

**State of Hawaii**  
**Department of Health**  
**Internal Control and Business Issues Report**  
**June 30, 2011**

**Submitted by**  
**The Auditor**  
**State of Hawaii**

The Auditor  
State of Hawaii

In planning and performing our audit of the basic financial statements of the State of Hawaii, Department of Health (the "Department") as of and for the year ended June 30, 2011, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation, and are submitting for your consideration our observations and recommendations designed to help the Department improve internal control and achieve operational efficiencies.

This letter is intended solely for the information and use of the State Auditor and management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

*Acuity LLP*

Honolulu, Hawaii  
March 22, 2012

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**Comment No. 11-01: Maintenance of Effort**

During our testing of maintenance of effort for HIV Care Formula Grants (“HIV”) program, we noted that the program did not meet the requirement of maintaining HIV-related activities at a level that is equal to not less than the level of such expenditures by the State for the one-year period preceding the fiscal year for which the State is applying for Title II/Part B funds (42 USC 300ff-37(b)(7)(E)). The Department of Health and Human Services, Health Resources and Services Administration, the federal awarding agency, is aware of this noncompliance.

**Recommendation**

We recommend that the program implement appropriate internal policies to monitor the HIV-related activities throughout the year to ensure that the program is in compliance with the maintenance of effort requirement.

**Comment No. 11-02: Reporting**

During our testing of reporting requirements for the HIV program, we noted that the program reported an incorrect amount of federal expenditures on the Mid-year Progress Report. We noted the total expenditures were misstated by \$45,353. However, we did not note a similar instance on the Final Annual Progress report.

**Recommendation**

We recommend that the program personnel develop and implement procedures to ensure that accurate and complete financial reports are submitted to federal awarding agencies. The designated program personnel should also ensure proper documentation is maintained to support the accuracy of data reported.

**Comment No. 11-03: Suspension and Debarment Check**

During our testing of procurement and suspension and debarment procedures for the Drinking Water State Revolving Fund (“DWSRF”) program, we noted that there were no procedures in place to ensure that the program does not execute contracts that are equal to or exceed \$25,000 with federally suspended or debarred parties.

**Recommendation**

We recommend that the programs designate individuals to verify that all awardees of federally funded contracts in excess of \$25,000 are not on the *Excluded Parties List System (“EPLS”)* maintained by the General Services Administration (“GSA”) at [www.epls.gov](http://www.epls.gov). The designated program personnel should also ensure proper documentation is maintained to evidence the review.

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**Comment No. 11-04: Vaccine Authorization**

During our vaccine testing for the Immunization Cluster program, we noted that there were no written authorization procedures (i.e., signed approval forms) for adult vaccine orders and the Department orders. This results in the risk of fraudulent orders and transactions.

**Recommendation**

We recommend that the program implement an authorization procedure requiring a signed approval for all vaccine orders including adult vaccines and the Department orders.

**Comment No. 11-05: Deposit Beverage Container Handling Fees**

During our testing of the Deposit Beverage Container Fund handling fees, we were made aware of an error in calculation of curbside pick-up rates from fiscal year 2008 through 2011. The vendors who provided curbside pick-up services had been underpaid due to a miscalculation in handling fee payments, which resulted in underpayment of fees since fiscal year 2008. The error was discovered in September 2011 and a retroactive back payment was calculated and paid in October 2011.

**Recommendation**

We recommend that the Department carefully review handling fee reports to ensure handling fee expenditures are properly recorded to minimize the need for future audit adjustments.

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**Comment No. 10-01: Suspension and Debarment Check**

During our prior year testing of procurement and suspension and debarment procedures for the Substance Abuse and Mental Health Services – Mental Health Transformation State Incentive Grant (“MHT SIG”) program, National Bioterrorism Hospital Preparedness Program (“HPP”), and Early Intervention Service (“IDEA”) Cluster, we noted that there were no procedures in place to ensure that the programs do not procure goods or services with federally suspended or debarred parties.

We recommended that the programs designate individuals to verify that awardees of federally funded contracts are not listed on the *EPLS* maintained by the GSA at [www.epls.gov](http://www.epls.gov). The designated program personnel should also ensure proper documentation is maintained to evidence the review.

**Status**

Resolved. In the current year, we noted that the HPP program performed a check on the *EPLS* for all non-federal entities contracting with the program. We also noted that, although it had no new procurements in fiscal 2011, the MHT SIG program updated its procurement process to include a procedure to check the *EPLS*. Therefore, this comment is resolved for these programs. However, we noted no formal documentation is maintained indicating the checks were performed for the IDEA Cluster programs. As there was no evidence of checking the *EPLS*, this comment will remain unresolved for the IDEA Cluster programs and be carried forward.

