are reported in the general, special revenue, and agency funds.

NOTE A - FINANCIAL REPORTING ENTITY (Continued)

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

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

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

NOTE A - FINANCIAL REPORTING ENTITY (Continued)

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

General Administration: General administration includes the five staff offices that support the DHS administration, operating divisions, and attached agencies. The Administrative Appeals Office (AAO) provides administrative due process hearings for three departmental divisions – Benefit Employment and Support Services, Med-QUEST, and Social Services. The AAO also serves as the rules coordinator for the DHS and reviews administrative proceedings for the adoption, modification, or repeal of departmental rules. AAO is also responsible for establishing a mediation process for the DHS. The Fiscal Management Office (FMO) provides staff assistance and advisory services for the administrative functions of fiscal management and housekeeping services. FMO formulates policies and procedures and administers the DHS's central accounting, funds management, client and vendor payment, employee payroll, inventory management, contracting, purchasing, records management, office space allocation, and central mail distribution function. The Management Services Office (MSO) provides research, budget, quality assurance, program and financial evaluation, and assessment capabilities to enable the DHS to oversee its programs and to make effective decisions concerning those programs. MSO conducts studies, analyses, evaluations, and reviews to ensure regulatory compliance, achievement of stated goals and objectives, and effective and efficient departmental programs and services and use of resources. The Office of Information Technology (OIT) is responsible for the overall administration, planning, direction, management, development, implementation, and maintenance of all information technology and information systems processing for the DHS statewide. The Personnel Office oversees the personnel programs of the DHS, including recruitment, examination, placement, position description, classification and pricing analysis, labor relations, civil rights, employee safety and relations, employee training and development, personnel transactions, and maintenance of personnel records. Those operations are reported in the general and special revenue funds.

Commission on the Status of Women: The Commission works for equality for women and girls in the State by acting as a catalyst for positive change through advocacy, education, collaboration, and program development. The Commission acts as a central clearinghouse and coordinating body for governmental and nongovernmental activities and information relating to the status of women and creates public awareness and understanding of the responsibilities, needs, potential, and contributions of women and their roles in a changing society. The Commission's operations are reported in the general and special revenue funds.

NOTE A - FINANCIAL REPORTING ENTITY (Continued)

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

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the DHS have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

(1) ***Basis of Presentation*** - The government-wide financial statements, which are the statement of net assets and the statement of activities report information of all of the non-fiduciary activities of the DHS. The effect of interfund activity has been removed from these government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments and other items properly excluded from program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial activities are recorded in individual funds, each of which is deemed to be a separate accounting entity. The DHS uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Separate financial statements are provided for governmental funds and fiduciary funds. However, the fiduciary funds are not included in the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The financial activities of the DHS that are reported in the accompanying fund financial statements have been classified into the following major governmental funds. In addition, a description of the DHS' fiduciary fund is as follows.

Governmental Fund Types

The DHS reports the following major governmental funds:

General Fund

The general fund is the general operating fund of the DHS. It is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. The Special Revenue Funds are as follows:

Med-Quest - accounts for the programs related to the health care programs of the State.

Human Services - accounts for social services programs, which include public welfare and eligibility and disability determination.

Fiduciary Fund Type

Trust and Agency Funds

Trust and agency funds account for various assets held by the DHS in a trustee capacity or as an agent for individuals, private organizations, other governmental agencies or other funds.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(2) *Measurement Focus and Basis of Accounting*

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

Governmental Funds Financial Statements - The governmental funds financial statements are reported using the current financial resources management 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 DHS considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include federal grants and funds appropriated by the State Legislature and allotted by the Governor. Expenditures are generally recorded when the related fund liabilities are incurred.

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

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

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

Fiduciary Funds - Fiduciary funds are used to account for resources held by the DHS as an agent for individuals, private organizations, other governmental agencies, and/or other funds. Fiduciary funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations. The private purpose trust fund is used to account for donations received by the DHS which are used to benefit clients of the Ho'opono, Services for the Blind Program under the Vocational Rehabilitation and Services for the Blind division.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) ***Use of Estimates*** - The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(4) ***Receivables*** - Receivables in the general and special revenue funds consist primarily of amounts due from Medicaid providers for a retroactive adjustment to previously made payments and recipients of welfare benefit overpayments. The amounts reported as net receivables were established based on management's estimate of amounts collectible.

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

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

The State has adopted the following capitalization policy:

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) ***Compensated Absences*** - The DHS permits employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred. Employees are credited with vacation at the rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net assets.

(7) ***Due to Individuals*** - Due to individuals represents assets held by the DHS primarily in an agent capacity and is available to individuals receiving benefits under various programs primarily through the Electronic Benefits Transfer System.

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

(9) ***Operating Grants and Contributions*** - Federal grants and assistance awards are recorded as intergovernmental receivables and revenues when all eligibility requirements have been satisfied.

(10) ***Intrafund and Interfund Transactions*** - Significant transfers of financial resources between activities included within the same fund are offset within that fund.

(11) ***Risk Management*** - The DHS is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

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

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

NOTE C - BUDGETING AND BUDGETARY CONTROL

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures - budget and actual (budgetary basis) - are derived primarily from acts of the State Legislature and from other authorizations contained in other specific appropriation acts in various Session Laws of Hawaii (SLH). Budgeted expenditures are derived primarily from the Supplemental Appropriations Act of 2008 (Act 158, SLH 2008), and from other authorizations contained in the State Constitution, HRS, and other specific appropriation acts in various SLH.

All expenditures of these appropriated funds are made pursuant to the appropriations in the fiscal 2008 - 2009 biennial budget. The general and special revenue funds have legally appropriated annual budgets.

The final legally adopted budget in the accompanying statement of revenues and expenditures - budget and actual (budgetary basis) - general and special revenue funds represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the State Department of Accounting and General Services. During the fiscal year ended June 30, 2009, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the general and special revenue funds are presented in the accompanying statement of revenues and expenditures - budget and actual (budgetary basis). The DHS's annual budget is prepared on the modified accrual basis of accounting with several differences from the preparation of the statement of revenues, expenditures, and changes in fund balances, principally related to (1) encumbrance of purchase orders and contract obligations, (2) accrued revenues and expenditures, and (3) unbudgeted programs (federal award programs). The first two differences represent departures from GAAP.

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the fiscal year ended June 30, 2009.

NOTE C - BUDGETING AND BUDGETARY CONTROL (Continued)

	General	Med-Quest	Human Services
Excess of revenues over (under) expenditures and other uses - actual on a budgetary basis	$ 37,781,166	$ (15,458,809)	$ 14,285,755
Reserved for encumbrances at fiscal year-end	14,409,444	66,741,495	29,918,893
Expenditures for liquidation of prior fiscal year encumbrances	(18,757,369)	(41,078,386)	(37,314,594)
Net changes in unreserved liabilities	(956,064)	(2,421,429)	(11,424,062)
Net change in accrued medical assistance payable	(24,341,500)	(84,350,000)	--
Accruals related to federal reimbursements for program expenditures	(41,880,637)	42,945,247	(11,415,597)
Net change in other receivables	(1,947,275)	(872,900)	2,250
Difference for revenues recognized for GAAP purposes	--	34,494,782	16,585,437
Net change in fund balances - GAAP basis	$ (35,692,235)	$ --	$ 638,082

NOTE D - CASH AND CASH EQUIVALENTS

The State Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The State Director of Finance pools and invests any monies of the State, which in the Director's judgment, are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of, or guaranteed by, the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk

The State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating.

NOTE D - CASH AND CASH EQUIVALENTS (Continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping, certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

Concentration of Credit Risk

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

Cash in Bank

The DHS maintains cash in banks which are held separately from cash in the State Treasury. As of June 30, 2009, the carrying amount of total bank deposits was approximately $509,000 and the corresponding bank balances which are represented were approximately $634,000.

