

Office of the Auditor
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Jan K. Yamane
Acting State Auditor
State of Hawai'i

Constitutional Mandate

The Office of the Auditor, pursuant to Article VII, Section 10 of the Hawai'i State Constitution, is required to conduct post-audits of the transactions, accounts, program and performance of departments, offices and agencies of the State and its political subdivisions, and to certify to the accuracy of all financial statements issued by the respective accounting officers.

Financial Audit of the Department of Health

Financial Statements, Fiscal Year Ended June 30, 2012

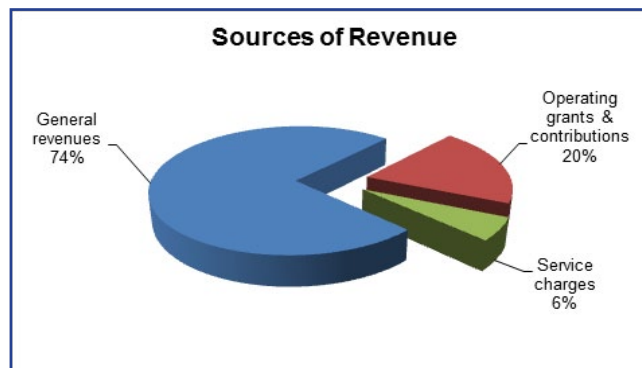
The primary purpose of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Health for the fiscal year ended June 30, 2012, and to comply with the requirements of federal OMB Circular A-133, which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by Accuity LLP.

About the Department

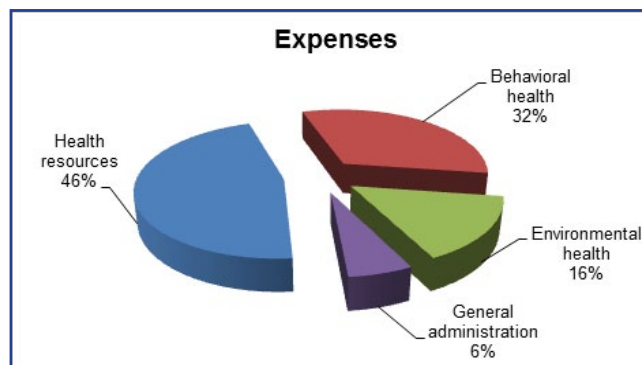
The Department of Health administers and oversees statewide personal health services, health promotion and disease prevention, mental health programs, monitoring of the environment, and the enforcement of environmental health laws. Federal grants received to support the State's health services and programs are administered by the department. Overall, the department is organized into four major administrations: Behavioral Health Services, Health Resources, Environmental Health, and General Administration.

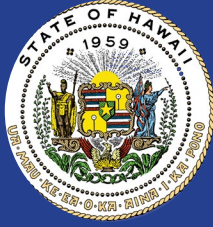
Financial Highlights

For the fiscal year ended June 30, 2012, the department reported total revenues of approximately \$728 million and total expenses of \$657 million, resulting in excess revenues of \$71 million before transfers. Revenues consisted of \$542 million from general revenues, \$145 million from operating grants and contributions, and \$41 million from service charges.



Expenses consisted of \$305 million for health resources, \$212 million for behavioral health, \$101 million for environmental health, and \$39 million for general administration.





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Auditors' Opinions

Financial Statements: **+**
Unmodified opinion

Federal Compliance: **-**
Qualified opinion

Issues of Concern

Material Weaknesses
1
Significant Deficiencies
3

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Total assets of the department exceeded total liabilities, resulting in net assets of \$768 million. The department has unrestricted net assets of \$21 million. Total assets of \$889 million were comprised of cash (\$305 million), receivables (\$147 million), loans receivable (\$364 million), advances (\$15 million), and net capital assets (\$58 million). Liabilities totaled \$121 million. Restricted net assets of \$689 million, included \$567 million for loans.

Auditors' Opinions

The department received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The department received a qualified opinion on its compliance with major federal programs.

Findings

For internal control over financial reporting, there were no reported deficiencies that were considered to be material weaknesses. However, two significant deficiencies were identified:

- Department of Human Services reconciliations of Medicaid transactions are not timely performed.
- The Deposit Beverage Container Deposit Special Fund is highly susceptible to fraud because of an overreliance on self-reporting by distributors and redemption centers. Also, the department's estimated container redemption rate has not been evaluated for actual historical redemptions.

For internal control over compliance, the auditors identified one material weakness and one significant deficiency:

- Material weakness: The department did not always comply with the federal Cash Management Improvement Act, which requires that federal funds be disbursed within three days or as close as administratively feasible after the department drew down federal funds.
- Significant deficiency: The department did not always comply with the reporting requirements of the Federal Funding Accountability and Transparency Act.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2012_Audit/DOH2012.pdf