**Comment No. 10-02: Subrecipient Monitoring**

During our prior year testing of the subrecipient monitoring procedures for the HPP, we noted that the program was unable to perform site visits related to program and fiscal activities. HPP’s internal policy requires site visits to be performed on an annual basis. The site visits are designed to ensure subrecipients are using, requesting and reporting federal funds in accordance with federal guidelines.

We recommended that the program adhere to its internal policies and procedures, ensure proper staffing is available for program and fiscal monitoring to be performed annually and that proper documentation is maintained to support site visits.

**Status**

Unresolved. In the current year audit, we noted that the program did not perform site visits related to program and fiscal activities. As this comment is unresolved, it will be carried forward.

**Comment No. 10-03: Period of Availability**

During our prior year testing of the period of availability compliance requirement for the HPP, we noted an instance where an expenditure was not recorded in the proper period in the Financial Accounting and Management Information System (“FAMIS”). This could result in funds not being available in the grant period that expenditures are being charged and reporting of incorrect amounts of federal expenditures.

We also noted that the program does not have a review process in place to ensure that the expenditures for the grants are being charged to the proper period.

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We recommended that the program designate an individual to review all expenditures made prior to processing payments to ensure that the proper grant is being charged and perform a reconciliation of expenditures recorded in FAMIS. We also recommended the program to review the unliquidated encumbrance amount at the end of the grant period to avoid processing invoices that are related to previous grants.

**Status**

Resolved. In the current year, we noted that the program designated an individual to review all expenditures made prior to processing payments. In addition, the program reviewed the unliquidated encumbrance amount at the end of the grant.

**Comment No. 10-04: Allowable Costs**

During our prior year testing of the allowable cost compliance requirement for the HPP, we noted that the program does not have controls over expenditures for the Alternative Care Site (“ACS”) and Medical Reserve Corps (“MRC”) training services. These services are conducted by the Department’s Bioterrorism Hospital Preparedness staff in each county and their invoices are submitted directly to the Department’s Administrative Service Office (“ASO”).

In addition, we noted that the counties are not required to submit a budget to the program at the start of the grant period. Therefore, HPP is not aware of planned expenditures for ACS and MRC training services for each county to ensure that they are able to liquidate all of the allocated funds.

We recommended that the program require each county to submit a budget in the beginning of the grant period and obtain all invoices before they are submitted for payment in order to ensure that expenditures by the counties are accurate and valid.

**Status**

Resolved. In the current year audit, we noted that the program obtained the budgets and invoices for each county and an accounting code was created allowing the program to track the expenditures.

**Comment No. 10-05: Accounting Records**

During our prior year testing of cash management procedures for the Executive Office on Aging (“EOA”) program, we noted that the program was unable to locate documents supporting when federal funds were drawn for one pCard transaction tested. Accurate records should be maintained to ensure that the program is in compliance with federal cash management requirements.

We recommended that the program designate an individual to maintain proper records for when transactions are made.

**Status**

Resolved. In the current year, we noted that the records were properly maintained and readily available.

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**Comment No. 10-06: Maintenance of Effort**

During our prior year testing of the IDEA Cluster, we noted that supporting documentation was not maintained to evidence that the program met the maintenance of effort requirement to expend at least the same amount of State funds as the previous year. Although the program was able to meet the requirement in the year audited, the funding levels should be monitored throughout the year.

We recommended that the program designate an individual to monitor compliance with federal requirements applicable to the IDEA Cluster throughout the grant period and maintain evidence to support that monitoring activities are being performed.

**Status**

Resolved. In the current year, we noted that the program implemented procedures in place to ensure that the program meets the maintenance of effort requirement. In addition, we noted that the program met the requirement in the current year.

**Comment No. 10-07: Procurement (Small Purchases)**

In accordance with Hawaii Administrative Rules (“HAR”), “Goods, services, and construction, section (a) Based on specifications and with adequate and reasonable competition: (1) No less than three quotes shall be solicited for expenditures of \$5,000 to less than \$15,000.” During our prior year testing of the federal reporting compliance requirement for the DWSRF program, we noted an instance where a procurement within this threshold did not have proper documentation evidencing that three quotations were obtained.

We recommended that personnel maintain adequate documentation evidencing compliance with HAR.

**Status**

Resolved. In the current year, we noted that the program maintained the proper documentation to support that three quotations were obtained.

**Comment No. 10-08: Allowable Costs and Cost Principles (Payroll)**

During our prior year audit of the DWSRF program, we noted errors in the spreadsheet prepared by the Environmental Resource Office (“ERO”) Accountant, which was used to allocate payroll charges. This resulted in an under allocation of payroll expenses to the program of approximately \$8,000.