NOTE E - RECEIVABLES

Receivables of the DHS, net of an allowance for doubtful accounts, consisted of the following at June 30, 2009:

	General	Med-Quest	Human Services
Welfare benefit overpayments	$ 25,794,000	$ 2,075,500	$ 20,778,500
Medicaid providers receivable	1,697,043	3,500,638	--
QUEST premiums receivable	137,130	282,870	--
Social Security interim assistance loans	401,000	--	--
CSEA receivable	44,522	--	--
	28,073,695	5,859,008	20,778,500
Less allowance for doubtful accounts:			
Welfare benefit overpayments	24,676,251	1,977,500	19,694,250
QUEST premiums receivable	129,947	268,053	--
	24,806,198	2,245,553	19,694,250
Receivables, net	$ 3,267,497	$ 3,613,455	$ 1,084,250

NOTE F - CAPITAL ASSETS

For the fiscal year ended June 30, 2009, capital assets activity for the DHS was as follows:

	Balance July 1, 2008	Additions	Disposals	Net Transfers	Other	Balance June 30, 2009
Depreciable Assets						
Building and improvements	$ 46,630,992	$ –	$ –	$ –	$ –	$ 46,630,992
Furniture and equipment	40,405,393	511,433	448,502	(60,603)	47,888	40,455,609
Motor vehicles	1,810,537	211,494	176,626	(18,976)	(38,038)	1,788,391
Non-Depreciable Assets						
Land	6	–	–	–	–	6
Total at historical cost	88,846,928	722,927	625,128	(79,579)	9,850	88,874,998
Less Accumulated Depreciation:						
Building and improvements	17,362,616	1,561,639	–	–	56,657	18,980,912
Furniture and equipment	29,142,930	882,192	294,455	(47,617)	2,886	29,685,936
Motor vehicles	1,647,257	95,172	206,741	–	(18,649)	1,517,039
Total accumulated depreciation	48,152,803	2,539,003	501,196	(47,617)	40,894	50,183,887
Capital Assets, Net	$ 40,694,125	$ (1,816,076)	$ 123,932	$ (31,962)	$ (31,044)	$ 38,691,111

Depreciation expense for the fiscal year ended June 30, 2009 was charged to functions/programs of the DHS as follows:

	Governmental Activities
Health care programs	$ 231,238
General welfare assistance, employment and support services	805,361
Child welfare and adult community care services	332,089
Vocational rehabilitation and services for the blind	136,121
Youth prevention, delinquency and correction services	966,347
General administration	67,847
	$ 2,539,003

NOTE G - ACCRUED COMPENSATED ABSENCES

The only long-term liability of the DHS for governmental activities is for accrued compensated absences. The change in the long-term liability during the fiscal year ended June 30, 2009, was as follows:

NOTE G - ACCRUED COMPENSATED ABSENCES (Continued)

	Amount
Balance at July 1, 2008	$ 15,866,228
Additions	8,535,847
Reductions	(7,863,346)
Balance at June 30, 2009	16,538,729
Less current portion	(5,900,000)
	$ 10,638,729

NOTE H - CHANGES IN ASSETS AND LIABILITIES OF THE AGENCY FUNDS

The agency funds are purely custodial (assets equal liabilities) and thus do not involve the measurement of results of operations. The changes in assets and liabilities of the agency funds for the fiscal year ended June 30, 2009, were as follows:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
ASSETS				
Cash	$ 1,170,226	$ 163,322,747	$ 163,229,701	$ 1,263,272
LIABILITIES				
Due to individuals and others	$ 1,170,226	$ 163,322,747	$ 163,229,701	$ 1,263,272

NOTE I - NONIMPOSED EMPLOYEE FRINGE BENEFITS

Payroll fringe benefit costs of the DHS's employees that are funded by state appropriations (general fund) are assumed by the State and are not charged to the DHS's operating funds. These costs, totaling approximately $25,629,000 for the fiscal year ended June 30, 2009, have been reported as revenues and expenditures in the general fund of the DHS.

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

NOTE J - FUND BALANCE DEFICITS

The general, Med-Quest and Human Services special revenue funds of the DHS have deficits in the unreserved fund balances at June 30, 2009, aggregating to $68,930,020, $66,741,495 and $27,818,783, respectively. Those deficits resulted primarily from expenditures being recorded on the accrual basis when incurred, and revenues being recognized only when corresponding funds are measurable and available.

NOTE K - INTERFUND RECEIVABLE AND PAYABLE

The general fund had a net receivable due from the special revenue funds totaling $263,915 as of June 30, 2009, for federal reimbursements of program expenditures. The Med-Quest special revenue fund had a receivable from the general fund totaling $21,711,072 as of June 30, 2009, for overdrawn federal funds used to reimburse the State's share of program expenditures.

NOTE L - LEASES

The DHS leases office facilities and equipment under various operating leases expiring through 2023. Certain leases include renewal and escalation clauses. The DHS's general fund share of lease costs is paid from the State General Fund. The federal share of these lease costs allocable to programs is reported in the special revenue fund of the DHS. The following is a schedule of the federal share of minimum future lease commitments for noncancelable operating leases as of June 30, 2009:

Fiscal Year Ending June 30,	Amount
2010	$ 2,213,000
2011	1,683,000
2012	927,000
2013	802,000
2014	697,000
2015 - 2019	2,664,000
2020 - 2023	1,393,000
	$ 10,379,000

The DHS's federal share of rent expenditures for operating leases for the fiscal year ended June 30, 2009, amounted to approximately $2,181,000, and is included in the accompanying financial statements.

NOTE M - RETIREMENT BENEFITS

Employees' Retirement System

All eligible employees of the DHS are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the ERS at City Financial Tower, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

NOTE M - RETIREMENT BENEFITS (Continued)

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new contributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. All members of the noncontributory plan and certain members of the contributory plan, are eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, are required to join the hybrid plan.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The DHS's general fund share of the expense for pension benefits for the fiscal years ended June 30, 2009, 2008, and 2007 was paid from the State General Fund and totaled approximately $10,110,000, $6,855,000, and $6,698,000, respectively. The DHS's federal share of pension benefits expense for the fiscal years ended June 30, 2009, 2008, and 2007 was approximately $3,957,000, $5,083,000, and $4,657,000, respectively. The employer contribution rate for the fiscal years ended June 30, 2009, 2008, and 2007 was 14.80%, 13.42%, and 13.39%, respectively.

NOTE M - RETIREMENT BENEFITS (Continued)

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State of Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer plan provides certain health care (medical, prescription, vision and dental) and life insurance benefits for retired State employees. Act 88 established the EUTF during the 2001 legislative session and is codified in HRS 87A. Contributions are based on negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage. The DHS's share of the expense for post-retirement health care and life insurance benefits for the fiscal year ended June 30, 2009, was approximately $8,309,000.

For employees hired before July 1, 1996, the State pays 100% of the monthly health care premium for employees retiring with 10 or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than ten years of credited service. A retiree can elect family plan to cover dependants.

For employees hired after June 30, 1996 but before July 1, 2001 and retiring with 25 years or more of service, the State pays the base monthly contributions. 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 those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with fewer than 10 years of service, the State makes no contributions. Retirees in this category can elect a family plan to cover dependents.

For employees hired after June 30, 2001 and retiring with over 25 years of service, the State pays 100% of the base monthly contributions. For those who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with fewer than 10 years of service, the State makes no contributions. Only single coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

The State is required to contribute the annual required contribution (ARC) of the employer, an amount that is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Measurement of the actuarial valuation and the ARC are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the DHS. The State has only computed the allocation of the other postemployment benefit (OPEB) costs to component units and proprietary funds that are reported separately in the State's Comprehensive Annual Financial Report (CAFR). Therefore, the OPEB costs for the DHS was not available and are not included in the financial statements. The State's CAFR includes the note disclosures and required supplementary information on the State's OPEB plans.

NOTE M - RETIREMENT BENEFITS (Continued)

The EUTF issues a stand-alone financial report that includes financial statements and required supplementary information, which may be obtained at the following address: State of Hawaii Employer-Union Health Benefits Trust Fund, 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

NOTE N - RISK MANAGEMENT

The DHS is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State records a liability for risk financing and insurance related losses 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. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1 million per occurrence minimum. This policy includes windstorm, earthquake, flood damage, tsunami, and volcanic action coverage. The limit of loss per occurrence is $175 million, except for terrorism which is $50 million per occurrence.