We recommended that a supervisor at ERO review the spreadsheet used to allocate payroll charges prior to adjustment being made in FAMIS in order to ensure complete and accurate reporting.

**Status**

Resolved. In the current year, we noted that a supervisor at ERO reviewed the spreadsheet used to allocate payroll charges and we did not note any errors in the aforementioned spreadsheet.

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**Comment No. 10-09: Deposit Beverage Container Deposits**

During our prior year testing of Department's Deposit Beverage Container Special Fund, we noted that the program holds checks received from distributors for several weeks before making deposits to the financial institution. This results in large checks held at the program.

We recommended that the program hire an additional staff member to assist in the processing of deposits to allow for more timely deposits at the bank.

**Status**

Unresolved. In the current year, we noted that the program took 25 days to deposit a check. As this comment is unresolved, it will be carried forward.

**Comment No. 09-01: Subrecipient Monitoring**

During our prior year audit of the subrecipient monitoring procedures for the Substance Abuse Prevention and Treatment ("SAPT") program, we noted that the program was unable to perform site visits related to program and fiscal activities due to budget restrictions on traveling and staffing shortages. However, the SAPT program's internal policy requires site visits to be performed on an annual basis.

We recommended that the program adhere to its internal policies and procedures and ensure proper staffing is available for fiscal monitoring to be performed annually.

**Status**

Unresolved. In our current year audit, we noted that the program implemented a review process to ensure that the program is monitoring fiscal activities by subrecipients. In addition, we noted that the program performed site visits related to program activities. However, we noted that the program did not finish necessary reports to complete the monitoring or notify subrecipients of the results of the site visits, which were not in compliance with the Alcohol Drug Abuse Division's policy of completing all documentation within 30 days of the site visit. As this comment is unresolved, it will be carried forward.

**Comment No. 09-02: Suspension and Debarment Check**

During our prior year audit of the procurement and suspension and debarment procedures for the SAPT, Access to Recovery ("ATR") and Immunization Cluster programs, we noted that there were no procedures in place to ensure that the programs do not procure goods or services with federally suspended or debarred parties.

We recommended that the programs designate individuals to verify that awardees of federally funded contracts are not listed on the EPLS maintained by the GSA at [www.epls.gov](http://www.epls.gov). The designated program personnel should also ensure proper documentation is maintained to evidence the review.

**Status**

Unresolved. In the current year, we noted that the ATR program performed a check on the EPLS for all non-federal entities contracting with the program. Therefore, this comment is resolved for this program. However, we noted no formal documentation is maintained indicating the checks were performed for the SAPT and Immunization Cluster programs. As there was no evidence of checking the EPLS, this comment was unresolved for the SAPT and Immunization Cluster programs and will be carried forward.

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**Comment No. 09-03: Allowable Costs**

During our prior year audit of the allowable cost compliance requirement for the ATR program, we noted that the program did not perform site visits of its vendors during the current year due to staffing shortages. The ATR program's internal policy requires site visits to be performed on an annual basis. The site visits are performed as a post-audit review of expenditures for vendor reimbursements to ensure claims are accurate and valid.

We recommended that the program adhere to its internal policies and procedures and ensure proper staffing is available for site visits to be performed annually.

**Status**

Resolved. In the current year, we noted that the program implemented internal policies and procedures and performed site visits.

**Comment No. 08-01: Timeliness in Federal Reporting**

ASO prepares and submits the Standard Form ("SF")-269 and SF-272 reports to the responsible federal agencies on behalf of the Department's programs. During our prior year testing of the timeliness of submission of their reports for the Nutrition Services Incentive Program ("NSIP") and the Title III funds included in the Aging Cluster, we noted several instances when the SF-269 reports were submitted after the required deadlines.

We recommended that ASO and the respective program personnel maintain a calendar or spreadsheet with all reporting requirements and submission deadlines, in order to ensure compliance with federal requirements. In the case of a staffing shortage, ASO and program management should ensure that the reports are submitted by another competent individual. Program personnel responsible for reporting should be provided with adequate training and supervision by management.

**Status**

Unresolved. In our current year review of federal reporting requirements for NSIP, we noted that the Aging Cluster did not submit the required reports as the accountant position was vacant in the current year. Therefore, we reported Finding 11-04 in the Department's fiscal 2011 OMB Circular A-133 Schedule of Findings and Questioned Costs. As this comment is unresolved, it will be carried forward.