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10 million per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage which has a $100,000 per occurrence and a $1,000 deductible. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

General Liability (including torts)

Claims under $10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $4 million self-insured retention per occurrence. The annual aggregate per occurrence is $10 million.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

NOTE N - RISK MANAGEMENT (Continued)

Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses. 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.

At June 30, 2009, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term debt as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The DHS's portion of the State's workers' compensation expense for the fiscal year ended June 30, 2009, was approximately $250,000.

NOTE O - COMMITMENTS AND CONTINGENCIES

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 DHS employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2009, accumulated sick leave was approximately $50 million.

Litigation

From time to time, the DHS is named as a defendant in various legal proceedings. Although the DHS and its counsel are unable to express opinions as to the outcome of the litigation, it has been the State's historical practice that certain types of judgments and settlements against an agency of the State are paid from the State General Fund through an appropriation bill which is submitted annually by the Department of the Attorney General to the State Legislature.

NOTE P - RELATED PARTY TRANSACTIONS

The DHS had various amounts due to the State totaling $2,090,992 as of June 30, 2009, which included federal reimbursements for program expenditures totaling $263,915, receivables totaling $1,518,750, and cash held outside of the State Treasury totaling $308,327.

NOTE P - RELATED PARTY TRANSACTIONS

The State Department of Health (DOH) administers Medicaid Waiver programs that qualify for federal reimbursement under the Medical Assistance Program. Effective July 1, 2005, the DOH is responsible for paying providers for these claims and the DHS is responsible for transferring funds to the DOH for the federal share of these claims. At June 30, 2009, the estimated amount due to DOH for claims qualifying for federal reimbursement (including an estimated amount of claims incurred but not reported) totaled $49,540,016.

SUPPLEMENTARY INFORMATION

Department of Human Services
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2009

Federal Grantor/Pass-through Grantor and Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures[1]	Amount Provided to Subrecipient
U.S. Department of Health and Human Services				
Promoting Safe and Stable Families	93.556		$ 814,159	$ --
Temporary Assistance for Needy Families [2]	93.558		109,746,374	12,678,029
Low-Income Home Energy Assistance	93.568		2,398,643	--
Child Care and Development Block Grant [2]	93.575		27,982,940	3,784,050
ARRA - Child Care and Development Block Grant	93.713		2,670,912	--
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		11,458,106	--
Chaffee Education and Training Vouchers Program (ETV)	93.599		290,476	--
Head Start	93.600		130,217	--
Children's Justice Grants to States	93.643		122,642	--
Child Welfare Services - State Grants	93.645		1,748,402	--
Foster Care - Title IV-E	93.658		22,437,597	--
ARRA - Foster Care - Title IV-E	93.658		263,309	--
Adoption Assistance	93.659		14,263,011	--
ARRA - Adoption Assistance	93.659		1,388,808	--
Social Services Block Grant [2]	93.667		21,991,100	2,047,319
Child Abuse and Neglect State Grants	93.669		137,674	--
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671		827,261	--
Chafee Foster Care Independence Program	93.674		622,410	--
State Survey and Certification of Health Care Providers and Suppliers	93.777		519,718	--
Medical Assistance Program	93.778		707,987,313	--
ARRA - Medical Assistance Program	93.778		89,389,471	--
Children's Health Insurance Program	93.767		16,428,934	--
Medicaid Transformation Grants	93.793		276,850	--
Money Follows the Person Rebalancing Demonstration	93.791		98,418	--
Demonstration to Maintain Independence and Employment	93.769		2,212,040	--
Pass-through State Department of Labor and Industrial Relations				
Refugee and Entrant Assistance - State Administered Programs	93.566		23,251	--
Total U.S. Department of Health and Human Services			$ 1,036,230,036	$ 18,509,398

Department of Human Services
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2009

Federal Grantor/Pass-through Grantor and Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures[1]	Amount Provided to Subrecipient
U.S. Department of Agriculture				
Supplemental Nutrition Assistance Program[3]	10.551		$ 242,659,897	$ --
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		15,140,259	--
Total U.S. Department of Agriculture			257,800,156	--
U.S. Department of Justice				
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		232,599	156,257
Title V - Delinquency Prevention Program	16.548		131,397	125,388
Juvenile Accountability Block Grant	16.523		212,532	195,287
Crime Victim Assistance	16.575		197,536	--
Total U.S. Department of Justice			774,064	476,932
U.S. Department of Labor				
Pass-through State Department of Labor and Industrial Relations Senior Community Service Employment Program	17.235	PY06-SCSEP-CC-DHS	274,446	--
Total U.S. Department of Labor			274,446	--
U.S. Department of Education				
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126		12,815,816	833,802
Rehabilitation Services Demonstration and Training Programs	84.235		121,300	--
Independent Living - State Grants	84.169		234,910	211,703
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177		208,495	--
Supported Employment Services for Individuals with Significant Disabilities	84.187		206,663	151,900
Assistive Technology	84.224		403,459	403,459
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265		9,615	--
Rehabilitation Long-Term Training	84.129		296,535	--
ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act	84.390		130,680	6,619
ARRA - Independent Living Services for Older Individuals Who are Blind, Recovery Act	84.399		68,088	--
Safe and Drug-Free Schools and Communities - State Grants	84.186		285,096	274,974
Total U.S. Department of Education			$ 14,780,657	$ 1,882,457

Department of Human Services
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2009

Federal Grantor/Pass-through Grantor and Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures[1]	Amount Provided to Subrecipient
Corporation for National and Community Service				
Foster Grandparent Program	94.011		$ 453,032	$ --
Senior Companion Program	94.016		371,370	--
Retired and Senior Volunteer Program	94.002		113,774	--
Total Corporation for National and Community Service			938,176	--
Social Security Administration				
Social Security - Disability Insurance	96.001		6,061,779	--
Total Social Security Administration			6,061,779	--
U.S. Department of the Interior				
Pass-through the State Governor's office				
Economic, Social, Political Developments of the Territories	15.875		10,504,556	--
Total U.S. Department of the Interior			10,504,556	--
TOTAL FEDERAL EXPENDITURES			$ 1,327,363,870	$ 20,868,787

[1] The accompanying schedule of expenditures of federal awards is prepared on the cash basis of accounting.

[2] Grant awards totaling $23,890,000 were transferred from CFDA 93.558 Temporary Assistance for Needy Families to CFDA 93.667 Social Services Block Grant ($9,890,000) and to CFDA 93.575 Child Care Development Block Grant ($14,000,000).

[3] Expenditures represent assistance utilized through the Electronic Benefits Transfer System.

PART II

AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

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

To the Auditor
Office of the Auditor
State of Hawaii

We have audited the financial statements of the governmental activities and each major fund of the Department of Human Services of the State of Hawaii (DHS), as of and for the fiscal year ended June 30, 2009, which collectively comprise the DHS's basic financial statements and have issued our report thereon dated March 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the DHS's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DHS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DHS's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and one that we consider to be a material weakness.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the DHS's ability to initiate, authorize, record, process, or report financial data reliably in

accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the DHS's financial statements that is more than inconsequential will not be prevented or detected by the DHS's internal control. We consider the deficiencies described in items 2009-01 to 2009-04 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the DHS's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2009-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DHS's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The DHS's response to the findings identified in our audit is described in Part VI, Corrective Action Plan of this report. We did not audit the DHS's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Office of the Auditor, management of the DHS, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

N & K CPAs, Inc.

Honolulu, Hawaii
March 15, 2010

PART III

AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Auditor
Office of the Auditor
State of Hawaii

Compliance

We have audited the compliance of the Department of Human Services of the State of Hawaii (DHS) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009. The DHS's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the DHS's management. Our responsibility is to express an opinion on the DHS's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the DHS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the DHS's compliance with those requirements.

As described in items 2009-05 to 2009-11 in the accompanying schedule of findings and questioned costs, the DHS did not comply with the following requirements:

CFDA Number	Name of Federal Program	Type of Compliance Requirement	Ref. No.
93.778	Medical Assistance Program	Activities Allowed, Allowable Costs, Eligibility, and Special Tests and Provisions	2009-05 - 2009-07
93.575 and 93.596	Child Care Cluster	Activities Allowed and Eligibility	2009-08, 2009-09

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

In our opinion, except for the noncompliance described in the preceding paragraph, the DHS complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009.

Internal Control Over Compliance

The management of the DHS is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the DHS's internal control over compliance with the 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 opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the DHS's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily indentify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as described below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is

a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-05 to 2009-09 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2009-05 to 2009-09 to be material weaknesses.

The DHS's response to the findings identified in our audit are described in Part VI, Corrective Action Plan of this report. We did not audit the DHS's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Office of the Auditor, the management of the DHS, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

N&K CPAs, Inc.

Honolulu, Hawaii
March 15, 2010

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Department of Human Services
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	✓ yes	___no
Significant deficiencies identified that are not considered to be material weaknesses?	✓ yes	___ none reported
Noncompliance material to the financial statements noted?	___ yes	✓ no

Federal Awards

Internal control over major program:		
Material weakness(es) identified?	✓ yes	___ no
Significant deficiencies identified that are not considered to be material weaknesses?	___ yes	✓ none reported
Type of auditors' report issued on compliance for major programs:	Qualified	
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	✓ yes	___ no

Identification of major programs:

CFDA Number	Name of Federal Program
10.551	Supplemental Nutrition Assistance Program
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.390	Rehabilitation Services - Vocational Rehabilitation Grants to States - ARRA
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.713	Child Care and Development Block Grant - ARRA
93.767	Children's Health Insurance Program
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs:	$3,982,092	
Auditee qualified as a low-risk auditee?	___ yes	✓ no

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref.
No. **Internal Control Findings**

2009-01 Reconcile Federal Award Drawdowns

The Med-QUEST Division (MQD) administers the Medicaid Program for the State of Hawaii (State). Costs of the Medicaid program are first paid from allotments of State general funds after which MQD requests reimbursements from federal grant awards based on a Federal Participation rate of approximately 67%, which includes enhanced funding under the American Recovery and Reinvestment Act of 2009 (certain expenditures do not qualify for federal reimbursements while other expenditures are reimbursed at higher rates). This cost reimbursement basis is a federal compliance requirement. In complying with this federal requirement, the DHS initially uses its general funds to pay for the federal share of the expenditures and reimburses the general fund once the federal funds are received. The Medicaid Program is the largest federally funded program administered by the DHS (approximately $930 million in federal funds for the fiscal year ended June 30, 2009) and the amount of federal funding earned by the State is generally based on a Federal Medical Assistance Percentage rate (FMAP) multiplied by the amount of expenditures incurred during the quarter.

We identified an accounting error in the DHS's basic financial statements as of and for the fiscal years ended June 30, 2008 and 2007. The MQD understated the amount receivable from the federal government by approximately $33.6 million and $41.2 million as of June 30, 2008 and 2007, respectively. The error is the result of DHS revenue and expenditure accounts not being regularly reconciled to federal awards drawn down. During the fiscal year ended June 30, 2009, reconciliations between the DHS revenue and expenditures accounts and the amount of federal awards drawn down were still not being performed. The lack of quarterly reconciliations, including a complete review and approval of such reconciliations, has affected the DHS's ability to accurately report federal revenues earned which resulted in a material understatement of revenues and amounts receivable in the special revenue fund in the prior fiscal years.

During the fiscal year ended June 30, 2009, the MQD received approximately $57.6 million more in federal reimbursements than what was reported as earned for the fiscal year, of which approximately $31.2 million was due to the understatement of revenues noted in the prior fiscal year. The remaining amount represents an overdraw of federal awards at June 30, 2009 of approximately $21 million.

Ref.
No. **Internal Control Findings (Continued)**

2009-01 Reconcile Federal Award Drawdowns (Continued)

Recommendation

The MQD should develop a reconciliation process between the quarterly federal reports and the amounts recorded in the DHS's financial records. This process should be done in a timely manner and include a subsequent review and approval of such reviews. Management of the DHS should determine whether sufficient and appropriate accounting staffing is available at the MQD to properly complete reconciliations in a timely manner.

Ref.
No. **Internal Control Findings (Continued)**

2009-02 Properly Record All Capital Assets in the State Property Inventory Records

All divisions of the DHS are responsible for reporting the acquisition and disposal of capital assets to the State Procurement Office on a quarterly basis to update the state property inventory records. The Department of Accounting and General Services (DAGS) uses the information from the state property inventory records to assist the DHS in compiling the department's capital assets and depreciation information for the fiscal year. We noted that during the fiscal year ended June 30, 2009, the DHS reported $453,837 in capital asset additions ($363,404, net of accumulated depreciation) that were purchased in prior fiscal years.

Section 103D-106 of the Hawaii Revised Statutes states in part, "...the administrative heads of the executive departments, and all other persons, offices, and boards of a public character... shall prepare and file with the administrator of the state procurement office an annual inventory return of state property in the possession, custody, control, or use of the officer making the return, or of the department or office of the government over which the officer presides...."

Although the DHS has issued reminders to all division offices to properly report capital asset purchases to the State Procurement Office, the DHS's personnel did not always adhere to the established procedures.

Recommendation

To ensure that the state property inventory records are complete and accurate, the DHS should implement monitoring procedures to ensure that all appropriate personnel accurately report all fixed asset acquisitions and dispositions to the State Procurement Office on a quarterly basis. The DHS should also implement a process to review, in a timely manner, the transactions that are posted to the department property inventory records to ensure that acquisitions and dispositions were properly posted to the state property inventory records.

Ref.
No. **Internal Control Findings (Continued)**

2009-03 Compile Vacation and Sick Leave Records Properly

The DHS prepared a summary leave schedule to compute its accrued compensated absence liability balance and reported the liability to the State Comptroller. The liability was based on the balance of earned hours per individual leave records (Form DPS-7) multiplied by each employee's hourly salary rate. The DHS uses a manual process to maintain and report the vacation and sick leave records which resulted in errors in the amount of hours and dollars reported to the State Comptroller. The following were the conditions noted during our review of vacation and sick leave files:

- There were five instances where the vacation leave hours per the employee's Form DPS-7 did not agree to the "Vacation and Sick leave Accrual Listing" as of June 30, 2009. This resulted in a net overstatement of accrued vacation totaling 11 hours or $370.

- There were four instances where sick leave hours per the employee's Form DPS-7 did not agree to the "Vacation and Sick leave Accrual Listing" as of June 30, 2009. This resulted in a net understatement of accumulated sick leave totaling 183 hours or $5,442.

Recommendation

The DHS should validate the amounts of vacation and sick leave balance being reported against the personnel and payroll records to ensure accuracy and completeness before reporting the balance to the State Comptroller. The DHS should also increase the number of random quality control reviews of leave records to ensure that vacation and sick leave records are accurately reported.

Ref. No. **Internal Control Findings (Continued)**

2009-04 Reconcile EBT Benefits Available and Cash Balance

The DHS contracts with JP Morgan Chase Treasury Services (JP Morgan) to provide the Electronic Benefits Transfer (EBT) processing required to deliver cash assistance and food stamp benefits under the assistance programs it administers. The DHS maintains two separate JP Morgan accounts for the different assistance programs that administers by the DHS. The DHS is responsible for determining the eligibility and the amount of benefits to be provided to all participants and transmits this data to JP Morgan. JP Morgan provides EBT debit cards to the DHS and makes the assistance available via the participants' EBT cards. The DHS deposits authorized participant benefits into a local bank account where they are held until withdrawn by JP Morgan when the benefits are used by a participant. The cash available in the local bank should be equal to the benefits available on the EBT cards per JP Morgan statements. During our review, we noted that the DHS completed the reconciliation for one of the JP Morgan accounts.