**Comment No. 08-02: Earmarking (15 Percent Local Assistance Set-Aside)**

During our prior year audit of the DWSRF program, we noted that although separate federal and state activity codes were set up by the program to track State Revolving Fund ("SRF") and non-SRF funds, there was \$25,000 in training fees that were collected and deposited into the 1998 cap grant year 15% set-aside (SRF) activity code in FAMIS. Although there were no questioned costs, there is risk that this could lead to misstated accounting records.

We recommended that the program create new activity codes, as necessary, within the program's appropriation and transfer the amount related to the training fees to the new account(s). These accounts would be set up specifically to track training fees and other similar types of non-SRF income that are received by the program.

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**Status**

Unresolved. In the current year, the program did not create new activity codes within its appropriation and transfer the amounts related to these training fees to the new account(s). As this comment is unresolved, it will be carried forward.

**Comment No. 08-04: Equipment Management**

The EOA adopted the policies and procedures for equipment management in accordance with the State Procurement Office's ("SPO") Inventory System User Manual. The procedures state that a reconciliation of department records is required to ensure that property is accurately recorded.

During our prior year audit, we noted that the program had a process in place to record changes in property and equipment to the Fixed Asset Inventory System ("FAIS") on a timely basis; however, there was no reconciliation or review process in place to ensure all changes were properly recorded in FAIS.

We recommended that the program implement appropriate policies and procedures to ensure that all changes submitted to FAIS are reconciled and reviewed. This should include obtaining FAIS reports and reconciling to internal records.

**Status**

Unresolved. In the current year, we noted that the EOA program did not reconcile the information in FAIS to ensure all changes were properly recorded. As this comment is unresolved, it will be carried forward.

**Comment No. 08-05: Cash Management**

During our prior year audit, we noted that the EOA program was not disbursing funds to its subrecipients in accordance with the provisions of the contracts with the subrecipients. Payment requests from the subrecipients were based on advances rather than on a cost-reimbursement basis as stated in the contract.

We recommended the EOA program consider revising the contracts with their subrecipients to state that payment requests are allowed on an advance payment basis, which is in-line with the program's operations. This will also ensure that funds are used within the limits of the contract.

**Status**

Unresolved. We noted that the program was still not disbursing funds to its subrecipients in accordance with the provisions of the contracts. As this comment is unresolved, it will be carried forward.

**Comment No. 08-06: Subrecipient Monitoring**

During our prior year audit, we noted that the EOA program was unable to perform site visits related to fiscal activities of subrecipients for the Aging Cluster due to staffing shortages. The EOA program's internal policy requires site visits to be performed on an annual basis.

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We recommended that the program adhere to its internal policies and procedures and ensure proper staffing is available for fiscal monitoring to be performed annually. We also recommended that going forward, program management properly train the accountant and other staff on fiscal monitoring procedures.

**Status**

Unresolved. We noted that the program has performed monitoring activities throughout the year, however there were no site-visits performed for fiscal monitoring activities during the year. As this comment is unresolved, it will be carried forward.

**Comment No. 08-07: Procurement**

During our prior year audit, we noted that the SPO may procure goods or services on behalf of the HIV program. While the SPO procurement personnel ensure that the awardees are not suspended or debarred by the State, they are not responsible to check if awardees are federally suspended or debarred. We noted that the program does not have procedures in place to ensure that the program does not execute contracts with federally suspended or debarred parties.

We recommended that the program designate an individual to check the awardees of federally funded contracts to the EPLS maintained by the GSA at [www.epls.gov](http://www.epls.gov). The designated program personnel should also ensure proper documentation is maintained to evidence review of the EPLS. For those contracts procured by the SPO, we recommended that the programs inform the SPO when an award is federally funded and work with the SPO to establish who is responsible for ensuring that all federal, as well as State, procurement requirements are met.

**Status**

Unresolved. In the current year audit, we noted that the program implemented a procedure to review the EPLS prior to executing any contracts. However, we were unable to test the control as the HIV program did not procure any new contracts in the current year. As we were unable to test the control, this comment will remain unresolved in the current year and be carried forward.

**Comment No. 07-01: Suspension and Debarment Check**

During our prior year testing of procurement and suspension and debarment procedures for the Public Health Emergency Preparedness ("PHEP") program, we noted that there were no procedures in place to ensure that the program does not execute contracts that are equal to or exceed \$25,000 with federally suspended or debarred parties.

We recommended that the programs designate an individual to check all procurements in excess of \$25,000 to the EPLS maintained by the GSA at [www.epls.gov](http://www.epls.gov). The designated program personnel should also ensure proper documentation is maintained to evidence the review.

**Status**

Resolved. In the current year, we noted that the PHEP program performed a check on the EPLS for all non-federal entities contracting with the program.