At June 30, 2009, benefits available per the JP Morgan statement were approximately $137,000 less than the cash available in the local bank. The difference is likely due to a timing difference between the time EBT cards are debited for benefits used and when funds are withdrawn by JP Morgan. Other reasons for the difference could be benefits authorized and deposited for a participant who is later terminated or to a EBT card that has been canceled. However, since the reconciliation between JP Morgan's records of the benefits available and the cash available in the local bank account was only performed for one of the accounts, the DHS is uncertain if the nature of all of the reconciling items have been identified.

Recommendation

The DHS should reconcile benefits available per the JP Morgan statement and the cash balance in the local bank account on a monthly basis for both JP Morgan accounts. The monthly reconciliation will ensure that the amounts due to individuals have been properly recorded and supported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Ref. No.	Compliance and Internal Control Findings	Questioned Costs

2009-05 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims

Federal agency: U.S. Department of Health and Human Services
CFDA 93.778
Medical Assistance Program

The development and administration of the State's Medicaid Assistance Program (MAP) is the responsibility of the Med-QUEST Division (MQD). The DHS information retrieval and non-drug claims processing system is the Hawaii Prepaid Medical Management Information System (HPMMIS). The HPMMIS is operated and maintained by the Arizona Health Care Cost Containment System (AHCCCS). In addition, the management and processing of the DHS's pharmacy benefits is contracted to Affiliated Computer Services, Inc. (ACS).

Due to the complexity of the Medicaid program operations and the large volume of transactions, much reliance is placed on HPMMIS and its system of internal controls to accurately maintain enrollment and participant data and to ensure Medicaid costs are allowable, properly coded and accurately paid. Title 42 CFR Part 456 Subpart A requires a statewide program of control of the utilization of all Medicaid services.

During our review of internal controls, we noted that the primary controls used to prevent unnecessary utilization of care and services and to ensure proper and accurate payment of Medicaid claims were front-end controls such as pre-payment edit functions contained in HPMMIS and an extensive list of medical services and procedures which require prior authorization. However, we noted a lack of back-end control activities such as a post payment review of a sample of Medicaid claims or a review of utilization data for potentially fraudulent or abusive activity. Furthermore, for certain back-end control activities performed by the quality improvement organization (QIO) formerly known as peer review organization, we noted a lack of follow-up by the DHS on findings and recommendations reported.

More specifically, we noted the following conditions:

- The Surveillance and Utilization Review Subsystem (SURS) reports are still not being used to identify potential fraud or abuse. Due to a lack of personnel, minimal resources were dedicated to SURS review as SURS personnel were assigned to perform

Ref. No.	Compliance and Internal Control Findings (Continued)	Questioned Costs

2009-05 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims (Continued)

Payment Error Rate Measurement (PERM) audits and other rate setting functions. In addition, there is a lack of meaningful, user-friendly SURS reports needed to identify potential fraud and abuse cases. As a result, there were no cases referred to the Medicaid Fraud Control Unit (MFCU) which operates under the State Attorney General's office based on the review of SURS reports. Any referrals from the SURS unit in fiscal year 2009, originated from public phone calls reporting potential fraud or abuse. The DHS continues to be in noncompliance with Title 42 CFR Part 456.23, which requires the DHS to have a post payment review process that allows DHS personnel to review recipient utilization and provider service profiles and exception criteria to identify and correct misutilization practices of recipients and providers.

- The DHS continues to be in noncompliance with Title 42 CFR Part 455.13 which requires the DHS to have methods for identification, investigation, and referral of fraudulent activity. The Medicaid Investigations Unit (MIU) is an important component of this process. In the past, this unit was comprised of one individual and in June 2008, this individual retired from the DHS and to date the position remains vacant. The DHS currently has almost no formal activities to identify and investigate suspected fraud. As a result, referrals of potential fraudulent activities to the MFCU only originate from complaints received via the MQD phone line. Previous reviews performed by the Centers for Medicare and Medicaid Services (CMS), the U.S. federal agency which administers the Medicaid program, also revealed a lack of communication and coordination of efforts between the DHS and MFCU. There appears to be no improvement in this condition.

- There is no formal ongoing post payment review of a sample of claims. It has been over six years since the last third party review was performed, which focused on pharmacy claims and the monitoring of ACS, its pharmacy benefits manager (PBM). That report issued by an independent healthcare auditing and consulting company reported potential overpayments of approximately $462,000 and recommended the need to explore additional edits, analysis, and reporting in order to

Ref. No.	Compliance and Internal Control Findings (Continued)	Questioned Costs

2009-05 Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims (Continued)

expand anti-fraud efforts. As part of our review of internal controls, we performed a test of drug and non-drug claims which did identify a provider billing/system error. The errors were identified as a provider billing error of non-emergency transportation services being billed twice which the system improperly overpaid. The error was identified by the MQD possibly in April 2008, however, the HPPMIS system was not corrected until January 2009 and a memo to providers informing them of the proper billing of non-emergency transportation was not sent until January 29, 2009. As the fiscal agent, ACS, is in the process of determining the number of claims affected by this error which dates back to fiscal year 2006. As of June 30, 2009, MQD estimates the overpayments to be approximately $500,000 (Federal share amounted to approximately $275,000).

Another example of the MQD's inability to implement policy changes or system changes in a timely manner is the system change required by the change in policy for the payment of Medicare crossover claims. The change in policy took effect in fiscal 2004, and the system change was not completed until fiscal year 2008. As of June 30, 2009, the balance of these provider overpayments was approximately $4,500,000 (Federal share amounted to approximately $2,475,000).

- The DHS has contracted a QIO to perform certain utilization control activities such as acute hospital reviews, pre-admission screening and resident reviews (PASRR) for nursing facilities and long-term level of care determinations. However, due to a lack of staffing, follow-up activities such as ensuring recovery of overpayments and monitoring of QIO performance is not being performed. For example, the last recoupment of acute and ambulatory surgery service claims found to be at the incorrect level of care or not medically necessary dates back to the third quarter of fiscal year 2005. As of June 30, 2009, there were still over 300 days of services that were found to be inappropriate and no recoveries have been made. We also noted there are PASRR cases dating back to July 2006 that have not yet been fully resolved.

- During fiscal year 2009 the MQD experienced a major reduction in workforce at various departments due to state budget cuts. Specifically, the MQD eliminated numerous positions at the following departments; (1) the Financial Integrity Branch, oversees SURS personnel and the

Ref. No.	Compliance and Internal Control Findings (Continued)	Questioned Costs
2009-05	**Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims (Continued)**	
	MIU; (2) the Heath Coverage Management Branch, in charge of the managed care program; and (3) the Medical Standards Branch, responsible for statewide standards for care provided. The loss of key positions diminished the efficiency, effectiveness and management of the program. Due to the lack of personnel, the MQD contracts third parties to perform many functions of the program. However, the MQD is ultimately responsible for the quality of the performance and compliance of these functions.	
	In fiscal year 2009, total federal expenditures by DHS for this program was approximately $797,000,000. In terms of dollars spent, Medicaid is the largest federal grant program in the United States and is considered a program of higher risk. Therefore, the DHS's inability to effectively implement and operate a system to control utilization and maintain program integrity results in noncompliance with federal guidelines and an increase in risk that fraudulent activity will go undetected and that unallowable costs will be charged to the federal grant.	$2,750,000

Recommendation

To ensure compliance with federal regulations, the DHS should improve controls over utilization, fraud and accuracy of Medicaid claims by increasing back-end control activities. Control activities designed to maintain program integrity needs to be made a higher priority. The DHS should consider the following:

- Allocate the necessary resources needed to perform the SURS function and to actively identify and investigate suspected fraud as required by Title 42 CFR Part 456.23 and Title 42 CFR Part 455.13.

- Complete the development of meaningful SURS reports and regularly analyze the reports. The analysis of these reports should help identify exceptions or abnormal patterns of treatment or service and allow for the correction of misutilization practices of recipients and providers. It also serves as an important tool to identify and investigate potential fraudulent behavior.

Ref. No.	Compliance and Internal Control Findings (Continued)	Questioned Costs
2009-05	**Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims (Continued)**	

- Given the high percentage of claims submitted via electronic media, the DHS should reinstitute the electronic media claims (EMC) audits performed by third parties. EMC audits increase controls over the accuracy of claims and provides an opportunity to increase provider education that reduces risks of unintentional errors in future claims. It may also serve as a valuable referral source of potential fraud to the MIU.

- Perform regular post payment reviews on a sample of drug and non-drug claims to detect processing errors and identify ways to improve the claims processing system and procedures.

- Take timely corrective action on problems or noncompliance identified by its QIO such as recovery of overpayments and implementation of recommendations issued.

Ref. No.	Compliance and Internal Control Findings (Continued)	Questioned Costs

2009-06 Complete Eligibility Applications and Annual Eligibility Re-verifications in a Timely Manner

Federal agency: U.S. Department of Health and Human Services
CFDA 93.778
Medical Assistance Program

Title 42 CFR Part 435.911 requires the DHS to determine the eligibility of individuals who apply for Medicaid benefits within 45 days from the date of application. Applications that are not reviewed within 45 days are presumed to be eligible, resulting in the risk that ineligible recipients may be receiving Medicaid benefits. Furthermore, Title 42 CFR Part 435.916 also requires annual re-verifications of participant eligibility.

The DHS is still behind in its processing of Medicaid applications and annual eligibility re-verifications. The number of applications outstanding longer than 45 days was reduced to 921 as of June 30, 2009, which is a reduction of approximately 53% from the overdue applications as of June 30, 2008. This is a direct result of an Eligibility Review cleanup project of overdue applications conducted by the Eligibility Branch during fiscal year 2009. However, the number of overdue annual re-verifications increased to 1,701 as of June 30, 2009, which is an increase of approximately 85% as compared to the overdue re-verifications as of June 30, 2008. $ --

Recommendation

The DHS should assess the staffing requirements at the MQD Eligibility Branch and make every effort to eliminate the backlog of applications pending eligibility determinations and perform timely annual re-verifications as required by federal regulations in order to reduce the risk that ineligible recipients are receiving Medicaid benefits.

Ref. No.	Compliance and Internal Control Findings (Continued)	Questioned Costs

2009-07 Monitor the Medicaid Drug Rebate Program

Federal agency: U.S. Department of Health and Human Services
CFDA 93.778
Medical Assistance Program

On November 5, 1990, Congress enacted the Omnibus Budget Reconciliation Act of 1990 legislation, which among other provisions established the Medicaid drug rebate program. The Center for Medicare and Medicaid Services (CMS) have released memorandums to state agencies and manufacturers, throughout the history of the program, to give guidance on numerous issues related to the drug rebate program.

The DHS contracts ACS to perform the daily operations of the drug rebate program including billing, collection, accounting and dispute resolution. On a quarterly basis, the DHS reports the drug rebates invoiced and collected, including any interest received on the Form CMS 64.9R. This amount is used to reduce the amount to be reimbursed by the federal agency for Medicaid expenditures, thereby, returning the federal share of the drug rebate received and any interest.

While the day-to-day operations of the drug rebate program have been subcontracted to ACS, the DHS is still ultimately accountable for the drug rebate program. Much reliance is placed on ACS to operate the drug rebate program, but there is still no monitoring of subcontractor activities. This lack of oversight of ACS could result in future noncompliance with CMS guidelines such as issues which occurred under the previous fiscal agent that the DHS is still trying to resolve. The DHS has completed the reconciliation of past payments and is in the process of collecting outstanding drug rebates and related interest dating as far back as 1991. The balance remaining on the rebate receivable ledger totaled approximately $6.3 million. The DHS has determined that the majority of the outstanding balances should be written off as these amounts were erroneously posted or have already been collected. The DHS is currently working with the Attorney General's Office on legal write-offs of uncollectible receivable balances. $ --

Recommendation

The DHS should establish formal procedures to monitor its subcontractor to ensure the drug rebate program operates in compliance with CMS guidelines and help identify issues timely. In addition, the DHS should resolve outstanding issues on a timely basis.

Ref. No.	Compliance and Internal Control Findings (Continued)	Questioned Costs
2009-08	**Maintain All Required Documentation in Child Care Case Files**	
	Federal agency: U.S. Department of Health and Human Services CFDA 93.575 and 93.596 Child Care Development Block Grant Child Care Mandatory and Matching Funds of the Child Care and Development Fund	
	For the fiscal year 2009, total federal expenditures for the Child Care Cluster by the DHS was approximately $42,100,000. During our testing of eligibility and allowability, we noted seven instances in which supporting documentation to support eligibility determinations was not always maintained or supporting documentation for the calculation of child care payments was either missing or incorrect resulting in overpayments totaling $13,532.	
	Title 45 CFR Part 98.65(e) requires that appropriate documentation be maintained to allow the verification that child care federal funds are expended in accordance with the statutory and regulatory requirements.	$ 13,532

Recommendation

The DHS should ensure that required documents are maintained in each case file to support the allowability and eligibility of the child care payments claimed for federal reimbursement. The DHS should perform secondary reviews on a sample basis in order to assess case manager performance.

Ref. No.	Compliance and Internal Control Findings (Continued)	Questioned Costs
2009-09	**Improve the Accuracy of Child Care Reimbursements**	
	Federal agency: U.S. Department of Health and Human Services CFDA 93.575 and 93.596 Child Care Development Block Grant Child Care Mandatory and Matching Funds of the Child Care and Development Fund	
	For the fiscal year 2009, total federal expenditures for the Child Care Cluster was approximately $42,100,000. During our testing of allowability and eligibility for the Child Care payments, we noted two benefit payment errors. The errors were a result of case worker error or oversight such as the incorrect co-pay percentage being applied and the incorrect reimbursement calculation based on the level of child care need. The errors noted resulted in net overpayments totaling $306.	$ 306

Recommendation

The DHS should ensure that reimbursements to child care program participants are calculated properly. The DHS should perform post payment reviews of a sample of child care payments to ensure accuracy and assess case worker performance.

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

This section contains the current status of the prior auditors' recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2008, dated March 30, 2009.

SECTION II - FINANCIAL STATEMENT FINDINGS

	Recommendations	Status
2008-01	**Revise Federal Award Reimbursement Process (pages 63-64)**	
	The MQD should develop a reconciliation process between the quarterly federal reports and the amounts recorded in the DHS's financial records. This process should be done in a timely manner and include a subsequent review and approval of such reviews. Management of the DHS should determine whether sufficient and appropriate accounting staffing is available at the MQD to properly complete reconciliations in a timely manner.	Not accomplished. See Reference No. 2009-01.
2008-02	**Report All Federal Programs (page 65)**	
	The DHS should establish procedures to ensure that all expenditures of federal awards are properly reported in the Schedule of Expenditures of Federal Awards. The personnel responsible for the preparation and review of the SEFA should have ready access to all financial reports filed for all programs which receive federal funding. In addition, a list of all federal awards expended should be circulated and reviewed by appropriate personnel in each division of DHS for completeness and accuracy as part of the review process.	Accomplished.
2008-03	**Properly Record All Capital Assets in the State Property Inventory Records (page 66)**	
	To ensure that the state property inventory records are complete and accurate, the DHS should implement monitoring procedures to ensure that all appropriate personnel accurately report all fixed asset acquisitions and dispositions to the State Procurement Office on a quarterly basis. The DHS should also implement a process to review, in a timely manner, the transactions that are posted to the department property inventory records to ensure that acquisitions and dispositions were properly posted to the state property inventory records.	Not accomplished. See Reference No. 2009-02.

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Recommendations	Status
2008-04 Maintain Vacation and Sick Leave Records Properly (page 67)	
We recommend that the amounts of vacation and sick leave balance being reported are validated against personnel and payroll records to ensure accuracy and completeness before reporting the balance to the State Comptroller. The DHS should also increase the number of random quality control reviews of leave records to ensure that vacation and sick leave records are accurately maintained on a timely basis.	Not accomplished. See Reference No. 2009-03.
2008-05 Maintain Procurement Files Properly (page 68)	
The DHS should implement a review process to ensure procurement files contain all documentation as required by State and federal procurement statutes prior to contractor acceptance.	Accomplished.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

	Recommendations	CFDA Number	Status
2008-06	**Improve Utilization Controls over Medicaid Claims (pages 69 - 73)** The DHS should improve controls over utilization, fraud and accuracy of Medicaid claims by increasing back-end control activities. Control activities designed to maintain program integrity needs to be made a higher priority. The DHS should consider the following: • Complete the development of meaningful SURS reports and regularly analyze the reports as required by Title 42 CFR Part 456.23. • Prepare a request for proposal to continue the EMC audits, given the high percentage of claims submitted via electronic media. • Perform regular post payment reviews on a sample of drug and non-drug claims paid to detect processing errors and identify ways to improve the claims processing system and procedures. • Implement proper corrective action on problems or noncompliance identified by its QIO such as recovery of overpayments and implementation of recommendations issued. • Allocate the necessary resources needed to actively identify and investigate suspected fraud.	**93.778**	Not accomplished. See Reference No. 2009-05.
2008-07	**Complete Eligibility Applications and Annual Eligibility Re-verifications in a Timely Manner (page 74)** The DHS should assess the staffing requirements at the MQD Eligibility Branch and make every effort to eliminate the backlog of applications pending eligibility determinations and perform timely annual re-verifications as required by federal regulations in order to reduce the risk that ineligible recipients are receiving Medicaid benefits.	**93.778**	Not accomplished. See Reference No. 2009-06.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

	Recommendations	CFDA Number	Status
2008-08	**Monitor the Medicaid Drug Rebate Program (page 75)**	**93.778**	
	The DHS should establish formal procedures to monitor its subcontractor to ensure the drug rebate program operates in compliance with CMS guidelines and help identify issues timely and prevent difficult time consuming problems such as collecting old outstanding balances.		Not accomplished. See Reference No. 2009-07.
2008-09	**Maintain All Required Documentation in Medicaid Files (page 76)**	**93.778**	
	The DHS should ensure that all required documents are maintained in each case file to support the allowability and eligibility of the Medicaid assistance payments being claimed for federal reimbursement. The DHS should perform case file reviews in order to assess case manager performance.		Accomplished.
2008-10	**Maintain All Required Medicaid Provider Documentation (page 77)**	**93.778**	
	The DHS should ensure all provider agreements are properly completed and maintained.		Accomplished.
2008-11	**Maintain All Required Documentation in Child Care Case Files (page 78)**	**93.575** **93.596**	
	The DHS should ensure that all required documents are maintained in each case file to support the allowability and eligibility of the child care payments claimed for federal reimbursement. The DHS should perform secondary reviews on a sample basis in order to assess case manager performance.		Not accomplished. See Reference No. 2009-08.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Recommendations	CFDA Number	Status
2008-12 Improve the Accuracy of Child Care Reimbursements (page 79)	**93.575** **93.596**	
The DHS should ensure that reimbursements to child care program participants are calculated properly. The DHS should perform post payment reviews of a sample of child care payments to ensure accuracy and assess case worker performance.		Not accomplished. See Reference No. 2009-09.

PART VI

CORRECTIVE ACTION PLAN

LINDA LINGLE
GOVERNOR

LILLIAN B. KOLLER, ESQ.
DIRECTOR

HENRY OLIVA
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P. O. Box 339
Honolulu, Hawaii 96809

March 29, 2010

Mr. Ronald T. Shiigi
N&K CPAs, Inc.
American Savings Bank Tower
1001 Bishop Street, Suite 1700
Honolulu, Hawaii 96813-3696

Dear Mr. Shiigi:

Attached are the Department of Human Services' responses and corrective action plans related to your fiscal year 2009 audit report findings and recommendations. We appreciate the opportunity to comment on the audit report.

Sincerely,

Lillian B. Koller
Director

Attachment

Ref. No. 2009-01	**Reconcile Federal Award Drawdowns**
Auditor's Recommendation:	The MQD should develop a reconciliation process between the quarterly federal reports and the amounts recorded in the DHS's financial records. This process should be done in a timely manner and include a subsequent review and approval of such reviews. Management of the DHS should determine whether sufficient and appropriate accounting staffing is available at the MQD to properly complete reconciliations in a timely manner.
Corrective Actions Taken or Planned:	The MQD acknowledges the insufficient accounting staff resources in its Finance Office and has sought additional Accountant positions for some time. Currently one Accountant III position is being recruited to be filled on a permanent basis. A request to fill a second Accountant III position has been submitted. The MQD will develop the written procedures for the reconciliation process between the quarterly federal reports and the amounts recorded in the DHS financial records by April 30, 2010. Once additional accounting resources are provided to the Finance Office, a schedule for timely reviews will be implemented.
End Date:	Ongoing
Responding Person:	Ann Kinningham, MQD Finance Officer Phone: (808) 692-7956
Ref. No. 2009-02	**Properly Record All Capital Assets in the State Property Inventory Records**
Auditor's Recommendation:	To ensure that the state property inventory records are complete and accurate, the DHS should implement monitoring procedures to ensure that all appropriate personnel accurately report all fixed asset acquisitions and dispositions to the State Procurement Office on a quarterly basis. The DHS should also implement a process to review, in a timely manner, the transactions that are posted to the department property inventory records to ensure that acquisitions and dispositions were properly posted to the state property inventory records.
Corrective Action Taken or Planned:	The Department uses the detailed procedures outlined in the DAGS Inventory System Manual and the Hawaii Administrative Rules (HAR) to provide instructions and guidelines for all DHS offices with inventory responsibilities. In addition, the department issues internal circulars and memorandums that serves to update any inventory changes, any changes to the HAR, and to provide clarification or information that is necessary for proper inventory reporting. The Inventory System Manual, the HAR, the Fiscal Management Office (FMO) Circulars and memorandums all serve to provide guidelines and procedures for proper and timely

inventory reporting. As such, all departmental personnel with inventory responsibilities are made knowledgeable of the proper inventory procedures and reporting requirements

In March 2003, stricter departmental inventory procedures were issued establishing each employee as being responsible and accountable for maintaining and safeguarding inventory assigned to the individual. In addition, property custodians are assigned to each office/unit and are responsible for fixed assets under their management. The statewide inventory system reports and distributes information for all transactions that have not posted properly to the state inventory. These transaction registers are distributed regularly after each inventory period (i.e. quarterly) to be reviewed by the affected offices. The transactions must be corrected and submitted to ensure that the transactions are properly posted.

The Department is also required and continues to reconcile on a quarterly basis, the State Procurement Office (SPO)-Inventory Management Branch (IMB) report, Reconciliation of FAMIS Expenditures for State Property. This report requests verification that the Department's FAMIS (Financial and Accounting Management Information System) expenditure transactions for state properties are recorded in the DAGS, Fixed Asset Inventory System (FAIS). This statewide monitoring and reconciliation process was implemented to strengthen the financial reporting integrity of the FAIS.

The SPO-IMB report does not include expenditures for office equipment rental, since such expenditures are not classed in FAMIS as equipment purchases. A majority of the Department's copier machines are leased, not purchased. As such, these transactions are coded as equipment rental expenditures in FAMIS, when periodic rental payments are made. For inventory management purposes, the Department has implemented procedures to record leased equipment in the FAIS. As a result, there were some prior year transactions that were recorded in the FAIS in FY 2009. It should be noted that under the present FAIS processes, equipment acquired in the fourth quarter of the fiscal year that missed the year end cut-off date, cannot be entered into the FAIS until the fiscal year end inventory is completed and new inventory reports are generated with new assigned maintenance codes. This process usually takes place in the second quarter of the fiscal year.

DAGS-IMB recognizes that the FAIS needs to be modified in order to provide the necessary financial reporting capabilities relative to GASB Statement 34 and other related requirements. The development of a new comprehensive FAIS will require funding and resources.

End Date:	Ongoing
Responding Person:	Susy Kawamoto, FMO Property and Procurement Staff Supervisor Phone: (808) 586-4864
Ref. No. 2009-03	**Compile Vacation and Sick Leave Records Properly**
Auditor's Recommendation:	The DHS should validate the amounts of vacation and sick leave balance being reported against the personnel and payroll records to ensure accuracy and completeness before reporting the balance to the State Comptroller. The DHS should also increase the number of random quality control reviews of leave records to ensure that vacation and sick leave records are accurately reported.
Corrective Action Taken or Planned:	To improve the accuracy of the summary leave schedule, the Department's Pre-Audit Staff will be increasing the random reviews to approximately 20% of the over 1,600 employee records. Established procedures require that the employee review the information needed for the summary leave schedule. In addition, the appropriate supervisor is required to review and sign the worksheet to validate its accuracy.
End Date:	Ongoing
Responding Person:	Eloise Uehara, FMO Pre-Audit Staff Supervisor Phone: (808) 586-5020
Ref. No. 2009-04	**Reconcile EBT Benefits Available and Cash Balance**
Auditor's Recommendation:	The DHS should reconcile benefits available per the JP Morgan statement and the cash balance in the local bank account on a monthly basis. The monthly reconciliation will ensure that the amounts due to individuals have been properly recorded and supported.
Corrective Action Taken or Planned:	The reconciliation between JP Morgan and the bank statements for the EBT accounts have been completed up to June 30, 2009. Due to the operational impact of furloughs and reductions-in-force implemented in response to the State's fiscal emergency situation, it was necessary for the Accounting Staff to redistribute workloads. With this redistribution of workload, the reconciliation of the JP Morgan and bank statements will be done on a timely basis.
End Date:	Ongoing
Responding Person:	Derek Oshiro, FMO Chief Accountant Phone: (808) 586-5630

Ref. No. 2009-05 **Improve Controls over Utilization, Fraud and Accuracy of Medicaid Claims**

Auditor's Recommendation: To ensure compliance with federal regulations, the DHS should improve controls over utilization, fraud and accuracy of Medicaid claims by increasing back-end control activities. Control activities designed to maintain program integrity needs to be made a higher priority. The DHS should consider the following:

- Allocate the necessary resources needed to perform the SURS function and to actively identify and investigate suspected fraud as required by Title 42 CFR Part 456.23 and Title 42 CFR Part 455.13.

- Complete the development of meaningful SURS reports and regularly analyze the reports. The analysis of these reports should help identify exceptions or abnormal patterns of treatment or service and allow for the correction of misutilization practices of recipients and providers. It also serves as an important tool to identify and investigate potential fraudulent behavior.

- Given the high percentage of claims submitted via electronic media, the DHS should reinstitute the electronic media claims (EMC) audits performed by third parties. EMC audits increase controls over the accuracy of claims and provides an opportunity to increase provider education that reduces risks of unintentional errors in future claims. It may also serve as a valuable referral source of potential fraud to the MIU.

- Perform regular post payment reviews on a sample of drug and non-drug claims to detect processing errors and identify ways to improve the claims processing system and procedures.

- Take timely corrective action on problems or noncompliance identified by its QIO such as recovery of overpayments and implementation of recommendations issued.

Corrective Actions Taken or Planned: It is important to note that with the implementation of QUEST Expanded Access, the volume of fee-for-service claims addressed by this audit is now extremely small.

The MQD acknowledges staff shortages that hinder the compliance activities as noted above. The one Investigator position in the Financial Integrity Staff unit has been vacant since February 2009 and has not been approved to fill due to the hiring freeze. This position has been proposed for abolishment in a

DHS budget request to the 2010 Legislature. However, the MQD intends to submit a request to hire for this position. Also impacting the resources required to address these recommendations are similar vacant positions frozen and offered for abolishment in the MQD Systems Office (SO). These SO positions are required to assist with developing HPMMIS reports for SURS analysis.

In spite of all the shortcomings, the MQD is currently in the testing stage of using a Data Storage Warehouse. Once testing is completed and training is done, the MQD will be able to produce its own reports and not have to rely on other resources for those reports.

The MQD is a part of an RFP released by the state of Arizona's Medicaid program (AHCCCS) to obtain a SURS subsystem for use with the Data Storage Warehouse. This subsystem will enable the MQD to use pre-set algorithms to obtain reports.

It is not known when human resources will be restored to the full and necessary MQD staffing to allow the program to meet the compliance requirements in this important area, and we understand that this is due to the unprecedented statewide budget shortfall.

End Date: Ongoing

Responding Person: Ann Kinningham, MQD Finance Officer
Phone: (808) 692-7956

Ref. No. 2009-06 **Complete Eligibility Applications and Annual Eligibility Re-verifications in a Timely Manner**

Auditor's Recommendation: The DHS should assess the staffing requirements at the MQD Eligibility Branch and make every effort to eliminate the backlog of applications pending eligibility determinations and perform timely annual re-verifications as required by federal regulations in order to reduce the risk that ineligible recipients are receiving Medicaid benefits.

Corrective Action Taken or Planned: The MQD is keenly aware of the staffing shortages in the Eligibility Branch as a result of the hiring freeze, Reduction in Force (RIF), and budget requests to abolish the RIF and vacant positions. These staffing shortfalls have affected the Branch's ability to perform timely eligibility application determinations and annual re-determinations as required by federal regulations.

Prior to these events, with implementation of new workflow processes, the backlog was decreased by more than 50% while at the same time new enrollment increased by a record 13%. An eligibility calculator is under development that will improve the

	accuracy and efficiency of eligibility determinations, and a reorganization to develop a new eligibility division with substantial efficiencies has been proposed.
End Date:	Ongoing
Responding Person:	Ann H. Kinningham, MQD Finance Officer Phone: (808) 692-7956
Ref. No. 2009-07	**Monitor the Medicaid Drug Rebate Program**
Auditor's Recommendation:	The DHS should establish formal procedures to monitor its subcontractor to ensure the drug rebate program operates in compliance with CMS guidelines and help identify issues timely. In addition, the DHS should resolve outstanding issues on a timely basis.
Corrective Action Taken or Planned:	The MQD acknowledges the problems resulting from its previous contractor implementing the initial drug rebate program during the period 1991 – 2001. Significant efforts have been made to seek drug manufacturers input and corrections to the questionable accounts receivable ledgers in the past six months. A final report has been submitted to the CMS and is currently under review. Procedures have been developed and issued to the current fiscal agent. With the implementation of QUEST Expanded Access, the volume of prescription drug claims has decreased substantially.
End Date:	Ongoing
Responding Person:	Ann Kinningham, MQD Finance Officer Phone: (808) 692-7956
Ref. No. 2009-08	**Maintain All Required Documentation In Child Care Case Files**
Auditor's Recommendation:	The DHS should ensure that required documents are maintained in each case file to support the allowability and eligibility of the child care payments claimed for federal reimbursement. The DHS should perform secondary reviews on a sample basis in order to assess case manager performance.
Corrective Actions Taken or Planned:	We have discussed this issue with our Staff Development Office which is responsible to provide training to all staff who issue child care payments. They will continue to emphasize the need to maintain appropriate documentation in the case record. Random cases are now reviewed monthly to determine that payments issued were properly authorized. DHS will continue this practice as it has been helpful in determining on-going

	training needs as well as worker performance.
End Date:	Ongoing
Responding Person:	Julie Morita, BESSD CCP Administrator Phone (808) 586-7187
Ref. No. 2009-09	**Improve the Accuracy of Child Care Reimbursement**
Auditor's Recommendation:	The DHS should ensure that reimbursements to child care program participants are calculated properly. The DHS should perform post payment reviews of a sample of child care payments to ensure accuracy and assess case worker performance.
Corrective Action Taken or Planned:	Random cases are now reviewed monthly to determine that correct payments were issued. DHS will continue this practice as it has been helpful in determining on-going training needs as well as worker performance.
End Date:	Ongoing
Responding Person:	Julie Morita, BESSD CCP Administrator Phone (808) 586-7187